

Geared-up, industry tailwind key

- Indian Hotels (IHCL) Q3FY21 revenue decline of 60% YoY (vs. 86/75% in Q1/Q2) was better than estimates (-65% YoY). This was led by revival in leisure travel and weddings. IHCL's net debt increased by Rs 1.4bn QoQ (vs Rs 4.1/6.1bn in Q1/Q2) to Rs 30.8bn. The cash burn during the quarter was significantly restricted – a key positive.
- We remain positive on IHCL led by its strong brand recall and footprint across segments, asset-light approach, monetization of non-core assets, focus on driving alternate revenue streams, repositioning Ginger in lean luxury segment and efficient costs management.
- The worst phase for the hotel industry is likely behind. But, revival may be gradual over 15-18 months to hit the historic 65-70% occupancies and Rs 10k+ ARR in our view. That said, we expect the operating performance to improve from hereon led by recovery in occupancies, ARR and the structural cost rationalization benefits.
- We have broadly maintained our FY21/22/23E revenue/EBITDA estimates. Reiterate BUY on IHCL with revised TP of Rs 144 @ 20x Dec-22E EV/EBITDA (vs. Rs 133 earlier at 20x Sep-22E) on roll-forward. That said, post the recent run-up and with peak season behind; we expect the IHCL stock to go through a time correction.

Moving in the right direction

IHCL reported consolidated revenue de-growth of 60% at Rs 5.5bn. EBITDA was negative Rs 0.3bn (Rs 1.5/2.7bn in Q2/Q1). Standalone (domestic) revenue declined by 54% whereas subsidiaries (domestic – Ginger, Piem etc and international – US, UK) was higher at 71% YoY due to lockdown in London, New York etc. Ginger's operating performance was healthy with 9MFY21 revenues at 57% of last year. Despite pandemic, IHCL signed-up a healthy 14 new hotels in 9MFY21 vs. 22/28 signings in FY19/20. IHCL's pipeline remains healthy.

Goa, Rajasthan, Kolkata, Kerala were the key markets with >50% revenues of last year whereas business districts of Delhi, Mumbai were laggards with <40% revenues. Revival in business and international travel is a key.

Reduction of ~1/4th in fixed costs from Rs 1.65bn pm to Rs 1.2bn is a structural positive. IHCL cost-structure had been an elevated one and rationalization was WIP. Pandemic has accelerated this journey.

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	5,472	13,727	(60.1)	2,567	113.2
Total Expense	5,766	9,470	(39.1)	4,070	41.7
EBITDA	(294)	4,257	(106.9)	(1,503)	(80.4)
Depreciation	1,023	1,008	1.5	1,028	(0.5)
EBIT	(1,318)	3,249	(140.6)	(2,532)	(48.0)
Other Income	674	362	86.1	669	0.7
Interest	1,121	849	32.1	968	15.8
EBT	(1,484)	2,750	(154.0)	(2,626)	(43.5)
Tax	(307)	813	(137.8)	(429)	(28.3)
RPAT	(1,332)	2,132	(162.5)	(2,521)	(47.2)
APAT	(1,613)	2,144	(175.2)	(2,726)	(40.8)
			(bps)		(bps)
Gross Margin (%)	89.8	91.5	(169)	91.5	(173)
EBITDA Margin (%)	(5.4)	31.0	(3639)	(58.6)	5319
NPM (%)	(24.3)	15.5	(3988)	(98.2)	7387
Tax Rate (%)	20.7	29.6	(885)	16.3	438
EBIT Margin (%)	(24.1)	23.7	(4775)	(98.6)	7456

CMP	Rs 123
Target / Upside	Rs 144 / 17%
NIFTY	14,790

Scrip Details

Equity / FV	Rs 1,189mn / Rs 1
Market Cap	Rs 146bn
	USD 2bn
52-week High/Low	Rs 143/ 62
Avg. Volume (no)	2,754,670
Bloom Code	IH IN
Price Performance	1M 3M 12M
Absolute (%)	(3) 27 (13)
Rel to NIFTY (%)	(7) 3 (36)

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	40.8	40.8	40.8
MF/Banks/FIs	31.7	30.4	28.5
FIIIs	10.9	10.5	12.5
Public / Others	16.7	18.4	18.3

Valuation (x)

	FY21E	FY22E	FY23E
P/E	(16.9)	76.7	30.5
EV/EBITDA	(65.1)	20.0	14.8
ROE (%)	(18.6)	5.3	12.2
RoACE (%)	(3.6)	6.0	8.1

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	17,382	40,084	45,699
EBITDA	(2,957)	9,532	12,484
PAT	(8,658)	1,903	4,781
EPS (Rs.)	(7.3)	1.6	4.0

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Concall Highlights

Business Update and demand recovery

- Management estimates Q4 to be stronger than Q3 (on YoY basis) based on business on bookings and daily run-rate. Low base of Feb/Mar is also likely to act as a support. No business in international markets of London, NewYork due to lockdown are key drag. In London, lockdown should get lifted from 1st week of March and that should help business. Goa recorded high occupancy at 80% in Q3.
- F&B revenue recovery is critical for both international and domestic markets.
- Weddings have started picking up with more number of people being allowed. Sports segment is also opening up with BCCI India-England series.

Cost Control

- Sustainable fixed costs stood at ~Rs 120-125cr p.m. with savings of ~Rs 40-45cr pm on recurring basis. Full year impact will be visible in FY22 since certain initiatives were gradual in FY21.
- Staff to room ratio stood at 1.14 as on Dec'20.
- Cash burn in Dec was Rs 12cr. Operating cash flow requirement in standalone is close to zero. Funding required for overseas subsidiaries.
- 86% of domestic hotels were EBITDA +ve in Dec.

Other Highlights

- Business consolidations not taking place due to mismatch between buyer and seller expectations, moratorium etc. However, this should change in six months' maximum in management view.
- No of efforts for cost rationalization for Pierre, USA viz. Lease rental, Manpower etc. Manpower is divided into Union and non-union employees. For, union employees there was a furlough of six months and from Oct post opening some has been re-hired. As things normalize, FY23 should start looking significantly better for Pierre.
- Online Travel Agent's share is ~22% in the network bookings. Taj website and call-center is another ~22%. But, during pandemic, share of OTAs has gone up to drive the transient business.

Exhibit 1: Actual vs. Estimates

Particulars	Estimate	Actual	Var %	Comments
Revenue (Rs Mn)	4,805	5,472	13.9	Revenue was higher than estimates on account better occupancy led by increase in leisure travel and resumption of weddings. This led to beat in EBIDTA/APAT.
EBITDA (Rs Mn)	(840)	(294)	(65.0)	
EBITDA Margin (%)	(17.5)	(5.4)	1210 bps	
APAT (Rs Mn)	(2,124)	(1,826)	(14.0)	

Source: DART, Company

Exhibit 2: Change in estimates

Rs Mn	FY21E			FY22E			FY23E			Remarks
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)	
Revenue (Rs Mn)	17,382	19,039	(8.7)	40,084	41,784	(4.1)	45,699	46,136	(0.9)	Change in estimate to moderate revenue recovery and costs rationalizations
EBITDA (Rs Mn)	(2,957)	(2,917)	1.4	9,532	10,256	(7.1)	12,484	11,807	5.7	
EBITDA Margin (%)	(17.0)	(11.9)	-511 bps	23.8	(11.9)	3568 bps	27.3	(11.9)	3922 bps	
APAT (Rs Mn)	(8,658)	(8,253)	4.9	1,903	1,961	(2.9)	4,781	3,315	44.2	
AEPS (Rs Mn)	(7.3)	(6.9)	4.9	1.6	1.6	(2.9)	4.0	2.8	44.2	

Source: DART, Company

Exhibit 3: Quarterly Financials

Rs Mn	Consolidated			Standalone			Subsidiaries		
	Q3FY20	Q3FY21	% YoY	Q3FY20	Q3FY21	% YoY	Q3FY20	Q3FY21	% YoY
Net Sales	13,727	5,472	(60.1)	8,548	3,961	(53.7)	5,179	1,511	(70.8)
Cost of Materials/F&B	1,172	560	(52.2)	743	427	(42.5)	429	132	(69.1)
Emp Costs	3,903	2,420	(38.0)	1,852	1,310	(29.2)	2,051	1,110	(45.9)
Other Exps	4,395	2,787	(36.6)	2,782	1,870	(32.8)	1,613	917	(43.2)
Total Operating Costs	9,470	5,766	(39.1)	5,377	3,607	(32.9)	4,093	2,159	(47.3)
EBITDA	4,257	(294)	(106.9)	3,171	353	(88.9)	1,086	(648)	(159.6)
EBITDA margin %	31.0	(5.4)	(3639) bps	37.1	8.9	(2818) bps	21.0	(42.9)	(6,382)
Other Income	362	547	51.1	356	250	(29.8)	6	297	4,848.3
D&A	1,008	1,023	1.5	507	510	0.6	501	513	2.3
Finance Costs	849	1,121	32.1	587	843	43.5	261	278	6.3
PBT before Xo	2,762	(1,891)	(168.5)	2,433	(750)	(130.8)	330	(1,142)	(446.4)
Exceptional gain/(loss)	(12)	407	(3,494.2)	(12)	(435)	3,527.5	-	843	-
PBT after Xo	2,750	(1,484)	(154.0)	2,421	(1,185)	(149.0)	330	(299)	(190.7)
Tax	813	(307)	(137.8)	743	(237)	(131.9)	70	(71)	(201.1)
PAT	1,937	(1,177)	(160.7)	1,678	(948)	(156.5)	260	(228)	(187.9)
Profit/Loss of JV/Associates	194	(156)	(180.0)	-	-	-	194	(156)	(180.0)
RPAT	2,132	(1,332)	(162.5)	1,678	(948)	(156.5)	454	(384)	(184.5)
APAT	2,140	(1,826)	(185.3)	1,686	(600)	(135.6)	454	(1,226)	(370.1)

Source: Company, DART

Exhibit 4: 9MFY21 Financials

Rs Mn	Consolidated			Standalone			Subsidiaries		
	9MFY20	9MFY21	% YoY	9MFY20	9MFY21	% YoY	9MFY20	9MFY21	% YoY
Net Sales	34,002	9,475	(72.1)	20,252	6,565	(67.6)	13,750	2,910	(78.8)
Cost of Materials/F&B	2,869	870	(69.7)	1,797	638	(64.5)	1,072	232	(78.4)
Emp Costs	11,261	6,861	(39.1)	5,363	4,099	(23.6)	5,898	2,761	(53.2)
Other Exps	12,276	6,202	(49.5)	7,616	3,971	(47.9)	4,659	2,231	(52.1)
Total Operating Costs	26,405	13,932	(47.2)	14,776	8,708	(41.1)	11,629	5,224	(55.1)
EBITDA	7,596	(4,458)	(158.7)	5,476	(2,143)	(139.1)	2,121	(2,315)	(209.2)
EBITDA margin %	22.3	(47.0)	-6939 bps	27.0	(32.6)	-5968 bps	15.4	(79.6)	(9,498)
Other Income	944	1,533	62.4	986	969	(1.7)	(42)	564	(1,429.2)
D&A	3,011	3,053	1.4	1,523	1,516	(0.4)	1,488	1,537	3.3
Finance Costs	2,564	2,967	15.7	1,777	2,160	21.6	787	808	2.6
PBT before Xo	2,965	(8,945)	(401.7)	3,162	(4,849)	(253.3)	(197)	(4,096)	1,978.0
Exceptional gain/(loss)	8	1,473	17,434.5	(65)	(973)	1,387.6	74	2,446	3,214.1
PBT after Xo	2,974	(7,472)	(351.3)	3,097	(5,822)	(288.0)	(123)	(1,650)	1,238.1
Tax	134	(1,429)	(1,166.6)	5	(1,070)	(20,284.9)	129	(359)	(379.3)
PAT	2,840	(6,043)	(312.8)	3,092	(4,752)	(253.7)	(252)	(1,291)	412.1
Profit/Loss of JV/Associates	35	(936)	(2,782.5)	-	-	-	35	(936)	(2,782.5)
RPAT	2,875	(6,979)	(342.8)	3,092	(4,752)	(253.7)	(217)	(2,227)	925.7
APAT	2,031	(8,636)	(525.2)	2,171	(3,963)	(282.6)	(140)	(4,673)	3,247.0

Source: Company, DART

Exhibit 5: IHCL Valuation Summary

Particulars	Dec-22E
EBITDA (Rs Mn)	11,746
(-) IndAS 116 EBITDA impact	2,284
Core EBITDA	9,462
Target multiple (x)	20
Enterprise Value (Rs Mn)	1,89,236
(-) Net Debt (Rs Mn)	40,687
(-) IndAS 116 net debt	19,952
(-) Core Net Debt (Rs Mn)	20,735
Equity Value (Rs Mn)	1,68,501
O/s shares (Mn)	1,189
Value per share (Rs)	142
Add: Value of IHCL stake in TajGVK	2
Value per share (Rs)	144
CMP (Rs)	122
Upside/Downside (%)	18.1

Source: DART, Company

Exhibit 6: Sensitivity of TP to EV/E target multiples

Multiple	TP
12	85
16	115
20	144
24	174
28	203

Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	44,631	17,382	40,084	45,699
Total Expense	34,956	20,339	30,552	33,215
COGS	3,706	1,536	3,355	3,908
Employees Cost	14,946	9,572	13,139	14,224
Other expenses	16,305	9,231	14,058	15,083
EBIDTA	9,675	(2,957)	9,532	12,484
Depreciation	4,042	4,096	4,302	4,542
EBIT	5,633	(7,053)	5,230	7,942
Interest	3,411	4,004	4,056	3,603
Other Income	1,324	2,152	1,694	1,779
Exc. / E.O. items	410	1,346	0	0
EBT	3,955	(7,560)	2,869	6,119
Tax	448	(1,284)	938	1,648
RPAT	3,544	(7,312)	1,903	4,781
Minority Interest	93	0	0	0
Profit/Loss share of associates	130	(1,036)	(28)	310
APAT	2,387	(8,658)	1,903	4,781

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	1,189	1,189	1,189	1,189
Minority Interest	7,649	6,613	6,944	7,291
Reserves & Surplus	42,379	33,721	35,624	40,405
Net Worth	43,568	34,910	36,814	41,594
Total Debt	43,921	55,474	51,616	48,317
Net Deferred Tax Liability	3,260	3,429	3,779	4,129
Total Capital Employed	98,398	100,427	99,153	101,332

Applications of Funds

Net Block	80,597	83,317	82,838	82,126
CWIP	2,432	2,587	2,059	2,359
Investments	17,780	17,653	18,565	18,978
Current Assets, Loans & Advances	14,373	14,861	13,104	16,436
Inventories	936	909	927	970
Receivables	2,900	2,259	2,605	2,970
Cash and Bank Balances	3,156	4,918	2,967	5,045
Loans and Advances	48	48	48	48
Other Current Assets	2,971	2,583	2,841	3,125
Less: Current Liabilities & Provisions	16,784	17,992	17,414	18,567
Payables	3,893	3,032	3,497	3,986
Other Current Liabilities	12,891	14,959	13,917	14,581
		<i>sub total</i>		
Net Current Assets	(2,411)	(3,131)	(4,310)	(2,131)
Total Assets	98,398	100,427	99,153	101,332

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	91.7	91.2	91.6	91.4
EBIDTA Margin	21.7	(17.0)	23.8	27.3
EBIT Margin	12.6	(40.6)	13.0	17.4
Tax rate	11.3	17.0	32.7	26.9
Net Profit Margin	7.9	(42.1)	4.7	10.5
(B) As Percentage of Net Sales (%)				
COGS	8.3	8.8	8.4	8.6
Employee	33.5	55.1	32.8	31.1
Other	36.5	53.1	35.1	33.0
(C) Measure of Financial Status				
Gross Debt / Equity	1.0	1.6	1.4	1.2
Interest Coverage	1.7	(1.8)	1.3	2.2
Inventory days	8	19	8	8
Debtors days	24	47	24	24
Average Cost of Debt	10.1	8.1	7.6	7.2
Payable days	32	64	32	32
Working Capital days	(20)	(66)	(39)	(17)
FA T/O	0.6	0.2	0.5	0.6
(D) Measures of Investment				
AEPS (Rs)	2.0	(7.3)	1.6	4.0
CEPS (Rs)	5.4	(3.8)	5.2	7.8
DPS (Rs)	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0
BVPS (Rs)	36.6	29.4	31.0	35.0
RoANW (%)	8.1	(18.6)	5.3	12.2
RoACE (%)	7.3	(3.6)	6.0	8.1
RoAIC (%)	6.5	(7.4)	5.5	8.3
(E) Valuation Ratios				
CMP (Rs)	123	123	123	123
P/E	61.2	(16.9)	76.7	30.5
Mcap (Rs Mn)	146,046	146,046	146,046	146,046
MCap/ Sales	3.3	8.4	3.6	3.2
EV	182,449	192,457	190,979	185,040
EV/Sales	4.1	11.1	4.8	4.0
EV/EBITDA	18.9	(65.1)	20.0	14.8
P/BV	3.4	4.2	4.0	3.5
Dividend Yield (%)	0.0	0.0	0.0	0.0
(F) Growth Rate (%)				
Revenue	(1.1)	(61.1)	130.6	14.0
EBITDA	16.6	(130.6)	(422.3)	31.0
EBIT	12.2	(225.2)	(174.1)	51.9
PBT	(1.5)	(291.1)	(137.9)	113.3
APAT	(17.6)	(462.7)	(122.0)	151.2
EPS	(17.6)	(462.7)	(122.0)	151.2
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	11,917	1,706	9,061	13,387
CFI	(24,484)	(7,414)	(2,932)	(2,656)
CFF	15,565	7,251	(8,508)	(8,091)
FCFF	(9,770)	(5,266)	5,766	9,257
Opening Cash	4,521	7,519	9,063	6,683
Closing Cash	7,519	9,063	6,683	9,323

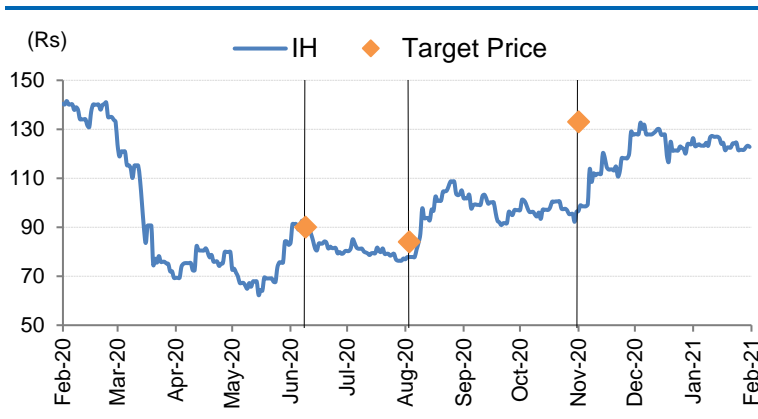
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jun-20	Reduce	90	89
Aug-20	Accumulate	84	78
Nov-20	Buy	133	97

*Price as on recommendation date

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