Indian Hotels Company Ltd

On path to strong profitable growth

Consumer Discretionary	Sharekhan code: INDHOTEL

Reco/View: Buy	↔	CMP: **Rs. 221**	Price Target: **Rs. 286**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 24.78
Updated Apr 08, 2022

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

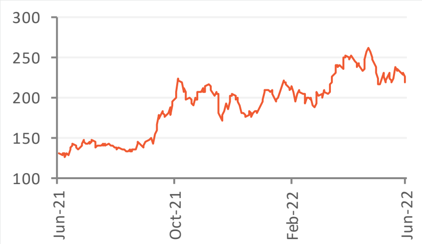
Company details

Market cap:	Rs. 31,355 cr
52-week high/low:	Rs. 269 / 118
NSE volume: (No of shares)	68.7 lakh
BSE code:	500850
NSE code:	INDHOTEL
Free float: (No of shares)	87.8 cr

Shareholding (%)

Promoters	38.2
FII	16.8
DII	28.5
Others	16.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.9	8.7	8.1	66.4
Relative to Sensex	-2.3	11.0	15.8	62.5

Sharekhan Research, Bloomberg

Summary

- We re-iterate a Buy on Indian Hotels Company (IHCL) with an unchanged price target of Rs. 286. Strong industrial tailwinds and focus on asset-light model makes IHCL the best play in the hospitality space. It is trading at 33x/23x its FY2023/24E EV/EBITDA.
- The company has outlined a strong growth outlook over the next four years with a focus on achieving EBITDA margin of 33% by FY2026 from 22% in FY2020 with consistent earnings revenue growth.
- Industry tailwinds are strong with demand likely to outpace supply in 2-3 years and substantial shift to trusted hotel brands in the post pandemic era will help IHCL's revenues and EBITDA to grow by 26% and 73% over FY2022-24, respectively.
- Fund-raising through rights issue and QIP of Rs. 4,000 crore was utilised to reduce debt of Rs. 2,275 crore. Liquid cash on books stood at Rs. 1,902 crore. IHCL is focusing on becoming a zero-debt company on back of improved cash flows.

Indian Hotels Company Ltd's (IHCL's) performance recovered to 68% of pre-pandemic levels in FY2022 with strong month-on-month recovery in occupancies and average room rentals (ARRs) in the second half of the fiscal. The company outlined its ambition of achieving EBITDA margins of 33% (from 22% in FY2020) with consistent revenue growth and becoming cash positive with no debt on books by FY2026 led by its growth strategy – Ahavaan 2025. The company is focusing on generating higher free cash flow, optimal capital allocation and monetisation of non-core assets to further strengthen its balance sheet in the coming years. IHCL aims to become debt-free in 2-3 years.

- **Ahvaan 2025:** IHCL is targeting EBITDA margin of 33% in FY2026 from 21.7% in FY2020. This will be done through consistent growth in its existing domestic properties, 35% EBITDA coming from high margins businesses such as new ventures and management fees and mix of 50:50 hotel rooms between own and management contract. In FY2023, the focus will be largely on exceeding its revenues over FY2021-20, attaining market leadership in the domestic market and meaningful scale-up of new businesses. In FY2025 and FY2026, the company is focusing on becoming most profitable brand, having a healthy balance sheet with net cash positive and highest growth & footprints in the domestic market.
- **Strong industry tailwinds to support growth:** Room supply in Indian markets is expected to grow by 5% while demand is expected to grow by 6% over FY2020-26 with strong traction from domestic leisure business, an expected recovery in business and corporate travels (will help recovery in key metros). This will help RevPAR in the coming years. With strong levers in place IHCL expects consistent improvement in the RevPar with occupancy ratio expected to improve to 70% by 2024 from 66% in FY2022 (average room rental to grow at CAGR of 14% over FY2022-24).
- **Strengthening the balance sheet with improved cash flows:** With funds raised through right issue and QIP of Rs. 4000 crore, the company has repaid large chunk of debt and currently net cash positive at Rs. 106 crore. The company is focusing on generating higher free cash flow, optimal capital allocation and monetisation of non-core assets to further strengthen its balance sheet in the coming years.

Our Call

View –Retain Buy with an unchanged PT of Rs. 286: IHCL's management has charted a strong growth plan by FY2025-26 with strong improvement in cash flows and strengthening balance sheet with focus on becoming net cash Positive. Pent up demand in the domestic leisure travel will help the company to achieve strong growth over pre-pandemic level in the absence of the fourth wave. The EBITDA margins will consistently improve in the coming years. Thus, we maintain IHCL as one of our top picks in the hospitality space. We maintain our Buy recommendation on the stock with an unchanged price target of Rs. 286. The stock is currently trading at of 33x/23x its FY2023E/24E EV/EBITDA.

Key Risks

Any emergence of a fourth COVID-19 wave in next four to five months or slow recovery in inbound and outbound tourism industry would act as a key risk to our earnings estimates.

Valuation (consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	1,575	3,056	4,240	4,876
EBITDA margin (%)	-	13.3	22.6	25.1
Adjusted PAT	-822	-235	338	576
Adjusted EPS (Rs.)	-7.8	-2.0	2.5	4.2
P/E (x)	-	-	74.9	44.0
P/B (x)	6.2	4.1	4.0	3.7
EV/EBITDA (x)	-	75.4	33.0	23.0
RoNW (%)	-	-	4.3	7.0
RoCE (%)	-	1.4	5.8	9.1

Source: Company; Sharekhan estimates

Roadmap for Ahvaan 2025

The company is targeting EBITDA margin of 33% in FY2026 from 21.7% in FY2020. This will be done through consistent growth in its existing domestic properties, 35% EBITDA from high margin businesses such as new ventures and management fees and mix of 50:50 hotel rooms between own and management contracts. In FY2022, the company focused on India business to capture the high pent-up demand, increase market share and scale-up new businesses. In FY2023, the company is focusing on crossing FY2020 revenue (~Rs. 4,500 crore) on a like-to-like basis (after adding new rooms in the portfolio), attaining market leadership and meaningful scale-up in the new businesses. In FY2026, the company is focusing on becoming most profitable brand, having a healthy balance sheet with net cash positive and achieve highest growth & footprints in the domestic market.

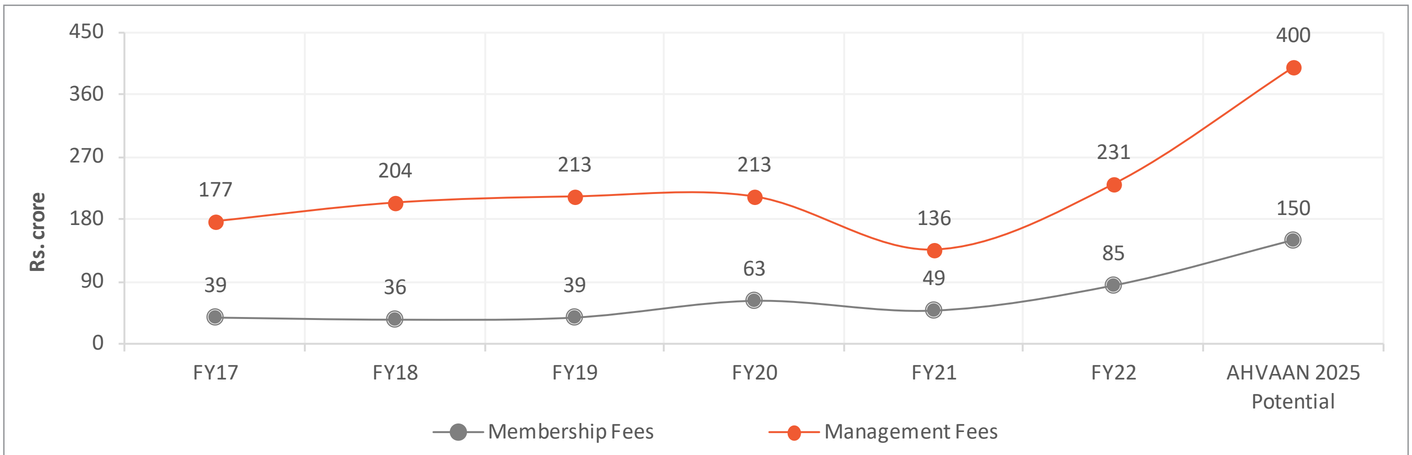
Ahvaan 2025 – The path

Source: Company Presentation

New businesses to scale-up fast

IHCL aims new brands to scale up fast and unlock potential for the company. The company expects revenue of Chambers to reach over Rs. 150 crore in FY2026, Ginger's revenue to cross over Rs. 250 crore and management fees to reach over Rs. 400 crore. The company plans to continue launching new Chambers at select locations. With continued focus on an asset-light model, the company expects to earn higher management fees going ahead.

Growth in Chamber membership fees and management fees

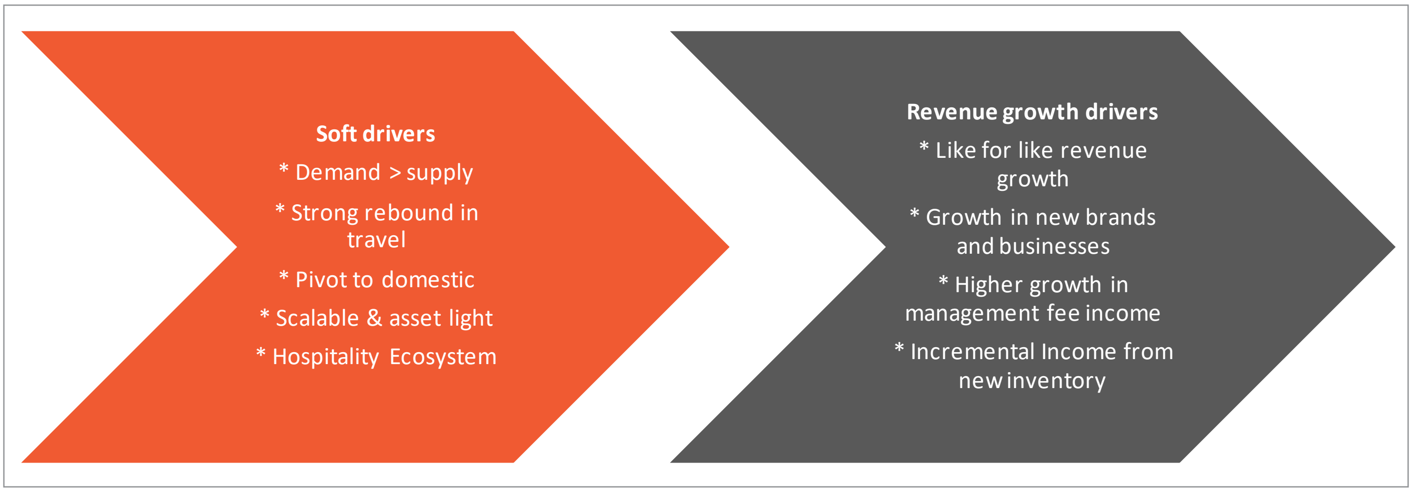


Source: Company; Sharekhan research

Drivers for revenue growth in the medium term

The company is focusing on like-for-like growth in the existing properties with demand drivers in place, growth in topline from new brands and businesses, new F&B concepts (Seven Rivers, Paper Moon) gaining strong traction and a robust hotel pipeline (with incremental revenues coming from management fees). The company is expecting consistent improvement in the RevPar with occupancy ratio expected to improve to 70% by 2024 from 66% in FY2022 (average room rental to grow at CAGR of 14% over FY2022-24).

Revenue growth drivers



Source: Company; Sharekhan research

Drivers for margin expansion

The company is targeting EBITDA margin of 33% in FY2026 from 22% in FY2019-20. This will be driven by operating leverage, scale-up in the revenues of high-margin businesses, cost optimisation through reduction in corporate overhead to 5% of sales from 8% of sales in FY2020 and improvement in the staff to room ratio.

Margin growth drivers

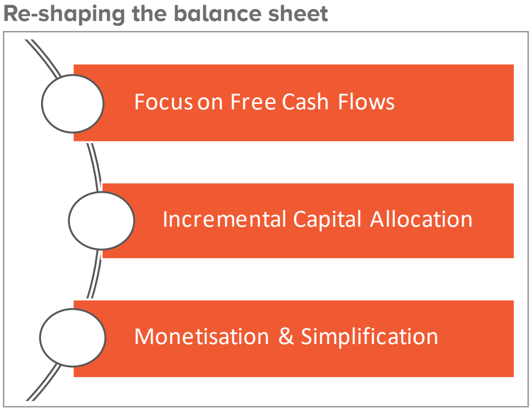
Particulars	Margin Improvement	Soft Drivers
Enhanced Productivity: Hotel expenditure	4 to 5%	• New ways of working • Digital adoption • Economies of scale • High margin focus • Continued tracking
Enhanced Productivity: Optimal manning		
Enhanced Productivity: Corporate overheads		
Impetus to high margin businesses		

Source: Company, Sharekhan Research

Strengthening the balance sheet

With funds raised through a rights issue and QIP of Rs. 4,000 crore, the company has repaid large chunk of debt and currently is net-cash positive at Rs. 106 crore. The company is focusing on generating higher free cash flow, optimal capital allocation and monetisation of non-core assets to strengthen its balance sheet further in the coming years. After investing for new expansion projects/inorganic opportunities, the company is targeting free cash accrual of 5-10% from 100% of revenues. Monetisation target is of Rs. 1,000 crore by selling land bank, hotels and investments.

Re-shaping the balance sheet

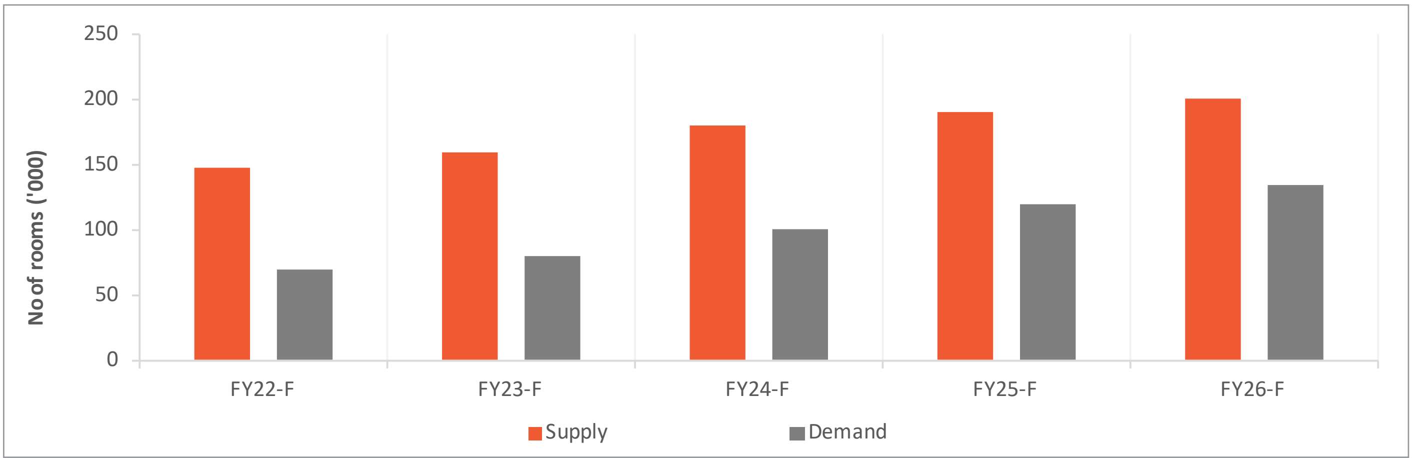


Source: Company; Sharekhan research

Industry trend – Demand to remain ahead of supply

Room supply clocked a CAGR of 6.5% over FY2016-20 while demand grew at CAGR of 6.7% over the same period. Pent-up demand in the leisure domestic travel, recovery in MICE and business travel, higher demand from wedding & events and increasing preference for trusted brands is helping hotel industry to post quick and strong recovery post the reduction of pandemic scare. The room demand is expected to increase in the coming years as inbound tourism picks up. Room supply is expected to grow at a slow pace of 5.1% over FY2020-26, the demand is expected to out-pace supply with growth of 6.5% over the same period. This will help RevPAR to remain higher in the coming years.

No. of hotel rooms rises



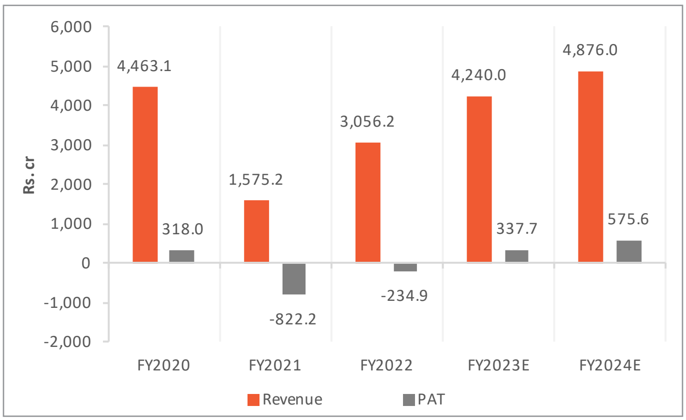
Source: Company; Sharekhan research

Recent trends aid market share gains for top players

Some of the trends helping top brands in the hotel space 1) No compromise on wellness & well-being, 2) stay-cations & workcations gaining large preference 3) Demand for flexibility in bookings, cancellations & re-scheduling and 4) Willingness to pay premium for better experiences. These trends are helping top brands in the domestic market to gain market share from the standalone hotels.

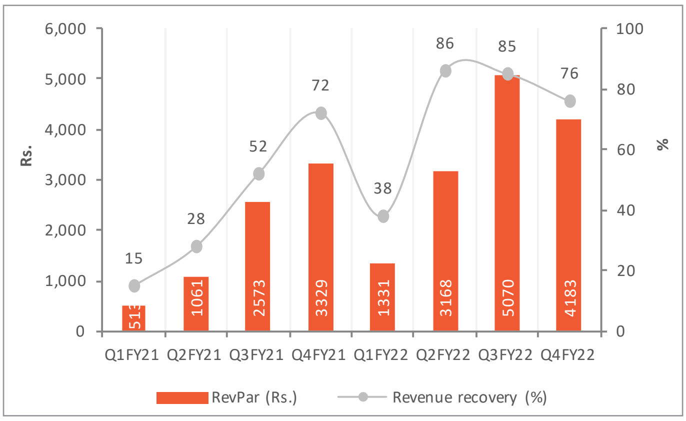
Financials in charts

Revenue and profits to grow in coming years



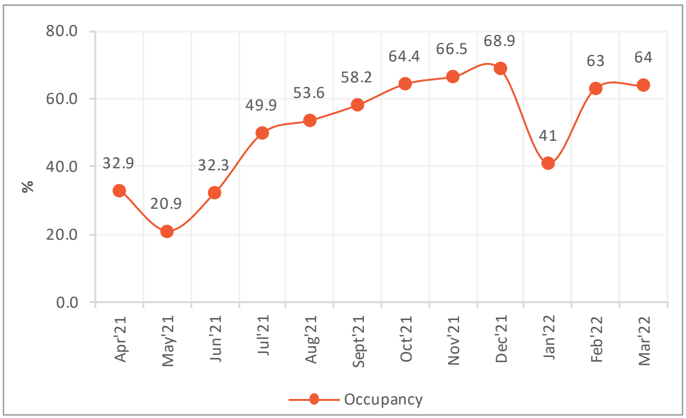
Source: Company, Sharekhan Research

Q4 hit by third COVID-19 wave



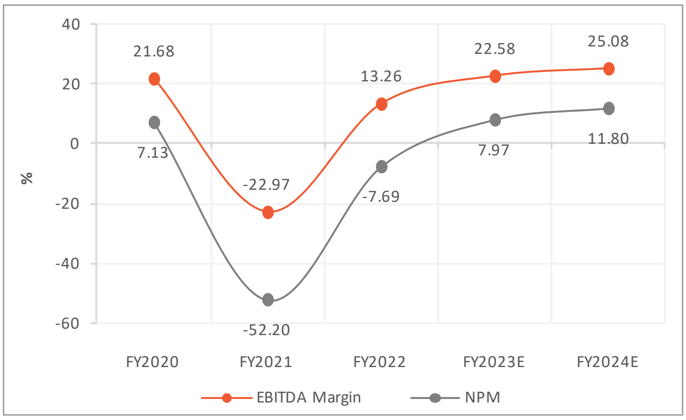
Source: Company, Sharekhan Research

Trend in occupancy ratio



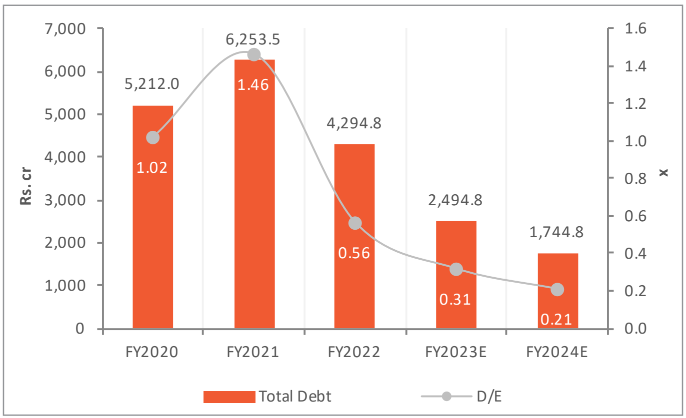
Source: Company, Sharekhan Research

Margins to improve significantly



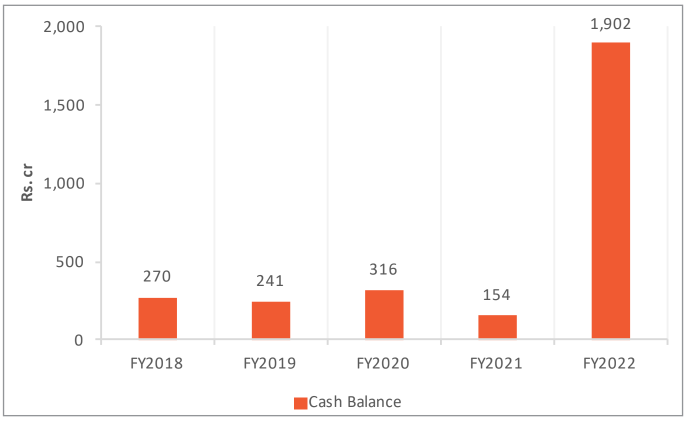
Source: Company, Sharekhan Research

Company to reduce debt



Source: Company, Sharekhan Research

Cash balance stays adequate



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Strong growth expected in FY2023

Demand was hit in January 2022 and for the first two weeks of February 2022 because of the Omicron wave, but the hotel industry has witnessed healthy recovery after that aided by leisure, festive and wedding season and gradual pick-up in business travel. Travel bookings for most hotel companies between March to May 2022 have surpassed March to May 2019 levels. With significant improvement in demand, RevPARs are expected to improve to pre-COVID levels in FY2023. EBITDA margins are also expected to record closer to pre-COVID levels owing to improved operating leverage and as benefits of some of the cost saving initiatives undertaken during the pandemic sustain. However, the concerns hovering around possibility of a fourth/ fifth COVID wave in domestic and international markets will continue to be a risk on demand and business performance of hotel companies in the short term.

■ Company Outlook – Business will recover close to 100% of pre-COVID levels in FY2023

Amid the third wave of COVID-19 in India, IHCL's business continued uninterrupted as there were no nationwide lockdowns, which helped maintain business momentum in less-affected areas with safety protocols. With international markets such as the US and UK opening up gradually, properties in these markets saw consistent improvement in two consecutive quarters. Q4FY22 was partially impacted due to the Omicron wave but recovered swiftly. We expect business to recover to 67% of FY2020 levels in FY2022 and 90% of FY2020 levels in FY2023. Cost-saving initiatives undertaken in FY2021 will help operating profit to substantially improve in the coming years.

■ Valuation – Retain Buy with unchanged price target of Rs. 286

IHCL's management has charted a strong growth plan by FY2025-26 with strong improvement in cash flows and strengthening balance sheet with focus on becoming net cash Positive. Pent up demand in the domestic leisure travel will help the company to achieve strong growth over pre-pandemic level in the absence of the fourth wave. The EBITDA margins will consistently improve in the coming years. Thus, we maintain IHCL as one of our top picks in the hospitality space. We maintain our Buy recommendation on the stock with an unchanged price target of Rs. 286. The stock is currently trading at of 33x/23x its FY2023E/24E EV/EBITDA.

Peer Comparison

Companies	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Lemon tree Hotels	-	65.7	36.5	61.6	21.6	16.6	0.7	6.2	8.3
Indian Hotels Company	-	74.9	44.0	75.4	33.0	23.0	1.4	5.8	9.1

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 232 hotels (61 under development) globally in its portfolio, 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. A strong recovery in domestic leisure travel would help IHCL in posting better performance in the medium term. Strong focus on building an asset-light model, market share gains in key markets and recovery in the business environment will help IHCL recover to 100% of pre-COVID levels in FY2023 with strong growth in profitability. Further, the company is focusing on strengthening its balance sheet by a sustained reduction in debt, which augurs well from the long-term perspective.

Key Risks

- On the backdrop of 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	Nippon Life India Asset Management Co.	4.9
2	HDFC Asset Management Co.	4.5
3	SBI Funds Management	3.0
4	Amansa Capital Pvt Ltd.	2.3
5	Life Insurance Corp of India	2.1
6	ICICI Prudential Life Insurance Co.	1.9
7	Vanguard Group Inc	1.8
8	L & T Mutual Fund Trustee India	1.7
9	Norges Bank	1.6
10	Government Pension	1.6

Source: Bloomberg (old data)

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

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 – 67502000/ Fax – 022-24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.