Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Indian Hotels Company Ltd

Q3 – outstanding performance

Consumer Discretionary	Sharekhan code: INDHOTEL
Reco/View: Buy ↔	CMP: Rs. 300
Price Target: Rs. 380 ↔	

↑ 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	26.03
Updated Dec 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. 42,612 cr
52-week high/low:	Rs. 349 / 181
NSE volume: (No of shares)	62.2 lakh
BSE code:	500850
NSE code:	INDHOTEL
Free float: (No of shares)	87.8 cr

Shareholding (%)

Promoters	38.2
FII	19.7
DII	26.7
Others	15.5

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-5.2	-12.2	12.0	39.4
Relative to Sensex	-2.6	-10.0	9.5	36.8

Sharekhan Research, Bloomberg

Summary

- Indian Hotels Company Ltd (IHCL) delivered one of the best quarterly set of numbers in Q3FY2023, with consolidated revenues growing by 52% y-o-y to Rs. 1,685.8 crore (23% versusQ3FY20) while EBIDTA margins improved to 35%. RevPar grew by 28% over the pre-COVID levels.
- With room demand expected to exceed room supply, domestic business will maintain strong growth momentum in the coming years. International properties are expected to recover to pre-COVID level in FY2024. High margin new businesses will scale-up fast to add to profitability.
- High free cash generation (Rs. 1520 crore in 9MFY23) will be utilised to repay debentures, renovation of existing hotels, improved dividend policy and maintain reserves to combat with any black swan event (such as pandemic).
- The stock has corrected by 14% from its recent high and is currently trading at 18x/15x its FY2024/25E EV/EBIDTA. We maintain a Buy on the stock with an unchanged price target of Rs. 380.

Indian Hotels Company Ltd (IHCL) posted one of its strongest quarter in the past several years with strong double digit revenue growth, strong expansion in the EBIDTA margins and profit crossing Rs. 300 crore (equivalent to FY2020 levels). Consolidated revenues grew by 52% y-o-y to Rs. 1685.8 crore with room revenues growing by 26% to Rs. 818 crore, food & beverages (F&B) revenues growing by 17% to Rs. 634 crore and management fees growing by 87% y-o-y to Rs. 119 crore. The occupancies at enterprise level stood flat at 68.0% (standalone occupancy rate at 72.1%), while Average room rentals grew by 29% to Rs. 10,565 crore (RevPar grew by 28%). EBIDTA margins expanded by 647 bps y-o-y to 35.4% with standalone EBIDTA margins expanded by 615 bps to 41% and International business EBIDTA margins expanded to 22%. EBIDTA expanded by 1.9x to Rs. 597 crore. This along with lower interest cost led to 3.7x growth in the adjusted PAT to Rs. 352 crore. For 9MFY2023, consolidated revenues grew by 92% y-o-y to Rs. 4,184.5 crore and EBIDTA margins improved to 30.3% from 11.1% in 9MFY2022 and adjusted PAT stood at Rs. 639.4 crore. The company free cash flow of Rs. 387 crore in Q3FY2023 (net cash of Rs. 738 crore).

Key positives

- Roots Corporation (Ginger's) revenues grew by 39% y-o-y to pre-COVID levels to Rs. 82 crore in Q3; EBIDTA margins before fees to IHCL came at 41%.
- Management fees revenues grew by 86% y-o-y to Rs. 119 crore in Q3
- All major cost as a percentage of sales was substantially down vs Q3FY2020 - fixed cost by 700 bps to 28%; employee cost fell by 600 bps to 24% and corporate cost was down below 5%.
- Domestic business hotels occupancy improved by 400 bps to 77% versus pre-COVID levels; ARR grew by 17% y-o-y to Rs. 9,777.

Key negatives

- International hotels occupancy ratio is yet to reach pre-COVID levels and currently stand at 60% in Q3FY2023 compared to 71% in Q3FY2020 on like-to-like basis.

Management Commentary

- Hotel room demand grew by 5.4% while room supply grew by 3.5% in 9MFY2023. The strong room demand was on back of higher demand from leisure travel, recovery in the corporate and MICE. In FY2024, the strong demand will be driven by major events (such as G20 summit & ICC Cricket World Cup), improved foreign tourist arrivals and sustained strong growth in leisure travel.
- International properties (in the UK and US) performance is expected to recover to pre-COVID levels in FY2024. The property in Cape Town is also recovering fast will add-on to the overall revenues in near term.
- EBIDTA margins stood at 30% in 9MFY2023 (improved by 800 bps versus 9MFY2020). Around 520 bps expansion is led by improving performance of existing properties, 110 bps because of new ventures such as Ginger, Amma & Qmin and 110 bps owing to new hotels. With ARRs expected to remain high due to expected high room demand and a better mix and scale-up in the high margin new businesses will help to drive margins in the coming years.
- The company has 67 hotels in pipeline, 8,800+ rooms in the pipeline. Around 40+ hotels are expected to open in 2 years (70% of pipeline via management contracts).
- High free cash generation (Rs. 1520 crore in 9MFY23) will be utilised to repay debentures, renovation of existing hotels, improved dividend policy and maintain reserves to combat with any black swan event (such as the pandemic).

Revision in estimates – We have raised our earning estimates for FY2023 to factor in better than expected performance while we broadly maintained our earnings estimates for FY2024 and FY2025 with strong performance anticipated in the coming years. The management has maintained its medium-term guidance with room demand expected to remain ahead of room supply.

Our Call

View – Retain Buy with an unchanged PT of Rs. 380: IHCL posted strong performance in 9MFY2023 with revenues and PAT growing 23% and 142% compared to 9MFY2020. Room demand is expected to exceed room supply for the next 2-3 years, which will help RevPar grow in strong double digits. The company has charted a strong growth plan to be achieved by FY2025-26 with strong improvement in cash flows and strengthening the balance sheet with a focus on becoming debt-free. EBITDA margins will consistently improve in the coming years. Thus, we maintain IHCL as one of our top picks in the hospitality space. The stock has corrected by ~14% since its recent high and is trading at 24.7x/17.8x/14.7x its FY2023E/24E/25E EV/EBITDA. We maintain a Buy recommendation on the stock with an unchanged price target of Rs. 380.

Key Risks

Any slowdown in corporate travel or a 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	FY25E
Revenue	1,575	3,056	5,490	6,478	7,449
EBITDA margin (%)	-23.0	13.3	30.1	32.3	33.3
Adjusted PAT	-822	-235	824	1,191	1,509
Adjusted EPS (Rs.)	-7.8	-2.0	5.9	8.6	10.8
P/E (x)	-	-	42.5	29.3	23.3
P/B (x)	8.3	5.6	5.1	4.5	3.9
EV/EBIDTA (x)	-	98.3	24.7	17.8	14.7
RoNW (%)	-	-	10.3	13.3	14.7
RoCE (%)	-	1.4	11.7	16.2	18.7

Source: Company; Sharekhan estimates

Strong Q3 – Robust revenue growth and sharp margin expansion

Revenues grew by 51.7% y-o-y and 36.8% q-o-q to Rs. 1,686 crore in Q3FY2023 driven by 26% y-o-y growth in room revenues to Rs. 818 crore, 17% y-o-y growth in F&B revenue to Rs. 634 crore and an 87% y-o-y increase in management fee to Rs. 119 crore. The domestic occupancy rate at the standalone level stood at 72% in Q3FY2023 vs 73% in Q3FY2020 (at enterprise level stood at 68%); Domestic ARRs stood at Rs. 15,456 versus Rs. 12,336 in Q3FY2020. Better operating leverage led to EBIDTA margins standing at 35.4% in Q3FY2023 versus29% in Q3FY2022 (647 bps y-o-y expansion). EBIDTA grew by 85.6% y-o-y to Rs. 597 crore. Adjusted PAT for the quarter stood at Rs. 352 crore versus Rs. 95 crore in Q3FY2022. Reported PAT came in at Rs. 404 crore.

Strong performance at enterprise and standalone levels

IHCL Enterprise (summation of all hotels including Ginger, all corporates & Taj SATS Air Catering, agnostic of ownership) reported 1.4x/1.7x revenue/EBITDA growth over Q3FY2020 to Rs. 3,350 crore/Rs. 1,231 crore, respectively, in Q3FY2023. EBITDA Margin stood at 37% against pre-COVID level of 31%. IHCL standalone reported 1.2x/1.3x revenue/EBITDA growth over Q3FY2020 to Rs. 1,083 crore/Rs. 461 crore, respectively, in Q3FY2023. EBITDA margin stood at 42.5% against pre-COVID level of 39.6%.

Steady operating performance in Q3

In Q3FY2023, domestic occupancy/ARRs/RevPAR stood at 72%/Rs. 15,456/Rs. 11,137, respectively, against 73%/Rs. 12,336/Rs. 9,037, respectively in Q3FY2020. Among cities, key metros such as Mumbai, New Delhi and Bengaluru showcased RevPAR levels at 125%, 118% and 114%, respectively versus Q3FY2020.

International properties and subsidiaries posted good performance

IHCL's US properties and St. James Court, London, continued to deliver strong performance in Q3 on the back of strong recovery in international travels with improved room demand and higher room rentals. US property revenues grew by 101% over Q3FY20 to Rs. 222 crore with EBIDTA at Rs. 32 crore. On the other hand, St. James, London revenues grew by 121% over pre-COVID levels to Rs. 112 crore, while EBIDTA margin came in lower at 27% compared to pre-COVID levels of 31%. The US occupancy ratio declined to 67% in Q3FY2023 vs 83% in Q3FY2020, while ARRs stood at $758 per room in Q3FY2023 against $603 per room in Q3FY2020. UK occupancy ratio declined to 71% in Q3FY2023 versus84% in Q3FY2020, while ARRs. stood at $401 per room in Q3FY2023 versus $330 per room in Q3FY2020. Some of the key subsidiaries, such as PIEM Hotels, Roots Corporation and Benares Hotel revenues stood at Rs. 142 crore, Rs. 82 crore and Rs. 29 crore, respectively, in Q3FY2023, registering a growth of 123%, 139% and 134%, respectively, over Q3FY2020. Management is confident of achieving good growth momentum in the international properties and subsidiaries in the quarters ahead.

Flagship Taj on growth path

Taj Enterprise's revenue grew from Rs. 2,700 crore in 9MFY2017 to Rs. 5,600 crore in 9MFY2023 aided by growth in existing hotels, addition of new hotels and growth from brand migrations. Number of rooms grew by 2x from 5,500 rooms at 9MFY2017-end to 11,000 rooms at 9MFY2023-end, while contribution to enterprise revenues increased from 52% in 9MFY2017 to 69% in 9MFY2023.

Strong performance by new businesses and initiatives

In 9MFY2023, Ginger achieved an EBITDA margin of 40% driven by revenue of Rs. 225 crores. The management expects Ginger's share to be at 50% of Lean Luxe portfolio by March 2023. IHCL's branded homestay portfolio, amã Stays & Trails, registered 50% portfolio growth in 2022 and has 108 properties across 50+ locations. Qmin scaled to 25+ cafes and outlets, and its app-based delivery services are available in 21 cities. Qmin has Rs. 150 crore GMV since its inception.

Margin expansion aided by various cost-saving initiatives

9MFY2023 EBIDTA margins improved to 32.1% from 24.4% in Q3FY2020. Strong operational performance from existing hotels contributed ~5.2% increase in the EBIDTA margins, ~1.1% contribution came in from new hotels, 1.1% expansion in the margins came from new businesses, while The Chambers added 0.4% to margins. Margin expansion is backed by various initiatives such as the adoption of asset-light model, higher contribution from management fees, reduction in manpower/room and reducing operating costs. With adoption of an asset-light model, management fees grew by 86% over Q3FY2020 to Rs. 119 crore. In addition, managed properties now contribute 48% to revenue as compared to 39% in Q3FY2020. Manpower/room has witnessed a fall across all brands. Fixed costs/corporate overheads as a percentage of revenue have gone down to 28%/4.9% from 35%/6.9%, respectively in Q3FY2020. With improvement in margins, IHCL consolidated has reported a strong free cash flow of Rs. 766 crore in 9MFY2023 and continues to be net cash positive.

Room inventory to grow

IHCL signed 31 hotels and opened 17 hotels in 2022. The company has 67 hotels in pipeline (40+ hotels expected to open in 2 years) with 0ver 8,800 rooms in the pipeline. As per the management, 70% of rom pipeline is via management contracts. As on December 31, 2022, IHCL has 252 hotels operational with over 30,000 rooms.

Results (consolidated) Rs cr

Particulars	Q3FY23	Q3FY22	y-o-y (%)	Q2FY23	q-o-q (%)
Net Sales	**1,685.8**	**1,111.2**	**51.7**	**1,232.6**	**36.8**
Foods & Beverage consumed	140.5	97.4	44.3	103.0	36.4
Employee cost	424.4	312.6	35.8	376.4	12.8
Other operating & general expenses	523.7	379.5	38.0	459.3	14.0
Total expenditure	**1,088.6**	**789.5**	**37.9**	**938.6**	**16.0**
EBITDA	**597.2**	**321.8**	**85.6**	**294.0**	-
Other income	24.3	22.7	7.0	25.0	-2.7
Interest cost	56.7	124.2	-54.3	60.0	-5.5
Depreciation	103.3	99.9	3.4	102.6	0.7
PBT	**461.5**	**120.4**	-	**156.4**	-
Tax	109.4	25.8	-	44.3	-
Adjusted PAT	**352.1**	**94.5**	-	**112.0**	-
Share of profit from associates	24.6	9.7	-	5.2	-
Extraordinary item	26.8	-7.6	-	12.3	-
Reported PAT	**403.6**	**96.7**	-	**129.6**	-
EPS (Rs.)	2.5	0.8	-	0.8	-
			bps		**bps**
GPM (%)	91.7	91.2	43	91.6	2
EBITDA margin (%)	35.4	29.0	647	23.9	-
NPM (%)	20.9	8.5	-	9.1	-
Tax rate (%)	23.7	21.5	224	28.3	-465

Source: Company, Sharekhan Research

Domestic business performance

Particulars	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Occupancy (%)	62.7	54.5	65.2	62	68
ARR (Rs.)	8,089	7,671	8,315	9,552	10,565
RevPAR (Rs.)	5,070	4,183	5,424	5,942	7,184
Amount (Rs. cr)					
Room revenue	793	652	859	1,122	1,187
F&B revenue	709	564	757	897	1,024
Other revenue	243	300	265	326	381
Total revenue	**1,745**	**1,516**	**1,881**	**2,345**	**2,593**

Source: Company, Sharekhan Research

Key subsidiaries performance

Legal entity	Revenue (Rs. crore)	EBIDTA (Rs. crore)	PBT (Rs. crore)	PAT (Rs. crore)
UOH Inc. USA	222	32	13	13
St. James Court – UK	112	25	9	7
PIEM Hotels Ltd	142	44	33	25
Roots Corporation	82	32	13	13
Benaras Hotels	29	13	11	8
Taj SATS Air Cat	173	36	31	23
Oriental Hotels	107	34	23	16

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 saw healthy recovery post that aided by leisure, festive and wedding season and a gradual pick-up in business travel. Travel bookings for most hotel companies between March-May 2022 surpassed March-May 2019 levels. The momentum continued in Q2FY2023. Q3FY2023 witnessed strong growth in ARRs by 20% on back of strong room demand. With room demand expected to stay ahead of room supply, the ARR is expected to remain high in the coming years

Company outlook - Strong growth over FY2022-25

IHCL posted strong performance in 9MFY2023 with revenues and PAT growing in strong double digits compared to pre-covid level. EBIDTA margins stood at 30% in 9MFY2023. We expect IHCL to end FY2023 with revenues of ~Rs5500crore and EBIDTA margins at 30% in FY2023. With room demand is expected to ahead of room supply, the domestic performance is expected to be strong in the coming years. This along with expected recovery in international properties and higher contribution from new ventures, the revenues and PAT is expected to grow at CAGR of 16% and 35% over FY2023-25E.. Cost-saving initiatives undertaken in FY2021 will help operating profit to improve in the coming years. We expect IHCL EBIDTA margins to touch 33% in FY2025.

Valuation - Retain Buy with an unchanged price target of Rs. 380

IHCL posted strong performance in 9MFY2023 with revenues and PAT growing 23% and 142% compared to 9MFY2020. Room demand is expected to exceed room supply for the next 2-3 years, which will help RevPar grow in strong double digits. The company has charted a strong growth plan to be achieved by FY2025-26 with strong improvement in cash flows and strengthening the balance sheet with a focus on becoming debt-free. EBITDA margins will consistently improve in the coming years. Thus, we maintain IHCL as one of our top picks in the hospitality space. The stock has corrected by ~14% since its recent high and is trading at 24.7x/17.8x/14.7x its FY2023E/24E/25E EV/EBITDA. We maintain a Buy recommendation on the stock with an unchanged price target of Rs. 380.

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Lemon tree Hotels	-	43.6	29.6	45.7	12.2	9.4	0.8	9.2	11.2
Indian Hotels Company	-	42.5	29.3	98.3	24.7	17.8	1.4	11.7	16.2

Source: Company; Sharekhan Research

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 240 hotels 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 recently improved with room demand outpacing room supply. A strong recovery in domestic leisure travel would help IHCL in posting better performance in the medium term. A 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 a long-term perspective.

Key Risks

- On 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	HDFC Asset Management Co.	4.56
2	Nippon Life India Asset Management Company	3.70
3	Axis AMC	2.41
4	SBI Retirement Benefit	2.38
5	SBI Funds Management	2.12
6	Canara Robeco AMC	1.98
7	Vanguard Group Inc	1.85
8	HDFC Life Insurance Co	1.80
9	Norges Bank	1.57
10	BlackRock Inc	1.54

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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