Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Indian Hotels Company Limited

Gradually unlocking doors to growth

Consumer Discretionary	Sharekhan code: INDHOTEL	Company Update

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

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 120**	
Price Target: **Rs. 155**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 14,271 cr
52-week high/low:	Rs. 152/62
NSE volume: (No of shares)	36.4 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	30.0	16.6	42.5	-19.3
Relative to Sensex	17.7	1.8	8.4	-28.7

Sharekhan Research, Bloomberg

Summary

- Indian Hotels Company Limited (IHCL) remains one of the our best picks in the hospitality space due to its strong room inventory and relative stable balance sheet, which will help to gain share during the recovery phase. We maintain our Buy rating on the stock with a revised PT of Rs. 155.
- Staycation, weekend road trips, and wedding/social gatherings have emerged as immediate growth drivers for the industry and aided IHCL to post sequential improvement in occupancies (stood at 32.3% in Q2FY2021, improved from lows of 20.5% Q1FY2021). Occupancy level improved to 50% in recent times.
- Several cost-saving measures (including reduction in cost by 51% in H1FY2021) would ease out pressure on profitability in the near term. Further, strong recovery in occupancies FY2022/FY2023 would help OPM to get back on track.
- We have revised upwards our earnings estimates for FY2022/FY2023 to factor in improving business environment for domestic leisure travel and likely shift of consumers to trusted brands coupled with expansion in operating profit.

The Indian hospitality industry is gearing up for the next league of growth with domestic leisure travel emerging as the key pillar of growth in the near term. Our interaction with industry experts suggests that staycation (check-in in the same city of stay), weekend drive (short trip to nearest locations), and weddings/social gatherings would help in sustained improvement in the occupancies of hotel companies in the coming months. Industry occupancy has improved from lows of 10% in April 2020 to 26% in September 2020. According to industry experts, the recent spike in Covid cases is unlikely to have any impact on books, as travellers are opting for trusted brands, limited duration of 2-3 days, and driving to the location. So, occupancies and RevPar of hotel companies are expected to improve on month-on-month basis. Indian leisure travel will get a boost from outbound travellers opting for holidaying in domestic destinations rather than travelling to international countries on holidays. Further, business travel is expected to come back on track at a gradual pace (likely in H2FY2022 post the launch of the vaccine). On the supply front, financial constraints would delay most of the hotel projects by a year or two, while some of the standalone hotels are likely to close their operations in the domestic market. IHCL witnesses strong recovery in Q2FY2021 with revenue growing by ~79% on q-o-q basis, driven by sequential improvement in the standalone occupancy ratio to 32.3% in Q2FY2021 from 20.5% in Q1FY2021 (Occupancies touched ~35% in September 2020; domestic RevPar grew by 4x from April to September). New initiatives under the Project RESET resulted in Rs. 135 crore addition to revenue and Rs. 149 crore reduction in cost in for IHCL in H1FY2021. Cost benefits of the same would continue in the coming quarters. Higher demand from domestic leisure travellers would help IHCL to post strong recovery in FY2022 and FY2023.

Our Call

View: Retain Buy with a revised PT of Rs. 155: We have revised upwards our earnings estimates for FY2022 and FY2023 to factor in the impact of pent-up demand and improvement in profitability due to cost-optimisation initiatives. IHCL has seen gradual recovery in occupancies and ARRs in the past few months (reach 50% in October-November). However, we expect a stark improvement in business fundamentals of IHCL in FY2022/FY2023 with strong improvement in the global tourism industry post the launch of the vaccine. Thus, we expect strong double-digit revenue growth and consolidated OPM reaching ~21% in FY2023 (in-line with FY2020 levels), driven by considerable recovery in occupancies and ARRs of its domestic and international properties. The stock is currently trading ~21x its FY2023E EV/EBIDTA. We maintain our Buy recommendation on the stock with a revised PT of Rs. 155 (25x its FY2023E EV/EBIDTA).

Key risk

Any slowdown/decline in room demand due to spike in Covid-19 cases would act as key risk to our earnings estimates in the near term.

Valuation Rs cr

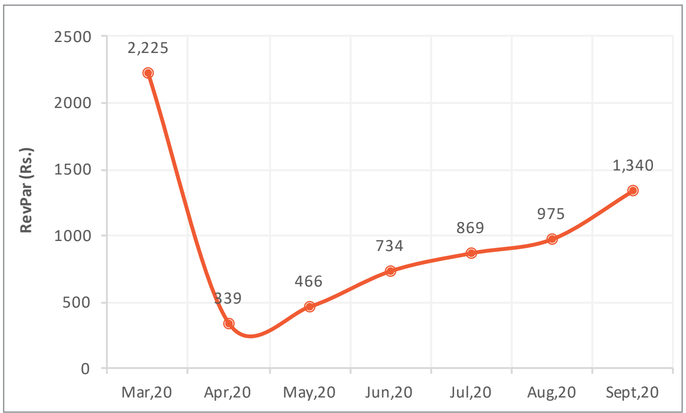
Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	4,512	4,463	1,431	3,124	4,240
OPM (%)	18.4	21.7	-15.1	18.5	21.0
Adjusted PAT	240	318	-644	-74	181
Adjusted EPS (Rs.)	2.5	2.8	-5.5	-0.4	1.9
P/E (x)	48.2	39.2	-	-	63.2
P/B (x)	2.8	2.8	3.2	3.3	3.2
EV/EBIDTA (x)	20.4	19.0	-	31.9	20.9
RoNW (%)	4.8	6.2	-13.5	-1.7	4.2
RoCE (%)	6.8	7.2	-5.2	2.7	6.3

Source: Company; Sharekhan estimates

Occupancies are improving on month-on-month basis

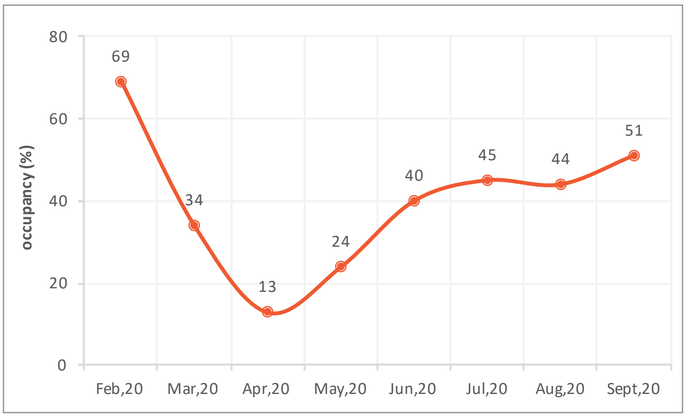
IHCL's occupancy ratio stood at ~32% in Q2FY2021 improved from ~20% in Q1FY2021. According to management, occupancies have reached 50% in the recent past and the company expects to improve in the coming quarters with strong recovery in the domestic leisure travel. RevPar improved from low of Rs. 339 in April 2020 and improved to Rs. 1,340 in September 2020. The Indian hospitality industry is gearing up for the next league of growth with domestic leisure travel emerging as the key pillar of growth in the near term. Our interaction with industry experts suggests that staycation (check-in in the same city of stay), weekend drive (short trip to the nearest locations), and weddings/social gatherings would help in sustained improvement in the occupancies of hotel companies in the coming months. Indian leisure travel will get a boost from outbound travellers opting for holidaying in domestic destinations rather than travelling to international countries on holidays. Further, business travel is expected to come back on track at a gradual pace (likely in H2FY2022 post the launch of the vaccine).

IHCL's RevPAR improved from its low



Source: Company, Sharekhan Research

Ginger hotels' occupancies recovered to 50%



Source: Company, Sharekhan Research

Project RESET is full-filling the objective

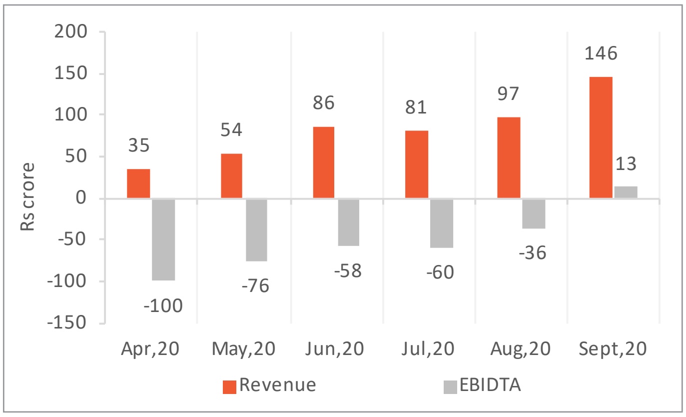
Project RESET is giving desired results with new initiatives (including Qmin and Hospitality @Home 2.0), contributing Rs. 135 crore, while helping in reducing rental cost by Rs. 92 crore and corporate overheads by Rs. 43 crore in H1FY2021. Initiatives such as Qmin, 4D (Dream, Drive, Discover and Delight), and Hospitality @Home 2.0 have added Rs. 10 crore, Rs. 27 crore, and Rs. 14 crore in terms of revenue in H1FY2021. The company's fixed cost was reduced to Rs. 112 crore from Rs. 157 crore in Q2FY2020. The company's operating cash burn has reduced from Rs. 100 crore in Q1 to Rs. 50 crore. Thus, the company's liquidity position remained stable with reduction of Rs. 167 crore to Rs. 520 crore in the past six months.

Tie-up with Ambuja Neotia Group; 500 rooms in offering under management contract

The company has entered into three new management contracts with Ambuja Neotia Group for two hotels in Kolkata and the first branded luxury hotel in Patna, Bihar. This is in addition two other projects coming up in east India. IHCL will launch Taj Chia Kutir in Darjeeling on December 14, 2020, and Taj Guras Kutir in Gangtok in partnership with Ambuja Neotia Group (will be opened at the end of next year). These five projects will cumulatively account for a total of 500 rooms. Ambuja Neotia is investing Rs. 800 crore to launch these five properties, while IHCL has been given management contracts for these properties. Entering into management contracts is one of the important strategies of IHCL into management contract rather than coming up with any Greenfield projects. We have a Buy rating on the stock.

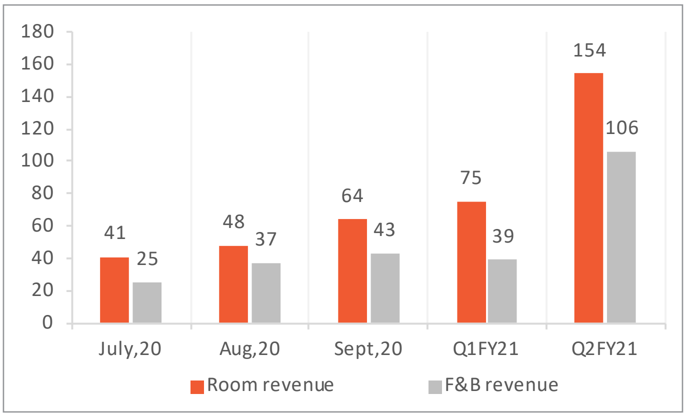
Financials in charts

Trend in revenue and EBIDTA



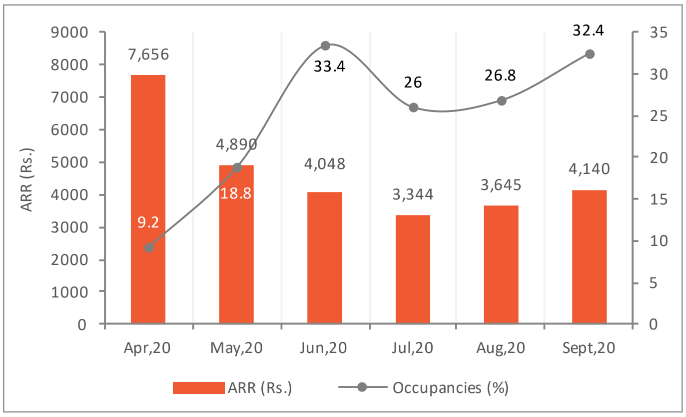
Source: Company, Sharekhan Research

Trend in room and F&B revenue



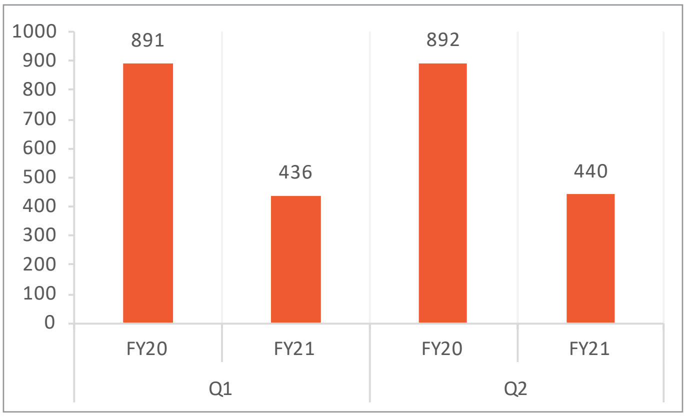
Source: Company, Sharekhan Research

Trend in Occupancies and ARRs



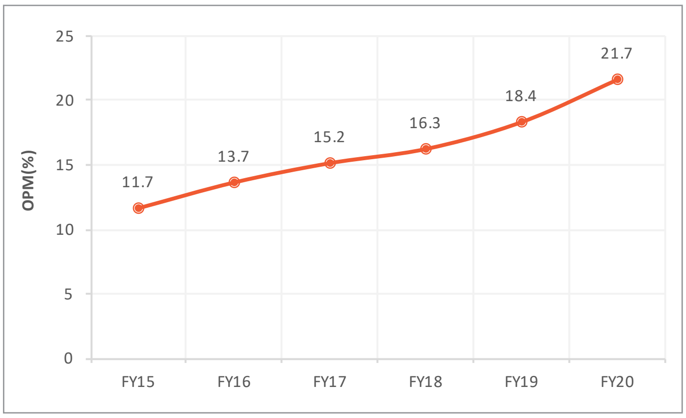
Source: Company, Sharekhan Research

Project RESET aided in cost saving



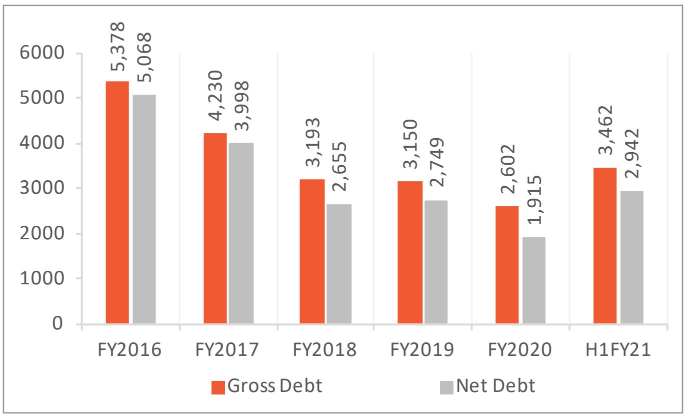
Source: Company, Sharekhan Research

Trend in consolidated OPM



Source: Company, Sharekhan Research

Trend in Gross Debt and Liquidity



Source: Company, Sharekhan Research

Outlook and Valuation

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

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

With domestic economy gradually opening up and lockdown norms easing, management expects occupancy ratio to gradually improve in the coming quarters. H2 is one of the best periods for the hotel industry in India. Moreover, corporate travels are yet to revamp (contribute ~15% to IHCL revenue). Thus, H2FY2021 is expected to be relatively muted, largely supported by uptick in domestic tourism. However, we expect FY2022 to see a stark revival in performance (especially in the second half of the year) with potential arrival of vaccine over the next 6 to 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. Thus, interest cost is expected to remain stable in the coming years.

■ Valuation – Retain Buy with upward revision in PT to Rs. 155

We have revised upwards our earnings estimates for FY2022 and FY2023 to factor in the impact of pent-up demand and improvement in profitability due to cost-optimisation initiatives. IHCL has seen a gradual recovery in occupancies and ARRs in the past few months (reached 50% in October-November). However, we expect stark improvement in business fundamentals of IHCL in FY2022/FY2023 with strong improvement in the global tourism industry post the launch of the vaccine. Thus, we expect strong double-digit revenue growth and consolidated OPM reaching ~21% in FY2023 (in-line with FY2020 levels), driven by considerable recovery in occupancies and ARRs of its domestic and international properties. The stock is currently trading ~21x its FY2023E EV/EBIDTA. We maintain our Buy recommendation on the stock with a revised PT of Rs. 155 (25x its FY2023E EV/EBIDTA).

Peer Comparison

Particulars	EV/EBIDTA (x)			RoCE (%)		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Lemon tree Hotels	18.6	100.5	26.6	5.5	-1.6	2.4
Indian Hotels Company	19.0	-	31.9	7.2	-5.2	2.7

Source: Company, Sharekhan estimates

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 aspirations 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 improvement in the performance of international properties by posting positive RevPAR growth will help IHCL post faster recovery in FY2022. This will also help cash flows 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
Puneet Chhatwal	CEO & Managing Director
Giridhar Sanjeevi	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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