

August 2, 2022

Corporate demand joins growth league...

About the stock: EIH Ltd is the flagship company of the Oberoi group that manages 33 hotels (~11 owned, 22 under management contract) with room inventory of ~4512 rooms.

- The company operates the hotels under the brands Oberoi - super luxury brand, Trident-5 star brand and Maidens (heritage)
- EIH also provides catering/kitchen services to airlines and operates restaurants/lounges at airports and also into air charter and car hire services

Q1FY23 Results: EIH reported a healthy performance in Q1FY23.

- Revenue for the quarter surpassed pre-Covid levels (i.e. Q1FY20) by 18%. On a YoY basis, revenues were up 332% (up 28.9% QoQ) to ₹ 342.4 crore (higher than I-direct estimates of ₹ 317.1 crore)
- EBITDA margin came in at 23.1%, higher than our estimate of 20.1%. It was also far higher than EBITDA margin of 7.4% during Q1FY20 and 14.4% during Q1FY19. Absolute EBITDA came in at ₹ 79.2 crore vs. I-direct estimated EBITDA of ₹ 63.7 crore
- The company reported a net profit of ₹ 42.4 crore vs. net loss of ₹ 93.1 crore last year and loss of ₹ 7.3 crore last quarter

What should investors do? The b/s provides strong immunity to weather the challenges while strategic property locations provide visibility to ride on long-term tourism growth story.

- Hence, we remain positive on the company with **BUY** rating on the stock

Target Price and Valuation: We value EIH at ₹185 i.e. 22.0x FY24E EV/EBITDA

Key triggers for future price performance:

- Opening doors fully for foreign tourists (FTAs) from March 2022 to provide further fillip to leisure and business hotel room demand from FY23 onwards
- Expect business to recover to pre-Covid levels (vs. ~97% projected earlier) with EBITDA surpassing pre-Covid levels by FY23E; margins seen at 23%+
- The recent venture into premium café business to lead to potential value unlocking of F&B segment in the long run. Strong b/s to support growth

Alternate Stock Idea: Apart from EIH, we also like Indian Hotels.

- It has strong "Taj brand" in the premium segment along with having a larger presence in the midscale and economy segment
- BUY with a target price of ₹ 290/share



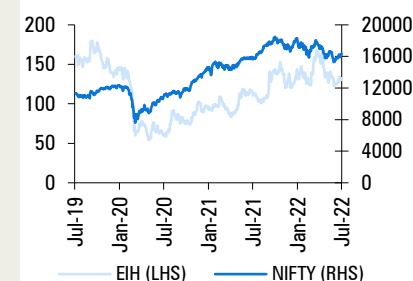
Particulars

Particulars	Amount
Market Cap (₹ Crore)	9,317.7
Debt (FY22) (₹ Crore)	507.4
Cash & Bank (FY22) (₹ crore)	253.5
EV (₹ Crore)	9,571.7
52 week H/L	172 / 88
Equity capital (₹ crore)	125.1
Face value	₹ 2

Shareholding pattern

(in %)	Dec-21	Dec-21	Mar-22	Jun-22
Promoter	35.7	35.7	35.7	35.7
FII	3.6	3.6	3.8	3.7
DII	14.0	14.0	13.9	13.9
Others	46.7	46.7	46.6	46.6

Price Chart



Key risks

- Any further imposition of restriction on travel
- Companies adopting work from home policy beyond FY22E could further delay the recovery in business hotel segment

Research Analyst

Rashes Shah
rashes.shah@icicisecurities.com

Debotro Sinha
debotro.sinha@icicisecurities.com

Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	3 year CAGR (%)	FY23E	FY24E	2 year CAGR (%)
Net Sales	1811	1596	497	1034	-17.0	1591	1812	32.3
EBITDA	406	290	-292	15	-66.6	421	505	478.7
EBITDA (%)	22.4	18.2	-58.7	1.5		26.4	27.9	
PAT	194	163	-377	-59	-167.0	248	287	LP
EPS (₹)	3.1	2.6	-6.0	-0.9		4.0	4.6	
EV/EBITDA	23.7	33.5	-32.9	634.3		22.2	18.0	
D/E	0.2	0.2	0.2	0.2		0.1	0.1	
RoNW (%)	6.5	5.2	-12.2	-1.9		7.8	8.6	
RoCE (%)	9.6	5.7	-9.9	-1.5		9.9	12.4	

Source: Company, ICICI Direct Research

Key performance highlights

- Occupancy levels inched up 76% in April 2022 from 71% in March 2022 before settling down to 69% in June 2022. For Q1, average occupancy came in at 72%, far better than occupancy of 64% in Q1FY20 (pre-Covid). Similarly, ARR also remained firm at ₹ 11,066 during Q1 vs. ₹ 9,727/room during Q1FY20 (14% higher than pre-Covid level). Overall, RevPAR recorded robust growth of 36% from pre-Covid levels for owned hotels
- Traction remained strong in the metro destinations with Mumbai, Delhi and Bengaluru reporting strong rebound in the business. Occupancy in the leisure segment, which already saw traction earlier normalised to pre-Covid levels. However, average room rates were up nearly 40-45% vs. pre-Covid levels
- Mumbai continued to remain a market leader with occupancy of more than 80% in May 2022 followed by Pune and Bengaluru
- **Air catering business** – Many clients are foreign airlines. With resumption of foreign travel, the company is expected to see healthy traction in air catering business
- Weighted average cost of debt was at 7.4% (up 40 bps QoQ)
- Efforts towards implementing efficient cost structure through rationalisation of human capital and technological advancements have resulted into 2% reduction in total expenses and 10% reduction in fixed expenses from pre-Covid levels
- Reducing carbon footprint: Solar plants with a total capacity of 3.0 MW at four different locations being commissioned, which is expected to generate 4.2 million units per annum

Exhibit 1: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Net Sales	342.4	317.1	79.3	331.6	265.6	28.9	
Other income	14.6	10.1	10.9	34.1	13.4	9.1	
Raw Material Expenses	38.0	42.0	14.1	170.3	38.6	-1.4	
Employee cost	89.0	96.0	82.0	8.5	91.2	-2.4	
Other Exp	136.1	115.4	80.4	69.4	114.6	18.8	
EBITDA	79.2	63.7	-97.1	LP	21.2	273.8	
EBITDA Margin (%)	23.1	20.1	-122.5	NA	8.0	NA	
Interest	8.2	9.2	7.8	5.8	9.1	-10.1	
Depreciation	28.9	29.5	28.5	1.3	29.4	-1.8	
PBT before exceptional ex	56.7	35.1	-122.6	LP	-4.0	LP	
Exceptional exps	0.0	0.0	0.0	NA	-13.2	0.0	
PBT	56.7	35.1	-122.6	NA	9.2	LP	
Tax Expenses	14.3	9.8	-29.5	-148.5	16.5	NA	
PAT	42.4	25.4	-93.1	LP	-7.3	LP	
EPS	0.7	0.0	-1.5	LP	-0.1	LP	

Source: Company, ICICI Direct Research

Key triggers for future price performance

Benefit of efficiency measures to get visible from FY23E onwards: With the vaccination drive launched by many developed countries including India, we expect FY22E to be the year of a strong recovery after severe challenges faced by hotel companies during FY21 due to Covid. To cope up with this, the company has initiated major steps to bring down costs and come out stronger and more efficient. During the quarter, the company managed to reduce fixed overhead by 10% major being the salary and admin related. With 20% of total cost reduction likely to be sustainable, we expect over 5-6% reduction in total costs, going forward. Hence, in our view, while FY23E would see efficiency led margin expansion, it would accelerate further with traction in room rates in FY24E.

Strong balance-sheet to help weather medium term challenges: The third wave of pandemic has again impacted domestic demand during January-February. However, the impact was minimal and more related to restriction imposed by state government while under current demand continues to remain strong. On the b/s front, the company is well placed as far as liquidity and debt is concerned with D/E being 0.2x. As the company derives majority of revenues from the domestic market with Mumbai and Delhi being the key revenue contributor, we expect further recovery in the business as soon as the cases subside and travel limitations are lifted, some of which is already underway.

Valuation & Outlook: With a strong b/s and strategic property locations across key destinations, the company is best positioned to ride on the long-term growth story. At the CMP of ₹ 152, the stock is trading at adjusted EV/room of ₹ 2.7/room (i.e. at 35% of its fair value). Hence, we maintain our **BUY** rating with an unchanged target price of ₹ 185/share (i.e. @ 26.5x FY24E EV/EBITDA).

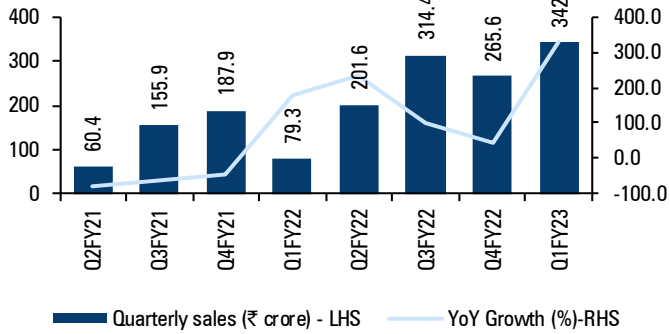
Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,591.3	1,591.3	0%	NA	1,811.8	NA	NA
EBITDA	385.1	420.8	9%	NA	505.4	NA	NA
EBITDA Margin (%)	22.9	26.4	NA	NA	27.9	NA	
PAT	218.4	247.9	14%	NA	287.2	NA	NA
EPS (₹)	3.5	4.0	14%	NA	4.6	NA	

Source: Company, ICICI Direct Research

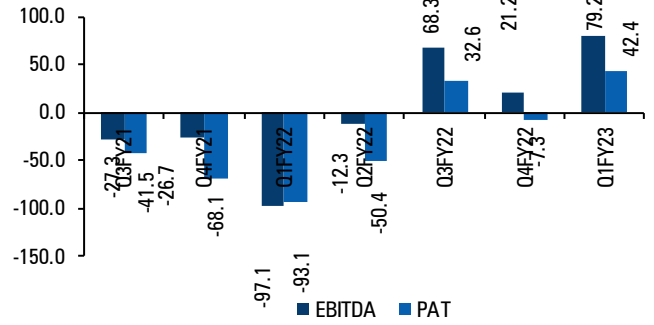
Financial Story in Charts

Exhibit 3: Revenue trend



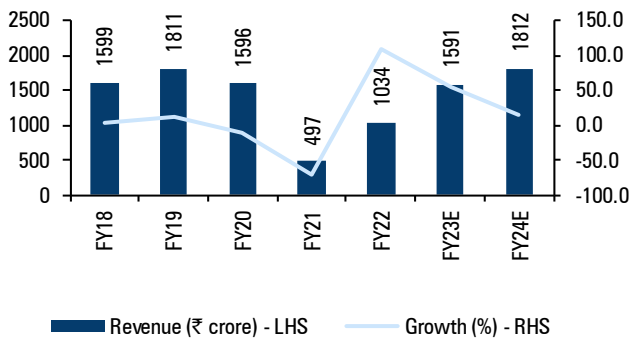
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA & PAT



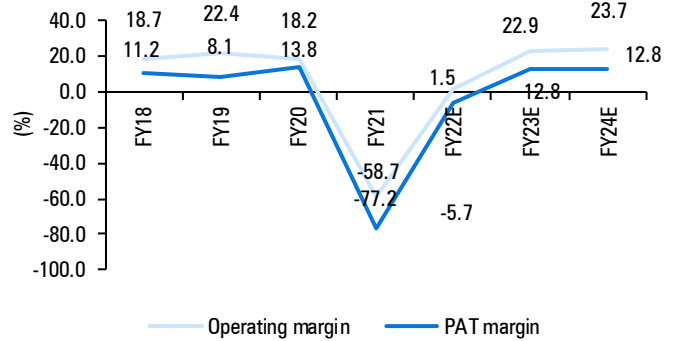
Source: Company, ICICI Direct Research

Exhibit 5: Expect revenue CAGR of 32.3% during FY22-24E on lower base



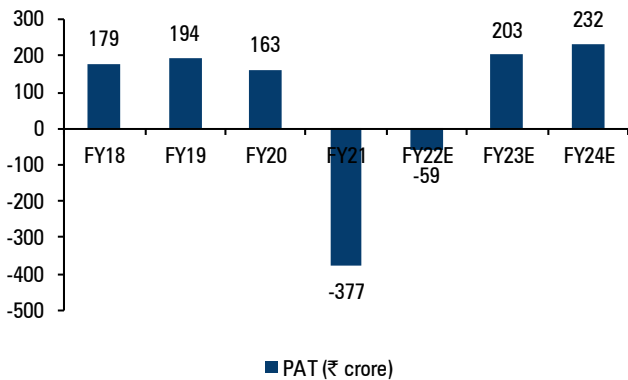
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA margins to rebound in FY23E, stay healthy, going forward



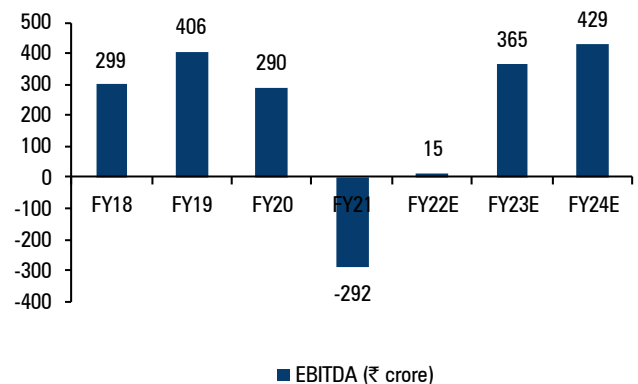
Source: Company, ICICI Direct Research

Exhibit 7: Profitability trend



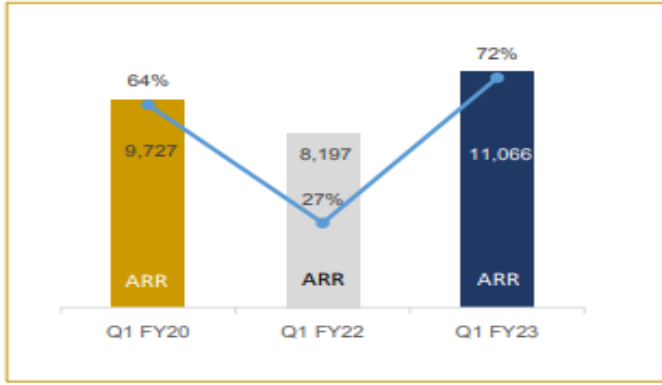
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA trend over FY22-24E



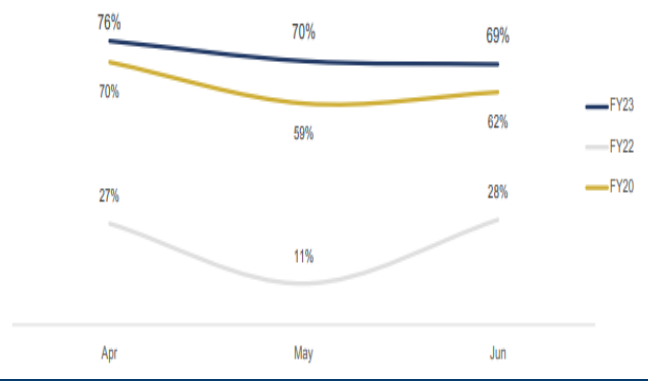
Source: Company, ICICI Direct Research

Exhibit 9: ARR & occupancy surpass pre-Covid levels



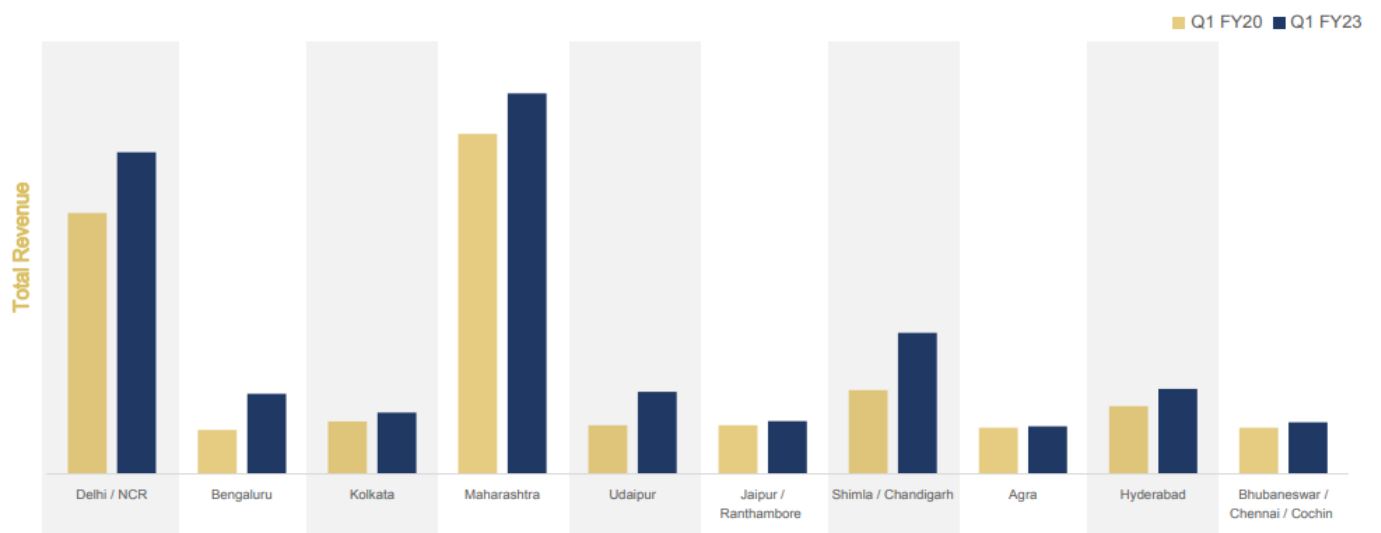
Source: Company, ICICI Direct Research

Exhibit 10: Monthly occupancy trend (%)



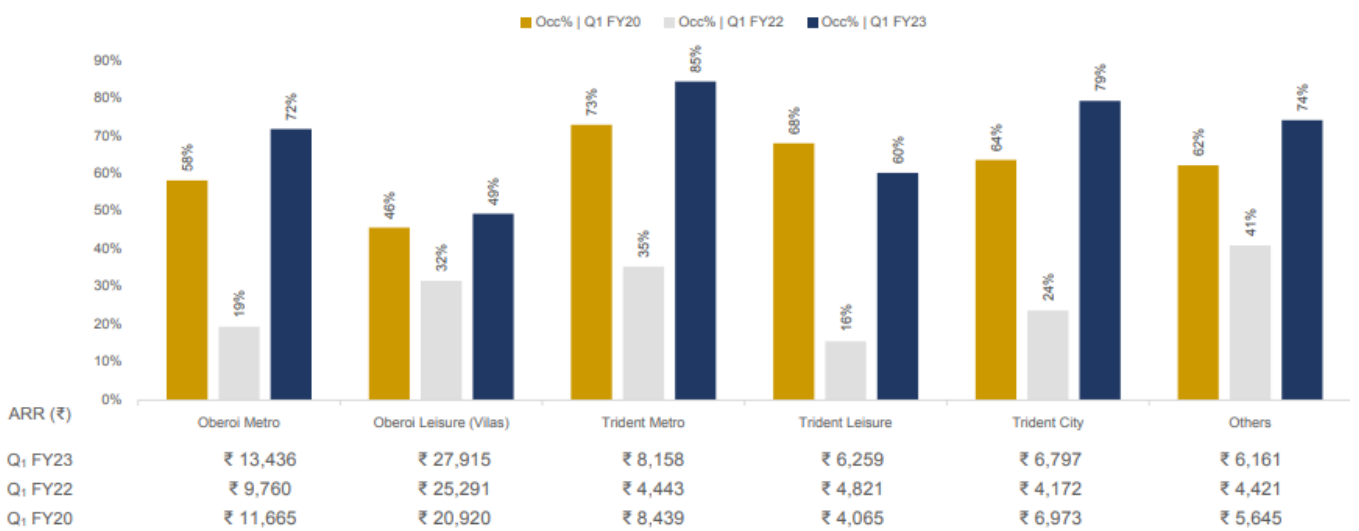
Source: Company, ICICI Direct Research

Exhibit 11: City-wise revenue growth



Source: Company, ICICI Direct Research

Exhibit 12: Brand wise quarterly trend in ARR, occupancies



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 13: Profit & Loss Account

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Total operating Income	1,596.3	497.1	1,034.5	1,591.3	1,811.8
Growth (%)	-11.8	-68.9	108.1	53.8	13.9
Raw Material Expenses	199	75	140	215	245
Employee Expenses	469	352	362	399	419
Other Exp	637	362	517	557	643
Total Operating Expenditure	1,306.0	789.0	1,019.4	1,170.5	1,306.5
EBITDA	290.3	-291.9	15.1	420.8	505.4
Growth (%)	-28.5	-200.5	-105.2	2,688.6	20.1
Depreciation	146.5	132.7	139.5	136.8	136.8
Interest	55.6	45.7	46.7	29.9	16.1
Other Income	78.4	57.9	69.5	76.4	82.5
PBT	166.7	-412.4	-101.6	330.5	435.0
Others	-54.8	72.3	-16.3	-6.0	0.8
Total Tax	0.9	-100.9	-26.7	88.6	146.9
Reported PAT	220.6	-383.8	-58.6	247.9	287.2
Growth (%)	49.7	-274.0	NA	LP	LP
Adjusted EPS (₹)	2.6	-6.0	-0.9	4.0	4.6

Source: Company, ICICI Direct Research

Exhibit 15: Balance Sheet summary

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Liabilities					
Equity Capital	114.3	125.1	125.1	125.1	125.1
Reserve and Surplus	3,005.3	2,980.0	2,901.6	3,065.7	3,205.7
Total Shareholders funds	3,119.6	3,105.1	3,026.7	3,190.8	3,330.7
Total Debt	620.3	475.4	507.4	325.4	175.4
Deferred Tax Liability	76.1	41.4	33.0	41.4	41.4
Minority Interest / Others	99.7	94.4	97.4	97.4	97.4
Total Liabilities	3,916	3,716	3,665	3,655	3,645
Assets					
Gross Block	4,309.5	4,201.5	4,163.1	4,163.1	4,163.1
Less: Acc Depreciation	1,788.9	1,788.9	1,788.9	1,925.7	2,062.5
Net Block	2,520.5	2,412.5	2,374.2	2,237.4	2,100.6
Capital WIP	130.4	168.9	54.1	110.0	80.0
Total Fixed Assets	2,651.0	2,581.4	2,428.2	2,347.4	2,180.6
Goodwill on consolidation	370.1	360.9	376.8	360.9	360.9
Investments	613.0	564.4	523.9	564.4	564.4
Inventory	61.0	51.4	48.7	82.1	66.9
Debtors	205.7	77.8	115.7	174.4	198.6
Loans and Advances	149.6	144.2	0.0	0.0	0.0
Other Current Assets	93.0	63.1	244.4	137.5	224.8
Cash	212.2	205.1	253.5	294.3	417.8
Total Current Assets	721.5	618.1	803.7	829.6	1,049.5
Creditors	296.2	266.2	277.4	252.9	287.9
Provisions	151.4	150.2	198.5	202.3	230.3
Total Current Liabilities	447.5	416.4	475.9	455.2	518.2
Net Current Assets	274.0	201.7	327.8	374.5	531.2
Others Assets	7.7	7.7	7.7	7.7	7.7
Application of Funds	3,916	3,716	3,665	3,655	3,645

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Profit after Tax	220.6	-383.8	-58.6	247.9	287.2
Add: Depreciation	146.5	132.7	139.5	136.8	136.8
(Inc)/dec in Current Assets	236.9	172.9	-72.4	14.8	-96.3
Inc/(dec) in CL and Provisions	-4.7	-31.1	59.5	-20.7	63.1
CF from operating	599.3	-109.3	68.0	378.8	390.8
(Inc)/dec in Investments	0.0	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-549.3	-63.1	13.7	-55.9	30.0
Others	-41.3	-30.9	-21.2	24.3	0.0
CF from investing	-590.7	-94.0	-7.5	-31.7	30.0
Issue/(Buy back) of Equity	0.0	10.8	0.0	0.0	0.0
Inc/(dec) in loan funds	89.3	-144.9	32.1	-182.1	-150.0
Dividend paid & dividend tax	-66.2	0.0	0.0	-73.6	-147.2
Inc/(dec) in Sec. premium	0.0	338.9	0.0	0.0	0.0
Others	-16.5	19.5	-19.8	-10.2	0.0
CF from financing	6.6	224.3	12.2	-265.8	-297.2
Net Cash flow	-17.9	-7.1	48.4	40.8	123.6
Opening Cash	230.2	212.2	205.1	253.5	294.3
Closing Cash	212.2	205.1	253.5	294.3	417.8

Source: Company, ICICI Direct Research

Exhibit 16: Ratio sheet

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Per share data (₹)					
Adjusted EPS	2.6	-6.0	-0.9	4.0	4.6
Cash EPS	5.9	-4.0	1.3	6.2	6.8
BV	49.9	49.7	48.4	51.0	53.3
DPS	0.9	0.0	0.0	0.0	0.0
Cash Per Share	3.4	3.3	4.1	4.7	6.7
Operating Ratios (%)					
EBITDA Margin	18.2	-58.7	1.5	26.4	27.9
PAT Margin	13.8	-77.2	-5.7	15.6	15.8
Inventory days	13.8	41.2	17.7	15.0	15.0
Debtor days	47.0	57.1	40.8	40.0	40.0
Creditor days	67.7	195.5	97.9	58.0	58.0
Return Ratios (%)					
RoE	5.2	-12.2	-1.9	7.8	8.6
RoCE	5.7	-9.9	-1.5	9.9	12.4
RoIC	4.5	-14.7	-4.4	10.4	14.0
Valuation Ratios (x)					
P/E	42.2	0.0	0.0	37.6	32.4
EV / EBITDA	33.5	-32.9	634.3	22.2	18.0
EV / Net Sales	6.1	19.3	9.3	5.9	5.0
Market Cap / Sales	5.8	18.7	9.0	5.9	5.1
Price to Book Value	3.0	3.0	3.1	2.9	2.8
Solvency Ratios					
Debt/EBITDA	2.1	-1.6	33.6	0.8	0.3
Debt / Equity	0.2	0.2	0.2	0.1	0.1
Current Ratio	1.1	0.8	0.9	0.9	0.9
Quick Ratio	1.0	0.7	0.8	0.7	0.8

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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