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Indian Hotels Company Limited

Pressed RESET to grow again

Consumer Discretionary | Sharekhan code: INDHOTEL | Result Update

3R MATRIX	+	=	-
Right Sector (RS)		✓	
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 99**	
Price Target: **Rs. 118**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

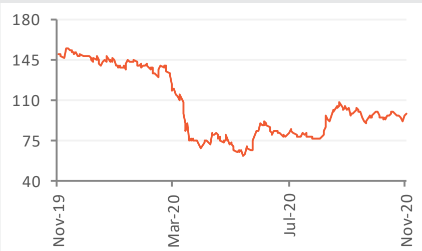
Company details

Market cap:	Rs. 11,762 cr
52-week high/low:	Rs. 158/62
NSE volume: (No of shares)	16.1 lakh
BSE code:	500850
NSE code:	INDHOTEL
Free float: (No of shares)	70.5 cr

Shareholding (%)

Promoters	40.8
FII	10.5
DII	31.5
Others	17.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.1	27.2	35.4	-34.5
Relative to Sensex	-8.2	17.4	4.0	-37.3

Sharekhan Research, Bloomberg

Summary

- Indian hotel Company Limited's (IHCL's) Q2FY2021 performance improved sequentially as revenues rose to Rs. 256.7 crore from Rs. 143.6 crore in Q1FY2021.
- Standalone occupancy ratio improved to 32.3% in Q2FY2021 from 20.5% in Q1FY2021; average room rentals (ARR) rose by 12% to Rs. 5,424 from Q1.
- Company's RESET initiative is giving desired results - 1) Newer initiatives contributed Rs. 135 crore to revenues, operating cost fell 51% (fixed cost fell by Rs. 134 crore through effective asset management).
- Hotel industry set for strong revival in FY2022/23 as foreign tourist arrivals are expected to regain momentum. As IHCL has a strong room inventory and stable balance sheet among peers, we recommend Buy with PT of Rs. 118.

IHCL saw a sequential improvement in Q2FY021 as revenues improved to Rs. 256.7 crore from Rs. 143.6 crore in Q1FY2021. Standalone occupancy ratio (OR) improved to 32.3% in Q2FY2021 from 20.5% in Q1FY2021 with a m-o-m improvement in occupancies (September - 34.5%, August - 30.9% and July - 31.5%). Average room rental (ARR) grew by 12% to Rs. 5,424 in Q2FY2021 from Rs. 4,848 in Q1FY2021. Similarly, RevPar (revenue per available room) improved to Rs. 1,340 in September from Rs. 339 in April. Total operating costs fell by 51% in Q2 and H1 (raw material cost fell 82%, fixed leased cost declined 51%, while manpower cost dropped 40%). The company's RESET initiative is giving desired results with new initiatives (including Qmin and Hospitality@Home 2.0) contributing Rs. 135 crore, while also helping reduce rental costs by Rs. 92 crore and corporate overheads decreased by Rs. 43 crore in H1FY2021. With the domestic economy gradually opening up and lockdown norms easing, the management expects occupancy ratio to gradually improve in the coming quarters. The second half of a fiscal is one of the best periods for hotel industry in India. However, corporate travel is yet to revamp (it contributes ~15% to IHCL's revenue). Thus, H2FY2021 is expected to be relatively muted, largely supported by uptick in domestic tourism. However, we expect FY2022 to see stark revival in performance (especially in the second half of year) with potential arrival of the COVID-19 vaccine over the next 6-8 months. The improvement in occupancies and the company's cost-saving measures would result in better profitability in FY2022 and years ahead. Despite a washout H1, the company's liquidity remained stable, with a reduction of just Rs. 167 crore to Rs. 520 crore. Further, it managed to reduce its long-term debt by Rs. 750 crore in the last six months.

Key positives

- RevPar stood at Rs. 1,061 (2.1x Q1 RevPar), well ahead of industry RevPar of Rs. 796.
- Standalone revenues and operating profit stood at Rs. 146 crore and Rs. 13 crore, respectively.
- New initiatives have led to OPM of above 50% and will continue add incrementally to revenues in the coming years.

Key negatives

- H1FY2021 was a washout as domestic hotels were operational at limited capacity for most part of period (international properties were largely closed).

Our Call

Recommend Buy with price target of Rs. 118: Indian hotel industry is expected to see strong rebound in FY2022 with domestic leisure and corporate travel expected to see strong recovery in the normalised environment. IHCL have seen gradual recovery in occupancies and ARRs in past few months. However, we expect stark improvement in the performance of IHCL in FY2023 with strong growth in revenues and consolidated OPM reaching ~20% (in-line with FY2019/20 levels) driven by a considerable recovery in occupancies and ARRs of its domestic and international properties. The stock is currently trading at 22x its FY2023E EV/EBIDTA. IHCL, with strong room inventory and stable balance sheet, is a better play in the hospitability space with potential to gain market share in the near term. We recommend a Buy on the stock with a price target of Rs. 118.

Key risk

Any slow recovery in the inbound and outbound tourism industry would act as a key risk to our earnings estimates.

Valuation (Consolidated) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	4,512	4,463	1,431	2,164	3,571
OPM (%)	18.4	21.7	-15.1	8.6	20.4
Adjusted PAT	240	318	-644	-358	47
Adjusted EPS (Rs.)	2.5	2.8	-5.5	-2.9	0.7
P/E (x)	39.7	32.3	-	-	-
P/B (x)	2.3	2.3	2.7	3.0	2.9
EV/EBIDTA (x)	17.4	16.4	-	85.0	22.2
RoNW (%)	4.8	6.2	-	-	1.2
RoCE (%)	6.8	7.2	-	-	4.6

Source: Company; Sharekhan estimates

Note: We now convert Indian Hotels Company Limited into a Stock Update; It was earlier a 'Viewpoint' under our coverage.

Q2FY2021 – Recovered to 25% of pre-COVID levels: Operating numbers were subdued for Q2FY2021. However, performance was sequentially better with revenue recovering to 25% of pre-COVID levels (from 15% recovery in Q1) to Rs. 256.7 crore. Total operating cost declined by 51% in Q2FY2021 as fixed costs plummeted. The company reported an operating loss of Rs. 150.3 crore in Q2FY2021 as against profit of Rs. 160.5 crore in Q2FY2020. Other income was substantially higher from Rs. 21.1 crore to Rs. 66.9 crore, which includes Rs. 3 crore towards sale of residential flats and Rs. 22 crore towards lease rent concessions. Interest cost rose while depreciation cost remained almost flat. This, along with lower revenue, resulted in loss before tax of Rs. 283.1 crore in Q2FY2021 as against Rs. 5.2 crore in Q2FY2020. Adjusted loss (prior to share of profit/loss from associates) stood at Rs. 236.1 crore. Loss from subsidiaries/associates increased from Rs. 10.8 crore to Rs. 32.4 crore in Q2FY2021. Adjusted loss (post loss from associates) came in at Rs. 268.5 crore in Q2FY2021 as against a profit of Rs. 69.6 crore in Q2FY2020. There was a pre-tax exceptional gain of Rs. 20.5 crore after which, reported loss came in at Rs. 252.1 crore.

Standalone business saw sequential recovery: Standalone revenue declined by 72% y-o-y in Q2FY2021 to Rs. 165 crore, largely impacted by continued lockdown in the country for most part of the quarter and as international flights/tourism remained suspended. Standalone room revenue improved sequentially to Rs. 71 crore from Rs. 40 crore, while F&B revenue improved to Rs. 48 crore from Rs. 20 crore. Moreover, there was a sequential improvement in both room and F&B revenue seen over July-September. Occupancy also improved sequentially from 20.5% in Q1FY2021 to 32.3% in Q2FY2021, driven by good uplift in the Ginger brand. A similar trend was witnessed in RevPar, which was significantly up from Rs. 992 to Rs. 1,751. Domestic business also recovered sequentially as room revenue rose q-o-q to Rs. 154 crore from Rs. 75 crore, while F&B revenue improved to Rs. 106 crore from Rs. 39 crore. Domestic occupancy ratio stood at 28.4% as compared to 15.3% in Q1FY2021. Domestic RevPar grew 4x in H1FY2021.

Occupancies are improving m-o-m: Global industry experts suggest that room demand will grow faster as against supply with gradual opening of the economy. IHCL has seen overall occupancies improving to 32% for total number of rooms operational in September 2020. Occupancies in the Ginger chain improved to 51% in September 2020, with RevPAR growing by 1.48x. Occupancy level remained stable at ~35% in September.

Key Conference call takeaways

- **International business – A mixed bag:** Dubai is performing well because of IPL; US and Cape Town properties opened in October but rising scare of second wave of COVID-19 might put a halt to the operations in US. Maldives has seen a strong pick-up; London has gone into lockdown for a month after brief opening. Stimulus packages given by the US and UK and renegotiations of rentals aided strong savings in fixed costs.
- **Domestic business – Leisure travel reviving; corporate travel yet to bounce back:** IHCL's standalone occupancies are improving m-o-m as lot of domestic travellers are opting for short stays in the last few months. Going ahead the company expects this trend to improve with opening up of more cities which would help IHCL's domestic properties achieve better occupancies in the coming quarters. Corporate travel (15% of IHCL's revenues) will see 100% recovery once the vaccine is available in the market. Air travel growth stood at 40% in September over August providing some hope of corporate travel recovering in the coming quarters.
- **Ginger brand gaining good momentum:** The Ginger brand (economy hotel chain by IHCL) has seen a strong improvement in occupancies to 51% in September from lows of 13% in April. Occupancies are higher than some of the mid-scale hotels operating in India. RevPar index of the brand improved from 0.69x in April to 1.48x in September. With a lot of standalone hotels/budget hotels' operations being affected by liquidity issues, it provides opportunity for Ginger brand to scale up its operations in the near to medium term.
- **Project RESET is full-filling the objective:** Project RESET is giving desired results with new initiatives (including Qmin and Hospitality@Home 2.0) contributing Rs. 135 crore while also helping in reducing the rental cost by Rs. 92 crore and corporate overheads by Rs. 43 crore in H1FY2021. The company's fixed cost was reduced to Rs. 112 crore from Rs. 157 crore in Q2FY2020.

- **Balance sheet remains stable:** IHCL managed to reduced long-term debt by Rs. 750 crore in H1FY2021. Operating cash burn reduced from Rs. 100 crore in Q1FY2021 to Rs. 50 crore. Thus, the company's liquidity position remained stable with reduction of Rs. 167 crore to Rs. 520 crore in last six months.

Results (Consolidated) Rs cr

Particulars	Q2FY21	Q2FY20	Y-o-Y (%)	Q1FY21	Q-o-Q (%)
Net Sales	256.7	1007.4	-74.5	143.6	78.7
Total expenditure	407.0	847.0	-51.9	409.6	-0.6
Operating profit	-150.3	160.5	-	-266.0	-
Other income	66.9	21.1	-	31.7	-
Interest cost	96.8	86.8	11.5	87.9	10.1
Depreciation	102.8	99.9	2.9	100.1	2.7
PBT	-283.1	-5.2	-	-422.3	-
Tax	-47.0	-85.5	-	-86.5	-
Adjusted PAT	-236.1	80.4	-	-335.8	-
Share of profit from associates	-32.4	-10.8	-	-45.7	-
PAT	-268.5	69.6	-	-381.5	-
Extraordinary item	16.4	-0.3	-	68.9	-
Reported PAT	-252.1	69.3	-	-312.6	-
OPM (%)	-	15.9	-	-185.2	-
EPS (Rs.)	-2.0	0.7	-	-2.8	-

Source: Company; Sharekhan Research

Results Standalone (Reported) Rs cr

Particulars	Q2FY21	Q2FY20	Y-o-Y (%)	Q1FY21	Q-o-Q (%)
Net revenue	165.2	598.5	-72.4	95.2	73.5
Operating profit	-87.7	120.9	-	-161.9	-
PBT	-156.6	37.0	-	-253.3	-
Adjusted PAT	-125.6	126.6	-	-201.0	-
EPS (Rs.)	-1.1	1.1	-	-1.7	-
OPM(%)	-53.1	20.2	-	-170.0	-

Source: Company; Sharekhan Research

IHCL domestic network revenue metrics Rs cr

Particulars	July	August	September	Q2FY2021	Q1FY2021
Room Revenue	20	22	30	71	40
F & B Revenue	11	17	20	48	20
Other Revenue	23	25	47	96	57
Total Revenue	54	64	97	215	117
Occupancy (%)	31.5	30.9	34.5	32.3	20.5
ARR (Rs.)	4,568	5,087	6,544	5,424	4,848
RevPAR (Rs.)	1,439	1,572	2,258	1,751	992

Source: Company

Outlook and Valuation

■ Sector View – FY2021 will be disrupted; strong recovery expected in H2FY2022

H1FY2021 was a washout period for the hotel industry in India and globally due to high percentage of non-operational days/operational days with minimal occupancies. H2FY2021 which is one of the key business periods for domestic hotel companies is expected to remain muted due to restriction on foreign tourist arrivals. However, some green shoots in the form of improving demand from domestic leisure travel segment, increasing enquiries for destination weddings and a gradual start in corporate travel segment would help large hotel companies post better performance going ahead. Further, a large shift is happening to trusted brands because of safety standards, higher room inventory and better F&B facilities. Also some of the standalone hotels/small brands are finding it difficult to operate due to liquidity issues, which provides scope for large hoteliers to grab good share in economy space as well. Capex is put on hold by most companies and hence, room supply would be delayed. Thus, with huge pent-up demand, we expect occupancies and ARRs to improve substantially in H2FY2022 with room demand staying ahead of room supply. However if virus scare takes time to recede than anticipation the revival will take time.

■ Company Outlook – Gradual recovery paves way for improved performance in FY2022

With the domestic economy gradually opening up and lockdown norms easing, the management expects occupancy ratio to gradually improve in the coming quarters. H2 is one of the best periods for hotel industry in India. Also, corporate travel is yet to bounce back (it contributes ~15% to IHCL's revenue). Thus, H2FY2021 is expected to be relatively muted largely supported by uptick in domestic tourism. However, we expect FY2022 to see stark revival in the performance (especially in the second half of the year) with potential arrival of vaccine over the next 6-8 months. Improvement in occupancies and the company's cost saving measures would result in better profitability in FY2022 and years ahead. Further, the company has maintained its thrust on reducing debt through asset monetisation strategy and debt-refinancing strategy. Interest cost is expected to remain stable in the coming years.

■ Valuation – Recommend Buy with target price of Rs. 118

Indian hotel industry is expected to see strong rebound in FY2022 with domestic leisure and corporate travel expected to see strong recovery in the normalised environment. IHCL have seen gradual recovery in occupancies and ARRs in past few months. However, we expect stark improvement in the performance of IHCL in FY2023 with strong growth in revenues and consolidated OPM reaching ~20% (in-line with FY2019/20 levels) driven by a considerable recovery in occupancies and ARRs of its domestic and international properties. The stock is currently trading at 22x its FY2023E EV/EBIDTA. IHCL, with strong room inventory and stable balance sheet, is a better play in the hospitability space with potential to gain market share in the near term. We recommend a Buy on the stock with a price target of Rs. 118.

About company

IHCL and its subsidiaries bring together a group of brands and businesses that offer a fusion of warm Indian hospitality and world-class service. Incorporated by the founder of the Tata Group, Jamshedji Tata, the company opened its first hotel - Taj Mahal Palace, in Bombay in 1903, and currently has 200 hotels (158 operational) globally in its portfolio with 25,168 keys across 62 locations around the globe, including presence in India, North America, UK, Africa, Middle East, Malaysia, Sri Lanka, Maldives, Bhutan, and Nepal.

Investment theme

The hotel industry's business fundamentals have improved in recent times with room demand outpacing room supply. IHCL is one of the top players in the domestic hotel space with strong room inventory. Management has aspiration to expand its margins by 8% by FY2023 and the company is posting decent margin expansion for the past few quarters. The significant impact on tourism and setback to the industry due to COVID-19 will result in FY2021 remaining subdued for IHCL. However, pent-up demand and international properties improvement in performance by posting positive RevPAR growth will help IHCL post faster recovery in FY2022. This will also help cashflows to improve and balance sheet to strengthen in the coming years.

Key Risks

- In the backdrop of the economic slowdown, room supply is going ahead of room demand, which will affect overall business fundamentals of the hotel industry and performance of hotel companies.
- Any disruption in the performance of international properties will affect the consolidated performance of IHCL in the coming years.

Additional Data

Key management personnel

N Chandrasekaran	Chairman
PuneetChhatwal	CEO &Managing Director
GiridharSanjeevi	Chief Financial Officer
Beejal Desai	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Reliance Capital Trustee Co Ltd	6.1
2	HDFC Asset Management Co Ltd	6
3	SBI Funds Management Pvt Ltd	4.3
4	Franklin Resources Inc	3.6
5	ICICI Prudential Life Insurance Co	2.8
6	ICICI Prudential Asset Management	2.7
7	Government Pension Fund - Global	2.7
8	Norges Bank	2.3
9	Life Insurance Corp of India	1.8
10	HDFC Life Insurance Co Ltd	1.5

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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