

CMP: ₹ 134

Target: ₹ 185 (38%)

Target Period: 12 months

BUY

May 11, 2022

Business demand in sharp recovery mode...

About the stock: EIH Ltd is the flagship company of the Oberoi group that manages 33 hotels (~11 owned and 22 under management contract) with room inventory of ~4512 rooms.

- The company operates the hotels under the brands Oberoi (super luxury brand), Trident (five star brand) and Maidens (heritage)
- EIH also provides catering/kitchen services to airlines, operates restaurants/lounges at airports and is also into air charter and car hire services

Q4FY22 Results: EIH's performance in Q4FY22 remained weak due to the omicron impact. The numbers were below our estimates.

- Revenues declined sequentially by 15.5% QoQ to ₹ 265.6 crore (vs. I-direct estimate of ₹ 2296.1 crore), ~62% of revenues at pre-Covid levels. On a YoY basis, revenues were up 41.3%
- EBITDA margin declined to 8% vs. 21.7% in Q3FY22 due to lower revenues while expenses broadly remained flat QoQ
- The company reported a net loss of ₹ 7.3 crore vs. net loss of ₹ 68.1 crore last year and net profit of ₹ 32.6 crore last quarter

What should investors do? The company has a strong b/s while strategic property locations provide visibility to ride on the long-term tourism growth story.

- Hence, we remain positive on the company with **BUY** rating on the stock

Target Price and Valuation: We value EIH at ₹ 185 i.e. 26x FY24E EV/EBITDA

Key triggers for future price performance:

- Opening doors fully for foreign tourists (FTAs) from March 2022 to provide further fillip to leisure and business hotel room demand from FY23 onwards
- Expect business to recover to pre-Covid levels (vs. ~97% projected earlier) with EBITDA surpassing pre-Covid levels by FY23E; margins are seen at 23%+
- The recent venture into premium café business to lead to potential value unlocking of F&B segment in the long run. Strong b/s to support growth

Alternate Stock Idea: Apart from EIH, we also like Indian Hotels.

- It has the strong "Taj brand" in the premium segment along with having a larger presence in the midscale and economy segment
- BUY with a target price of ₹ 290/share



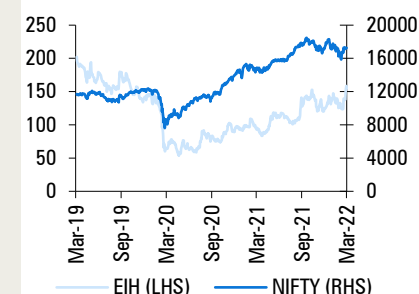
Particulars

Particulars	Amount
Market Cap (₹ Crore)	8,379.7
Debt (FY22) (₹ Crore)	507.4
Cash & Bank (FY22) (₹ crore)	253.5
EV (₹ Crore)	8,633.7
52 week H/L	172 / 88
Equity capital (₹ crore)	125.1
Face value	₹ 2

Shareholding pattern

(in %)	Sep-21	Dec-21	Dec-21	Mar-22
Promoter	35.7	35.7	35.7	35.7
FII	3.2	3.6	3.6	3.8
DII	14.0	14.0	14.0	13.9
Others	47.1	46.7	46.7	46.6

Price Chart



Key risks

- Any further imposition of restriction on travel
- Companies adopting work from home policy beyond FY22 could further delay the recovery in business hotel segment

Research Analyst

Rashes Shah
rashes.shah@icicisecurities.com

Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	3 year CAGR (%)	FY23E	FY24E	2 year CAGR (%)
Net Sales	1811	1596	497	1034	-17.0	1591	1812	32.3
EBITDA	406	290	-292	15	-66.6	365	429	433.4
EBITDA (%)	22.4	18.2	-58.7	1.5		22.9	23.7	
PAT	194	163	-377	-59	-167.0	203	232	LP
EPS (₹)	3.1	2.6	-6.0	-0.9		3.2	3.7	
EV/EBITDA	21.4	30.3	-29.6	572.2		23.2	19.0	
D/E	0.2	0.2	0.2	0.2		0.1	0.1	
RoNW (%)	6.5	5.2	-12.2	-1.9		6.5	7.0	
RoCE (%)	9.6	5.7	-9.9	-1.5		8.4	10.4	

Source: Company, ICICI Direct Research

Key performance highlights

- Occupancy levels came down to 38% in January 2022 from 70% in December 2021 due to omicron led restrictions, which again inched up to 59% and 71% in February 2022 and March 2022, respectively. Similarly ARR also corrected by 10% in January 2022 vs. December 2021, Then it increased 3% to ₹ 11,223/room during March 2022 (90% of pre-Covid level)
- Traction remained strong in the leisure destinations with Udaipur and Shimla reporting 96% and 170% of revenues, respectively, compared to pre-Covid levels
- Gradual resumption of corporate travel is also assisting in the recovery of hotel demand in cities like Kolkata, Mumbai, Delhi, Bengaluru and Pune, which were previously underperforming
- Business destinations like Delhi & Mumbai, which are major revenue contributors, have reached 80% and 62% of revenues, respectively, vs. pre-Covid levels. Bengaluru, despite being a business city, reached 121% of revenues vs. pre-Covid levels as the company operates this market with room inventory of only 160+ vs. average room inventory of 300+ in other key cities
- **Air catering business** – Many clients are foreign airlines. With the resumption of foreign travel, the company is expected to see healthy traction in air catering business
- **New initiatives:** Entered into premium café business with opening of Cou Cou café at Jio World Drive, BKC, Mumbai from **October 7 onwards**. It is targeted towards modern executives, premium millennials and luxury loyalists. Clocked highest revenue of ₹ 3 lakh/day so far. The company has identified further locations with Delhi on the radar for expansion
- During FY22, the company sold the printing press unit at Manesar, Haryana. The total consideration from the sale of these assets amounted to ₹ 95.3 crore resulting in a profit of ₹ 55.2 crore, which has been recognised as an “Exceptional Item” in the financial results for FY22
- Weighted average cost of debt was at 7.0% (down 90 bps YoY)
- Efforts towards implementing efficient cost structure through rationalisation of human capital and technological advancements have resulted in 19% reduction in total expenses from pre-Covid levels
- **Reducing carbon footprint:** Solar plants with a total capacity of 3.0 MW at four different locations are being commissioned. This is expected to generate 4.2 million units per annum

Key triggers for future price performance

Benefit of efficiency measures to get visible from FY23E onwards: With the vaccination drive launched by many developed countries including India, we expect FY22E to be a year of strong recovery after severe challenges faced by hotel companies during FY21 due to Covid. To cope up with this, the company has initiated major steps to bring down costs and come out stronger and more efficient. During the quarter, the company managed to reduce fixed overhead by 19% major being the salary and admin related. With 20% of total cost reduction likely to be sustainable, we expect over 5-6% reduction in total costs, going forward. Hence, in our view, while FY23E would see cost led margin expansion, it would accelerate further with traction in room rates in FY24E.

Strong balance-sheet to help weather medium term challenges: The third wave of pandemic again impacted domestic demand during January-February. However, the impact was minimal and more related to restriction imposed by state governments while current demand continues to remain strong. On the b/s front, the company is well placed as far as liquidity and debt is concerned with D/E being 0.2x. As the company derives majority of revenues from the domestic market with Mumbai and Delhi being the key revenue contributor, we expect a further recovery in the business as soon as the cases subside and travel limitations are lifted, some of which is already underway.

Valuation & Outlook: With a strong b/s and strategic property locations across key destinations, the company is best positioned to ride on long-term growth story. At the CMP of ₹ 134, the stock trading at adjusted EV/room of ₹ 2.25/room (i.e. at 40% of its fair value). Hence, we maintain our BUY with a target price of ₹ 185/share (i.e. @ 26x FY24E EV/EBITDA) (earlier TP ₹ 185/share).

Exhibit 1: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Net Sales	265.6	296.1	187.9	41.3	314.4	-15.5	
Other income	13.4	9.0	10.3	29.6	10.0	34.1	
Raw Material Expenses	38.6	37.5	30.0	28.5	42.4	-9.0	
Employee cost	91.2	85.6	77.4	17.8	85.9	6.2	
Other Exp	114.6	107.2	107.2	7.0	117.8	-2.7	
EBITDA	21.2	65.9	-26.7	LP	68.3	-69.0	
EBITDA Margin (%)	8.0	22.2	-14.2	NA	21.7	NA	
Interest	9.1	7.5	7.5	21.4	8.5	7.7	
Depreciation	29.4	28.4	28.4	3.4	28.5	3.3	
PBT before exceptional ex	-4.0	38.9	-52.3	LP	41.4	LP	
Exceptional exps	-13.2	0.0	28.7	NA	0.0	0.0	
PBT	9.2	38.9	-81.0	NA	41.4	LP	
Tax Expenses	16.5	7.4	-12.9	-227.8	8.8	NA	
PAT	-7.3	31.6	-68.1	LP	32.6	LP	
EPS	-0.1	0.6	-1.2	LP	0.6	LP	

Source: Company, ICICI Direct Research

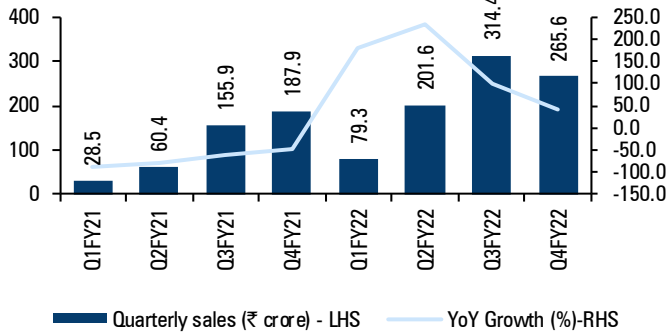
Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,591.3	1,591.3	NA	NA	1,811.8	NA	NA
EBITDA	365.1	365.1	NA	NA	429.3	NA	NA
EBITDA Margin (%)	22.9	22.9	NA	NA	23.7	NA	
PAT	203.1	203.1	NM	NA	232.0	NA	NA
EPS (₹)	3.2	3.2	NM	NA	3.7	NA	

Source: Company, ICICI Direct Research

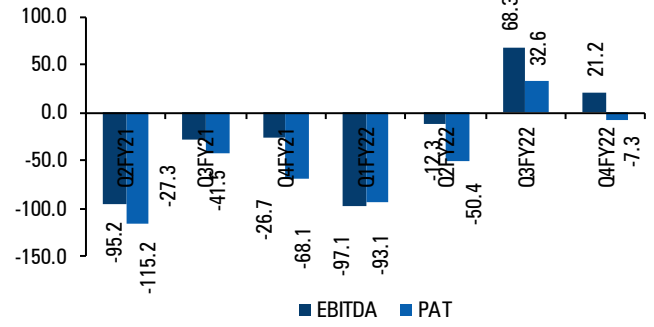
Financial Story in Charts

Exhibit 3: Revenues down 15.5% QoQ due to omicron led business restrictions



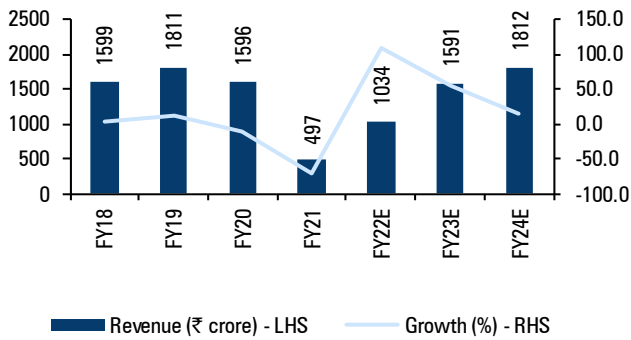
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA down 69% QoQ while net loss came in at ₹ 7.3 crore for Q4FY22



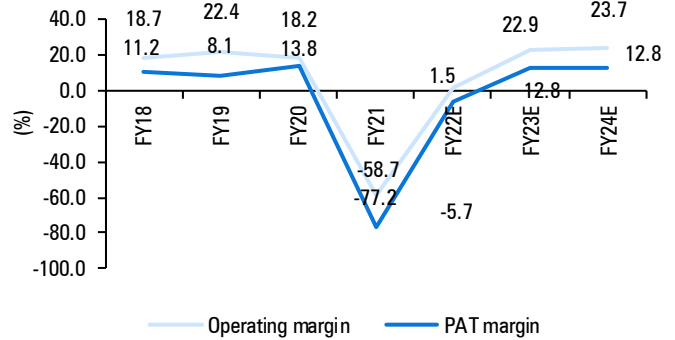
Source: Company, ICICI Direct Research

Exhibit 5: Expect revenue CAGR of 32.3% in FY22-24E on lower base



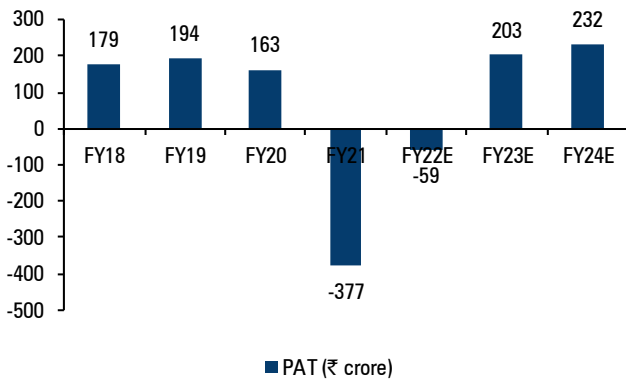
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA margins to rebound in FY23E, stay healthy, going forward



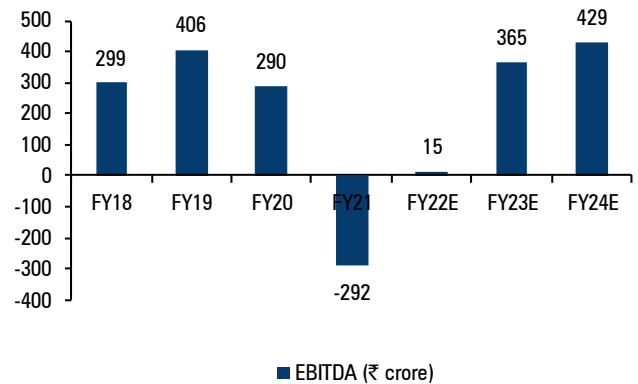
Source: Company, ICICI Direct Research

Exhibit 7: Profitability trend



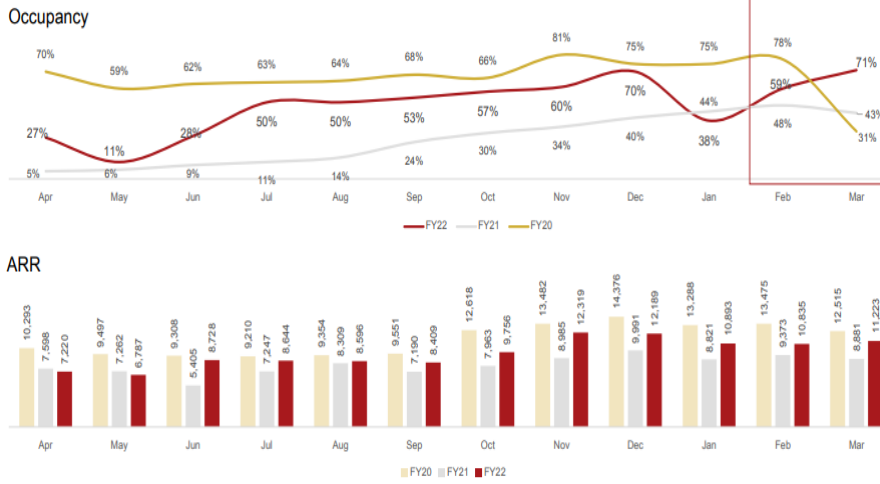
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA trend over FY22-24E



Source: Company, ICICI Direct Research

Exhibit 9: Monthly ARR and occupancy trend

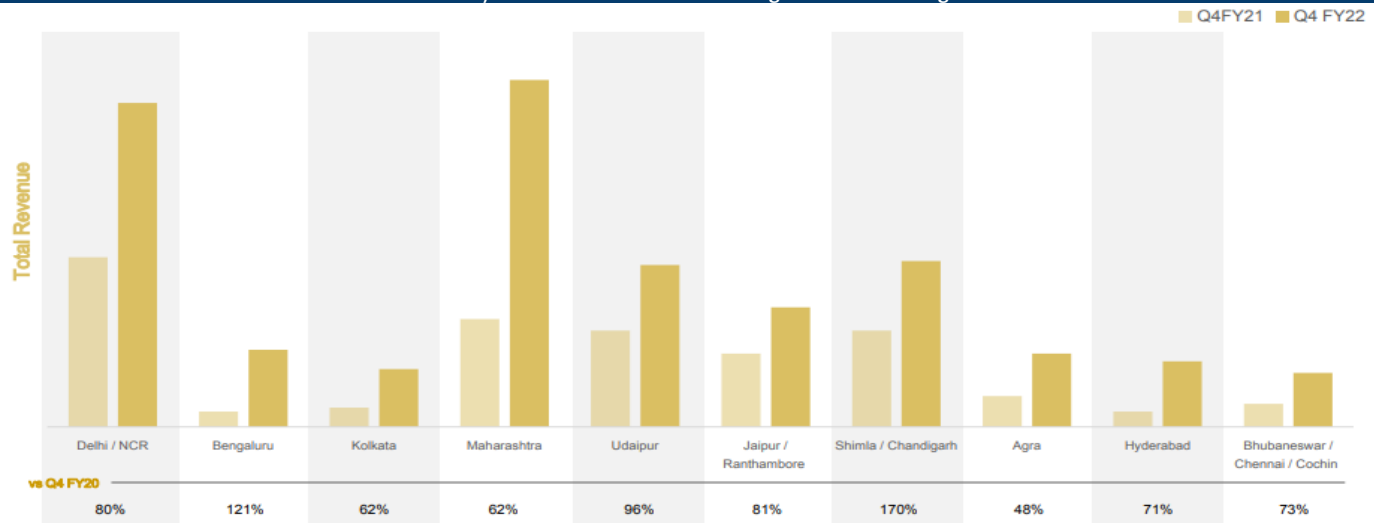


February-March 2022 witnessed a sharp rebound in occupancy mainly led by strong demand from leisure destinations along with the recovery in the business segment

Strong recovery after 3rd wave in February 2022 & March 2022 is primarily driven by increase in occupancies with some correction in ARRs

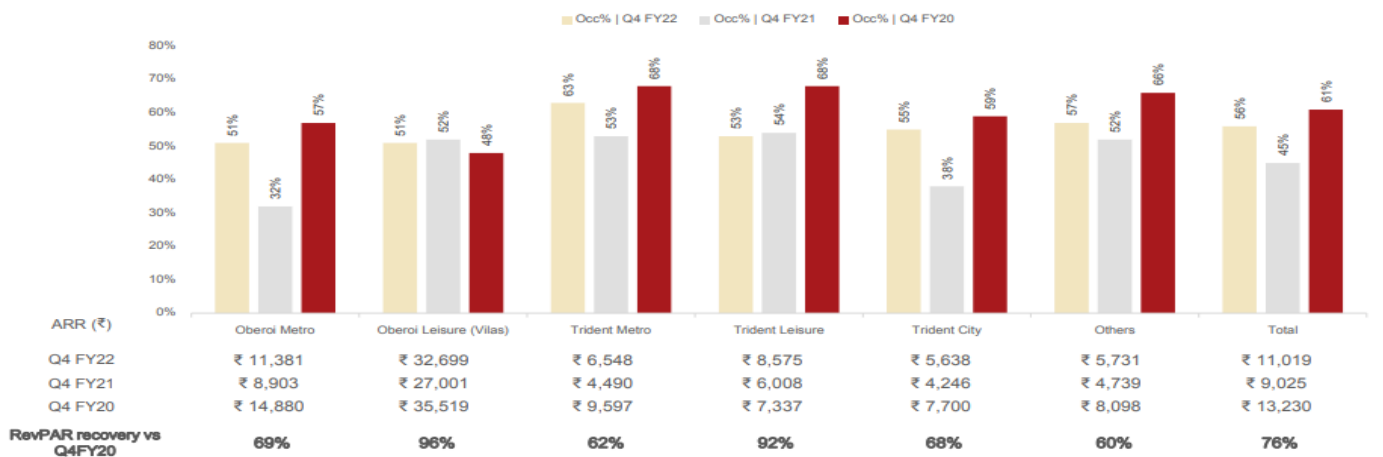
Source: Company, ICICI Direct Research

Exhibit 10: Leisure destinations lead recovery with business also seeing traction during Q4FY22



Source: Company, ICICI Direct Research

Exhibit 11: Brand wise quarterly trend in ARR and occupancies



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit & Loss Account

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Total operating Income	1,596.3	497.1	1,034.5	1,591.3	1,811.8
Growth (%)	-11.8	-68.9	108.1	53.8	13.9
Raw Material Expenses	199	75	140	215	245
Employee Expenses	469	352	362	399	419
Other Exp	637	362	517	613	719
Total Operating Expenditure	1,306.0	789.0	1,019.4	1,226.2	1,382.6
EBITDA	290.3	-291.9	15.1	365.1	429.3
Growth (%)	-28.5	-200.5	-105.2	2,319.5	17.6
Depreciation	146.5	132.7	139.5	136.8	136.8
Interest	55.6	45.7	46.7	29.9	16.1
Other Income	78.4	57.9	69.5	76.4	82.5
PBT	166.7	-412.4	-101.6	274.8	358.9
Others	-54.8	72.3	-16.3	-6.5	-0.6
Total Tax	0.9	-100.9	-26.7	78.1	127.4
Reported PAT	220.6	-383.8	-58.6	203.1	232.0
Growth (%)	49.7	-274.0	NA	LP	LP
Adjusted EPS (₹)	2.6	-6.0	-0.9	3.2	3.7

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet summary

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Liabilities					
Equity Capital	114.3	125.1	125.1	125.1	125.1
Reserve and Surplus	3,005.3	2,980.0	2,901.6	3,020.9	3,179.4
Total Shareholders funds	3,119.6	3,105.1	3,026.7	3,146.0	3,304.4
Total Debt	620.3	475.4	507.4	325.4	175.4
Deferred Tax Liability	76.1	41.4	33.0	41.4	41.4
Minority Interest / Others	99.7	94.4	97.4	97.4	97.4
Total Liabilities	3,916	3,716	3,665	3,610	3,619
Assets					
Gross Block	4,309.5	4,201.5	4,163.1	4,163.1	4,163.1
Less: Acc Depreciation	1,788.9	1,788.9	1,788.9	1,925.7	2,062.5
Net Block	2,520.5	2,412.5	2,374.2	2,237.4	2,100.6
Capital WIP	130.4	168.9	54.1	110.0	80.0
Total Fixed Assets	2,651.0	2,581.4	2,428.2	2,347.4	2,180.6
Goodwill on consolidation	370.1	360.9	376.8	360.9	360.9
Investments	613.0	564.4	523.9	564.4	564.4
Inventory	61.0	51.4	48.7	82.1	66.9
Debtors	205.7	77.8	115.7	174.4	198.6
Loans and Advances	149.6	144.2	0.0	0.0	0.0
Other Current Assets	93.0	63.1	244.4	137.5	224.8
Cash	212.2	205.1	253.5	249.5	391.5
Total Current Assets	721.5	618.1	803.7	784.9	1,023.2
Creditors	296.2	266.2	277.4	252.9	287.9
Provisions	151.4	150.2	198.5	202.3	230.3
Total Current Liabilities	447.5	416.4	475.9	455.2	518.2
Net Current Assets	274.0	201.7	327.8	329.7	504.9
Others Assets	7.7	7.7	7.7	7.7	7.7
Application of Funds	3,916	3,716	3,665	3,610	3,619

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Profit after Tax	220.6	-383.8	-58.6	203.1	232.0
Add: Depreciation	146.5	132.7	139.5	136.8	136.8
(Inc)/dec in Current Assets	236.9	172.9	-72.4	14.8	-96.3
Inc/(dec) in CL and Provisions	-4.7	-31.1	59.5	-20.7	63.1
CF from operating	599.3	-109.3	68.0	334.0	335.6
(Inc)/dec in Investments	0.0	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-549.3	-63.1	13.7	-55.9	30.0
Others	-41.3	-30.9	-21.2	24.3	0.0
CF from investing	-590.7	-94.0	-7.5	-31.7	30.0
Issue/(Buy back) of Equity	0.0	10.8	0.0	0.0	0.0
Inc/(dec) in loan funds	89.3	-144.9	32.1	-182.1	-150.0
Dividend paid & dividend tax	-66.2	0.0	0.0	-73.6	-73.6
Inc/(dec) in Sec. premium	0.0	338.9	0.0	0.0	0.0
Others	-16.5	19.5	-19.8	-10.2	0.0
CF from financing	6.6	224.3	12.2	-265.8	-223.6
Net Cash flow	-17.9	-7.1	48.4	-4.0	142.0
Opening Cash	230.2	212.2	205.1	253.5	249.5
Closing Cash	212.2	205.1	253.5	249.5	391.5

Source: Company, ICICI Direct Research

Exhibit 15: Ratio sheet

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Per share data (₹)					
Adjusted EPS	2.6	-6.0	-0.9	3.2	3.7
Cash EPS	5.9	-4.0	1.3	5.4	5.9
BV	49.9	49.7	48.4	50.3	52.8
DPS	0.9	0.0	0.0	0.0	0.0
Cash Per Share	3.4	3.3	4.1	4.0	6.3
Operating Ratios (%)					
EBITDA Margin	18.2	-58.7	1.5	22.9	23.7
PAT Margin	13.8	-77.2	-5.7	12.8	12.8
Inventory days	13.8	41.2	17.7	15.0	15.0
Debtor days	47.0	57.1	40.8	40.0	40.0
Creditor days	67.7	195.5	97.9	58.0	58.0
Return Ratios (%)					
RoE	5.2	-12.2	-1.9	6.5	7.0
RoCE	5.7	-9.9	-1.5	8.4	10.4
RoIC	4.5	-14.7	-4.4	8.3	11.1
Valuation Ratios (x)					
P/E	39.1	0.0	0.0	42.5	37.2
EV / EBITDA	31.1	-30.5	588.8	23.8	19.6
EV / Net Sales	5.7	17.9	8.6	5.5	4.6
Market Cap / Sales	5.4	17.4	8.3	5.4	4.8
Price to Book Value	2.8	2.8	2.9	2.7	2.6
Solvency Ratios					
Debt/EBITDA	2.1	-1.6	33.6	0.9	0.4
Debt / Equity	0.2	0.2	0.2	0.1	0.1
Current Ratio	1.1	0.8	0.9	0.9	0.9
Quick Ratio	1.0	0.7	0.8	0.7	0.8

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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