

August 12, 2021

Impacted by second wave...

About the stock: With room inventory of 19,425 rooms, Indian Hotels occupies a diversified position in the hotel industry through brands such as Taj, Vivanta, SeleQtions and Ginger brands.

- IHCL also has a selective presence in the luxury segment in the US, UK, Africa, Sri Lanka, the UAE and Maldives through owned/managed properties
- The company enjoys strong support from its key promoter Tata Sons and is also an important strategic business for the Tata Group

Q1FY22 Results: Results remained weak, mainly impacted by second Covid wave.

- Revenues were down 44% QoQ to ₹ 344.6 crore. Occupancy at standalone level was at 28.5%. However, average room rate saw a sharp jump of 45% YoY to ₹ 7024/room leading to RevPAR growth of 101% YoY to ₹ 1992/room
- Operational loss came in at ~₹ 149 crore vs. loss of ₹ 266 crore last year
- The company reported net loss of ₹ 242.3 crore

What should investors do? The balance-sheet provides strong immunity to weather challenges while cost rationalisations would drive healthy margin expansion.

- We remain positive on the company and maintain our BUY rating

Target Price and Valuation: We value IHCL at ₹ 170 i.e. 23x FY23E EV/EBITDA.

Key triggers for future price performance:

- The ongoing crisis to restrict overall room supply in the industry for next three to four years, auguring well for branded players like Indian Hotels
- The cost optimisation drive initiated in FY21 would provide fruitful results, going forward. Expect EBITDA margins of over 24% by FY23E
- The company has strong financial flexibility in terms of raising low cost debt if the need arises

Alternate Stock Idea: Apart from Indian Hotels, in our hotel sector coverage we also like EIH.

- It is the premium segment key domestic hotel player. Like Taj, it also has strong hotel brands like Oberoi & Trident. It has a strong balance sheet
- BUY with a target price of ₹ 150/share

IHCL

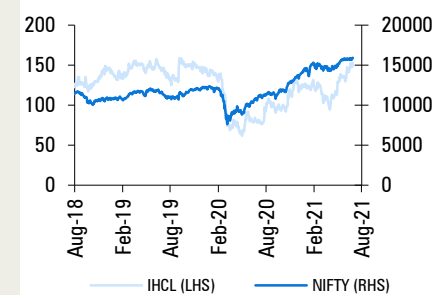
Particulars

Particular	Amount
Market Cap	₹ 16768 crore
Debt (FY21)	₹ 3592 crore
Cash (FY21)	₹ 152 crore
EV	₹ 20208 crore
52 week H/L	158/62
Equity capital	₹ 118.9 crore
Face value	₹ 1

Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	40.75	40.75	40.75	40.75
FII	10.50	12.51	12.27	12.56
DII	31.50	29.59	29.16	27.99
Others	17.25	17.15	17.82	18.70

Price Chart



Key risks

- Any further stringent lockdown on likely third, fourth wave could hamper business
- Companies adopting work from home policy beyond FY22 could delay the recovery in business hotel segment

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Key Financial Summary

	FY18	FY19	FY20	FY21	3 Year CAGR (%)	FY22E	FY23E	2 Year CAGR (%)
Net Sales	4,104	4,512	4,463	1,575	(27.3)	2,403	4,182	62.9
EBITDA	670	830	968	(362)	PL	227	1,028	LP
EBITDA (%)	16.3	18.4	21.7	(23.0)		9.5	24.6	
Net Profit	101	287	259	(720)	PL	(331)	302	LP
EPS (₹)	0.8	2.4	2.7	(7.2)		(2.8)	2.5	
EV/EBITDA	27.7	23.0	20.0	(55.9)		90.2	19.9	
RoNW	2.2	6.5	7.3	(23.3)		(10.0)	8.3	
RoCE	5.5	7.4	7.0	(6.1)		(0.9)	7.5	

Source: Company, ICICI Direct Research

Key performance highlights

- Consolidated revenue fell ~44% QoQ to ₹ 344.6 crore (vs. I-direct estimate: ₹ 498.2 crore) while standalone revenues fell 55.3% QoQ to ₹ 207.4 crore
- Occupancy at standalone level was at 28.5%. However, average room rate saw a sharp jump of 45% YoY to ₹ 7024/room leading to RevPAR growth of 101% YoY to ₹ 1992/room
- International hotel rooms, especially in US and UK witnessed a sharp rebound with 237% YoY jump in revenues that narrowed down EBITDA losses from ₹ 55 crore last year to ₹ 19 crore in Q1FY22
- Fixed cost per month broadly kept at ₹ 126 crore/month i.e. similar levels of last year and 77% of pre-Covid levels. Staff to room ratio has been brought down from 1.53x last year to 1.09x in Q1FY22
- Gross debt has increased from ₹ 3,663 crore in FY21 to ₹ 4,042 crore in Q1FY22 to maintain the liquidity. Net debt is now at ₹ 3,612 crore with net D/E ratio of 0.91x vs 0.73x FY21. Average cost of debt is at 6.9% (up 40 bps from March 2021)
- The board has replaced high cost bearing 9.95% NCDs of ₹ 250 crore with 6.7% NCD (unsecured) in July 2021. The board has further approved fund raising not exceeding ₹ 250 crore through ECB/FCB or NCD
- While the second wave of pandemic has impacted domestic demand severely, July 2021 saw a very healthy trend with overall business surpassing Q1 of FY21 (i.e. ₹ 144 crore)

Exhibit 1: Quarterly financial performance

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Total Operating Income	344.6	498.2	143.6	139.9	615.0	-44.0
Other Income	25.8	27.4	31.7	-18.8	11.5	124.9
Raw Material Expenses	28.1	46.1	9.2	206.1	56.9	-50.6
Employee Expenses	248.6	205.3	239.8	3.7	208.0	19.6
Other Expenses	216.7	225.9	160.7	34.9	278.9	-22.3
EBITDA	-148.8	20.9	-266.0	-44.1	71.3	-308.7
EBITDA Margin (%)	-43.2	4.2	-185.2	NA	11.6	NA
Interest	100.9	100.9	87.9	14.7	106.1	-5.0
Depreciation	104.5	104.5	100.1	4.4	104.3	0.2
PBT	-328.4	-157.0	-336.2	PL	-102.3	PL
Exceptional	0.0	0.0	-86.1	-100.0	-25.4	-100.0
Less: Tax	-108.4	-51.8	-69.3	56.4	-12.4	773.3
PAT	-242.3	-106.4	-279.9	-13.4	-91.3	165.4

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	2,524.2	2,403.2	-4.8	4,182.0	4,182.0	NA	With beginning of the vaccination drive, we expect FY22 to be the year of major recovery in international market followed by strong domestic recovery from FY23E onwards.
EBITDA	258.9	227.5	-12.1	1,027.6	1,027.6	NA	
EBITDA Margin (%)	10.3	9.5	-79 bps	24.6	24.6	NA	
PAT	-307.2	-331.5	NA	301.6	301.6	NA	
EPS (₹)	-2.6	-2.8	NA	2.5	2.5	NA	

Source: Company, ICICI Direct Research

Key triggers for future price performance

Cost optimisation drive to reap benefit in long run: After achieving ~75% target set in Aspire 2020, the focus has shifted to R.E.S.E.T 2020. Under this, the company is maximising the revenue potential through initiatives. Further, IHCL is focusing more on bringing the cost efficiency through various measures. As visible fixed cost per month reduced from ₹ 163 crore to ₹ 118 crore leading to average savings of ₹ 135 crore per quarter. The key levers are 1) decline in staff to room ratio from 1.53 in FY20 to 1.14 during FY21 through redeployments in new properties and multiskilling 2) lease rental waivers of ₹ 49 crore, 3) savings of ₹ 67 crore through prudence in all other corporate expenditure. We believe these initiatives will bode well in the long term as business returns to normal

Liquidity profile to improve: The company raised ~₹ 1000 crore of long term debt during FY21 to maintain the liquidity. Gross debt is now at ₹ 4042 crore with net D/E ratio of 0.91x. The average cost of debt is at 6.9% (up 40 bps from March 2021). However, going forward, recovery in the international segment, deferral of capex, reduced opex provides us comfort on the liquidity front.

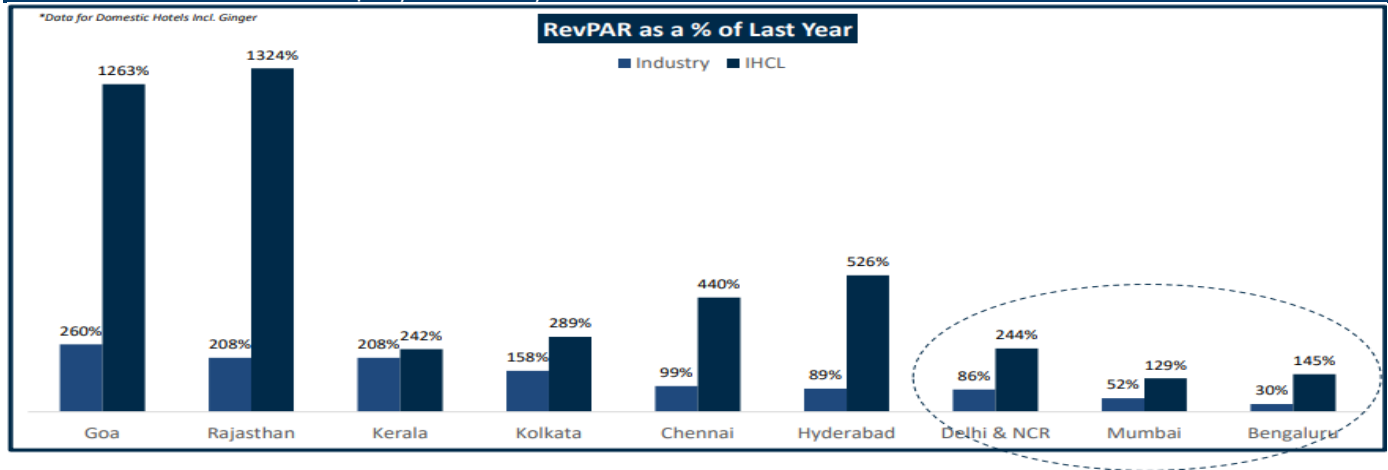
Financial story in charts

Exhibit 3: Current trends in hotel sector



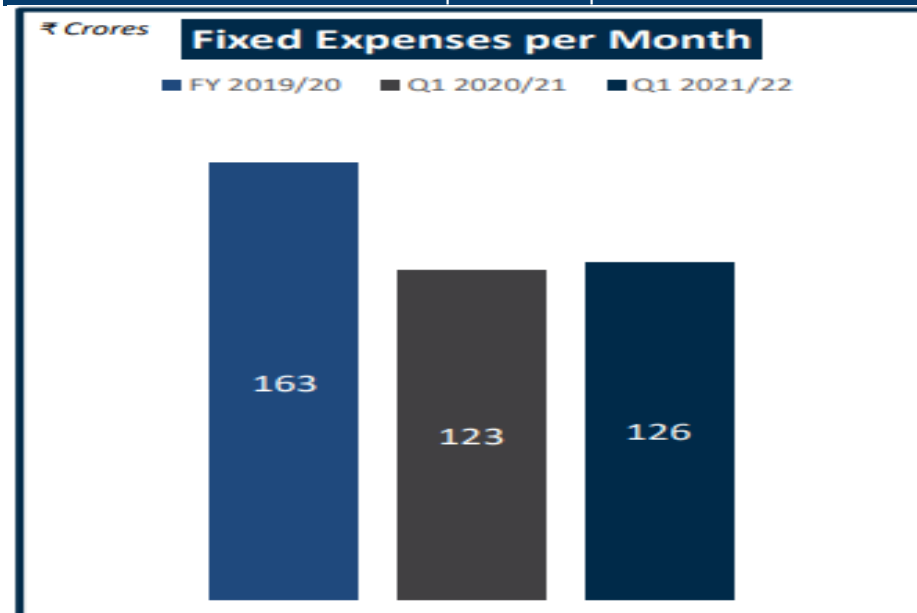
Source: Company, ICICI Direct Research

Exhibit 4: RevPAR trend of company vs. industry



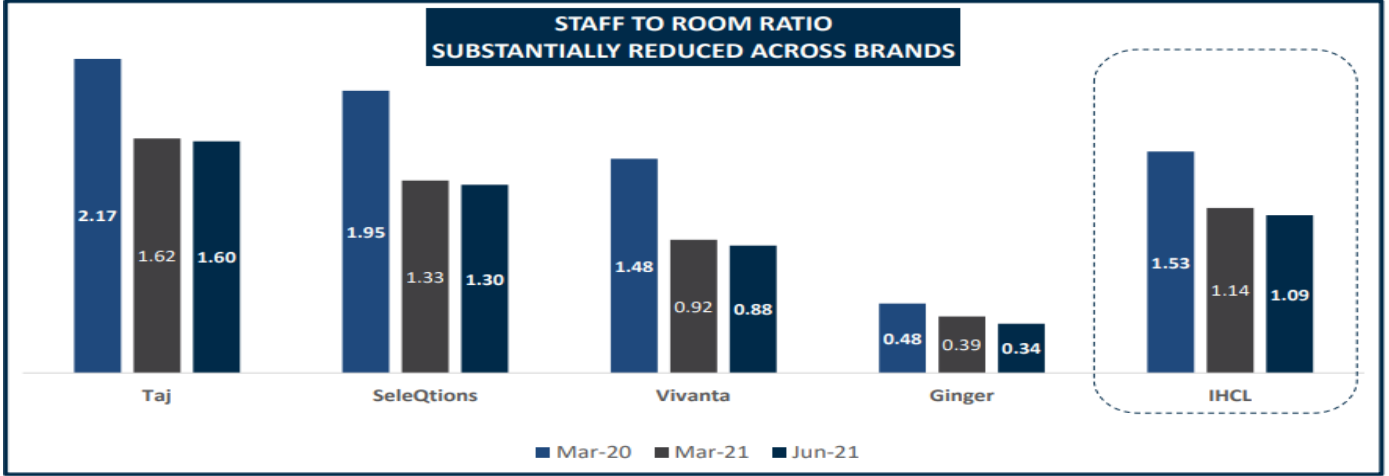
Source: Company, ICICI Direct Research

Exhibit 5: Total 23% cut in fixed cost expenses from pre-Covid levels



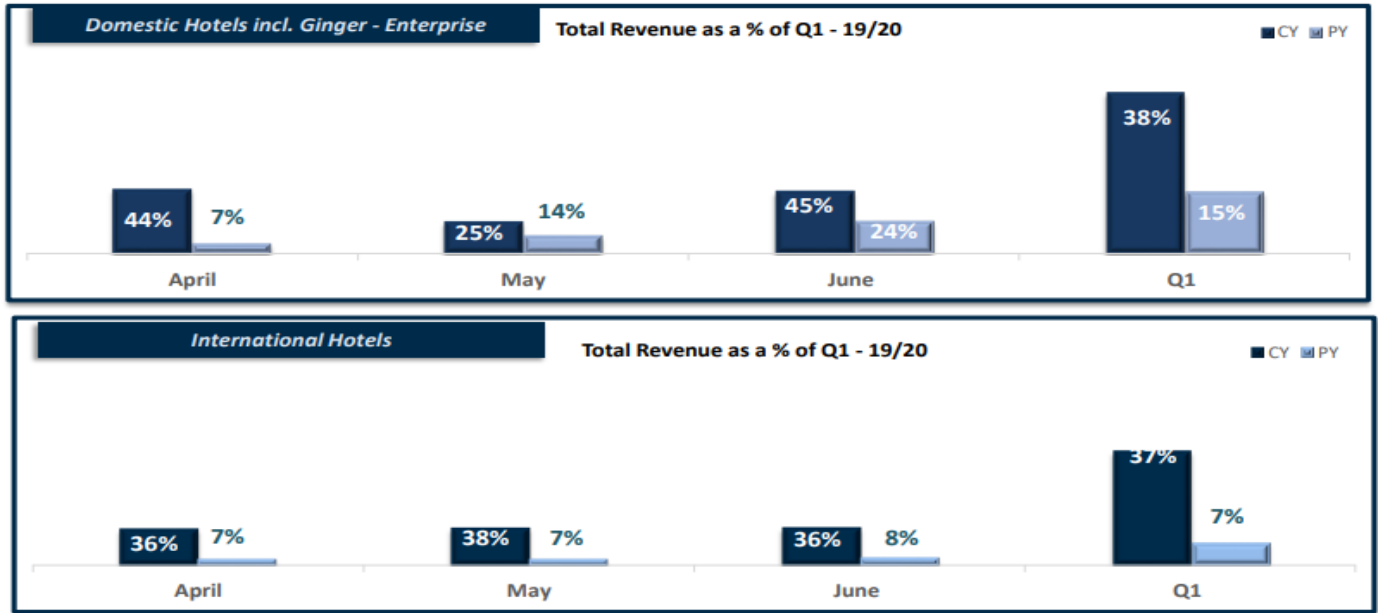
Source: Company, ICICI Direct Research

Exhibit 6: Manpower optimisation continues across brands



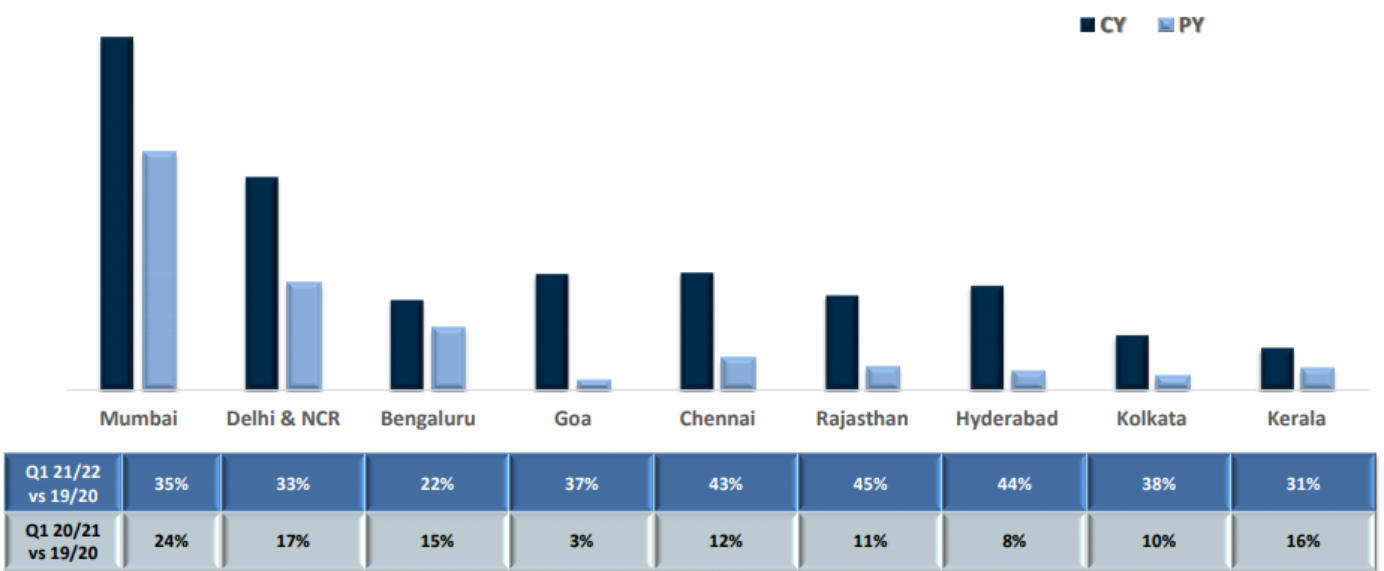
Source: Company, ICICI Direct Research

Exhibit 7: Comparison of revenues from current year and last year with pre-Covid levels
 Q1 2021/22 Revenue Recovery @38% vs 19/20, Better than last year



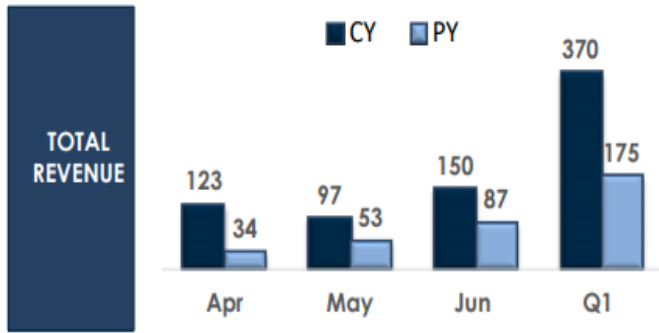
Source: Company, ICICI Direct Research

Exhibit 8: Revenue recoveries in key domestic cities: Rajasthan, Hyderabad, Chennai & Goa tops in terms of recovery



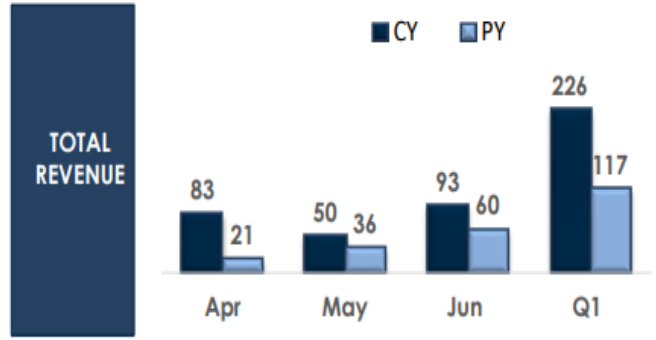
Source: Company, ICICI Direct Research

Exhibit 9: Monthly total revenue trend (consolidated)



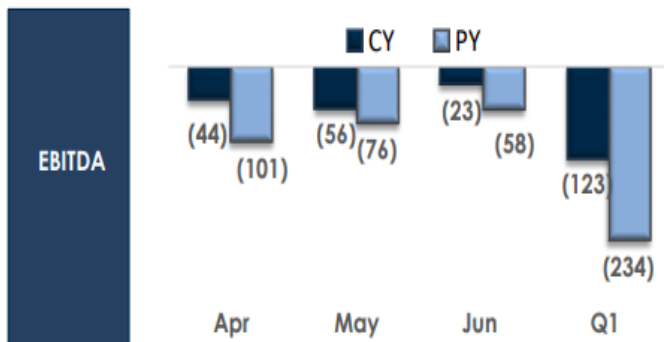
Source: Company, ICICI Direct Research

Exhibit 10: Monthly total revenue trend (Standalone)



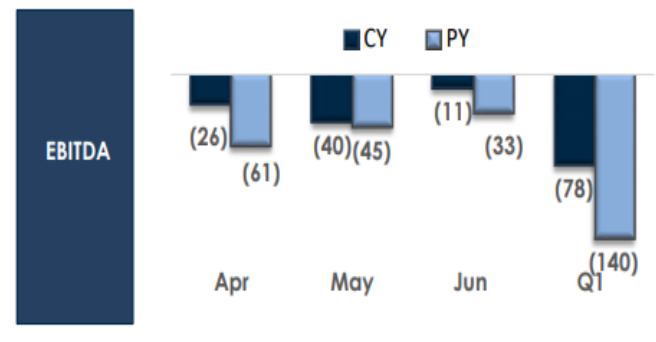
Source: Company, ICICI Direct Research

Exhibit 11: Monthly EBITDA trend (Consolidated)



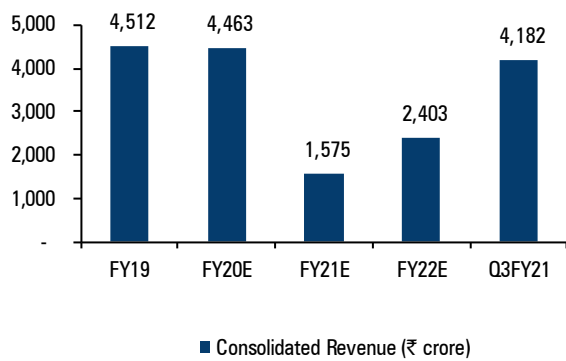
Source: Company, ICICI Direct Research

Exhibit 12: Monthly EBITDA trend (Standalone)



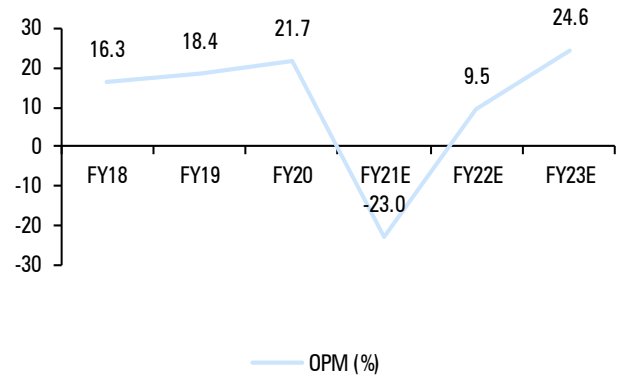
Source: Company, ICICI Direct Research

Exhibit 13: Expect sharp recovery in the revenues post unlocking



Source: Company, ICICI Direct Research

Exhibit 14: EBITDA margins to cross 24% by FY23E



Source: Company, ICICI Direct Research

Financial summary

Exhibit 15: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating income	4,463.1	1,575.2	2,403.2	4,182.0
Growth (%)	-1.1	-64.7	52.6	74.0
Raw Material Expenses	370.6	143.8	203.1	330.4
Employee Expenses	1,494.6	894.0	932.5	1,276.6
Power & Fuel Exp	0.0	0.0	0.0	0.0
Other Exp	1,630.5	899.1	1,040.1	1,547.3
Total Operating Exp	3,495.6	1,936.9	2,175.7	3,154.3
EBITDA	967.5	-361.8	227.5	1,027.6
Growth (%)	16.6	-137.4	-162.9	351.8
Depreciation	404.2	409.6	423.4	430.3
Interest	341.1	402.8	408.7	412.5
Other Income	132.4	164.7	108.1	167.3
PBT	354.6	-1,009.5	-496.5	352.1
Others/Minority Int	-18.7	-336.9	-26.8	37.1
Total Tax	44.8	-155.3	-163.8	63.4
Adjusted PAT	354.4	-815.1	-331.5	301.6
Growth (%)	23.6	-330.0	-59.3	-191.0
Adjusted EPS (₹)	3.0	-6.9	-2.8	2.5

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	118.9	118.9	118.9	118.9
Reserve and Surplus	4,237.8	3,527.7	3,196.2	3,497.8
Total Shareholders funds	4,356.7	3,646.6	3,315.1	3,616.7
Total Debt	2,903.4	3,591.9	3,891.9	3,891.9
Deferred Tax Liability	110.4	78.1	68.1	58.1
Minority Interest / Others	2,625.5	2,561.7	2,573.0	2,584.3
Total Liabilities	9,995.9	9,878.3	9,848.1	10,150.9
Gross Block	9,559.6	10,426.6	10,860.9	11,352.0
Less: Acc Depreciation	4,288.9	4,698.6	5,089.5	5,497.5
Net Block	5,270.7	5,728.0	5,771.3	5,854.4
Capital WIP	244.1	165.0	265.7	164.6
Total Fixed Assets	5,514.7	5,893.0	6,037.0	6,019.0
Investments	1,426.6	1,483.2	1,428.2	1,353.2
Goodwill on consolidation	1,204.9	1,180.0	1,180.0	1,180.0
Right-of-use-asset				
Inventory	93.6	92.9	91.5	160.6
Debtors	290.0	219.8	230.4	378.1
Loans and Advances	410.3	314.1	310.7	358.4
Cash	315.5	151.7	137.9	225.5
Other current assets	599.0	528.4	432.8	738.1
Total Current Assets	1,708.4	1,307.0	1,203.4	1,860.6
Current liabilities	389.3	352.8	395.0	458.3
Provisions	0.0	0.0	0.0	0.0
Total Current Liabilities	389.3	352.8	395.0	458.3
Net Current Assets	1,319.1	954.2	808.4	1,402.3
Application of Funds	9,995.9	9,878.3	9,848.1	10,150.9

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	354.4	-720.1	-331.5	301.6
Add: Depreciation	404.2	409.6	423.4	430.3
(Inc)/dec in Current Assets	-1.5	237.7	89.8	-569.7
Inc/(dec) in CL and Provisions	-87.1	186.9	-52.4	161.4
CF from operating activit	670.0	114.1	129.3	323.5
(Inc)/dec in Investments	4.7	3.7	0.0	0.0
(Inc)/dec in Fixed Assets	-569.6	-787.9	-567.4	-412.3
Others	-61.8	-192.2	124.3	176.3
CF from investing activiti	-626.7	-976.3	-443.1	-236.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	377.1	688.5	300.0	0.0
Dividend paid & dividend tax	-71.7	0.0	0.0	0.0
Inc/(Dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-248.3	10.0	0.0	0.0
CF from financing activiti	57.1	698.5	300.0	0.0
Net Cash flow	100.4	-163.7	-13.8	87.5
Opening Cash	215.0	315.5	151.7	137.9
Closing Cash	315.5	151.7	137.9	225.5

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	3.0	-6.1	-2.8	2.5
Cash EPS	6.4	-2.6	0.8	6.2
BV	36.6	30.7	27.9	30.4
DPS	0.5	0.0	0.0	0.0
Cash Per Share	6.4	-2.6	0.8	6.2
Operating Ratios (%)				
EBITDA Margin	21.7	-23.0	9.5	24.6
PBT / Total Operating income	8.9	-53.9	-20.7	8.4
PAT Margin	7.9	-45.7	-13.8	7.2
Inventory days	7.1	21.6	14.0	11.0
Debtor days	23.7	50.9	35.0	33.0
Creditor days	31.8	81.7	60.0	40.0
Return Ratios (%)				
RoE	8.1	-19.7	-10.0	8.3
RoCE	7.0	-9.8	-2.5	7.3
RoIC	6.0	-8.1	-2.1	6.1
Valuation Ratios (x)				
P/E	47.3	0.0	0.0	55.6
EV / EBITDA	20.0	-55.9	90.2	19.9
EV / Net Sales	4.3	12.8	8.5	4.9
Market Cap / Sales	3.8	10.6	7.0	4.0
Price to Book Value	3.8	4.6	5.1	4.6
Solvency Ratios				
Debt/EBITDA	3.0	-9.9	17.1	3.8
Debt / Equity	0.7	1.0	1.2	1.1
Current Ratio	1.2	0.8	0.8	1.1
Quick Ratio	1.0	0.7	0.7	0.9

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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