Sharekhan by BNP PARIBAS

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Stock Update

Indian Hotels Company Ltd

Rooms filling up; growth prospects brighten

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. 184**	
Price Target: **Rs. 215**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

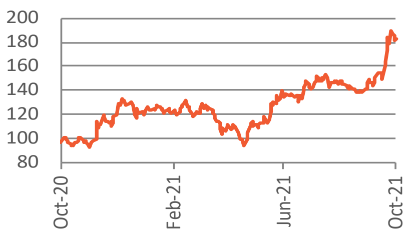
Company details

Market cap:	Rs. 21,882 cr
52-week high/low:	Rs. 201/92
NSE volume: (No of shares)	52.7 lakh
BSE code:	500850
NSE code:	INDHOTEL
Free float: (No of shares)	70.5 cr

Shareholding (%)

Promoters	40.8
FII	13.3
DII	27.9
Others	18.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	24.4	29.6	63.2	81.2
Relative to Sensex	21.9	17.4	45.8	29.7

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy on Indian Hotels Company Ltd (IHCL) with a revised price target of Rs. 215; stock trades at 29x/22x its FY2023E/24E EV/EBIDTA.
- Rapid vaccinations lifted domestic leisure travel, helping occupancies to scale up to close to 60% in July 2021 and further improve in August.
- IHCL's standalone average occupancies are expected to be at 60% in Q2FY2022 versus 32.3% in Q2FY2021 on strong demand for domestic leisure travel.
- International properties (in the UK and US) are recovering as these markets open up. Hotel occupancies in the US are above 60%, while London hotels occupancies are trending at 55-56%.

The Indian hotel industry is reporting a consistent and rapid recovery in occupancies after the halt on the recovery put by second wave of COVID-19. India's occupancy rates were trending upwards of 60% during July-August 2021 after having dropped to 20% in May. International markets such as the US and the UK have seen a significant improvement in occupancies in the recent months. With strong room inventory, IHCL will benefit from a robust recovery in domestic leisure travel. This will be further boosted by a gradual recovery in the business travel and permits for foreign tourist arrivals. With focus on Asset-light model, IHCL aims at reducing debt substantially through improved cash flows and equity infusion.

- **Occupancies recovering faster:** Unlike the first wave of COVID-19, after a sharp decline in the cases of second wave, the Indian hotels industry has witnessed consistent and faster recovery in occupancy ratio due to higher demand from domestic leisure travel. India's hotel occupancy ratio is standing in upwards of 60% (much better than the 25-30% occupancy in July-August 2020. Some international markets such as US and UK saw substantial improvement in occupancies (to 55-60%) post the opening up of the economy.
- **IHCL's Q2FY22 numbers to be at par with Q3FY21:** We expect IHCL to clock revenues of Rs. 580-590 crore in Q2FY2022, which is better than revenues of Rs. 560 crore achieved in Q3FY2021. Domestic occupancy ratios will be at 60-65%, while a stark improvement is expected in the performance of international properties in US, UK and Dubai. Ginger hotels should also post a sequential improvement in performance. With a focus on cost reduction, the company is likely to post operating profit of Rs. 7-8 crore in Q2FY2022 compared to loss in Q1.
- **Company targets to reduce debt in coming years:** The company has net debt of Rs. 3,612 crore on its consolidated book. Improvement in cash flows, equity infusion and divestment of non-core assets will be utilised to reduce debt in the coming years. Further the company is focusing on asset-light model by adding more rooms through management contracts. In addition, it is restructuring its debt profile by replacing the high cost loans with low cost loans. This will help strengthen the balance sheet and return profile in the medium term.

Our Call

View: Retain Buy with a revised price target of Rs. 215: A strong recovery in domestic leisure travel would help IHCL in posting better performance in the coming quarters. Further, a recovery in the business travel and permitting foreign tourist to travel in India would further give a boost to the occupancies in the quarters ahead. Strong focus on building an asset-light model and recovery in the business environment will help IHCL to recover 80% of pre-COVID levels in FY2023 with strong growth in profitability. Further the company is focusing on strengthening its balance sheet. The stock trades at 29x/22x its FY2023E/24E EV/EBIDTA. We maintain a Buy recommendation on the stock with revised price target of Rs. 215.

Key Risks

Any slow recovery in inbound and outbound tourism industry due to uncertain environment would act as a key risk to earnings estimates.

Valuation Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	1,575	2,557	3,571	4,463
OPM (%)	-23.0	17.0	25.8	27.1
Adjusted PAT	-822	-200	198	435
Adjusted EPS (Rs.)	*-7.8*	*-1.5*	*1.9*	*3.9*
P/E (x)	-	-	98.0	47.6
P/B (x)	5.1	5.4	5.2	4.8
EV/EBIDTA (x)	-	59.7	29.4	22.0
RoNW (%)	-	-4.8	4.8	9.9
RoCE (%)	-	1.4	6.6	9.8

Source: Company; Sharekhan estimates

High demand from domestic leisure travel is boosting domestic occupancies

Unlike the first wave of COVID-19, after a sharp decline in cases amid the second wave of COVID-19, the Indian hotel industry witnessed a consistent and rapid recovery in occupancy ratios due to higher demand from domestic leisure travel. This can be attributed to improved pace of vaccinations, easing of lockdown norms in various markets and improving domestic mobility. India's occupancy ratio is above 60% (much better than 25-30% in July-August 2020). Occupancy rates in New Delhi and Mumbai have already crossed 70%.

Occupancies in India improved to 60%

Source: Industry reports; Sharekhan Research

IHCL is witnessing strong room demand in leisure destinations including Goa and Rajasthan. Cities such as Mumbai and Bangalore are witnessing trend of staycation and business-cation. Bookings, which were earlier restricted to the weekend for 2-3 days, have now increased to 5-7days. This is not only giving boost to occupancies but also help increase room rentals. Business travel is returning and is expected to improve in the coming quarters with strong vaccination drive among corporate travellers.

International markets bouncing back too

International markets such as the US and UK saw substantial improvement in occupancies (to around 55-60%) post the opening up of their economies. Occupancies in markets such as London stood above 55% in August 2021, the highest since February 2020 (occupancy rates in August 2019 stood at above 85%). Occupancy rates in some of the key markets in the US improved to 60%. IHCL international hotels recovered to 37% of pre-COVID levels in Q1FY2019-20. US revenues stood at Rs. 57 crore in Q1FY2022 compared with Rs. 18 crore in Q1FY021 with occupancies in The Pierre and Taj Boston, New York rising above 40%. The UK came out of lockdown at fag end of Q1FY022 and revenues stood at Rs. 24 crore compared to Rs. 5 crore in Q1FY2021. EBIDTA losses decreased to Rs. 5 crore as compared to Rs. 13 crore.

IHCL Q2FY2022 revenues are expected to be slightly better than Q3FY2021 revenues

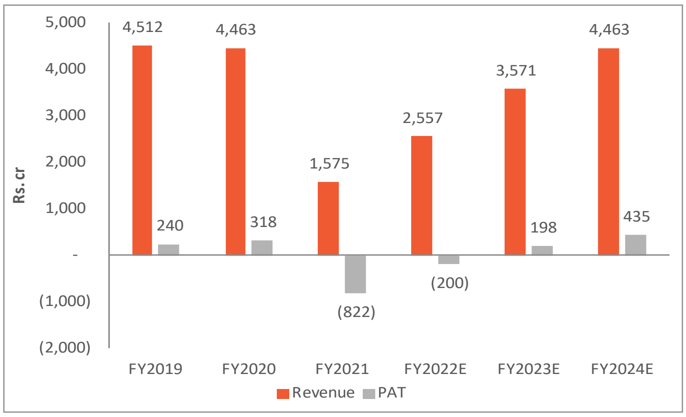
We expect IHCL to clock revenues of Rs. 580-590 crore in Q2FY2022, which is better than revenues of Rs. 560 crore achieved in Q3FY2021. Domestic occupancy ratio will be at 60-65%, while stark improvement is expected in performance of international properties in the US, UK and Dubai. Ginger hotels should also post sequential improvement in performance. With a focus on cost reduction, the company is likely to post operating profit of Rs. 7-8 crore in Q2FY2022 compared to loss in Q1. Reduction in the corporate cost, optimum manpower utilisation and improvement in overall performance of domestic and international properties will help profitability recover in the quarters ahead.

Efficient management of liquidity and debt

At the end of Q1FY2022, the company had cash & credit lines exceeding Rs. 1,000 crore and its net debt stood at Rs.3,612 crore. IHCL repaid cross currency swaps of Rs. 146 crore and maximised Emergency Credit Line Guarantee Scheme (ECLGS) to Rs. 144 crore at attractive interest rates. In July 2021, the company replaced high cost 9.95% NCDs of Rs. 250 crore (secured) with 6.70% NCDs (unsecured). Net debt increased ~Rs. 500 crore as to fulfil the cash requirement to run the business in Q1FY2022. Operating cash flows stood negative at Rs. 335 crore in Q1FY2022. However, with expected sharp recovery in the performance in both domestic and key international markets, the cash flows are expected to improve in the coming quarters. This along with a likely fundraising through equity issuance will be used to slash debt and meet a capex plan of Rs. 400 crore. The company is also focusing on asset monetisation and funds raised through it will be utilised for reducing debt by end of FY22.

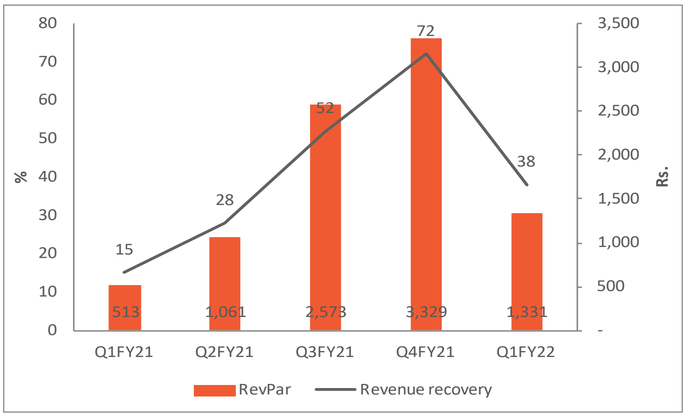
Financials in charts

Revenue and profit to grow in coming years



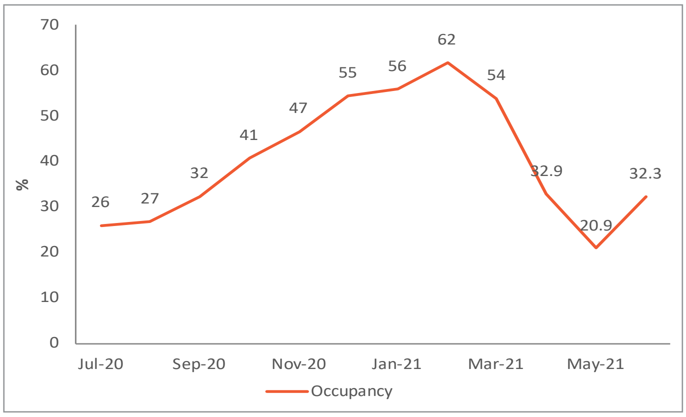
Source: Company, Sharekhan Research

Decline in revenue in Q1 due to wave 2



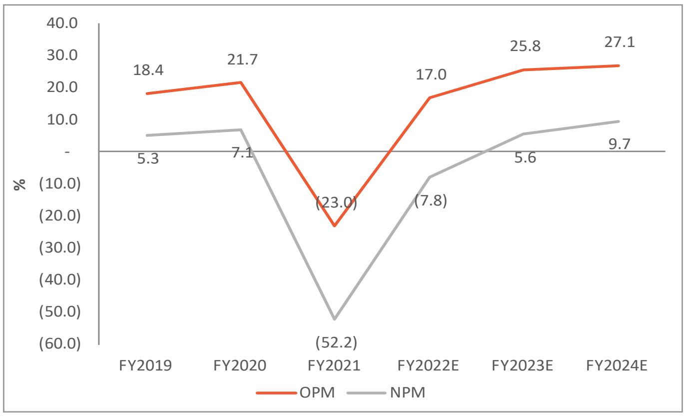
Source: Company, Sharekhan Research

Trend in occupancy



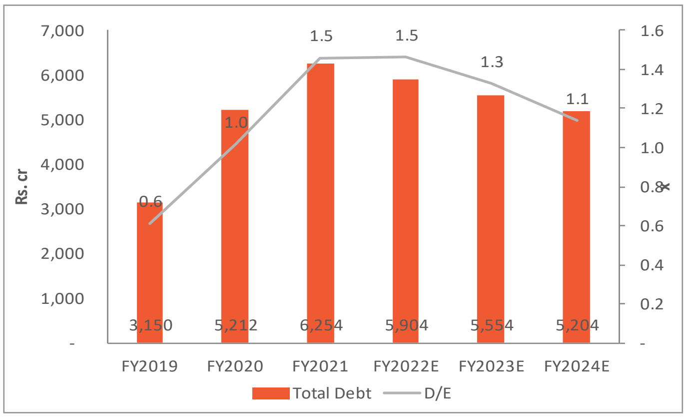
Source: Company, Sharekhan Research

Margins to improve significantly



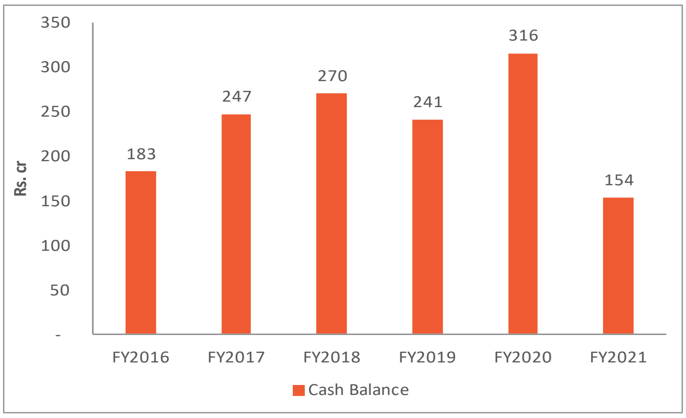
Source: Company, Sharekhan Research

Company to reduce debt



Source: Company, Sharekhan Research

Company maintains adequate cash balance



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector outlook - FY2021 was disrupted; recovery expected in FY2023

FY2021 was a tough year for the Indians hotel industry with some silver lining being visible in the second half of the year as occupancies improved by close to 60% as mobility picked up. Most hoteliers are confident of a strong recovery once pandemic pressure eases out (mass vaccinations is creating hope for all). On the supply front, financial constraints would delay most hotel projects by a year or two, while some standalone hotels are likely to close their operations in the domestic market. However, the concerns hovering around rising COVID-19 cases in domestic and international markets will continue act as a risk on occupancies and business performance of hotel companies in the short term.

■ Company outlook - FY2023 business will recover to 80% of pre-COVID levels

IHCL was hit by the pandemic in FY2021 with consolidated revenues declining by 65%y-o-y and operating loss of Rs. 368 crore. Amid the second wave of COVID-19 in India, IHCL's business continued because there were no nationwide lockdowns and this helped maintain business momentum in less-affected areas with safety protocols. With international markets such as US and UK is opening gradually, properties in these markets are expected to see a gradual improvement in performance. We expect business to recover to 60% of FY2020 levels in FY2022 and 78% of FY2020 levels in FY2023. However, the cost saving initiatives undertaken in FY2021 will help operating profit to 100% recover in FY2023.

■ Valuation - Retain Buy with a revised price target of Rs215

A strong recovery in domestic leisure travel would help IHCL in posting better performance in the coming quarters. Further, a recovery in the business travel and permitting foreign tourist to travel in India would further give a boost to the occupancies in the quarters ahead. Strong focus on building an asset-light model and recovery in the business environment will help IHCL to recover 80% of pre-COVID levels in FY2023 with strong in profitability. Further, the company is focusing on strengthening its balance sheet. The stock trades at 29x/22x its FY2023E/24E EV/EBIDTA. We maintain a Buy recommendation on the stock with revised price target of Rs. 215.

Peer Comparison

Particulars	EV/EBIDTA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Lemon tree Hotels	85.3	34.4	21.1	-0.7	2.1	4.9
Indian Hotels Company	-	59.7	29.4	-5.7	1.4	6.6

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, Jamsetji 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 led to 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 (likely from H2FY2022). 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
Puneet Chhatwal	CEO &Managing Director
Giridhar Sanjeevi	Chief Financial Officer
Beejal Desai	Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Nippon Life India Asset Management	4.2
2	HDFC Asset Management Co Ltd	4.1
3	SBI Retirement Benefit	3.3
4	SBI Fund Management	3.2
5	Franklin Resources Inc	2.9
6	ICICI Prudential Life Insurance Co.	2.9
7	Amansa Capital Pvt. Ltd	2.5
8	Franklin India Taxshield	2.2
9	Vanguard Group Inc	1.9
10	ICICI Prudential Asset Management	1.8

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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