India I Equities

Hospitality

Company update

Change in Estimates ☑ Target ☑ Reco ☐

9 July 2021

Indian Hotels

Rating: Buy
Target Price: Rs175
Share Price: Rs148

Focus on driving asset-light profitable revenue growth; retaining a Buy

We attended the Indian Hotels' investor day. The company reckons that demand will completely revive in FY23 subject to the speed of vaccination. It wants to focus on and expand its new brands and business, started in the last 1-2 years and aims at a further 10% revenue (~50-80% EBITDA flow through) from these businesses in the next 2-3 years. It reiterated its focus on driving asset-light profitable revenue growth, which would expand RoCEs. On the subsidence of the Covid-19 pandemic, we expect it to outclass others, driven by its dominance in the Indian hotels sector, superlative brand equity and well-diversified portfolio across business segments and price-points. We retain our Buy on the stock with a new TP of Rs175, earlier Rs130 (sum-of-parts, valuing at 19x consolidated FY23E EBITDA From 16x earlier).

Leading the industry in new signings. The company owns or manages ~19,425 rooms. Management contracts have increased from ~25% of rooms in FY18 to 33% in FY21, and the company intends to take this figure to 50% in the next few years. On the management-contract side, the company has ~7,879 rooms (at 55 hotels) in the pipeline, which should be operational in the next 3-5 years. Management expects ~Rs3.5bn (70-80% EBITDA flow-through) revenue from management fees (FY20/FY21: Rs2.13bn/Rs0.90bn).

Ginger: substantial transformation in the medium to long term. Indian Hotels owns or manages more than ~4,534 rooms in its Ginger brand at ~54 hotels. Given the lower room-rates, expansion of this chain would be driven by lease contracts rather than just management contracts. Renovations/re-branding have been well accepted. 36% of the 54 hotels have been renovated and converted to lean Luxe. The company aspires to expand its Ginger brand to 100 hotels soon.

Valuation. We maintain our Buy call with a new TP of Rs175. **Risk:** A slow-down in the economy would curtail demand.

Key financials (YE Mar)	FY19	FY20	FY21	FY22e	FY23e
Sales (Rs m)	45,120	44,631	15,752	30,595	48,871
Net profit (Rs m)	2,868	3,544	-7,201	-2,280	3,148
EPS (Rs)	2.4	3.0	-6.1	-1.9	2.6
P/E (x)	62.2	50.3	-24.8	-78.2	56.7
EV / EBITDA (x)	23.4	20.0	-53.6	67.5	16.4
P/BV (x)	4.1	4.1	4.9	5.3	4.9
RoE (%)	6%	7%	-21%	-10%	8%
RoCE (%)	4%	5%	-6%	-1%	5%
Dividend yield (%)	-	-	-	-	-
Net debt / equity (x)	0.3	0.3	0.6	0.7	0.6

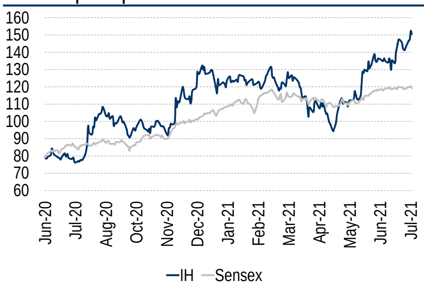
Source: Company, Anand Rathi Research

Key data	IH IN / IHTL.BO
52-week high / low	Rs157 / 76
Sensex / Nifty	52569 / 15728
3-m average volume	$8.7m
Market cap	Rs179bn / $2395.6m
Shares outstanding	1189m

Shareholding pattern (%)	Mar'21	Dec'20	Sep'20
Promoters	40.8	40.8	40.8
- of which, Pledged	-	-	-
Free float	59.2	59.2	59.2
- Foreign institutions	12.3	12.5	10.5
- Domestic institutions	27.3	27.8	29.7
- Public	19.6	18.9	19.1

Estimates revision (%)	FY23e
Revenue	*10.0*
EBITDA	*10.3*

Relative price performance



Source: Bloomberg

Shobit Singhal
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rsm)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Net revenues	45,120.0	44,631.4	15,751.6	30,595.3	48,870.7
Growth (%)	*10.0*	*-1.1*	*-64.7*	*94.2*	*59.7*
Occupancy (%)	*68%*	*67%*	*39%*	*52%*	*65%*
Direct costs	28,258.5	27,972.7	15,104.9	21,484.3	28,717.1
Gross profit	16,862	16,659	647	9,111	20,154
Gross margins %	*37.4*	*37.3*	*4.1*	*29.8*	*41.2*
SG&A	8,565	6,984	4,264	6,239	8,340
EBITDA	8,297	9,675	-3,618	2,872	11,814
EBITDA margins (%)	*18.4*	*21.7*	*-23.0*	*9.4*	*24.2*
- Depreciation	3,279	4,042	4,096	4,587	4,755
Other income	834	1,324	1,647	1,500	1,500
Interest expenses	1,901	3,411	4,028	4,509	4,599
PBT	3,951	3,546	-10,095	-4,724	3,959
Effective tax rates (%)	*40%*	*13%*	*15%*	*30%*	*30%*
+ Associates / (Minorities)	488	446	1,341	1,050	357
Net income	2,868	3,544	-7,201	-2,280	3,148
WANS	1,189	1,189	1,189	1,189	1,189
FDEPS (Rs / sh)	2.4	3.0	-6.1	-1.9	2.6

Fig 2 – Balance sheet (Rsm)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Share capital	1,189	1,189	1,189	1,189	1,189
Net worth	43,480	43,568	36,484	33,610	36,163
Debt (including pref. shrs.)	23,260	26,021	36,328	38,828	37,828
Minority interest	7,999	7,649	6,346	6,346	6,346
DTL / (Assets)	3,768	1,869	781	781	781
Capital employed	78,506	79,106	79,939	79,564	81,118
Net tangible assets	52,332	52,707	57,280	55,600	54,986
Net intangible assets	6,056	5,903	5,690	5,231	4,756
Goodwill	5,835	6,146	6,110	6,110	6,110
CWIP (tang. &intang.)	1,162	18,493	16,947	16,947	16,947
Investments (strategic)	6,877	6,724	5,784	5,784	5,784
Investments (financial)	6,475	7,542	9,048	9,048	9,048
Current assets (excl. cash)	14,692	14,732	12,732	14,080	14,809
Cash	2,409	3,156	1,536	1,972	3,430
Current liabilities	17,332	36,213	35,188	35,808	35,259
Working capital	-2,639	-21,482	-22,456	-21,727	-20,449
Capital deployed	78,506	79,106	79,939	79,564	81,118

Fig 3 – Cash-flow statement (Rsm)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
PBT	3,951	3,546	-10,095	-4,724	3,959
+ Non-cash items	5,418	6,516	7,441	7,596	7,854
Oper. prof. before WC	9,369	10,062	-2,654	2,872	11,814
- Incr. / (Decr.) in WC	-282	235	-767	-729	-1,278
Others incl. taxes	1,973	2,062	-234	-1,393	1,168
Operating cash-flow	7,114	8,235	-3,187	3,537	9,368
- Capex (tang. + intang.)	-4,786	-4,874	-2,155	-2,448	-3,665
Free cash-flow	2,328	3,361	-5,342	1,090	5,702
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	685	757	601	595	595
+ Equity raised	-4	-1	-	-0	-0
+ Debt raised	-1,507	865	7,124	2,500	-1,000
- Fin investments	-1,263	2,256	-53	-	-
- Misc. (CFI + CFF)	-1,690	-466	-2,814	-2,559	-2,649
Net cash-flow	-294	746	-1,620	436	1,458

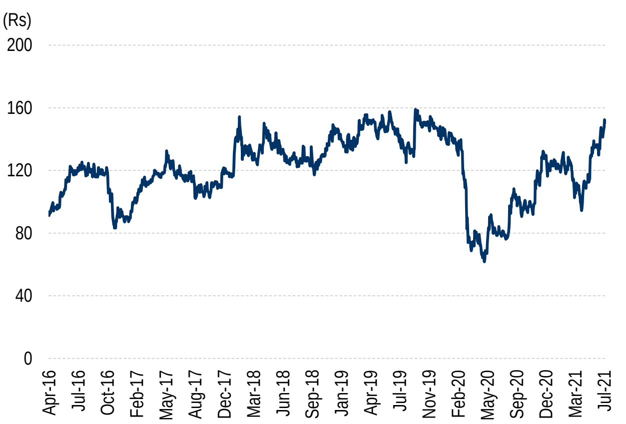
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
P/E (x)	62.2	50.3	NA	NA	56.7
EV / EBITDA (x)	23.4	20.0	NA	67.5	16.4
EV / Sales (x)	4.3	4.3	12.3	6.3	4.0
P/B (x)	4.1	4.1	4.9	5.3	4.9
RoE (%)	6%	7%	NA	NA	8%
RoCE (%) - after tax	4%	5%	NA	NA	5%
RoIC (%) - after tax	4%	6%	NA	NA	5%
DPS (Rs / sh)	0.5	0.5	0.5	0.5	0.5
Dividend yield (%)					
Dividend payout (%) - incl. DDT	21%	17%	NA	NA	19%
Net debt / equity (x)	0.3	0.3	0.6	0.7	0.6
Receivables (days)	26	24	51	40	30
Inventory (days)	6.5	7.7	21.5	12.0	8.0
Payables (days)	32	41	60	50	32
CFO :EBITDA %	86%	85%	88%	123%	79%

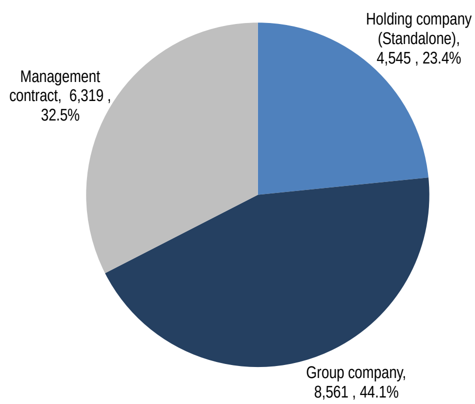
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Percent of rooms, segment-wise,FY21

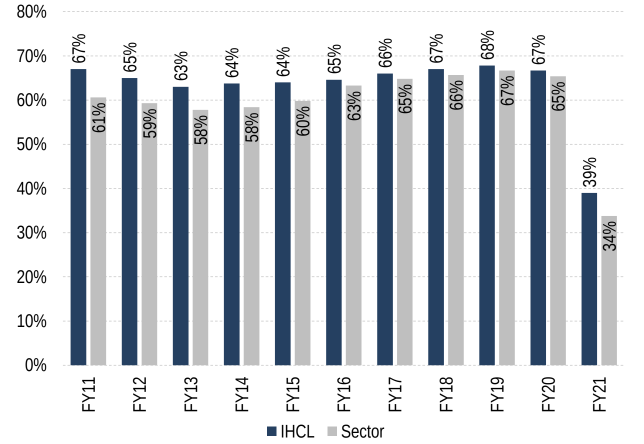


Source: Company

Positioned to emerge faster and stronger

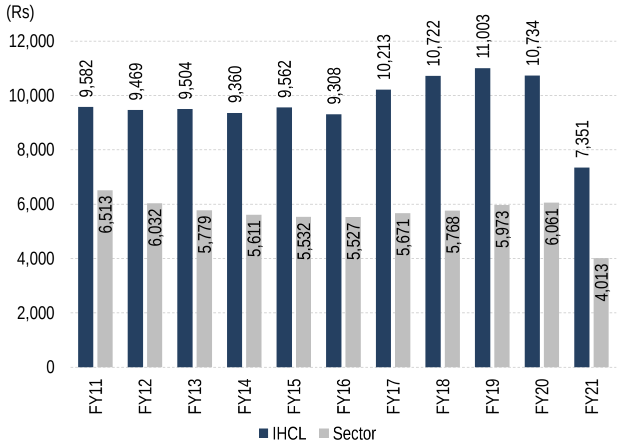
The Indian Hotels Company reckons that FY23 will see a complete revival in demand to pre-Covid levels. In FY21, the hospitality sector suffered a Rs900bn loss of revenue, a ~31-33% drop in occupancy with a ~20-25% drop in ARR. While the company pulls n premium customers through its Taj, Seleqtions and Vivanta brands, it attracts lean-luxury/economy customers through its Ginger brand. Such operations across price points help it capture down-shifting volumes in a downturn and provide stable revenue. The strength of its brands is reflected in the chart below showing its occupancy and ARRs, two key performance metrics over the past 10 years compared to the market.

Fig 7 – IHC occupancy vs the industry



Source: Company, Anand Rathi Research

Fig 8 – ARR IHC vs the industry



Source: Company, Anand Rathi Research

Fig 9 – All-pan India occupancy to reach 65% by FY23

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020-21	2021-22e	2022-23e
No. of branded hotels rooms in India, supply	84,313	94,255	101,177	107,695	111,600	119,220	126,570	133,360	141,930	146,350	154,930	163,660
Y/Y growth (%)	*17.9*	*11.8*	*7.3*	*6.4*	*3.6*	*6.8*	*6.2*	*5.4*	*6.4*	*3.1*	*5.9*	*5.6*
No. of rooms occupied, demand	49,998	54,479	59,087	64,402	70,643	77,255	83,156	88,951	92,822	49,466	80,564	106,379
Y/Y growth (%)	*15.3*	*9.0*	*8.5*	*9.0*	*9.7*	*9.4*	*7.6*	*7.0*	*4.4*	*-46.7*	*62.9*	*32.0*
Occupancy (%)	*59.3*	*57.8*	*58.4*	*59.8*	*63.3*	*64.8*	*65.7*	*66.7*	*65.4*	*33.8*	*52*	*65*
ARR (Rs)	6,032	5,779	5,611	5,532	5,527	5,671	5,768	5,973	6,061	4,013	5,016	5,769
Y/Y growth (%)	*-7.4*	*-4.2*	*-2.9*	*-1.4*	*-0.1*	*2.6*	*1.7*	*3.6*	*1.5*	*-33.8*	*25*	*15*
RevPar (Rs)	3,577	3,340	3,277	3,308	3,499	3,675	3,790	3,984	3,964	1,356	2,608	3,750
Y/Y growth (%)	*-9.4*	*-6.6*	*-1.9*	*1.0*	*5.8*	*5.0*	*3.1*	*5.1*	*-0.5*	*-65.8*	*92.3*	*43.8*

Source: Hotelivate report, Company, Anand Rathi Research

Fresh-initiatives drive to benefit it in the long run. The company wants to focus on and expand its new brands and business, started in the last 1-2 years. It is aiming at a further 10% revenue from these businesses in the next 2-3 years.

- In FY21, it launched "Qmin" a Taj@Home F&B experience, which has received more than 100,000 orders till now. It wants to expand its Qmin platform from 15 cities now to more than 25 in India (in this, margins are over 50%). From this, it is looking at Rs5bn potential GMV in the next 3-5 years, from Rs0.5bn now.
- It expanded amã Stays & Trail sport folio (a home-stay and guest-house category) with many properties in Goa, Trivandrum and

Munnar, taking the brand portfolio to 40 bungalows, with plans to expand that to 100 in the next 18 months and to 500 in the next 3-5 years. It aims at Rs5bn revenue in the next 3-5 years (~80% EBITDA flow-through).

- 7 Rivers, a brewing company, which it started jointly with Abinbev has had Rs45m revenue. It now plans to expand that to ~15 pubs in the next 4-5 years.
- The Chambers, India's leading business club, has more than 2,200 members, with potential for ~1,800 more, and can become a Rs1.5bn business for the company (FY20 revenue: Rs1.15bn).

Fig 10 – Significant value creation possible from new brands

2017-2018	Currently	In next 3-5 years
Ginger:52 hotels	Ginger:78 hotels including 24 in the pipeline	Ginger:100-150 hotels
The Chambers: 1,900 members	The Chambers: 2,200 members	The Chambers: 4,000 members
	Qmin: Rs500m GMV	Qmin: Rs5bn GMV
	ama: 44 properties	ama: 500 properties
	7 Rivers brewery: 1 Brewpub	7 Rivers brewery: 15 Brewpubs

Source: Company, Anand Rathi Research

Ginger: substantial transformation in the medium to long term. Indian Hotels owns or manages more than ~4,534 rooms in its Ginger brand at ~54 hotels. Given the lower room-rates, the expansion of this chain would be driven by lease contracts rather than just through managing contracts. The focus will shift toward larger hotels in key cities, starting with Mumbai, where the company has land and has begun construction. Renovations and re-branding have been well accepted. Renovation of 36% of the 54 hotels hasbeen completed and they have been converted to lean-Luxe. Overall, in the medium term, management expects margins of the subsidiary to improve to double digits (from single digits earlier). The company aspires to expand its Ginger brand to 100 hotels soon.

Fig 11 – Ginger financials

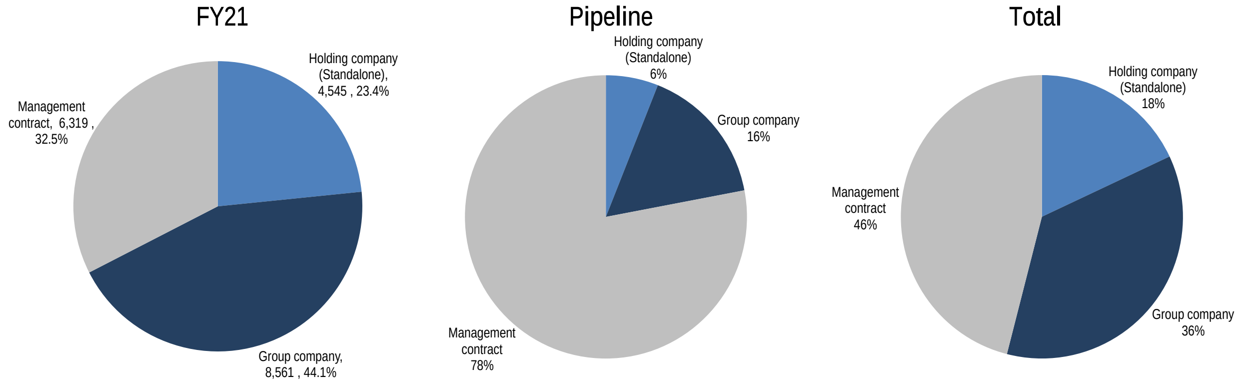
Particulars (Rs mn)	FY17	FY18	FY19	FY20	FY21
Revenue	1,546	1,842	2,035	2,105	1,255
Y/Y change	*NA*	*19.2*	*10.5*	*3.4*	*-40.4*
EBITDA	155.2	139.2	148.79	483	16
EBITDA margins %	*10.0*	*7.6*	*7.3*	*22.9*	*1.2*
PAT	-37.8	-190.6	-150	-228	-494

Source: Company, Anand Rathi Research

Leading the industry in new signings.

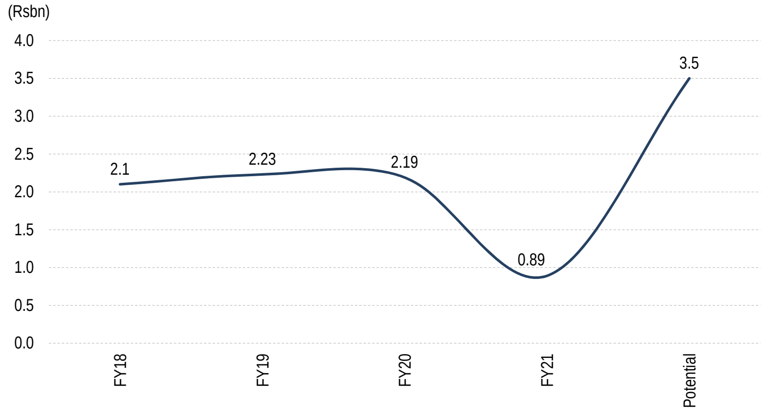
The company owns or manages ~19,425 rooms (~33% under a managing contract). The managing contracts have increased from ~25% of rooms in FY18 to 33% in FY21, and the company intends to take this figure to 50% in the next few years. In managing-contracts, the company has ~7,879 rooms (at 55 hotels) in the pipeline, which should be operational in the next 3-5 years. According to management, Indian Hotels has been leading its foreign and domestic peers in new signings. Management expects ~Rs3.5bn (70-80% EBITDA flow-through) revenue from managing fees (FY21: Rs0.90bn; FY20: Rs2.13bn).

Fig 12 – Inventory by contract type, operational



Source: Company, Anand Rathi Research

Fig 13 – Managing fees



Source: Company, Anand Rathi Research

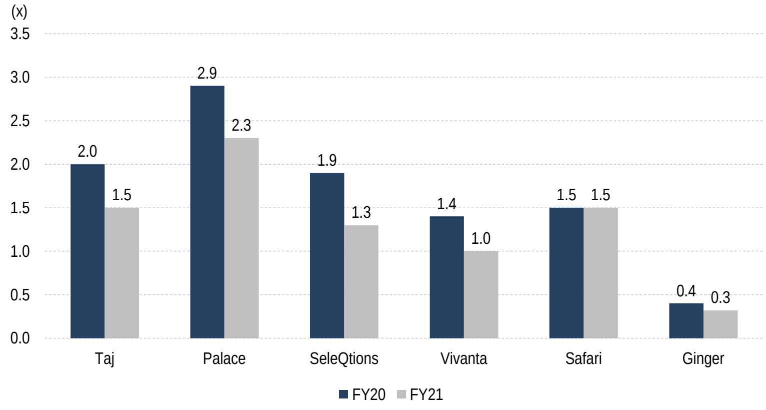
Taj SATS Air-Catering enters non-aviation with newly launched Anuka brand

With this, the company has captured ~50% of the market and become the undisputed leader in Indian air-catering. It is now focusing on the non-aviation sub-segment and recently launched brand Anuka, a multi-cuisine virtual restaurant offering gourmet delights available through the Qmin app in Mumbai and Delhi.

Staff-to-room ratio has reduced notably

The staff-to-room ratio has come down to 1.14 in FY21 from 1.53 in Apr'20 as the company deployed staff at the new properties which are opening and other employees to other Tata Group companies (multi-skilling). It has further scope to reduce this ratio.

Fig 14 – Staff-to-room ratio has reduced notably



Source: Company, Anand Rathi Research

Cost rationalisation at Pierre (New York)

Hotel Pierre in New York city has been suffering losses since its acquisition and been burning ~$8m-10m cash yearly. The recent cost-rationalisation measure will result in permanent annual savings of ~$5m.

Fig 15 – Revenue break-up across regions

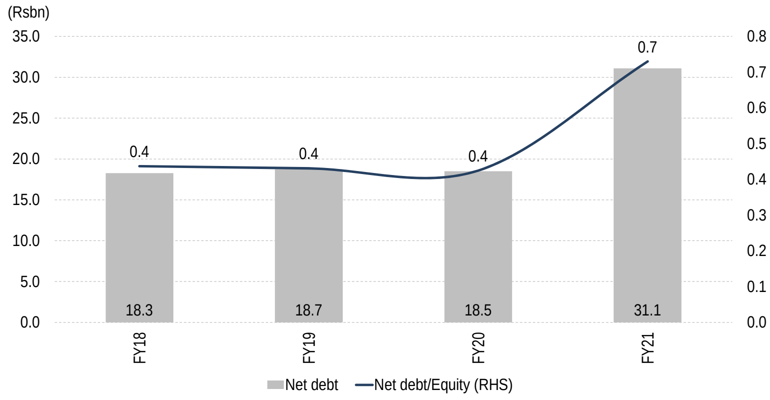
	FY20	% of total	FY21	% of total	Y/Y change
India	33,941	*76.0*	14,302	*90.8*	*-57.9*
USA	6,656	*14.9*	968	*6.1*	*-85.5*
UK	4,035	*9.0*	424	*2.7*	*-89.5*
Other overseas locations	-	*0.0*	57	*0.4*	
Total	44,631		15,752		***-64.7%***

Source: Company, Anand Rathi Research

Net debt to come down to pre-Covid'19 levels

Net debt in FY21 rose to Rs31.1bn (from Rs18.6bn in FY20). The company intends to bring this down to pre-Covid'19 levels.

Fig 16 – Net debt



Source: Company, Anand Rathi Research

Capex guidance

The company has a ~Rs3.85bn capex plan. It will incur nearly Rs2bn to build ~300 rooms in the Ginger category at SantaCruz, Mumbai, ~Rs0.70bn for the ongoing renovation of TajMahal hotel, Delhi, ~Rs0.70bn on St James Court, London, to build The Chambers and a coffee shop, and ~Rs0.5bn on Hotel Pierre, New York, NY, USA, to renovate the ballroom.

Fig 17 – Occupancy, ARR trends – a comparison

	FY16	FY17	FY18	FY19	FY20	FY21
No. of owned hotels						
Indian Hotels (standalone)	25	24	25	25	26	26
EIH	10	10	10	10	10	10
Lemon Tree	22	24	28	30	41	41
Chalet Hotels	NA	6	6	6	7	7
No. of owned rooms						
Indian Hotels (standalone)	4,453	4,303	4,157	4,354	4,423	4,545
EIH	2,100	2,100	2,100	2,100	2,041	2,041
Lemon Tree	2,788	2,855	3,278	3,570	5,192	5,192
Chalet Hotels	NA	2,259	2,328	2,331	2,554	2,554
Occupancy (%)						
Indian Hotels (standalone)	65	66	67	68	67	39
EIH	72	71	70	70	68	NA
Lemon Tree	76	77	76	76	71	35
Chalet Hotels	NA	67	73	76	71	30
Average room rates (ARR, Rs)						
Indian Hotels (standalone)	9,308	10,213	10,722	11,003	10,734	7,351
Y/Y %		*9.7*	*5.0*	*2.6*	*-2.4*	
EIH	10,202	10,695	11,245	12,200	11,970	NA
Y/Y %		*4.8*	*5.1*	*8.5*	*-1.9*	
Lemon Tree	3,100	3,449	3,896	4,115	4,776	2,613
Y/Y %		*11.3*	*13.0*	*5.6*	*16.1*	
Chalet Hotels	NA	7,822	7,840	8,218	8,482	4,040
Y/Y %			*0.2*	*4.8*	*3.2*	
RevPar (Rs)						
Indian Hotels (standalone)	6,050	6,741	7,184	7,460	7,160	2,867
Y/Y %		*11.4*	*6.6*	*3.8*	*-4.0*	*-60*
EIH	7,315	7,636	7,883	8,491	8,140	NA
Y/Y %		*4.4*	*3.2*	*7.7*	*-4.1*	
Lemon Tree	2,356	2,649	2,957	3,148	3,379	903
Y/Y %		*12.4*	*11.6*	*6.4*	*7.4*	*-73*
Chalet Hotels	NA	5,272	5,715	6,283	6,022	1,212
Y/Y %			*8.4*	*9.9*	*-4.1*	*-80*

Source: Company, Anand Rathi Research

Fig 18 – Financials

Particulars	Revenue (Rs m)					Revenue growth, y/y (%)					EBITDA (Rs m)					EBITDA margins (%)				
(Rs m)	FY16	FY17	FY18	FY19	FY20	FY16	FY17	FY18	FY19	FY20	FY16	FY17	FY18	FY19	FY20	FY16	FY17	FY18	FY19	FY20
Indian Hotels (consolidated)	40,230	40,206	41,036	45,120	44,631	NA	-0.1	2.1	10.0	-1.1	5,521	6,095	6,703	8,297	9,675	13.7	15.2	16.3	18.4	21.7
EIH	16,609	15,286	15,988	18,108	15,963	NA	-8.0	4.6	13.3	-11.8	3,445	2,611	2,527	4,059	2,903	20.7	17.1	15.8	22.4	18.2
Lemon Tree	3,680	4,121	4,843	5,495	6,694	NA	12.0	17.5	13.5	21.8	1,012	1,165	1,362	1,688	2,383	27.5	28.3	28.1	30.7	35.6
Chalet Hotels	NA	6,803	7,955	9,872	9,811	NA	NA	16.9	24.1	-0.6	NA	1,896	2,447	3,192	3,366	NA	27.9	30.8	32.3	34.3

Source: Company, Anand Rathi Research

Fig 19 – Hotel companies, a comparison

Particulars	Revenue (Rs m)			Revenue growth y/y (%)			EBITDA (Rs m)			EBITDA margins (%)			EV/EBITDA		
(Rs m)	FY21	FY22e	FY23e	FY21	FY22e	FY23e	FY21	FY22e	FY23e	FY21	FY22e	FY23e	FY21	FY22e	FY23e
Indian Hotels (consolidated)	15,752	30,595	48,871	-64.7	94.2	59.7	-3,618	2,872	11,814	-23.0	9.4	24.2	NA	67.5	16.
Lemon Tree	2,466	5,319	8,199	-63.2	115.7	54.1	579	1,984	3,275	23.5	37.3	39.9	86	25	15
Chalet Hotels*	2,944	7,550	10,371	-70.0	100.7	37.4	71	2,485	4,028	2.4	32.9	38.8	112	21	13

*Source: Company, Anand Rathi Research, Note*Bloomberg estimates*

Fig 20 – Net debt of hotel companies

(Rsbn)	FY16	FY17	FY18	FY19	FY20	FY21
Indian Hotels (consolidated)	42.2	31.5	18.9	19.3	18.6	31.1
EIH	3.1	3.5	3.6	4.4	4.1	2.5
Lemon Tree	6.1	7.8	9.8	11.3	15.4	14.5
Chalet Hotels	NA	NA	27.0	14.5	16.6	18.1

Source: Company, Anand Rathi Research, Note: Net debt excludes lease liabilities

Valuation

The company reckons that demand will completely revive in FY23 subject to the speed of vaccination. It wants to focus on and expand its new brands and business, started in the last 1-2 years, and aims at a further 10% revenue (~50-80% EBITDA flow through) from these businesses in the next 2-3 years. Management reiterated its focus on driving asset-light profitable revenue growth, which will improve RoCEs.

On the subsidence of the Covid-19 pandemic, we expect Indian Hotels to outclass others, driven by its dominance in the Indian hotels sector, superlative brand equity and well-diversified portfolio across business segments and price-points. We retain our Buy on the stock with a new TP of Rs175, earlier Rs130 (sum-of-parts).

Fig 21 – Valuation

(Rs m)	Methodology	Multiple (x)	FY23e	Value (Rsm)	Value/share (Rs)
IHCL (excl. JVs / Associates)	EV/EBITDA	19	11,814	224,459	191
Less: Net debt				30,306	25
Less: Minority interest				6,346	5
Sub-total				187,808	160
JVs / Associate					
Taj GVK (IHC's share 25.52%)	25% discount to Mcap		2,187	1,640	1
Oriental Hotels (IHC's share 30.23%)	25% discount to Mcap		2,092	1,569	1
Land's-End /Sea Rock				12,000	10
Sub-total				3,209	13
Target price				191,017	175
CMP					148
Upside %					***18***

Source: Company, Anand Rathi Research

Fig 22 – Change in estimates

	FY22			FY23		
(Rs m)	New	Old	% change	New	Old	% change
Revenues	30,595	32,428	*(5.7)*	48,871	44,417	*10.0*
EBITDA	2,872	6,587	*(56.4)*	11,814	10,707	*10.3*
EBITDA margins %	*9.4*	*20.3*	*-1092bps*	*24.2*	*24.1*	*7bps*
EBIT	(1,714)	3,912	*NA*	7,059	7,360	*(4.1)*
EBIT margins %	*-5.6*	*12.1*	*NA*	*14.4*	*16.6*	*-213bps*
PBT	(4,724)	(292)	*NA*	3,959	4,152	*(4.6)*
Net profit	(2,280)	244	*NA*	3,148	3,377	*(6.8)*

Source: Anand Rathi Research

Risks

- Slowdown in the economy would curtail demand.
- Vulnerable to external factors such as terrorist attacks, epidemic spread, etc.

Appendix

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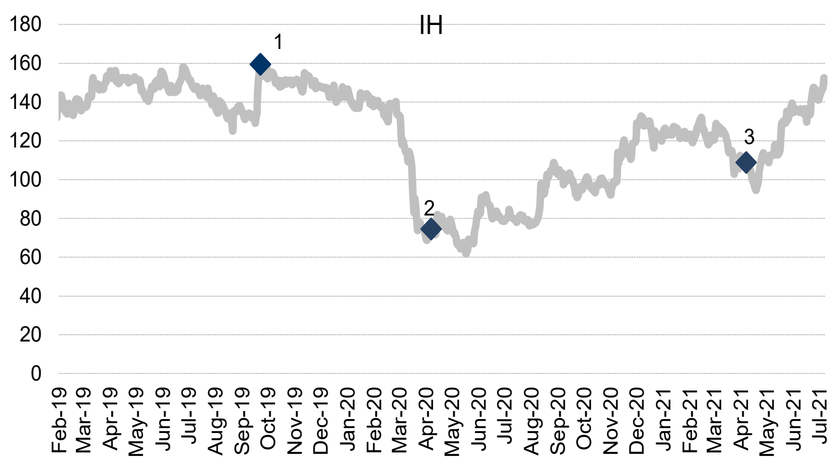

	Date	Rating	TP (Rs)	Share Price (Rs)
1	23-Sep-19	Buy	180	150
2	9-Apr-20	Buy	100	70
3	12-Apr-21	Buy	130	106

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