

# Indian Hotels Company

## BUY

Another stellar quarter on all parameters

### Summary

Indian Hotels Company Ltd. (IHCL) reported another strong quarterly performance and result was beat to our and consensus estimates. Strong demand in domestic market supported RevPAR growth, while prudent cost saving led to impressive margin expansion. Net sales shot up by 98.5% YoY to Rs11.1bn, while EBITDA came in at Rs3.2bn compared to negative Rs167mn in Q3FY21. The company reported net profit of Rs760mn. The management guided that occupancy was softened in January 2022, however, things are expected to improve from February onwards. The company remains focused on inventory addition through management contracts, growth in new businesses and cost optimization measures in near term. We have marginally increased our FY23E/FY24E estimates. Upgrade to BUY with a revised TP of Rs257, assigning 20x EV/EBITDA to FY24E.

### Key Highlights and Investment Rationale

- Healthy RevPAR growth aided net sales:** Strong demand traction in leisure and non-leisure segment led to impressive occupancy to 66% and 67% respectively. Further, ARR in leisure/non-leisure was at Rs16,446/Rs7,547. Recovery as compared to precovid in leisure was more than 120% and non-leisure was 80%. International markets performance too improved in Q3FY22 on occupancy and ARR, further boosting net sales growth. New businesses too witnessed strong growth traction in Q3FY22.
- On a strong footing, BUY with a TP of Rs257:** We like IHCL in domestic hospitality space given its dominant positioning in leisure space, robust inventory addition through management contract, deleveraging of balance sheet post right issue and sustainable margin expansion owing to cost optimization. BUY with a TP of Rs257.

TP **Rs257**

CMP **Rs222**

Potential upside/downside **+16%**

Previous Rating **HOLD**

### Price Performance (%)

	-1m	-3m	-12m
Absolute	23.1	16.7	88.6
Rel to Sensex	23.5	18.8	63.3

### V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	(1.0)	5.1	7.2
Consensus	(1.8)	3.3	5.5
% difference	(43.7)	52.9	31.6

### Key Stock Data

Bloomberg / Reuters	IH IN / IHCL.BO
Sector	Hotels
Shares o/s (mn)	1,321
Market cap. (Rs mn)	284,627
3-m daily avg Trd value(Rs mn)	122.0
52-week high / low	Rs230 / 91
Sensex / Nifty	58,863 / 17,577

### Shareholding Pattern (%)

Promoters	41.0
FII	15.2
DII	25.1
Public	18.7

### Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	44,631	15,752	31,651	46,210	54,528
Change (yoy, %)	(1)	(65)	101	46	18
EBITDA	9,675	(3,618)	4,944	12,246	15,159
Change (yoy, %)	17	(137)	(237)	148	24
EBITDA Margin(%)	21.7	(23.0)	15.6	26.5	27.8
Adj.PAT	3,228	(8,556)	(1,149)	6,032	8,593
EPS (Rs)	2.7	(7.2)	(1.0)	5.1	7.2
Change (yoy, %)	11.5	(365.1)	(86.6)	(624.9)	42.5
PE(x)	81.9	(30.9)	(230.1)	43.8	30.8
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.7
EV/EBITDA (x)	29.4	(79.5)	57.5	22.6	17.8
RoE (%)	7.4	(21.4)	(3.2)	16.2	20.8
RoCE (%)	6.6	(8.4)	0.6	9.4	13.2

Source: IDBI Capital Research

**Concall Highlights:**

- As per management, Revpar recovery continues in Indian hospitality industry and RevPAR increased 79% in Q3FY22 to Rs3,010. For IHCL Standalone on 9M basis Occupancy stood at 51%, ADR at Rs9,395 up 41%, RevPAR at Rs4,752 up 113% and management Fee by company was Rs1580mn up 80%. Company expects impact in Q4FY22 as January saw cancellations due to Omicron variant. As per management it expects Revpar to reach precovid levels once its 3 key markets of Delhi NCR, Mumbai and Bangalore bounce back atleast to ~90-95% of precovid
- In domestic hotels Leisure occupancy stood at 66% in Q3FY22 and Non leisure at 67%, ARR in Leisure stood Rs16,446 and Non Leisure stood Rs7,547. Recovery as compared to precovid in leisure is more than 120% and non-leisure is 80%. In international hotels the Occupancy in USA stood at 44% ,UK 51%,Maldives 75%, Dubai 92% and ARR in USA \$736 , UK \$397 Maldives \$611 and Dubai \$301
- Company signed 17 new hotels in CY Jan- Dec21, it entered 16 Cities, 4 New Destinations, and management contracts were 65%. Company plans to open more than one hotel per month in CY Jan – Dec 2022
- The Ama Stays portfolio grew to 72 bungalows across the country and Qmin expanded its presence with 11 Qmin outlets in Bengaluru and two Qmin gourmet stores in New Delhi. Qmin is present in 20 cities delivering from over 90 IHCL restaurants across India. In Q3FY22 Qmin 9MFY22 GMV was Rs580mn (incl. meals to smiles) and Amã 9MFY22 GMV was Rs110mn .The chambers 9MFY22 revenue was Rs620mn and it has 2450+ members as at December 31, 2021. Taj Seleqtions and Vivanta (Management contracts ) 9MFY22 consolidated Fee Income is Rs1580mn and has 9 new managed hotels opened during FY till date
- Company has focused on structural cost reduction in Q3FY22 v/s Q3FY20 the total expenditure was down by 17% , total fixed cost was down by 15% and corporate overheads was down by 23%
- Net Debt on consolidated basis as on Dec 2021 is Rs19050mn compared to Rs35710mn in September 2021, the reduction is a result of repayment/prepayment of loans out of Rights Issue proceeds
- As per management, supply is constraint and has also shrunk in certain markets which has inturn led to better ARR's. It expects supply to remain constrained for few more years

### Exhibit 1: Financial snapshot

Particulars (Rs mn)	Q3FY22	Q2FY22	QoQ (%)	Q3FY21	YoY (%)
<b>Total revenues</b>	<b>11,112</b>	<b>7,284</b>	<b>52.6</b>	<b>5,599</b>	<b>98.5</b>
Total expenditure	7,895	6,555	20.4	5,766	36.9
<b>EBIDTA</b>	<b>3,218</b>	<b>728</b>	<b>341.7</b>	<b>(167)</b>	<b>NA</b>
<i>EBIDTA margin (%)</i>	<i>29.0</i>	<i>10.0</i>	<i>1900bps</i>	<i>(3.0)</i>	<i>NA</i>
Depreciation	999	1,018	(1.9)	1,023	(2.4)
Interest cost	1,249	1,139	9.7	1,121	11.5
Other income	227	239	(5.1)	547	(58.5)
Exceptional Item	(102)	(108)	-	280	-
PBT	1,197	(1,189)	-	(1,764)	-
Tax	232	(113)	-	(307)	-
<b>Adj. net profit</b>	<b>965</b>	<b>(1,075)</b>	<b>-</b>	<b>(1,457)</b>	<b>-</b>
share of profit of JV and associate	97	(126)	-	(156)	-
Minority int. & exceptional items	(302)	(5)	-	424	-
<b>consolidated profit</b>	<b>760</b>	<b>(1,206)</b>	<b>-</b>	<b>(1,189)</b>	<b>-</b>
EPS (INR)	0.6	(1.0)	-	(1.0)	-

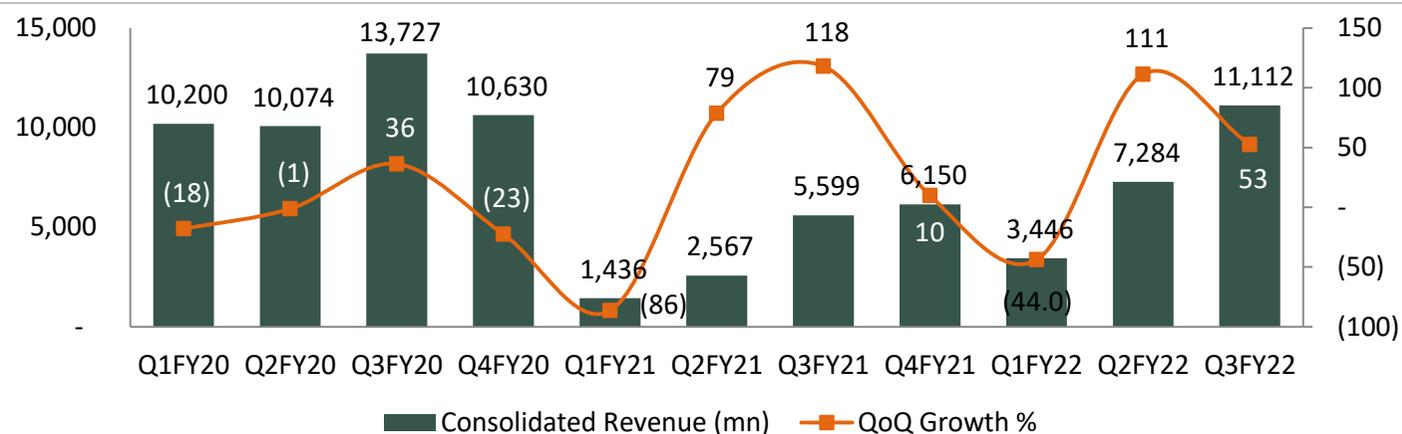
Source: Company; IDBI Capital Research

### Exhibit 2: Actual vs Estimates

Particulars (Rs mn)	Q3FY22A	Q3FY22E	Variance (%)
<b>Net Sales</b>	<b>11,112</b>	<b>10,809</b>	<b>2.8</b>
<b>EBITDA</b>	<b>3,218</b>	<b>1,787</b>	<b>80.1</b>
<i>EBITDA Margin (%)</i>	<i>29.0</i>	<i>16.5</i>	<i>1,250bps</i>
<b>Net Profit</b>	<b>760</b>	<b>(55)</b>	<b>-</b>
EPS, Rs	0.6	-	-

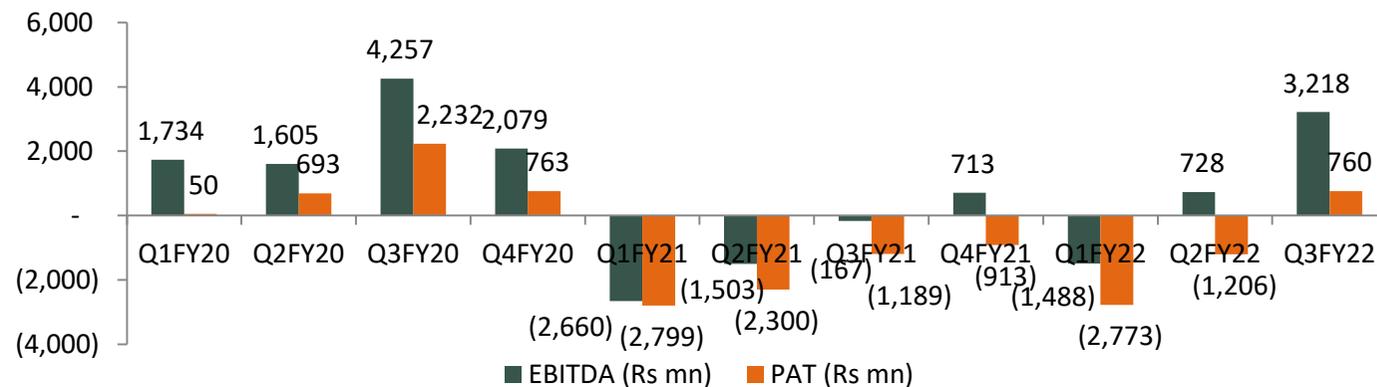
Source: Company; IDBI Capital Research

**Exhibit 3: Consolidated revenue**



Source: Company; IDBI Capital Research

**Exhibit 4: EBITDA/PAT**



Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Net sales</b>	<b>45,120</b>	<b>44,631</b>	<b>15,752</b>	<b>31,651</b>	<b>46,210</b>	<b>54,528</b>
<i>Change (yoy, %)</i>	10.0	(1.1)	(64.7)	100.9	46.0	18.0
Operating expenses	(36,822)	(34,956)	(19,369)	(26,707)	(33,964)	(39,369)
<b>EBITDA</b>	<b>8,298</b>	<b>9,675</b>	<b>(3,618)</b>	<b>4,944</b>	<b>12,246</b>	<b>15,159</b>
<i>Change (yoy, %)</i>	23.8	16.6	-137.4	-236.7	147.7	23.8
<i>Margin (%)</i>	18.4	21.7	-23.0	15.6	26.5	27.8
Depreciation	(3,279)	(4,042)	(4,096)	(4,446)	(4,611)	(4,721)
<b>EBIT</b>	<b>5,019</b>	<b>5,633</b>	<b>(7,714)</b>	<b>498</b>	<b>7,635</b>	<b>10,438</b>
Interest paid	(1,937)	(3,411)	(4,028)	(3,020)	(2,081)	(1,514)
Other income	870	1,324	2,647	1,988	2,038	2,090
<b>Pre-tax profit</b>	<b>4,018</b>	<b>3,955</b>	<b>(9,095)</b>	<b>(534)</b>	<b>7,591</b>	<b>11,013</b>
Tax	(1,571)	(448)	1,553	134	(1,659)	(2,520)
<i>Effective tax rate (%)</i>	39.1	11.3	17.1	25.2	21.9	22.9
Minority Interest	515.3	129.7	(1,014.2)	(750.0)	100.0	100.0
<b>Net profit</b>	<b>2,962</b>	<b>3,637</b>	<b>(8,556)</b>	<b>(1,149)</b>	<b>6,032</b>	<b>8,593</b>
Exceptional items	66	410	-	-	-	-
<b>Adjusted net profit</b>	<b>2,896</b>	<b>3,228</b>	<b>(8,556)</b>	<b>(1,149)</b>	<b>6,032</b>	<b>8,593</b>
<i>Change (yoy, %)</i>	269.6	11.5	(365.1)	(86.6)	(624.9)	42.5
EPS	2.4	2.7	(7.2)	(1.0)	5.1	7.2
Dividend per sh	0.5	0.6	0.4	0.6	0.6	1.7
<i>Dividend Payout %</i>	25.1	25.0	(7.5)	(70.1)	13.4	28.1

**Balance Sheet**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Shareholders' funds</b>	<b>43,480</b>	<b>43,568</b>	<b>36,484</b>	<b>35,279</b>	<b>39,406</b>	<b>44,481</b>
Share capital	1,189	1,189	1,189	1,189	1,189	1,189
Reserves & surplus	42,291	42,379	35,295	34,090	38,216	43,292
<b>Total Debt</b>	<b>17,232</b>	<b>22,921</b>	<b>24,664</b>	<b>21,570</b>	<b>13,876</b>	<b>10,093</b>
Other liabilities	5,566	23,050	20,052	20,090	19,865	19,507
<b>Curr Liab &amp; prov</b>	<b>21,561</b>	<b>17,995</b>	<b>27,582</b>	<b>29,893</b>	<b>31,412</b>	<b>33,228</b>
Current liabilities	18,733	14,902	24,607	26,790	28,164	29,817
Provisions	2,828	3,093	2,975	3,103	3,248	3,411
<b>Total liabilities</b>	<b>44,359</b>	<b>63,966</b>	<b>72,297</b>	<b>71,553</b>	<b>65,153</b>	<b>62,828</b>
<b>Total equity &amp; liabilities</b>	<b>95,838</b>	<b>1,15,183</b>	<b>1,15,127</b>	<b>1,13,178</b>	<b>1,10,904</b>	<b>1,13,655</b>
Net fixed assets	53,491	55,138	58,930	58,567	57,060	54,430
Investments	5,175	4,530	5,394	5,772	6,060	6,424
Other non-curr assets	5,175	4,530	5,394	5,772	6,060	6,424
<b>Current assets</b>	<b>25,583</b>	<b>41,141</b>	<b>39,264</b>	<b>39,807</b>	<b>40,290</b>	<b>40,862</b>
Inventories	804	936	929	975	1,034	1,116
Sundry Debtors	3,214	2,900	2,198	2,308	2,424	2,593
Cash and Bank	2,409	3,156	1,536	1,814	1,172	4,381
Loans and advances	1,636	1,658	1,056	1,151	1,220	1,306
<b>Total assets</b>	<b>95,838</b>	<b>1,15,183</b>	<b>1,15,127</b>	<b>1,13,178</b>	<b>1,10,904</b>	<b>1,13,655</b>

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Pre-tax profit	4,018	3,955	(9,095)	(534)	7,591	11,013
Depreciation	3,229	4,042	4,096	4,446	4,611	4,721
Tax paid	(1,460)	(2,418)	51	154	(1,908)	(2,898)
Chg in working capital	5,856	(3,406)	10,897	2,060	1,276	1,478
Other operating activities	-	-	-	-	-	-
<b>Cash flow from operations (a)</b>	<b>11,643</b>	<b>2,174</b>	<b>5,949</b>	<b>6,126</b>	<b>11,570</b>	<b>14,314</b>
Capital expenditure	6,860	(5,689)	(7,888)	(4,082)	(3,104)	(2,092)
Chg in investments	6,634	645	(864)	(378)	(289)	(364)
Other investing activities	-	-	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>13,493</b>	<b>(5,044)</b>	<b>(8,752)</b>	<b>(4,460)</b>	<b>(3,393)</b>	<b>(2,455)</b>
Equity raised/(repaid)	(0)	-	-	-	-	-
Debt raised/(repaid)	(6,110)	5,689	1,743	(3,093)	(7,694)	(3,783)
Dividend (incl. tax)	(726)	(806)	(645)	(806)	(806)	(2,417)
Chg in minorities	740	(220)	(2,318)	(750)	100	100
Other financing activities	(19,334)	(1,127)	2,339	(329)	(2,124)	(2,393)
<b>Cash flow from financing (c)</b>	<b>(25,430)</b>	<b>3,536</b>	<b>1,120</b>	<b>(4,978)</b>	<b>(10,524)</b>	<b>(8,493)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(294)</b>	<b>666</b>	<b>(1,684)</b>	<b>(3,312)</b>	<b>(2,346)</b>	<b>3,365</b>

### Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Book Value (Rs)	35.2	35.3	29.4	28.4	31.8	36.1
Adj EPS (Rs)	2.4	2.7	(7.2)	(1.0)	5.1	7.2
Adj EPS growth (%)	269.6	11.5	(365.1)	(86.6)	(624.9)	42.5
EBITDA margin (%)	18.4	21.7	(23.0)	15.6	26.5	27.8
Pre-tax margin (%)	8.9	8.9	(57.7)	(1.7)	16.4	20.2
Net Debt/Equity (x)	0.3	0.5	0.6	0.6	0.3	0.1
ROCE (%)	6.6	6.6	(8.4)	0.6	9.4	13.1
ROE (%)	6.8	7.4	(21.4)	(3.2)	16.2	20.5

### DuPont Analysis

Asset turnover (x)	0.5	0.4	0.1	0.3	0.4	0.5
Leverage factor (x)	2.2	2.4	2.9	3.2	3.0	2.7
Net margin (%)	6.4	7.2	(54.3)	(3.6)	13.1	15.8

### Working Capital & Liquidity ratio

Inventory days	6.5	7.7	22	11	8	7
Receivable days	26.0	23.7	51	27	19	17
Payable days	32.2	40.7	60	47	39	35

### Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	91.3	81.9	(30.9)	(230.1)	43.8	30.8
Price/Book value (x)	6.3	6.3	7.6	7.8	7.0	6.2
EV/Net sales (x)	6.2	6.4	18.3	9.0	6.0	5.0
EV/EBITDA (x)	33.7	29.4	(79.5)	57.5	22.6	17.8
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2	0.7

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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