

Revitalising to help it flourish in future...

EIH's Q2FY21 operational performance was below our estimates as premium segment hotel remained worst affected due to international travel ban along with weak business segment demand due to pandemic. Revenues for the quarter fell ~79% YoY to ₹ 60.4 crore (vs. I-direct estimate of ₹ 69.9 crore). The company managed to curtail operating expenditure by over 42% YoY to ₹ 155.6 crore. The major reduction was in other expenses that were down 46% YoY to ₹ 69 crore. This helped restrict EBITDA losses to ₹ 95.2 crore vs. EBITDA loss of ₹ 125 crore in Q1FY21. Net loss came in at ₹ 115.2 crore for the quarter vs. net loss of ₹ 118.2 crore in Q1FY21. Despite challenges, EIH managed to reduce cost of debt by 104 bps YoY to 7.8% due to strong brand equity and healthy b/s. Post fund raising of ₹ 349.7 crore through rights issue in October 2020, net debt further reduced from ₹ 577 crore to ₹ 261 crore, representing D/E of 0.1x as of October 2020.

Efforts to bring more efficiency to get visible from FY22E onwards

While there remained uncertainty on the recovery, which is solely dependent on the launch of vaccine, the company has initiated major steps to bring down costs and come out stronger and more efficient. During the quarter, it managed to reduce fixed overhead by 29%, major being the salary and admin related. It has also resorted to process efficiency like back-office automation, using AI, paperless processing, focus on solar panel to bring down power costs, etc, expertise driven services in finance and data management. With over 20% of total cost reduction done during H1 being sustainable, we expect over 5-6% reduction in total costs on a sustainable basis. Hence, in our view, while FY22E would see cost led margin expansion, it would accelerate further with traction in room rates post FY22E.

Strong b/s to help weather Covid storm in medium term

While operational losses were ₹ 95 crore for the quarter, effective working cap management led to an increase of just ₹ 52 crore in debt. On the liquidity front, net debt on books as of September was at ₹ 577 crore with D/E of 0.21x. Post fund raising of ₹ 349.7 crore through rights issue in October 2020, net debt further reduced from ₹ 577 crore to ₹ 261 crore, representing D/E of 0.1x as of October 2020, which places it comfortably in terms of liquidity.

Valuation & Outlook

The company has initiated various steps to revitalise itself during these challenging times. This would not only help it to endure itself but also to flourish when business returns to normalcy. With strong b/s and strategic property locations across key destinations, the company is best positioned to ride on domestic tourism growth story. At the CMP of ₹ 74, the stock is trading at adjusted EV/room of ₹ 1.8/room i.e. at 50% of its fair value). Hence, we maintain our BUY rating with unchanged target price of ₹ 105/share (i.e. @ 24x FY22E EV/EBITDA).



Stock Data

Particulars	Amount
Market Capitalization (₹ Crore)	4,646.4
Total Debt (FY20) (₹ Crore)	620.3
Cash and investments (FY20) (₹ crore)	212.2
EV (₹ Crore)	5,054.4
52 week H/L	188 / 54
Equity capital (post rights issue)	125.1
Face value	₹ 2

Key Highlights

- While revenue dropped by ₹245 crore YoY, expenditure also curtailed by ₹116 crore during the quarter
- Variable costs were down by 71% broadly in line with drop in revenues, fixed cost reduced by 29%
- 20% of cost reduction done till now is sustainable in nature
- Weighted average cost of debt is down from 8.8% LY to 7.8% as of Sep -20.
- D/E now stands 0.1x from 0.21x earlier
- Maintain BUY with unchanged target price of ₹ 105/share

Research Analyst

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Key Financial Summary

Key Financials	FY17	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	1529	1599	1811	1596	406	1233	-12.1%
EBITDA	261	299	406	290	-300	247	-7.7%
EBITDA (%)	17.1	18.7	22.4	18.2	-73.9	20.0	
PAT	128	179	194	163	-316	104	-20.1%
EPS (₹)	2.2	3.1	3.1	2.6	-5.1	1.7	
EV/EBITDA	18.5	16.4	12.1	17.3	-15.9	19.5	
D/E	0.1	0.2	0.2	0.2	0.1	0.1	
RoNW (%)	4.6	6.2	6.5	5.2	-10.1	3.2	
RoCE (%)	6.5	8.2	9.6	5.7	-10.8	4.5	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Net Sales	60.4	69.9	287.7	-79.0	28.5	112.3	Revenue dropped by ₹245 crore on YoY basis on account of pandemic environemnt
Other income	9.1	11.0	27.1	-66.6	10.0	-9.2	
Raw Material Expenses	10.4	13.4	37.8	-72.4	5.0	109.5	
Employee cost	76.5	80.0	105.4	-27.4	87.3	-12.3	
Other Exp	68.7	63.4	128.1	-46.4	61.6	11.5	
EBITDA	-95.2	-86.9	16.4	-681.4	-125.4	-24.1	Expanditure also dropped by 43% YoY (₹116 crore) that helped to contain the losses to some extent
EBITDA Margin (%)	NA	NA	5.7	NA	-440.5	NA	
Interest	12.2	12.9	12.9	-5.5	11.1	10.0	Cost of debt is also down by 104bps YoY that led to fall in interest expenses despite 10% rise in the debt
Depreciation	30.9	31.2	34.1	-9.3	30.9	-0.1	
PBT and Exceptional exp	-129.2	-120.0	-3.5	NA	-157.4	PL	
Exeptional exps	20.2	0.0	0.0	NA	0.0	0.0	
PBT	-149.4	-120.0	-3.5	NA	-157.4	PL	
Tax Expenses	-34.2	-29.9	-44.5	-23.1	-39.2	NA	
PAT	-115.2	-90.1	41.0	NA	-118.2	PL	
EPS	-2.0	-1.6	0.7	NA	-2.1	PL	

Source: Company, ICICI Direct Research

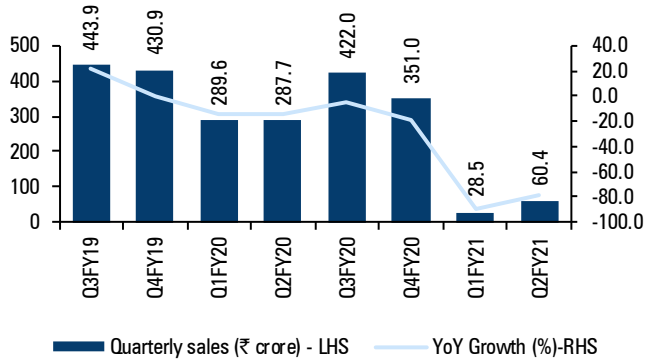
Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	436.9	406.4	-7.0	1,170.3	1,233.2	5.4	NA
EBITDA	-292.0	-300.2	NA	217.5	247.1	13.6	NA
EBITDA Margin (%)	-66.8	-73.9	NA	18.6	20.0	145 bps	

Source: Company, ICICI Direct Research

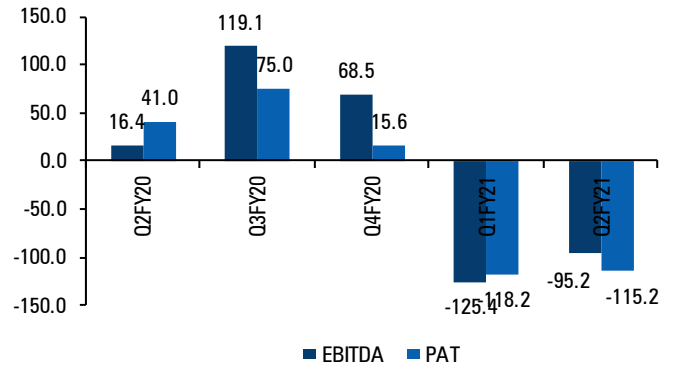
Financial story in charts

Exhibit 3: Revenues decline 79% YoY in Q2FY21



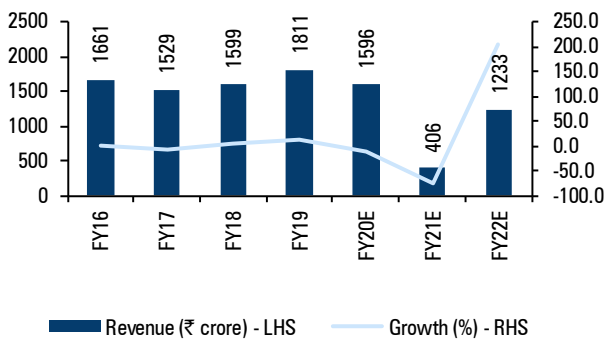
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA loss of ₹ 95 crore during Q2FY21



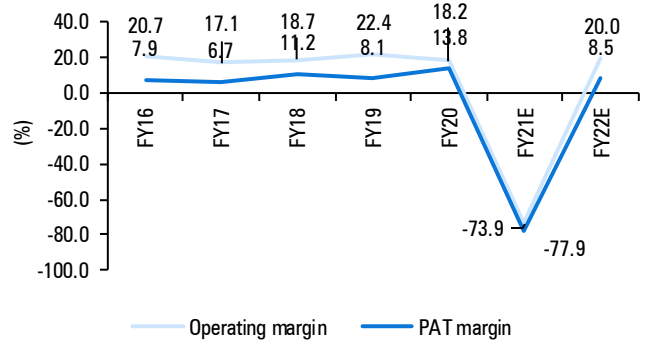
Source: Company, ICICI Direct Research

Exhibit 5: Revenues to recover only after FY21E



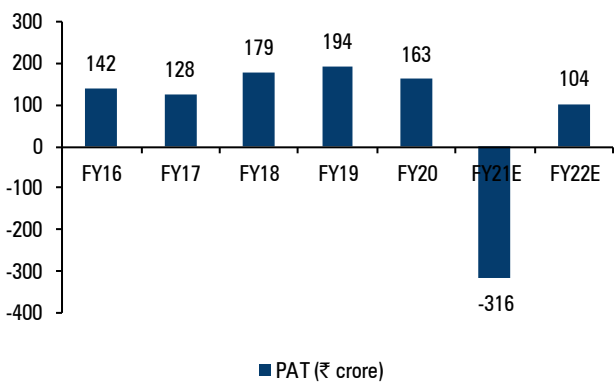
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA margins to rebound in FY22E



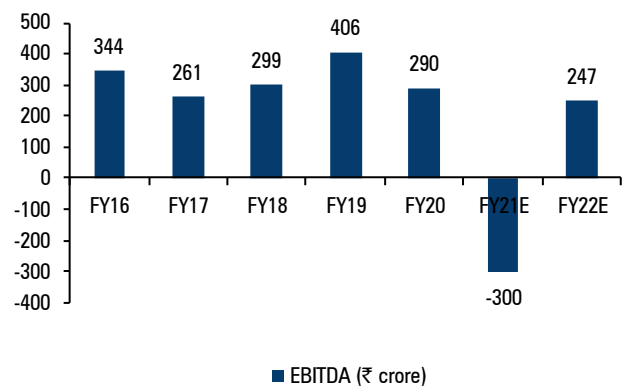
Source: Company, ICICI Direct Research

Exhibit 7: Profitability trend



Source: Company, ICICI Direct Research

Exhibit 8: EBITDA trend over FY20-22E



Source: Company, ICICI Direct Research

Exhibit 9: EIH Group brand wise portfolio

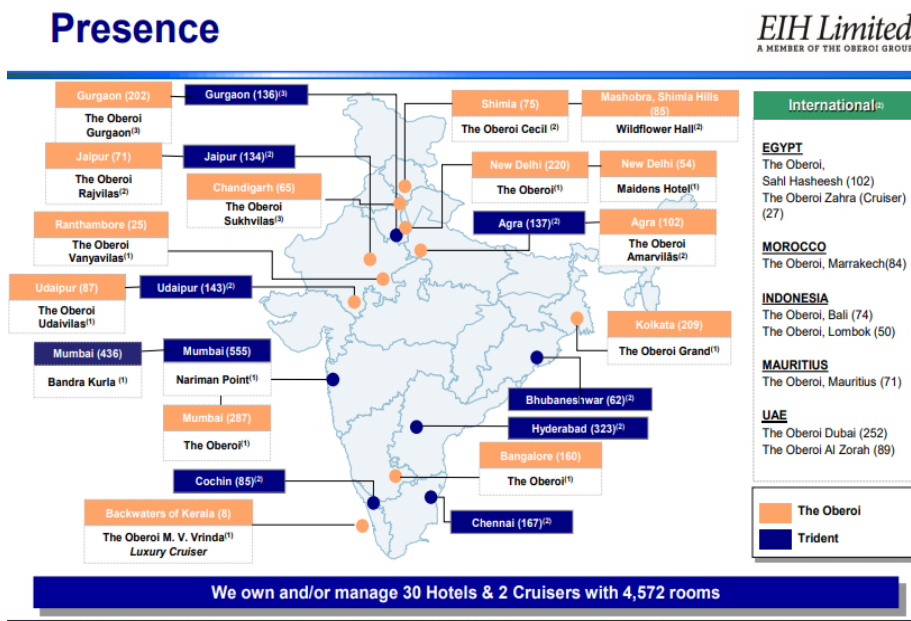


Out of total room portfolio of 4572 rooms, over 2719 rooms are operated under super luxury segment

* Includes The Oberoi, Marrakech opened on 1st December 2019

Source: Company, ICICI Direct Research

Exhibit 10: Market leader in most micro markets where EIH has presence



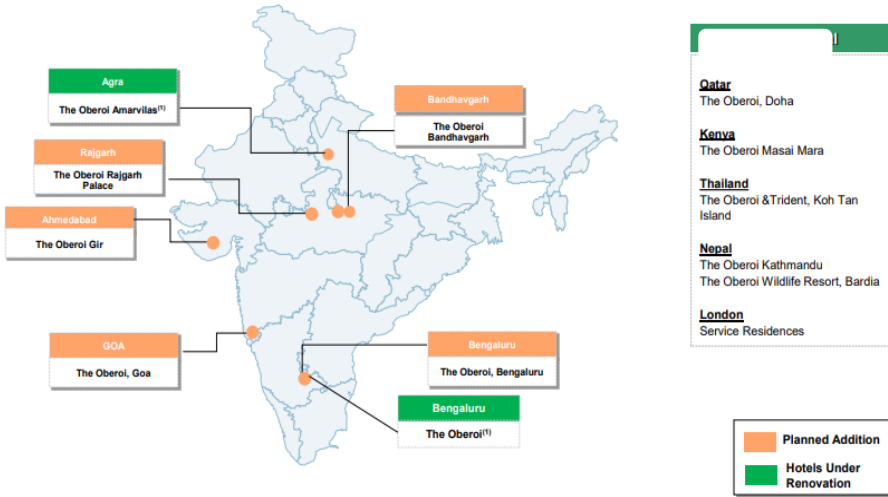
The company has balanced room portfolio across key business and leisure destinations in India

Source: ICICI Direct Research, Company

Exhibit 11: Future plans

Business Expansion and Development *EIH Limited*

A MEMBER OF THE OBEROI GROUP



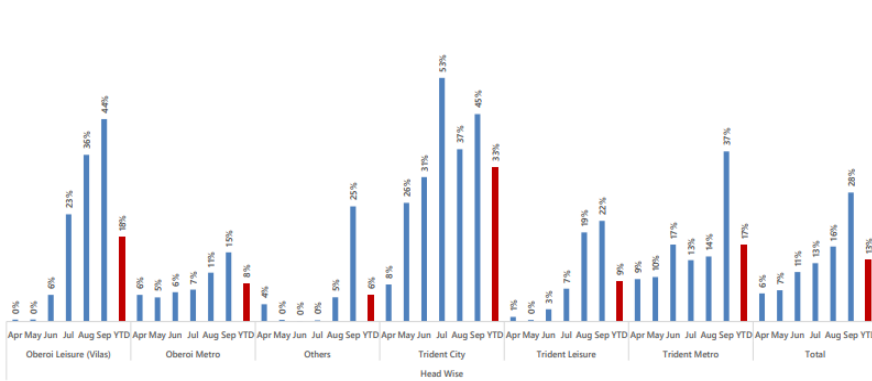
(1) Existing properties under renovation

Source: Company, ICICI Direct Research

Exhibit 12: Monthly occupancy movement

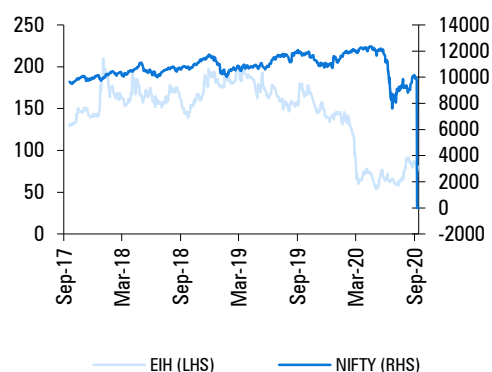
Trends: India (April 2020 to September 2020)

Hotels | Monthly Occupancy Movement | Including Managed Properties



Source: Company, ICICI Direct Research

Exhibit 13: Three year price chart vs Nifty



Source:

Exhibit 14: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	osition (m)	Change
1	Reliance Strategic B	23-Sep-19	18.5	105.91m	0.00m
2	Itc Ltd	31-Dec-19	15.0	85.62m	0.00m
3	Oberoi Hotels Pvt Lt	31-Mar-20	14.6	83.65m	0.00m
4	Oberoi Holdings Pvt	31-Mar-20	5.9	33.44m	0.00m
5	Oberoi Investments P	31-Mar-20	4.9	28.15m	0.00m
6	Reliance Capital Tru	15-Jun-20	3.9	22.36m	0.00m
8	Oberoi Building & In	31-Mar-20	3.2	18.06m	0.00m
8	L&T Mutual Fund	31-May-20	2.8	16.23m	(0.00)m
8	Hdfc Asset Managemen	31-May-20	1.9	11.08m	(0.12)m
8	Sundaram Asset Manag	30-Apr-20	1.6	9.30m	(0.12)m

Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 15: Shareholding Pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	35.25	35.25	35.25	35.25	35.25
FII	4.38	4.26	4.08	3.43	2.27
DII	16.05	16.11	16.29	15.67	14.23
Others	44.32	44.38	44.38	45.65	48.25

Source: Company, ICICI Direct Research, Thomson Reuters

Financial summary

Exhibit 16: Profit and Loss Statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating income	1,810.8	1,596.3	406.4	1,233.2
Growth (%)	13.3	-11.8	-74.5	203.4
Raw Material Expenses	244	199	59	166
Employee Expenses	481	469	375	394
Other Exp	680	637	272	425
Total Operating Expenditure	1,404.9	1,306.0	706.6	986.1
EBITDA	405.9	290.3	-300.2	247.1
Growth (%)	35.8	-28.5	-203.4	-182.3
Depreciation	132.6	146.5	137.1	137.4
Interest	50.4	55.6	34.8	29.5
Other Income	81.1	78.4	39.2	58.8
PBT	304.0	166.7	-432.9	139.1
Others	74.7	-54.8	-34.6	-0.3
Total Tax	82.0	0.9	-81.8	35.1
Adjusted PAT	194.4	163.2	-316.4	104.3
Growth (%)	8.5	-16.0	-293.8	-133.0
Adjusted EPS (₹)	3.1	2.6	-5.1	1.7

Source: Company, ICICI Direct Research

Exhibit 18: Balance Sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	114.3	114.3	125.1	125.1
Reserve and Surplus	2,867.5	3,005.3	3,017.3	3,121.6
Total Shareholders funds	2,981.8	3,119.6	3,142.4	3,246.7
Total Debt	531.0	620.3	370.3	320.3
Deferred Tax Liability	98.5	76.1	76.1	76.1
Minority Interest / Others	88.5	99.7	99.7	99.7
Total Liabilities	3,700	3,916	3,689	3,743
Assets				
Gross Block	3,812.5	4,309.5	4,329.9	4,329.9
Less: Acc Depreciation	1,642.5	1,788.9	1,926.1	2,063.5
Net Block	2,170.0	2,520.5	2,403.8	2,266.4
Capital WIP	78.6	130.4	110.0	100.0
Total Fixed Assets	2,248.6	2,651.0	2,513.8	2,366.4
Goodwill on consolidation	339.9	370.1	370.1	370.1
Investments	579.8	613.0	613.0	563.0
Inventory	59.8	61.0	-0.8	102.2
Debtors	248.0	205.7	74.6	168.9
Loans and Advances	367.6	149.6	53.6	193.0
Other Current Assets	70.9	93.0	-11.7	184.4
Cash	230.2	212.2	220.1	124.4
Total Current Assets	976.4	721.5	335.8	772.9
Creditors	306.0	296.2	69.0	209.5
Provisions	146.2	151.4	82.8	127.8
Total Current Liabilities	452.2	447.5	151.9	337.3
Net Current Assets	524.2	274.0	183.9	435.6
Others Assets	7.2	7.7	7.7	7.7
Application of Funds	3,700	3,916	3,689	3,743

Source: Company, ICICI Direct Research

Exhibit 17: Cash Flow Statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	147.3	220.6	-316.4	104.3
Add: Depreciation	132.6	146.5	137.1	137.4
(Inc)/dec in Current Assets	-83.4	236.9	393.6	-532.8
Inc/(dec) in CL and Provisions	-15.0	-4.7	-295.6	185.4
CF from operating activit	181.4	599.3	-81.3	-105.7
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-1.6	-549.3	0.0	10.0
Others	-28.3	-41.3	0.0	0.0
CF from investing activit	-29.9	-590.7	0.0	10.0
Issue/(Buy back) of Equity	0.0	0.0	10.8	0.0
Inc/(dec) in loan funds	75.0	89.3	-250.0	-50.0
Dividend paid & dividend tax	-66.2	-66.2	0.0	0.0
Inc/(dec) in Sec. premium	0.0	0.0	338.9	0.0
Others	23.7	-16.5	-10.5	0.0
CF from financing activit	32.5	6.6	89.2	-50.0
Net Cash flow	61.2	-17.9	7.9	-95.7
Opening Cash	169.0	230.2	212.2	220.1
Closing Cash	230.2	212.2	220.1	124.4

Source: Company, ICICI Direct Research

Exhibit 19: Key Ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
Adjusted EPS	3.1	2.6	-5.1	1.7
Cash EPS	4.5	5.9	-2.9	3.9
BV	47.7	49.9	50.3	51.9
DPS	0.9	0.9	0.0	0.0
Cash Per Share	3.7	3.4	3.5	2.0
Operating Ratios (%)				
EBITDA Margin	22.4	18.2	-73.9	20.0
PBT / Total Operating income	8.1	13.8	-77.9	8.5
PAT Margin	8.1	13.8	-77.9	8.5
Inventory days	11.2	13.8	27.0	15.0
Debtor days	50.0	47.0	67.0	50.0
Creditor days	61.7	67.7	62.0	62.0
Return Ratios (%)				
RoE	6.5	5.2	-10.1	3.2
RoCE	9.6	5.7	-10.8	4.5
RoIC	9.0	4.5	-14.7	3.5
Valuation Ratios (x)				
P/E	31.4	21.0	0.0	44.4
EV / EBITDA	12.1	17.3	-15.9	19.5
EV / Net Sales	2.7	3.2	11.8	3.9
Market Cap / Sales	2.6	2.9	11.4	3.8
Price to Book Value	1.6	1.5	1.5	1.4
Solvency Ratios				
Debt/EBITDA	1.3	2.1	-1.2	1.3
Debt / Equity	0.2	0.2	0.1	0.1
Current Ratio	1.7	1.1	0.8	1.9
Quick Ratio	1.5	1.0	0.8	1.6

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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