

Indian Hotels Company

BUY

Moving to the next orbit of growth

Summary

We virtually attended Indian Hotels Company Ltd.'s (IHCL) capital market day to understand the company's strategy and growth vision in mid-term. After a robust FY23 performance on all operational parameters, the management's commentary on upgrading growth targets set under earlier 'AVAAN 2025' was exhilarating. We believe IHCL is on the verge on moving to the next orbit of growth, aided by the strong foundation the company has laid over the years. Strong industry dynamics on occupancy and ADR, IHCL's presence across the key markets through diversified brands, superior growth momentum of new business segments viz Qmin, Ama and Chambers, changing landscape of Ginger on scale and profitability and healthy balance sheet would pave the way for IHCL next leg of growth story. Maintain BUY with a revised TP of Rs430, assigning 24x EV/EBITDA to FY25E.

Key Highlights and Investment Rationale

- Beating the promises, setting the standards:** IHCL's FY23 performance was nothing but sheer example of beating one's own promises by outperforming on all key verticals. The company reported record financial performance by clocking over Rs110bn of enterprise revenue, Rs10bn net profit and Rs10bn in free cash flows. IHCL's dominant positioning in Indian hospitality and premium portfolio of hotels aided in outperforming on RevPAR by ~70% over industry average at Rs8000. Further, strengthening of balance sheet and rebound in free cash flows bodes well for funding of growth strategies in near term.
- Remains our top pick in domestic hospitality, BUY with a TP of Rs430:** We have been positive on IHCL in domestic hospitality space given its superior revenue growth outlook, cost optimization measures, increasing contribution of new initiatives in net sales as well as EBITDA and healthy balance sheet. We maintain BUY with a TP of Rs430.

TP	Rs430
CMP	Rs366
Potential upside/downside	18%
Previous Rating	BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	11.4	13.0	58.8
Rel to Sensex	8.0	11.0	44.9

V/s Consensus

EPS (Rs)	FY24E	FY25E
IDBI Capital	10.1	11.9
Consensus	8.7	10.2
% difference	15.9	16.2

Key Stock Data

Bloomberg / Reuters	IH IN / IHCL.BO
Sector	Hotels
Shares o/s (mn)	1,420
Market cap. (Rs mn)	519,227
3-m daily avg Trd value(Rs mn)	41.4
52-week high / low	Rs378 / 207
Sensex / Nifty	61,905 / 18,297

Shareholding Pattern (%)

Promoters	38.2
FII	18.2
DII	27.3
Public	16.3

Financial snapshot

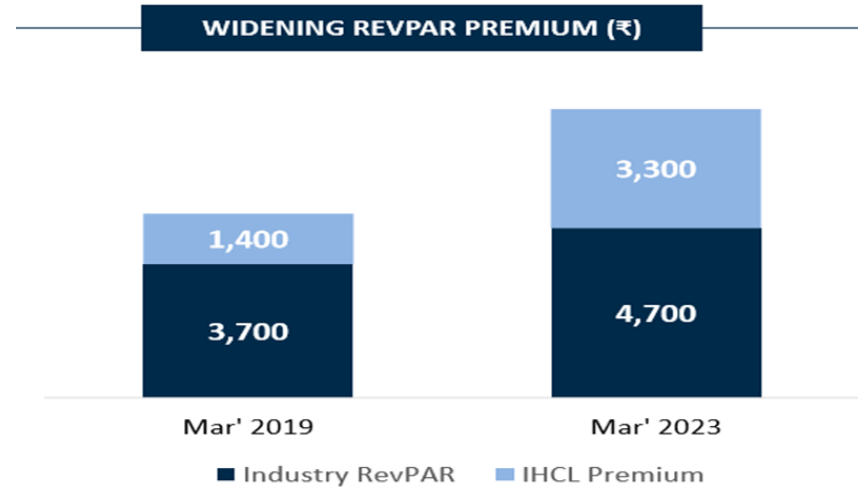
Year	FY21	FY22	FY23	FY24E	FY25E
Revenue	15,752	30,562	58,099	63,982	70,700
Change (yoy, %)	(65)	94	90	10	11
EBITDA	(3,618)	4,048	18,046	21,306	24,674
Change (yoy, %)	(137)	(212)	346	18	16
EBITDA Margin(%)	(23.0)	13.2	31.1	33.3	34.9
Adj.PAT	(8,556)	(1,806)	11,495	14,287	16,925
EPS (Rs)	(7.2)	(1.3)	8.1	10.1	11.9
Change (yoy, %)	(365.1)	(82.3)	(736.5)	24.3	18.5
PE(x)	(41.8)	(236.4)	42.0	33.8	28.5
Dividend Yield (%)	0.1	0.1	0.3	0.4	0.4
EV/EBITDA (x)	(105.2)	108.4	26.9	22.5	19.0
RoE (%)	(21.4)	(3.4)	15.3	16.8	17.6
RoCE (%)	(8.4)	(0.0)	11.3	13.2	15.1

Source: IDBI Capital Research

Key Highlights

- The Company's enterprise level revenue was stood at Rs.11000crs which was of 1.5x increase. Company cross Rs.1000crs PAT which is 2.8x increases and also have Rs1000crs free cash flow which is 3.5x increase and Market cap reached to Rs.50000 crore which increased 2.5x compared to Pre-Covid level.
- A significant growth in Revpar was due to premiumizing company portfolio, strong brand equity, quality market share gains and smart renovations
- Taj brand portfolio contributed 72% to total enterprise revenue and rest by non-Taj portfolio of hotels
- Management guided that size of the operation is doubled and also doubled in pipelines of the company which is total 81 operational hotels.
- There is a scaling up in both Seleqtions and Vivanta and its contribution to the enterprise revenue is of 16% and there are 48 operational hotels as of now.
- Ginger delivered best ever performance where enterprise revenue grew to Rs.360crs, EBITDA of Rs120crs and EBITDA margin improved by 13% to 39% compared to FY18. Total number of operational hotels increased to 59 from 42.
- Company's focus on F&B segment is scaling up with introduction of new brands and concepts such as House of Ming, MachAan, Bombay Brasserie, Shamiana, Nomad, Seven river and loya and there is an increase in wellness circle evolving in more than 50 hotels and new business creating brand value like Qmin and Ama.
- The company has one of the leading growth portfolios where it includes total 188 operational hotels and 75 pipelines which takes total number to 263 of which Taj would be 100, Vivanta 78 & Ginger 85 hotels. Considering hotels under development the portfolio mix would be 50:50 where 50% owned and 50% managed.
- The nature of signings that management guided that there is growth in tier 2 and tier 3 cities, focus on pilgrim circuits and also expand internationally, entered in long term contracts with governments and also planning to build hotels in Ekta Nagar and Lakshadweep. Management is expected to signing 25 hotels in Northeast.

Exhibit 1: RevPAR-Industry Vs IHCL



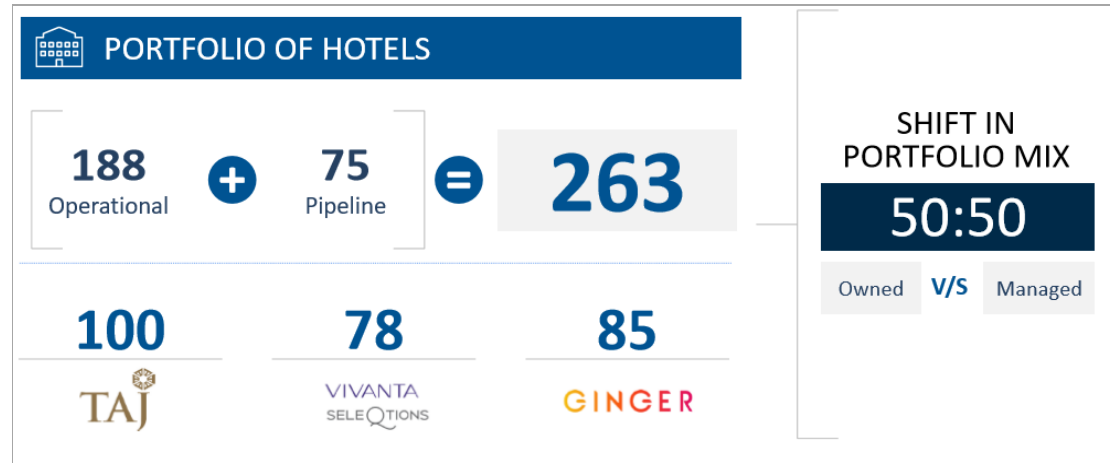
Source: Company; IDBI Capital Research

Exhibit 2: Enterprise Revenue contribution

Enterprise Revenue (₹ Crores)	FY 2017-18	FY 2022-23
TAJ	4600	8000
SELEQTIONS + VIVANTA	1800	1800
GINGER	200	360
TAJ sats	420	640
IHCL Enterprise Revenue	7,000	11,000

Source: Company; IDBI Capital Research

Exhibit 3: Hotel portfolio mix



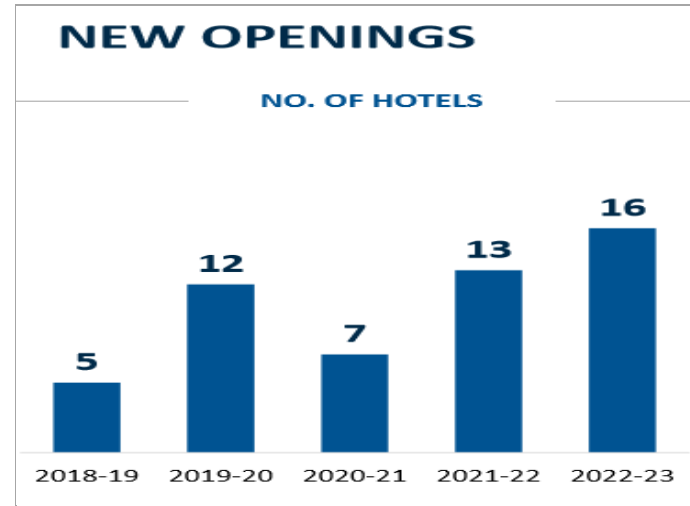
Source: Company; IDBI Capital Research

Exhibit 4: Hotel signing slate



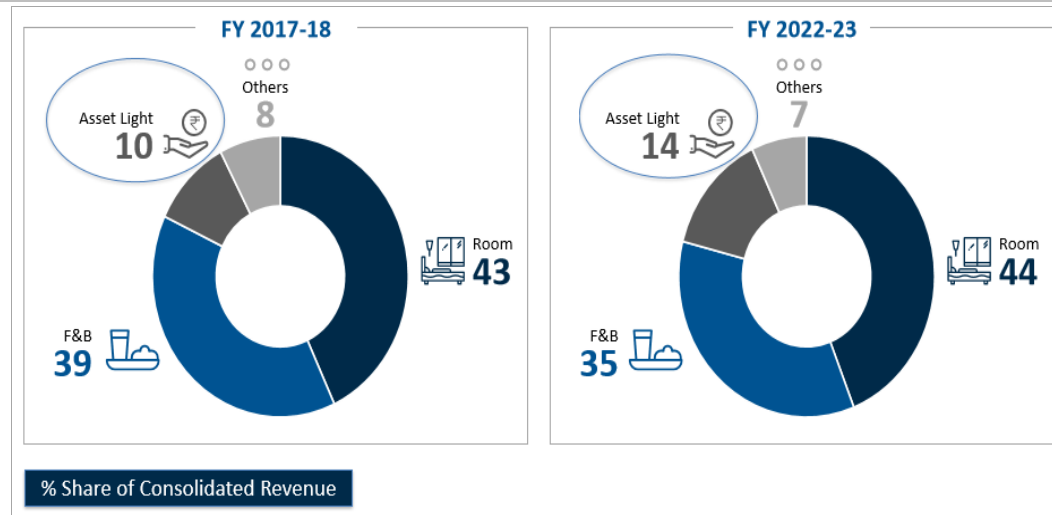
Source: Company; IDBI Capital Research

Exhibit 5: New hotel opening



Source: Company; IDBI Capital Research

Exhibit 6: Consolidated Revenue contribution



Source: Company; IDBI Capital Research

Exhibit 7: New inventory addition

As on 30th April 2023

BRANDS	Operational Rooms	Pipeline				Total (Rooms*)
		2023-24	2024-25	2025/26	2026-27 & Beyond	
	11,539	597	484	1,113	825	15,046
VIVANTA	3,801	391	684	670	870	6,435
SELEQTIONS	1,361	405	458	104	-	2,347
	4,637	995	870	323	705	7,655
TOTAL	21,338	2,388	2,496	2,210	2,400	31,483

* Total count is inclusive of rooms currently under renovation/expansion

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	44,631	15,752	30,562	58,099	63,982	70,700
<i>Change (yoy, %)</i>	<i>(1.1)</i>	<i>(64.7)</i>	<i>94.0</i>	<i>90.1</i>	<i>10.1</i>	<i>10.5</i>
Operating expenses	(34,956)	(19,369)	(26,515)	(40,054)	(42,676)	(46,026)
EBITDA	9,675	(3,618)	4,048	18,046	21,306	24,674
<i>Change (yoy, %)</i>	<i>16.6</i>	<i>-137.4</i>	<i>-211.9</i>	<i>345.8</i>	<i>18.1</i>	<i>15.8</i>
<i>Margin (%)</i>	<i>21.7</i>	<i>-23.0</i>	<i>13.2</i>	<i>31.1</i>	<i>33.3</i>	<i>34.9</i>
Depreciation	(4,042)	(4,096)	(4,061)	(4,161)	(4,875)	(5,068)
EBIT	5,633	(7,714)	(13)	13,885	16,431	19,607
Interest paid	(3,411)	(4,028)	(4,277)	(2,361)	(801)	(525)
Other income	1,324	2,647	2,552	2,389	2,458	2,531
Pre-tax profit	3,955	(9,095)	(1,738)	13,914	18,088	21,613
Tax	(448)	1,553	358	(3,232)	(4,301)	(5,188)
<i>Effective tax rate (%)</i>	<i>11.3</i>	<i>17.1</i>	<i>20.6</i>	<i>23.2</i>	<i>23.8</i>	<i>24.0</i>
Minority Interest	129.7	(1,014.2)	(425.7)	814.0	500.0	500.0
Net profit	3,637	(8,556)	(1,806)	11,495	14,287	16,925
Exceptional items	410	-	-	-	-	-
Adjusted net profit	3,228	(8,556)	(1,806)	11,495	14,287	16,925
<i>Change (yoy, %)</i>	<i>11.5</i>	<i>(365.1)</i>	<i>(78.9)</i>	<i>(736.5)</i>	<i>24.3</i>	<i>18.5</i>
EPS	2.7	(7.2)	(1.3)	8.1	10.1	11.9
Dividend per sh	0.6	0.4	0.4	1.0	1.5	1.5
<i>Dividend Payout %</i>	<i>25.0</i>	<i>(7.5)</i>	<i>(38.4)</i>	<i>15.1</i>	<i>18.2</i>	<i>15.4</i>

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Shareholders' funds	43,568	36,484	70,623	79,820	90,007	1,02,833
Share capital	1,189	1,189	1,420	1,420	1,420	1,420
Reserves & surplus	42,379	35,295	69,202	78,399	88,587	1,01,413
Total Debt	22,921	24,664	23,628	12,816	3,204	2,098
Other liabilities	23,050	20,052	20,303	25,144	24,515	23,759
Curr Liab & prov	17,995	27,582	10,413	12,307	13,380	14,476
Current liabilities	14,902	24,607	7,503	9,048	9,957	10,860
Provisions	3,093	2,975	2,909	3,259	3,422	3,616
Total liabilities	63,966	72,297	54,344	50,267	41,098	40,333
Total equity & liabilities	1,15,183	1,15,127	1,30,896	1,36,688	1,37,706	1,49,767
Net fixed assets	55,138	58,930	59,192	60,605	59,457	58,098
Investments	4,530	5,394	5,166	4,826	5,212	5,577
Other non-curr assets	41,141	39,264	39,797	45,353	45,982	46,763
Current assets	14,373	11,539	26,741	25,903	27,055	39,329
Inventories	936	929	1,008	1,092	1,212	1,333
Sundry Debtors	2,900	2,198	2,553	4,465	4,911	5,304
Cash and Bank	3,156	1,536	11,878	10,534	7,093	15,796
Loans and advances	1,658	1,056	865	844	945	1,040
Total assets	1,15,183	1,15,127	1,30,896	1,36,688	1,37,706	1,49,767

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	3,955	(9,095)	(1,738)	13,914	18,088	21,613
Depreciation	4,042	4,096	4,061	4,161	4,875	5,068
Tax paid	(2,418)	51	53	(2,543)	(4,946)	(5,967)
Chg in working capital	(3,406)	10,897	(17,412)	(79)	405	487
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	2,174	5,949	(15,037)	15,452	18,422	21,202
Capital expenditure	(5,689)	(7,888)	(4,323)	(5,573)	(3,727)	(3,708)
Chg in investments	645	(864)	228	340	(386)	(365)
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(5,044)	(8,752)	(4,095)	(5,233)	(4,113)	(4,073)
Equity raised/(repaid)	-	-	42,413	-	-	-
Debt raised/(repaid)	5,689	1,743	(1,036)	(10,812)	(9,612)	(1,105)
Dividend (incl. tax)	(806)	(645)	(693)	(1,733)	(2,599)	(2,599)
Chg in minorities	(220)	(2,318)	(841)	1,485	500	500
Other financing activities	(1,046)	2,403	(10,369)	(502)	(6,039)	(5,221)
Cash flow from financing (c)	3,617	1,184	29,474	(11,562)	(17,750)	(8,426)
Net chg in cash (a+b+c)	747	(1,620)	10,342	(1,344)	(3,441)	8,703

Financial Ratios

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Book Value (Rs)	35.3	29.4	49.7	56.2	63.4	72.4
Adj EPS (Rs)	2.7	-7.2	(1.3)	8.1	10.1	11.9
Adj EPS growth (%)	11.5	-365.1	(82.3)	(736.5)	24.3	18.5
EBITDA margin (%)	21.7	-23.0	13.2	31.1	33.3	34.9
Pre-tax margin (%)	8.9	-57.7	(5.7)	23.9	28.3	30.6
Net Debt/Equity (x)	0.5	0.6	0.2	0.0	(0.0)	(0.1)
ROCE (%)	6.6	-8.4	(0.0)	11.3	13.2	15.1
ROE (%)	7.4	-21.4	(3.4)	15.3	16.8	17.6

DuPont Analysis

Asset turnover (x)	0.4	0.1	0.2	0.4	0.5	0.5
Leverage factor (x)	2.4	2.9	2.3	1.8	1.6	1.5
Net margin (%)	7.2	-54.3	(5.9)	19.8	22.3	23.9

Working Capital & Liquidity ratio

Inventory days	8	22	12	7	7	7
Receivable days	24	51	30	28	28	27
Payable days	41	60	53	43	45	46

Valuations

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
PER (x)	110.7	(41.8)	(236.4)	42.0	33.8	28.5
Price/Book value (x)	8.5	10.2	6.0	6.0	5.4	4.7
EV/Net sales (x)	8.5	24.2	14.4	8.3	7.5	6.6
EV/EBITDA (x)	39.0	(105.2)	108.4	26.9	22.5	19.0
Dividend Yield (%)	0.2	0.1	0.1	0.3	0.4	0.4

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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