

Indian Hotels Company

BUY

Healthy margin improvement continues...

Summary

Indian Hotels Company Ltd. (IHCL) reported healthy Q2FY20 results amid subdued demand, particularly in corporate segment. The company reported net sales of Rs10,074mn (+4.4%YoY). The growth over Q2FY19 was primarily driven by higher occupancy. EBITDA came in at Rs1,605mn (+61.7%YoY), while EBITDA margin improved by healthy 564bps YoY to 15.9%. Net profit stood at Rs713mn compared to a loss of Rs52mn in Q2FY19.

IHCL continues to outperform the industry growth rate and has handful of new contracts signed, which will support future earnings growth of the company. We like IHCL in the domestic hospitality space considering its diverse portfolio offerings across key cities in the domestic market, robust expansion plans, strategic partnership with GIC for premium operational hotels acquisition and focus to improve operating margin and balance sheet health. We have marginally cut our EBITDA estimates, while recent corporate tax rate cut has resulted in robust PAT growth. We estimate net sales/EBITDA/PAT growth of 7.3%/19.6%/41.7% over FY19-21E. Maintain BUY with a TP of Rs 190, valuing the stock at 20x EV/EBITDA and per share value in Taj GVK and Oriental Hotels at current valuation.

Key Highlights and Investment Rationale

Healthy RevPar growth supported net sales

IHCL's net sales growth of 4.4% over Q2FY19 was driven by 3.8% RevPar growth in the quarter. The company reported occupancy of 68.2%, while ARR was down by 4.5% YoY. Softness in corporate and MICE segment was compensated by robust retail demand in the quarter. IHCL's market share gain in key markets helped to exceed industry RevPar growth in Q2FY20. We believe the company's presence across value proposition bodes well for ARR growth in future, supported by healthy occupancy as well.

Aggressive expansion plans and prudent cost management paves the way for future growth

The management reiterated its stance of opening at least one new hotel every month and 15 every year going forward. In last 6 quarters, the company has signed 41 new properties with 5,400rooms. Apart from new inventory addition, the company is focused on cost management, which will drive margins expansion going forward. IHCL's international operations are showing traction and losses are expected to shrink, which in turn helps margins expansion.

Q2FY20 Result Review

TP	Rs190
CMP	Rs 147
Potential upside / downside	+30%
Previous Rating	BUY

V/s Consensus		
EPS (Rs)	FY20E	FY21E
IDBI Capital	3.7	4.8
Consensus	3.1	4.2
% difference	18.1	14.0

Shareholding Pattern (%)

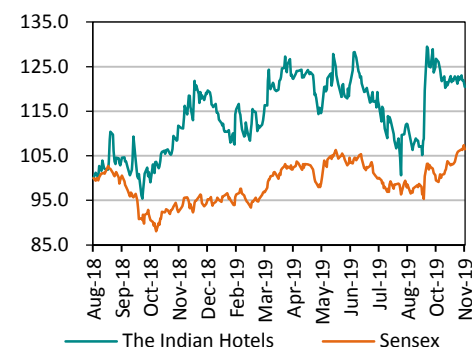
Promoters	39.1
FII	0.0
DII	28.6
Public	32.3

Price Performance (%)

	-1m	-3m	-12m
Absolute	(3.5)	4.6	11.1
Rel to Sensex	(10.0)	(2.7)	(3.6)

Key Stock Data	
Bloomberg/Reuters	IH IN / IHTL.BO
Sector	Hotels
Shares o/s (mn)	1,189
Market cap. (Rs mn)	174,226
Market cap. (US\$ mn)	2,516
3-m daily avg Trd value(Rs mn)	189.1
52-week high / low	Rs164 / 121
Sensex / Nifty	40,345 / 11,914

Relative to Sensex (%)



Financial snapshot

Year	FY2017	FY2018	FY2019	FY2020E	FY2021E
Revenue	40,206	41,036	45,120	48,188	51,971
EBITDA	6,096	6,703	8,298	10,104	11,874
EBITDA (%)	15.2	16.3	18.4	21.0	22.8
Adj. PAT	(525)	784	2,803	4,443	5,758
EPS (Rs)	(0.5)	0.7	2.4	3.7	4.8
EPS Growth (%)	(64.6)	(224.2)	257.8	58.5	29.6
PE (x)	(276.2)	222.4	62.2	39.2	30.3
Dividend Yield (%)	0.2	0.2	0.3	0.3	0.4
EV/EBITDA (x)	28.0	29.1	22.8	18.5	15.4
RoE (%)	(2.1)	2.3	6.6	9.8	11.8
RoCE (%)	4.4	5.1	6.6	8.2	10.0

Source: Company; IDBI Capital Research

Exhibit 1: Financial snapshot					(Rs mn)
Particulars	Q2FY20	Q1FY20	QoQ (%)	Q2FY19	YoY (%)
Total revenues	10,074	10,200	(1.2)	9,645	4.4
Total expenditure	8,470	8,466	0.0	8,653	(2.1)
EBIDTA	1,605	1,734	(7.5)	992	61.7
<i>EBIDTA margin(%)</i>	<i>15.9</i>	<i>17.0</i>	<i>(108) bps</i>	<i>10.3</i>	<i>564 bps</i>
Depreciation	999	1,004	(0.4)	812	23.0
Interest cost	868	847	2.5	467	86.0
Other income	211	371	(43.0)	166	27.1
Exceptional Item	(3)	23	(110.9)	(453)	-
PBT	(54)	277	(119.5)	(573)	-
Tax	(855)	176	(585.4)	(193)	-
Adj. net profit	801	101	691.6	(380)	-
Share of profit of JV & associate	(108)	(51)		325	(133.3)
Minority interest	(20)	(7)		(4)	-
Consolidated Profit	713	57	1,159.9	(52)	-
Adj. EPS (INR)	0.6	0.0	1,291.6	(0.0)	-

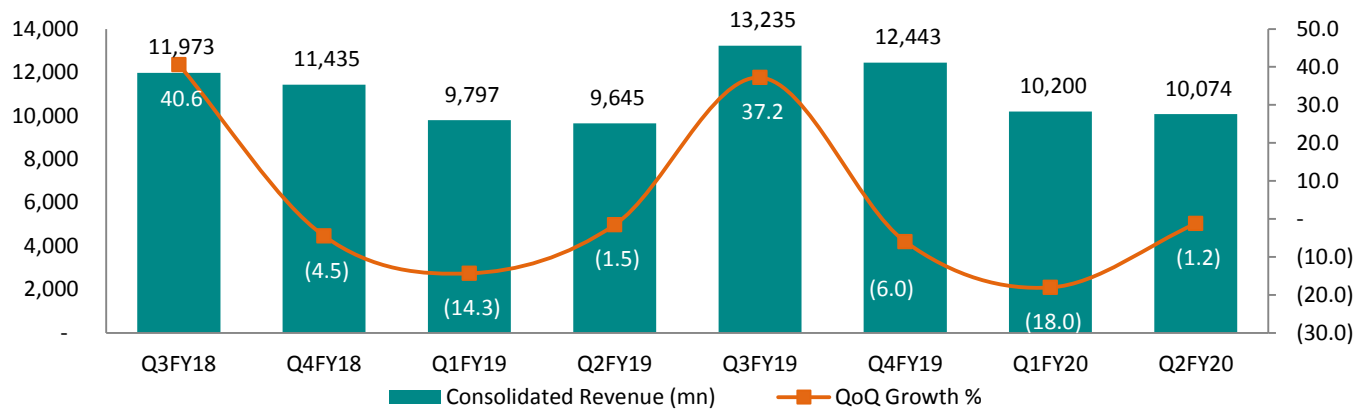
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs Estimates			
Particulars (Rs mn)	Q2FY20A	Q2FY20E	Variance (%)
Net Sales	10,074	11,754	(14.3)
EBITDA	1,605	2,143	(25.1)
<i>EBITDA Margin (%)</i>	<i>15.9</i>	<i>18.2</i>	<i>(230) bps</i>
Net Profit	801	384	108.4
EPS, Rs	0.6	0.3	80.3

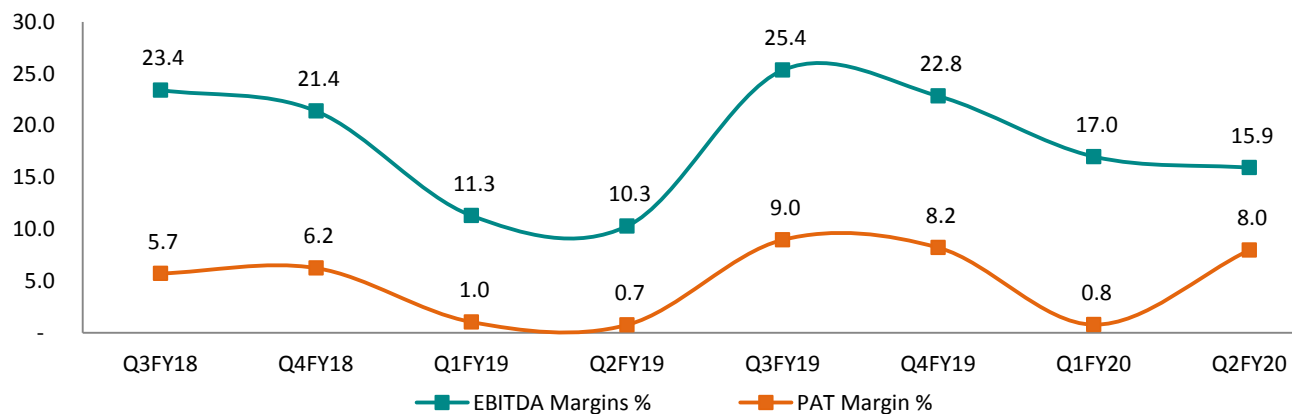
Source: Company; IDBI Capital Research

Exhibit 3: Change in estimates							(Rs mn)
Particulars	FY20E			FY21E			
	New	Old	% Chg	New	Old	% Chg	
Net Sales	48,188	49,121	(1.9)	51,971	53,674	(3.2)	
EBITDA	10,104	10,209	(1.0)	11,874	11,893	(0.2)	
EBITDA Margin (%)	21.0	20.8		22.8	22.2		
PAT	4,443	4,184	6.2	5,758	5,327	8.1	
EPS (Rs)	3.7	3.5	6.7	4.8	4.5	7.6	

Source: Company; IDBI Capital Research

Exhibit 4: Consolidated revenue


Source: Company; IDBI Capital Research

Exhibit 5: EBITDA/PAT Margins


Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Net sales	41,036	45,120	48,188	51,971
<i>Growth (%)</i>	2.1	10.0	6.8	7.9
Operating expenses	(34,333)	(36,822)	(38,085)	(40,098)
EBITDA	6,703	8,298	10,104	11,874
<i>Growth (%)</i>	10.0	23.8	21.8	17.5
Depreciation	(3,012)	(3,279)	(3,982)	(4,182)
EBIT	3,691	5,019	6,122	7,692
Interest paid	(2,786)	(1,937)	(1,429)	(1,287)
Other income	713	870	957	1,052
Pre-tax profit	1,842	4,018	5,650	7,457
Tax	(1,211)	(1,571)	(1,667)	(2,200)
<i>Effective tax rate (%)</i>	65.7	39.1	29.5	29.5
Minority Interest	376.4	422.3	459.9	500.5
Net profit	1,008	2,869	4,443	5,758
Exceptional items	225	66	-	-
Adjusted net profit	784	2,803	4,443	5,758
<i>Growth (%)</i>	(249.3)	257.8	58.5	29.6
<i>Shares o/s (mn nos)</i>	1,189	1,189	1,189	1,189

Cash Flow Statement

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Pre-tax profit	1,842	4,018	5,650	7,457
Depreciation	2,862	3,229	3,982	4,182
Tax paid	(1,069)	(1,460)	(1,667)	(2,200)
Chg in working capital	(4,474)	6,552	1,681	1,534
Other operating activities	-	-	-	-
Cash flow from operations (a)	(839)	12,339	9,646	10,973
Capital expenditure	(6,065)	(5,031)	(4,070)	(4,049)
Chg in investments	(280)	570	(1,686)	(1,034)
Other investing activities	-	-	-	-
Cash flow from investing (b)	(6,345)	(4,461)	(5,755)	(5,083)
Equity raised/(repaid)	14,914	(0)	-	-
Debt raised/(repaid)	(4,738)	(6,110)	(1,359)	(1,571)
Dividend (incl. tax)	(422)	(726)	(725)	(871)
Chg in minorities	772	647	460	501
Other financing activities	(3,110)	(1,982)	(1,341)	(1,332)
Cash flow from financing (c)	7,416	(8,171)	(2,965)	(3,273)
Net chg in cash (a+b+c)	232	(294)	925	2,616

Balance Sheet

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Net fixed assets	63,579	65,382	65,469	65,337
Investments	11,809	11,239	12,925	13,959
Other non-curr assets	5,560	6,934	7,766	8,475
Current assets	12,195	11,588	13,067	16,175
Inventories	857	804	860	912
Sundry Debtors	3,286	3,214	3,407	3,543
Cash and Bank	2,703	2,409	3,334	5,951
Marketable Securities	-	-	-	-
Loans and advances	526	940	1,034	1,116
Total assets	93,144	95,143	99,228	103,946
Shareholders' funds	41,811	43,480	46,738	51,124
Share capital	1,189	1,189	1,189	1,189
Reserves & surplus	40,622	42,291	45,548	49,935
Total Debt	23,342	17,232	15,873	14,302
Secured loans	23,292	16,875	15,552	13,997
Unsecured loans	50	357	321	305
Other liabilities	5,497	4,872	5,033	5,131
Curr Liab & prov	14,720	21,561	23,585	25,389
Current liabilities	12,255	18,733	20,639	22,362
Provisions	2,465	2,828	2,946	3,027
Total liabilities	43,559	43,665	44,492	44,823
Total equity & liabilities	93,144	95,143	99,228	103,946
Book Value (Rs)	34	35	38	42

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY18	FY19	FY20E	FY21E
Adj. EPS (Rs)	0.7	2.4	3.7	4.8
Adj. EPS growth (%)	(224.2)	257.8	58.5	29.6
EBITDA margin (%)	16.3	18.4	21.0	22.8
Pre-tax margin (%)	4.5	8.9	11.7	14.3
ROE (%)	2.3	6.6	9.8	11.8
ROCE (%)	5.1	6.6	8.2	10.0
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.5	0.5	0.5	0.5
Leverage factor (x)	2.7	2.2	2.2	2.1
Net margin (%)	1.9	6.2	9.2	11.1
Net Debt/Equity (x)	0.5	0.3	0.3	0.2
Working Capital & Liquidity ratio				
Inventory days	8	7	7	6
Receivable days	29	26	26	25
Payable days	36	32	35	36

Valuation

Year-end: March	FY18	FY19	FY20E	FY21E
P/E (x)	222.4	62.2	39.2	30.3
Price / Book value (x)	4.3	4.2	3.9	3.5
PCE (x)	45.9	28.6	20.7	17.5
EV / Net sales (x)	4.7	4.2	3.9	3.5
EV / EBITDA (x)	29.1	22.8	18.5	15.4
Dividend Yield (%)	0.2	0.3	0.3	0.4



Notes

Dealing

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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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