Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Indian Hotels Company Ltd

Strong Q2; growth momentum to sustain

Consumer Discretionary	Sharekhan code: INDHOTEL		
Reco/View: **Buy** ↔	CMP: **Rs. 375**	Price Target: **Rs. 492** ↔	

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- IHCL's Q2FY2024 performance was in-line with our expectations, with revenues and PAT growing by 16% and 48% y-o-y, respectively; EBIDTA margins rose by 90 bps y-o-y to 24.8%.
- Standalone RevPar grew by 28% y-o-y. Management is confident of strong growth momentum to continue in H2FY2024 driven by ongoing events and festive and wedding season.
- Company has cash of close to Rs. 1,400 crore. It has efficient capital allocation plans of investing in renovation/ upgradation of existing hotels, greenfield projects through operating lease and simplifying the structure by increasing stakes in JVs/associates for better management.
- Stock has corrected by 14% since its recent high and provides good opportunity to enter to generate good returns considering strong growth prospects over medium terms. We maintain Buy with PT of Rs. 492.

IHCL's Q2FY2024 performance was in line with expectations, with consolidated revenue growing by 16% y-o-y to Rs. 1,433 crore (versus expectation of Rs. 1,448 crore), EBITDA margin expanding by 90 bps y-o-y to 24.8% (our expectation of 24.4%) and adjusted PAT higher by 52.6% y-o-y to Rs. 179 crore (against expectation of Rs. 180 crore), driven by strong operating performance, higher other income and income from associates and JV's. Domestic standalone occupancy improved by 610 bps y-o-y to 75.9% and ARR came in higher by 18% y-o-y to Rs. 12,972 per night. Management Fee income grew by 14% y-o-y to Rs. 87 crore. New businesses delivered strong performance, with Ginger and TajSATS growing by 24% and 48% y-o-y, respectively. The company opened 8 hotels and signed 17 more in H1FY2024 thereby maintaining an industry-leading pipeline of 82 hotels. Despite capex spends debt repayments, IHCL consolidated had a healthy (gross) cash balance of Rs. 1,395 crore at September 2023-end.

Key positives

- Standalone RevPar grew by 28% (domestic enterprise by 27%) in a seasonally weak quarter.
- Domestic standalone occupancy improved by 610 bps y-o-y to 75.9%; ARR came in higher by 18% y-o-y to 12,972 per night.
- Ginger's enterprise revenue exceeded Rs. 100 crore with a 24% y-o-y growth and healthy EBITDA margins at 34%.
- IHCL consolidated had healthy cash flow of Rs. 1,395 crore at September 2023-end.

Key negatives

- US subsidiary delivered weak numbers, with revenues declining by 4% y-o-y, occupancy lower by 200 bps y-o-y and EBITDA loss widening to Rs. 27 crore versus Rs. 3 crore in Q2FY23.

Management Commentary

- Domestic demand remains buoyant supported by major events, sustained high uptick in the domestic leisure travel, recovery in FTAs and expected high demand due festive/wedding season. This will help RevPaR to grow in strong double digits in Q3and Q4FY2024 (occupancies to remain high with room rates to grow in high double digits).
- Among international markets, the San Francisco property is reeling under the inflationary pressure. The company expect its performance to recover in another three to five quarters. Rest of International properties (including Dubai, London) are doing well for the company.
- Ginger's RevPar will grow up significantly in the second half of the year as 70% of the rooms were under renovation and will be operation in the second half of the year.
- New businesses to scale up fast with good opportunities in place. Taj Sats (air catering business) revenues will cross Rs. 1,200 crore in revenues from current Rs. 800 crore. QMIN to cross GMV of Rs. 100 crore in FY24. Management contracts will cross revenues of Rs. 550 crore by FY2025 with 80 hotels in pipeline.
- The company has cash of close to Rs. 1,400 crore. It has efficient capital allocation plans of investing in renovation/ upgradation of existing hotels, greenfield projects through operating lease and simplify the structure by increasing stakes in JVs/associates for better management. Though largely, the focus is on adding rooms through management contract, it will scout opportunities for greenfield projects to drive consistent revenue growth in the coming years.
- Change in mix, higher demand compared to supply, variable nature contracts depending on trend in room rates and adding more amenities/services in existing hotels will help the company to achieve higher room rentals in the coming years.
- Ginger Santacruz will achieve revenues of Rs. 100 crore+ in three years. It will have room rentals of Rs. 6,500-7,000 per room night.

Revision in earnings estimates: With Q2FY2024 performance was in line with expectation, we have broadly maintained our earnings estimates for FY2024 and FY2025. The company is expected post strong performance in H2 with strong growth drivers in place.

Our Call

VView – Retain Buy with an unchanged PT of Rs. 492: IHCL posted strong performance in H1FY24 and expected to maintain a strong growth momentum in H2 with key growth levers in place. The company has charted a strong growth plan to be achieved by FY2025-26 with a strong improvement in cash flows and strengthening the balance sheet with a focus on becoming debt-free. EBITDA margins will consistently improve in coming years. Stock has corrected by 14% in last one and provides good opportunity to enter to generate good returns considering strong growth prospects over the medium term. Stock trades at 20.2x/17.1x/14.2x its FY2024E/25E/26E EV/EBIDTA. We maintain a Buy recommendation on the stock with an unchanged PT of Rs. 492.

Key Risks

Any slowdown in corporate travel or a slower recovery in inbound and outbound tourism industry would act as a key risk to our earnings estimates.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24E	FY25E	FY26E
Revenue	5,810	7,088	8,151	9,211
EBITDA margin (%)	31.1	32.3	33.0	33.7
Adjusted PAT	968	1,293	1,631	1,974
Adjusted EPS (Rs.)	7.4	9.3	11.7	14.1
P/E (x)	50.7	40.4	32.1	26.6
P/B (x)	6.2	5.4	4.7	4.1
EV/EBITDA (x)	27.6	20.2	17.1	14.2
RoNW (%)	11.9	14.0	15.5	16.2
RoCE (%)	13.0	16.5	18.9	20.5

Source: Company; Sharekhan estimates

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 26.39

Updated Aug 08, 2023

Medium Risk

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

Source: Morningstar

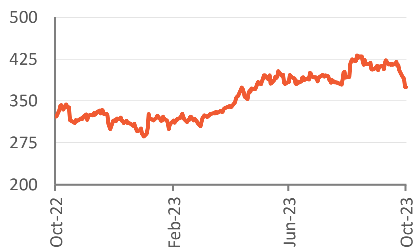
Company details

Market cap:	Rs. 53,215 cr
52-week high/low:	Rs. 436 / 280
NSE volume: (No of shares)	40.5 lakh
BSE code:	500850
NSE code:	INDHOTEL
Free float: (No of shares)	87.8 cr

Shareholding (%)

Promoters	38.2
FII	22.9
DII	23.3
Others	15.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-9.3	-4.3	10.5	16.4
Relative to Sensex	-5.8	-0.7	6.1	9.6

Sharekhan Research, Bloomberg

Good Q2 – In-line performance

IHCL's revenues grew by 16.3% y-o-y to Rs. 1,433.2 crore, in line with our as well as street average expectation of Rs. 1,437-1,448 crore. Standalone (including domestic properties) performance was strong with 19% y-o-y growth in revenues. Domestic RevPAR stayed at premium of 63% versus competition. Demand buoyancy in the international portfolio led to an occupancy of 64% (up 800 bps y-o-y), resulting in y-o-y RevPAR growth of 8%. Management fee income grew by 14% y-o-y in Q2FY2024. EBIDTA margins improved by 90 bps y-o-y to 24.8%, in line with our expectation of 24.4% and lower than average consensus estimates of 25.8%. EBIDTA margin expansion was despite ongoing upgradation/ renovation in the existing properties showcasing the company's strong focus on cost optimisation. EBIDTA grew by 20.7% y-o-y to Rs. 354.8 crore. A strong operating performance and higher other income led to 52.6% y-o-y increase in the adjusted PAT to Rs. 179 crore, in line with our and street average expectation of Rs. 160-179 crore. In H1FY2024, revenue grew by 16% y-o-y to Rs. 2,900 crore, EBITDA margin marginally declined by 51 bps y-o-y to 26.4%, while adjusted PAT grew by 35.1% y-o-y to Rs. 415 crore.

Strong performance continued at enterprise and standalone levels

In Q2FY2024, IHCL Enterprise (summation of all domestic hotels including Ginger, all corporates & Taj SATS Air Catering, ownership-agnostic) reported 19% y-o-y revenue/EBITDA growth to Rs. 2,687 crore/Rs. 698 crore, respectively. EBITDA Margin stood flat y-o-y at 26%. IHCL standalone reported 19%/29% y-o-y revenue/EBITDA growth to Rs. 893 crore/Rs. 274 crore, respectively, in Q2FY2024. EBITDA margin improved to 30.7% against 28.4% in Q2FY2023.

Increase in all key statistics on y-o-y basis

	ARR YoY Var %	OCCUPANCY YoY Var PPts.	REVPAR YoY Var %
TAJ	↑ 8 %	↑ 4 %	↑ 15 %
SELEQTIONS VIVANTA	↑ 11 %	↑ 3 %	↑ 16 %
GINGER	↑ 1 %	↑ 7 %	↑ 14 %

**** Like for Like Data for IHCL Enterprise hotels***

Source: Company presentation

Major brands delivered good operating performance

During Q2FY2024, Taj witnessed 8% y-o-y rise in ARR, 4% y-o-y improvement in occupancy and 15% y-o-y growth in RevPar, Seleqtions/Vivanta witnessed 11% y-o-y rise in ARR, 3% y-o-y improvement in occupancy and 16% y-o-y growth in RevPar and Ginger witnessed 1% y-o-y rise in ARR, 7% y-o-y improvement in occupancy and 14% y-o-y growth in RevPar.

International properties and subsidiaries clocked good numbers

For St. James, London, revenues grew by 22% y-o-y to Rs. 143 crore, while EBIDTA grew by 35% y-o-y to Rs. 47 crore, margin improved to 33% versus 30% in Q2FY2023. On the other hand, US property revenue declined by 4% y-o-y to Rs. 142 crore, while the EBIDTA level loss widened to Rs. 27 crore against EBITDA loss of Rs. 3 crore in Q2FY2023. The UK's occupancy ratio stood flat at 76%, while ARRs improved by 16% y-o-y to $484 per room. The US occupancy ratio declined to 57% versus 59% in Q2FY2023, while ARRs marginally improved by 1% to $649 per room. Revenues from some of the key subsidiaries, such as PIEM Hotels, Roots Corporation and Benares Hotel stood at Rs. 119 crore, Rs. 84 crore and Rs. 27 crore, in Q2FY2024, registering a y-o-y growth of 12%, 15% and 50%, respectively.

New businesses and initiatives continue to grow

In Q2FY2024, enterprise revenue of Ginger exceeded Rs. 100 crore with a 24% y-o-y growth and continued reporting healthy EBITDA margins at 34% in Q2FY2024. TajSATS captured a market share of 60% in Q2FY2024, clocking a revenue of Rs. 213 crore, 48% y-o-y growth and EBITDA margin of 24.4%. Under the new businesses, Qmin reported Rs. 22 crore revenue in Q2FY2024 and has grown to 38 outlets and Amã Stays & Trails (IHCL's branded homestay portfolio) improved its reach to over 125 bungalows across 50+ locations. The Chambers business reported revenue of Rs. 54 crore in H1FY2024 growing by 7% y-o-y. Chambers added over 125 new members in H1FY2024 and the company now has over 2,800 Chambers members.

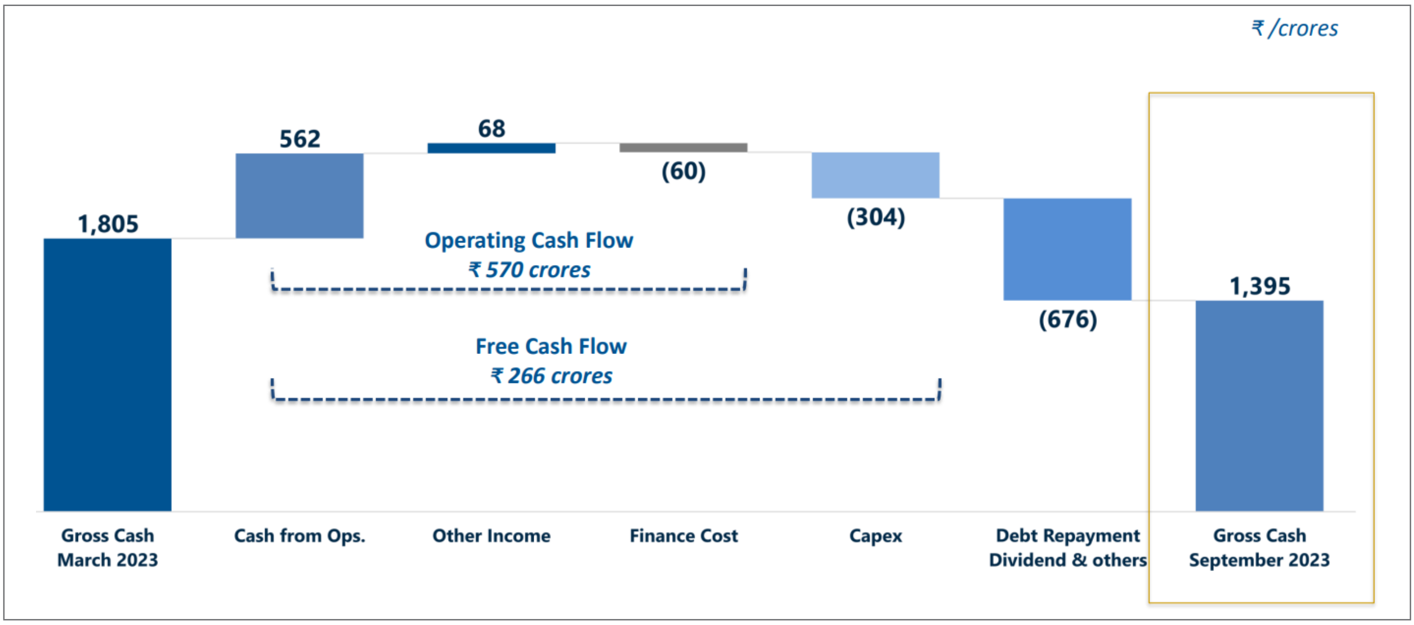
Room additions to continue

IHCL signed six hotels in Q2 which included three Taj hotels in international markets, a 134-room hotel in Frankfurt and two hotels in Bhutan, two SeleQtions hotels, one each in Goa and Himachal Pradesh and one Ginger hotel in Assam. In Q2FY2024, IHCL opened three new hotels taking the total operating hotels to 192 across brands. It added two Taj branded hotels, Taj The Trees Mumbai and Taj Guras Kutir Resort & Spa, Gangtok and the SeleQtions brand forayed into Indore with a 125-room hotel. The company has 82 hotels in pipeline under its various brands including Taj (21 hotels), Vivanta (21 hotels), SeleQtions (13 hotels) and Ginger (27 hotels). As on September 30, 2023, IHCL has 192 hotels operational with 22,465 rooms. Including the hotels/rooms under pipeline, the company's total portfolio would rise to 274 hotels with 33,527 rooms over the next 4-5 years.

Healthy free cash flow and balance sheet position

Despite capex and debt repayments, IHCL consolidated had a healthy cash flow of Rs. 1,395 crore at September 2023-end. The company had gross cash of Rs. 1,805 crore at March 2023-end. After spending Rs. 570 crore towards operating cash flows in H1FY2024, capex of Rs. 304 crore and debt repayment, dividend and other spends of Rs. 676 crore, the gross cash balance at September 2023-end stood at Rs. 1395 crore. With strong cash balance on books, the company is well positioned to invest on building capabilities.

Strong cash balance position



Source: Company presentation

Increased shareholding in Piem Hotels through preferential issue

IHCL's board has approved buyout of shareholding in Piem Hotels (a 51.57% subsidiary), as follows: a. Acquisition of 2,59,000 equity shares of Piem Hotels from New Vernon Private Equity Ltd, Mauritius representing 6.8% holding in Piem Hotels, for a consideration of ~Rs. 128 crores, by way of a combination of swap shares and cash, b. Acquisition of 10,718 equity shares of Piem Hotels from Tata Investment Corporation Limited representing 0.28% in Piem Hotels, for a consideration of ~Rs. 5.30 crores, by way of swap shares. The swap shares will be issued in the form of preferential issue of equity shares in IHCL. Resultant of the above transaction, IHCL's shareholding in Piem Hotels Ltd will increase from 51.57% to 58.65%. IHCL's Equity share capital to increase by ~0.2%.

Results (Consolidated) Rs cr

Particulars	Q2FY24	Q2FY23	Y-o-Y %	Q1FY24	Q-o-Q %
Net Sales	**1,433.2**	**1,232.6**	**16.3**	**1,466.4**	**-2.3**
Foods & Beverage consumed	112.4	103.0	9.1	115.5	-2.7
Employee cost	440.5	376.4	17.0	428.7	2.8
Other operating & general expenses	525.5	459.3	14.4	512.1	2.6
Total expenditure	**1,078.4**	**938.6**	**14.9**	**1,056.2**	**2.1**
EBITDA	**354.8**	**294.0**	**20.7**	**410.2**	**-13.5**
Other income	47.7	25.0	91.0	49.3	-3.4
Interest cost	59.1	60.0	-1.6	56.5	4.5
Depreciation	111.2	102.6	8.4	109.1	2.0
PBT	**232.2**	**156.4**	**48.5**	**293.9**	**-21.0**
Tax	72.3	44.3	63.0	83.3	-13.3
Adjusted PAT	**159.9**	**112.0**	**42.7**	**210.6**	**-24.1**
Share of profit from associates	19.1	5.2	-	25.4	-25.0
Adjusted PAT after MI	179.0	117.3	52.6	236.0	-24.2
Extraordinary item	0.0	12.3	-	0.0	-
Reported PAT	**179.0**	**129.6**	**38.1**	**236.0**	**-24.2**
EPS (Rs.)	1.1	0.8	42.7	1.5	-24.1
			bps		**bps**
GPM (%)	92.2	91.6	51	92.1	3
EBITDA margin (%)	24.8	23.9	90	28.0	-322
NPM (%)	11.2	9.1	207	14.4	-320
Tax rate (%)	31.1	28.3	278	28.4	278

Source: Company; Sharekhan Research

Domestic (Standalone) business performance

Particulars	Q2FY24	Q2FY23	Y-o-Y %	Q1FY24	Q-o-Q %
Occupancy (%)	75.9	69.8	610	74.0	190
ARR (Rs.)	12,972	11,003	17.9	12,614	2.8
RevPAR (Rs.)	9,840	7,681	28.1	9,428	4.4
Amount (Rs. cr)					
Room revenue	400	318	25.8	377	6.1
F&B revenue	315	284	10.9	320	-1.6
Other revenue	234	173	35.3	238	-1.7
Total revenue	**949**	**775**	**22.5**	**935**	**1.5**

Source: Company; Sharekhan Research

Key subsidiaries performance Rs cr

Particulars	Q2FY24	Q2FY23	Y-o-Y %	Q1FY24	Q-o-Q %
UOH Inc. USA	142	148	-4.1	184	-22.8
St. James Court - UK	143	117	22.2	142	0.7
PIEM Hotels Ltd	119	106	12.3	122	-2.5
Roots Corporation	84	73	15.1	78	7.7
Benaras Hotels	27	18	50.0	26	3.8
Taj Sats	213	143	49.0	205	3.9
Oriental Hotels	93	91	2.2	94	-1.1

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Hotel industry to benefit from demand supply gap

Hotels posted a strong comeback in FY2023, after two years of a pandemic-led lull. Higher demand from domestic leisure travellers, recovery in FTAs, and a revival in corporate travels will keep room demand high for hotel companies (also helping in achieving higher room rentals) in the short to medium term. According to the most recent industry data, demand is expected to continue to grow in double digits (~10%); however, supply is expected to grow by 5% over the next 4-5 years. This augurs well for the industry because hotels' performance in India is highly sensitive to supply and demand dynamics. Margins of hotel companies are likely to expand, aided by better operating leverage coupled with various cost-saving initiatives undertaken by companies.

■ Company Outlook – Strong growth over FY2023-26

In H1FY2024, revenues grew by 16% y-o-y to Rs. 2,900 crore, EBITDA margin marginally declined by 51 bps y-o-y to 26.4%, while adjusted PAT grew by 35.1% y-o-y to Rs. 415 crore. With room demand expected to exceed supply, 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, will aid the revenues and PAT to grow at a CAGR of 17% and 27% over FY2023-26E. Cost-saving initiatives undertaken in FY2021 will help operating profit to improve in coming years. We expect IHCL's EBIDTA margins to touch ~34% in FY2026. Asset-light model will help in high free cash generation. Return ratios are expected to improve with RoE/RoCE expected to increase to 16%/21% in FY2026 from 12%/13% in FY2023.

■ Valuation – Retain Buy with an unchanged PT of Rs. 492

IHCL posted strong performance in H1FY24 and expected to maintain a strong growth momentum in H2 with key growth levers in place. The company has charted a strong growth plan to be achieved by FY2025-26 with a strong improvement in cash flows and strengthening the balance sheet with a focus on becoming debt-free. EBITDA margins will consistently improve in coming years. Stock has corrected by 14% in last one and provides good opportunity to enter to generate good returns considering strong growth prospects over the medium term. Stock trades at 20.2x/17.1x/14.2x its FY2024E/25E/26E EV/EBIDTA. We maintain a Buy recommendation on the stock with an unchanged PT of Rs. 492.

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Lemon tree Hotels	63.3	40.5	28.6	20.2	16.0	12.3	10.0	12.5	14.7
Chalet Hotels	62.0	41.0	26.6	22.8	16.6	12.5	5.5	11.5	15.0
Indian Hotels Company	50.7	40.4	32.1	27.6	20.2	17.1	13.0	16.5	18.9

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. These include Taj, the iconic brand for the most discerning travellers; SeleQtions, a named collection of hotels; Vivanta, sophisticated upscale hotels; and Ginger, which is revolutionising the lean luxe segment. Incorporated by the founder of the Tata Group, Jamsetji Tata, the Company opened its first hotel - The Taj Mahal Palace, in Bombay in 1903. IHCL currently has a portfolio of 274 hotels including 82 under development globally across 4 continents, 11 countries and in over 100 locations.

Investment theme

The hotel industry's business fundamentals have recently improved with room demand outpacing room supply. Strong domestic travel coupled with recovery in foreign 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 to deliver strong growth in the coming years 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
Giridhar Sanjeevi	Executive Vice President & Chief Financial Officer
Puneet Chhatwal	Executive Director, Chief Executive Officer & Managing Director
Beejal Desai	Senior Vice President - Corporate Affairs, Company Secretary (Group) & Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Asset Management Co.	3.78
2	Nippon Life India Asset Management Company	2.96
3	Axis AMC	2.94
4	Vanguard Group Inc	2.34
5	BlackRock Inc	2.20
6	Jhunjhunwala Rekha Rakesh	2.11
7	SBI Funds Management	1.92
8	HDFC Life Insurance Co	1.61
9	Canara Robeco AMC	1.38
10	Republic of Singapore	1.04

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

Sharekhan

by BNP PARIBAS

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