

TECHNO

FUNDA

The Indian Hotels Company Limited

Stock Idea

BUY

Nifty: 11,301

Sensex: 37,535

CMP	Rs151.05
BUY range	Rs145-Rs155
Stop Loss	Rs129
Target Price	Rs193+
Potential Upside/Downside	+25%
Tenure	5-6 months

Key Stock Data

Sector	Hotel
Bloomberg/Reuters	IHIN /IHTLBO
Shares o/s (mn)	1,189
Market cap. (Rs mn)	179,519
Market cap. (US\$ mn)	2,576
3-m daily average vol.	210

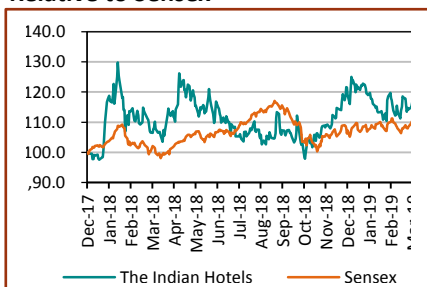
Price Performance

52-week high/low	Rs156/110		
	-1m	-3m	-12m
Absolute (%)	11.2	-	17.5
Rel to Sensex (%)	7.4	(4.9)	6.9

Shareholding Pattern (%)

Promoters	39.1
FII/NRI/OCBs/GDR	0.0
MFs/Banks/FIs	28.0
Public & Others	32.9

Relative to Sensex



Source: Capitaline

Profile:

Founded by Mr. Jamsetji Tata, Indian Hotels Company Ltd (IHCL) opened its first hotel - the Taj Mahal Palace, in Bombay in 1903. IHCL currently operates 170 hotels including 30 under development globally across 4 continents, 12 countries and in over 80 locations with a key size of 17,145. The company boasts to have marquee properties under various sub-brands like Taj, SeleQtions, Vivanta, Gateway and Ginger.

Investment Rationale

- The domestic hotel industry is expected to witness robust growth in coming years led by higher occupancy, limited capacity addition and rise in spending by domestic travellers. Indian Hotels, one of the largest domestic hotel players, will be a key beneficiary of a turnaround in the industry. The company plans to add 15-20 new hotels annually through management contracts that will further boost topline
- The company has outlined its strategy to boost margins by at least 10% (i.e. 1000 bps) in FY18-22E. The company aims to achieve the same by revenue optimisation, cost rationalisation and debt reduction. Under revenue optimisation, the company will focus on RevPAR growth, increase in management fee income and higher income from new inventory boosting margins by 3-4%.
- The management is focused on improving the health of the balance sheet by reducing the leverage. At the end of 9MFY19, the company's debt/equity was at comfortable 0.47x. Further, various initiatives like asset monetization and unlocking the value through sale and leaseback will help in strengthening the balance sheet
- Healthy growth in room addition, improvement in revenue per room, higher occupancy, cost rationalization at operating level and various other cost reduction initiatives will help the future earnings growth.
- For 9MFY19, the company reported 10% YoY increase in net sales at Rs 33,140mn, while EBITDA grew by impressive 27% YoY to Rs 5,920mn with EBITDA Margin expansion by 230bps YoY to 17.8%.

Valuation:

We forecast FY18-20E Net Sales/ EBITDA to grow at CAGR of 9.5%/20% over FY18-20E. The stock is currently trading at EV/EBITDA of 19x/17x FY19E/20E. Considering the healthy earnings growth and margins improvement, we believe the stock is poised to give good returns from current levels.

Particulars	FY14	FY15	FY16	FY17	FY18
Revenue	40,662	41,886	40,230	40,206	41,036
EBITDA	5,596	4,886	5,522	6,096	6,704
EBITDA Margin (%)	13.8	11.7	13.7	15.2	16.3
Adj PAT	(5,539)	(3,781)	(2,311)	(632)	1,009
EPS (Rs)	(6.9)	(4.7)	(2.3)	(0.6)	0.8
EPS Growth (%)	-	-	-	-	-
PE (x)	-	-	-	-	182.8
Dividend Yield (%)	-	-	0.2	0.2	0.3
EV/EBITDA (x)	15.2	22.6	21.7	23.3	23.3
RoE (%)	(19.0)	(14.6)	(7.6)	(3.2)	1.8
RoCE (%)	(3.1)	(0.3)	3.9	5.5	7.4

Technical Overview



- As per the Monthly chart pattern, the stock is resuming upside momentum after 13-months of consolidation and 13 is a Fibonacci number which indicates a potential trend reversal.
- The all-time high of the stock is 160.95 which it hit on 23rd January 2018 and on crossing this level we expect the stock to catch faster momentum. What moves higher continues to move higher for a considerable time.
- As per the daily chart pattern, the stock has rallied from the low of 109.3 to the high of 153.1 and after around 50% retracement it resumed the uptrend. Therefore, above this swing high of 153.1 good upside momentum likely.
- The stock is also showing a declining trend line breakout.
- The stock is trading above all the important averages i.e. 50DMA (139.8), 200DMA (134.5), and 200Week SMA (115.62).
- Considering the factors mentioned above, we can build a long position in the stock with 5-6 months perspective and target can be placed at around 193, with the stop loss of 129.

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