Indian Hotels

Reduce

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Company Update

No major surprise, time correction likely!

IHCL's management meet imbibes confidence on its strategy and execution. Management reiterated its focus on driving high-margin profitable revenue growth in an asset-light manner that will improve ROCEs. It guides for a 33% EBITDA margin (incl. other income). We already estimate 31.8/32.3% for FY23/24 and thus margin guidance is not a major surprise. Near-term outlook remains buoyant for IHCL led by IPL and pent-up demand. That said, delayed revival in corporate travel and foreign guests, and rising inflation are key dampeners that may push-back the recovery and is a key-risk.

Our estimates remain unchanged. We upgrade IHCL from Sell to Reduce to factor IHCL's strategic clarity, superior execution, brand-positioning and pan-India footprint across business and leisure segment. Structurally, we remain positive on IHCL but for rich valuations (27/24x pre IndAS EV/EBITDA) that leaves limited room to err. Post the sharp 13/85% run-up in 3/12m, we expect IHCL to go through a time/price correction.

Key guidance by FY26 – a tad soft vs. past achievements

IHCL mgmt. guides to achieve **33% EBITDA margin** by FY26. **We already estimate 31.8/32.3% for FY23/24 and thus margin guidance is not a major surprise.** Mgmt highlighted of buoyant near-term outlook with double-digit L2L revenue growth in FY23 over FY20. However, catastrophic events in one or the markets dampen performance and thus a conservative outlook upto FY26. **35% of the EBITDA to be contributed** by high-margin new business incl. mgmt. contracts (vs. 25% pre-covid). IHCL to have a **50:50 mix** of Owned/leased vs. managed properties (vs. current 54:46). IHCL to have a **portfolio of 300+ Hotels** (operational + pipeline) vs. ~235 currently i.e. ~60+ sign-ups vs. 100+ in trailing five-years. Further, mgmt. highlighted **asset monetization** worth Rs 10bn by FY26. In trailing five year mgmt. monetized ~Rs 5bn in non-core assets.

Other KTAs from the mgmt. meet

- Focus on FCF (~15-20% before and 5-10% after growth capex), monetization of non-core assets and simplification to be key areas of emphasis.
- **Demand outlook:** Mgmt. remains upbeat of recovery led by pent-up demand, revival in corporate travel, strong leisure demand and willingness to pay premium for unique experiences. Further, post-covid supply is expected to trail demand driving ARR growth.

FINANCIALS (Rs Mn)

Particulars	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	44,631	15,752	30,562	47,126	49,884
Growth(%)	(1.1)	(64.7)	94.0	54.2	5.9
EBITDA	9,675	(3,618)	4,048	13,820	14,880
OPM(%)	21.7	(23.0)	13.2	29.3	29.8
PAT	2,387	(9,556)	(2,805)	6,667	8,002
Growth(%)	(17.6)	(500.3)	(70.6)	(337.7)	20.0
EPS(Rs.)	1.7	(6.7)	(2.0)	4.7	5.6
Growth(%)	(17.6)	(500.3)	(70.6)	(337.7)	20.0
PER(x)	137.6	(34.4)	(117.1)	49.3	41.1
ROANW(%)	8.1	(20.1)	(4.9)	9.0	9.8
ROACE(%)	7.3	(4.5)	1.7	7.2	7.6

CMP	Rs 231
Target / Downside	Rs 223 / 4%
NIFTY	16,215

Scrip Details

Equity / FV	Rs 1,420mn / Rs 1
Market Cap	Rs 329bn
	USD 4bn
52-week High/Low	Rs 269/ 125
Avg. Volume (no)	9,251,300
Bloom Code	IH IN

Price Performance	1M	3M	12M
Absolute (%)	(4)	19	78
Rel to NIFTY (%)	1	19	71

Shareholding Pattern

	Sep'21	Dec'21	Mar'22
Promoters	40.8	41.1	38.2
MF/Banks/FIs	26.9	25.2	28.5
FIIs	13.5	15.2	16.0
Public /	18.8	18.6	17.3

Indian Hotels Relative to SENSEX

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Key takeaways from the management meet

New brands and businesses to contribute ~35% of the EBITDA!

IHCL management remain upbeat on new businesses and expect 35% of EBITDA contribution from these segments in FY26. Mgmt highlighted that both Chamber can double from ~Rs 850mn to ~Rs 1.5bn and Manageent contracts from ~Rs 2.3bn to Rs 4.5bn by FY26. IHCL has ~2,400 member for its Chambers program and target to take it upto 3,000. It also plans to add new Chamber at Bangalore and New York. IHCL charges ~Rs 2mn non-refundable fee for new member additions and AMC of ~Rs 2-3lacs p.a

We highlight in Jul'21, IHCL mgmt called out the potential for other new businesses at ~Rs 11.5bn p.a. in the longer-run for Qmin – food delivery service (Rs 5bn), Ama – Homestays (Rs 5bn) and Chambers (~Rs 1.5bn) with EBITDA flow-through of ~50-70%. Besides this other initiatives (niu & nanu, 7rivers etc) are also likely to contribute incrementally.

Qmin

- Qmin is a repertoire of culinary experiences delivering dishes from marquee IHCL restaurants. Guests can order from iconic and celebrated restaurants in Mumbai like Golden Dragon and Souk from Taj Mahal Palace; Thai **Hotel pipeline:** IHCL has pipeline of 60+ hotels with ~7,500 rooms. ~26% or 2k rooms to be on owned/leased basis (92% in Ginger). ~900 rooms are expected to be operationalized in FY23.

Pavilion and Trattoria from President; and Ming Yang from Taj Lands' End, to name a few. Qmin did revenue's of ~Rs 660mn in FY22.

Particulars	
Current cities presence	15
Target	25+
GMV Business potential p.a.	~Rs 5bn

Source: DART, Company

'Ama' stays & trails – First branded homestay business in India

IHCL currently has ~47 'Ama' with potential to expand to 500 with business potential of ~Rs 5bn. Ama bungalows are created on surplus land on Taj properties and maintained/serviced by in-house team (GM, F&B etc) and thus incremental flow-through is ~80%. However, as it scales up it would need a separate team. Besides creation of bungalows/villas to lead to capex of ~Rs 30-50mn.

Cost Optimization

In addition to opportunity in new business segments, management's reiterated its focus to rationalize costs without impacting the consumer services. We believe IHCL had room for costs reductions and has done appreciable work on it. However, some of it are likely to come-back due to (1) inflation pressure and 2) Occupancy inches-up leading to rise in costs.

Mgmt highlighted the corporate overhead is down from Rs 3.47bn in FY20 to Rs 2.5bn in FY22 (28% reduction). Overall mgmt. expect the Corporate overhead to trend down from 8% of revenues in FY20 to ~5% on a sustainable basis.

Key Assumptions – Standalone

Exhibit 1: Operating KPIs - Standalone

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
ARR (Rs)	9,504	9,360	9,562	9,308	10,213	10,722	11,003	10,734	7,351	9,717	10,805	11,229
Occ. %	63.0	64.0	64.0	65.0	66.0	67.0	68.0	67.0	39.0	52.5	69.2	70.2
RevPAR (Rs)	5,988	5,990	6,120	6,050	6,741	7,184	7,482	7,192	2,867	5,101	7,474	7,883
Chg YoY (%)												
ARR (Rs)		(1.5)	2.2	(2.7)	9.7	5.0	2.6	(2.4)	(31.5)	32.2	11.2	3.9
Occ. %		1.6	-	1.6	1.5	1.5	1.5	(1.5)	(41.8)	34.6	31.7	1.5
RevPAR (Rs)		0.0	2.2	(1.1)	11.4	6.6	4.2	(3.9)	(60.1)	77.9	46.5	5.5

Source: DART, Company

Exhibit 2: Revenue split - Standalone

Rs Mn	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Room Rev	8,893	8,843	9,083	9,833	10,582	10,947	11,550	11,355	4,716	8,360	12,477	13,170
F&B	7,324	7,742	8,134	9,182	9,422	10,278	11,367	10,917	4,018	7,150	11,230	11,195
Mgmt fees	1,165	1,255	1,377	1,490	1,588	2,105	2,225	2,188	905	1,349	2,495	2,898
Others	1,377	1,455	1,649	2,174	2,424	2,510	2,662	2,975	1,693	3,479	4,232	4,844
Total	**18,759**	**19,295**	**20,244**	**22,679**	**24,016**	**25,840**	**27,804**	**27,435**	**11,332**	**20,339**	**30,434**	**32,107**
Chg YoY (%)												
Room Rev	0.7	(0.6)	2.7	8.3	7.6	3.5	5.5	(1.7)	(58.5)	77.3	49.3	5.6
F&B	7.1	5.7	5.1	12.9	2.6	9.1	10.6	(4.0)	(63.2)	77.9	57.1	(0.3)
Mgmt fees	3.9	7.8	9.7	8.1	6.6	32.5	5.7	(1.7)	(58.6)	49.1	84.9	16.2
Others	6.6	5.6	13.4	31.9	11.5	3.5	6.1	11.7	(43.1)	105.5	21.6	14.5
Total	**3.7**	**2.9**	**4.9**	**12.0**	**5.9**	**7.6**	**7.6**	**(1.3)**	**(58.7)**	**79.5**	**49.6**	**5.5**

Source: DART, Company

Exhibit 3: Financial Summary*

(Rs Mn)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Consolidated												
Revenue	37,434	40,662	41,886	40,230	40,206	41,036	45,120	44,631	15,752	30,562	47,126	49,884
Opex	32,057	35,066	37,001	34,709	34,110	34,332	36,823	34,956	19,369	26,515	33,305	35,004
EBITDA	**5,376**	**5,596**	**4,886**	**5,522**	**6,096**	**6,704**	**8,297**	**9,675**	**(3,618)**	4,048	13,820	14,880
Margin %	**14.4**	**13.8**	**11.7**	**13.7**	**15.2**	**16.3**	**18.4**	**21.7**	**(23.0)**	13.2	29.3	29.8
Standalone												
Revenue	18,759	19,295	20,244	22,679	24,016	25,840	27,804	27,435	11,332	20,033	30,434	32,107
Opex	14,715	15,401	16,657	18,455	18,819	19,551	20,510	19,824	12,301	16,151	19,521	20,511
EBITDA	**4,044**	**3,895**	**3,587**	**4,223**	**5,197**	**6,289**	**7,294**	**7,611**	**(969)**	3,883	10,912	11,596
Margin %	**21.6**	**20.2**	**17.7**	**18.6**	**21.6**	**24.3**	**26.2**	**27.7**	**(8.6)**	19.4	35.9	36.1
Subsidiaries												
Revenue	18,675	21,367	21,643	17,552	16,190	15,196	17,316	17,197	4,420	10,529	16,692	17,777
Opex	17,343	19,666	20,344	16,253	15,291	14,781	16,313	15,132	7,069	10,364	13,784	14,493
EBITDA	**1,332**	**1,701**	**1,299**	**1,298**	**899**	**415**	**1,003**	**2,065**	**(2,649)**	165	2,908	3,284
Margin %	**7.1**	**8.0**	**6.0**	**7.4**	**5.6**	**2.7**	**5.8**	**12.0**	**(59.9)**	1.6	17.4	18.5

*Source: DART, Company * FY20 onwards are post IndAS numbers where the rent costs is below EBITDA as depreciation and interests*

Standalone portfolio accounts for 80% of the Consolidated EBITDA

65% room portfolio in Standalone is in Mumbai, Delhi and Bangalore;

Revival in corporate travel and/or foreign guest is inevitable for performance improvement in this cities

Exhibit 4: City-wise mix of Standalone Hotels and rooms

Particulars	Nos		Mix %
	Hotels	Rooms	Rooms
Mumbai	3	1,114	24.5
Delhi	4	1,049	23.1
Bangalore	4	741	16.3
Goa	3	425	9.4
Kolkata	1	229	5.0
Guwahati	1	150	3.3
Udaipur	2	148	3.3
Chennai	1	147	3.2
Jaipur	1	100	2.2
Jodhpur	1	93	2.0
Others	6	349	7.7
Total	**27**	**4,545**	**100.0**

Source: DART, Company

Exhibit 5: Change in estimates

Particulars (Rs Mn)	FY22E			FY23E			Remarks
	Old	New	Chg (%)	Old	New	Chg (%)	
Revenue (Rs Mn)	46,237	47,126	1.9	49,542	49,884	0.7	Nominal change in estimates
EBITDA (Rs Mn)	13,129	13,820	5.3	14,714	14,880	1.1	
EBITDA Margin (%)	*28.4*	*29.3*	*93 bps*	*29.7*	*29.8*	*13 bps*	
APAT (Rs Mn)	6,101	6,667	9.3	7,808	8,002	2.5	
AEPS (Rs Mn)	4.3	4.7	9.2	5.5	5.6	2.4	

Source: DART, Company

Exhibit 6: IHCL Valuation Summary

Particulars	Mar-24E
EBITDA (Rs Mn)	14,880
(-) IndAS 116 EBITDA impact	2,084
Core EBITDA	12,796
Target multiple (x)	22
Enterprise Value (Rs Mn)	281,522
(-) Core Net Debt (Rs Mn)	(18,441)
Equity Value (Rs Mn)	**299,963**
O/s shares (Mn)	1,420
Value per share (Rs)	**211**
Add: Value of IHCL stake in TajGVK/Oriental	5
Add: Others	7
Value per share (Rs)	**223**
CMP (Rs)	231

Source: DART, Company

Exhibit 7: IHCL current EV/EBITDA multiples – pre and post IndAs

Particulars	FY22E	FY23E	FY24E
EBITDA (Rs Mn)			
Post IndAS	18,264	8,930	1,359
(-) IndAS impact	4,048	13,820	14,880
Pre IndAS	85.6	24.4	22.1
Net Debt (Rs Mn)			
Post IndAS	(767)	(10,482)	(18,441)
Pre IndAS	(631)	(3,631)	(6,631)
Enterprise Value (Rs Mn)			
Post IndAS	327,481	324,481	321,481
Pre IndAS	327,346	317,631	309,671
EV/EBITDA (x)			
Post IndAS	85.6	24.4	22.1
Pre IndAS	151.7	26.8	24.2

Source: DART, Company

Exhibit 8: Sensitivity of TP to EV/E target multiples

Multiple	TP
14	151
18	187
22	**223**
26	259
30	295

Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY21A	FY22E	FY23E	FY24E
Revenue	**15,752**	**30,562**	**47,126**	**49,884**
Total Expense	**19,369**	**26,515**	**33,305**	**35,004**
COGS	1,438	2,572	4,074	4,312
Employees Cost	8,940	11,502	14,245	14,958
Other expenses	8,991	12,440	14,985	15,735
EBIDTA	**(3,618)**	**4,048**	**13,820**	**14,880**
Depreciation	4,096	4,061	4,169	4,317
EBIT	**(7,714)**	**(13)**	**9,651**	**10,563**
Interest	4,028	4,277	2,155	1,636
Other Income	1,647	1,552	1,184	1,243
Exc. / E.O. items	1,600	156	0	0
EBT	**(8,495)**	**(2,582)**	**8,680**	**10,170**
Tax	(1,553)	(358)	2,382	2,722
RPAT	(8,050)	(2,649)	6,667	8,002
Minority Interest	93	0	0	0
Profit/Loss share of associates	**(1,014)**	**(426)**	**369**	**554**
APAT	**(9,556)**	**(2,805)**	**6,667**	**8,002**

Balance Sheet

(Rs Mn)	FY21A	FY22E	FY23E	FY24E
Sources of Funds				
Equity Capital	1,189	1,420	1,420	1,420
Minority Interest	6,346	5,930	6,227	6,538
Reserves & Surplus	35,295	69,202	75,869	83,871
Net Worth	**36,484**	**70,623**	**77,289**	**85,292**
Total Debt	55,776	39,167	31,357	27,274
Net Deferred Tax Liability	1,857	1,935	2,177	2,527
Total Capital Employed	**100,463**	**117,654**	**117,050**	**121,630**
Applications of Funds				
Net Block	**84,377**	**84,156**	**83,789**	**83,281**
CWIP	1,650	1,933	2,005	1,863
Investments	17,561	18,066	19,220	20,498
Current Assets, Loans & Advances	**11,539**	**26,741**	**29,856**	**33,841**
Inventories	929	1,008	1,006	1,030
Receivables	2,198	2,553	3,937	4,168
Cash and Bank Balances	6,023	20,903	22,427	25,915
Loans and Advances	167	63	63	63
Other Current Assets	2,222	2,213	2,423	2,666
Less: Current Liabilities & Provisions	**14,664**	**13,242**	**17,821**	**17,853**
Payables	3,178	3,873	5,972	6,322
Other Current Liabilities	11,486	9,369	11,848	11,531
sub total				
Net Current Assets	(3,125)	13,499	12,035	15,989
Total Assets	**100,463**	**117,654**	**117,050**	**121,630**

E – Estimates

Important Ratios

Particulars	FY21A	FY22E	FY23E	FY24E
(A) Margins (%)				
Gross Profit Margin	90.9	91.6	91.4	91.4
EBIDTA Margin	(23.0)	13.2	29.3	29.8
EBIT Margin	(49.0)	0.0	20.5	21.2
Tax rate	18.3	13.9	27.4	26.8
Net Profit Margin	(51.1)	(8.7)	14.1	16.0
(B) As Percentage of Net Sales (%)				
COGS	9.1	8.4	8.6	8.6
Employee	56.8	37.6	30.2	30.0
Other	57.1	40.7	31.8	31.5
(C) Measure of Financial Status				
Gross Debt / Equity	1.5	0.6	0.4	0.3
Interest Coverage	(1.9)	0.0	4.5	6.5
Inventory days	22	12	8	8
Debtors days	51	30	30	30
Average Cost of Debt	8.1	9.0	6.1	5.6
Payable days	74	46	46	46
Working Capital days	(72)	161	93	117
FA T/O	0.2	0.4	0.6	0.6
(D) Measures of Investment				
AEPS (Rs)	(6.7)	(2.0)	4.7	5.6
CEPS (Rs)	(3.8)	0.9	7.6	8.7
DPS (Rs)	0.5	0.5	1.0	1.0
Dividend Payout (%)	(7.4)	(25.3)	21.3	17.8
BVPS (Rs)	25.7	49.7	54.4	60.0
RoANW (%)	(20.1)	(4.9)	9.0	9.8
RoACE (%)	(4.5)	1.7	7.2	7.6
RoAIC (%)	(8.3)	0.0	10.1	11.1
(E) Valuation Ratios				
CMP (Rs)	231	231	231	231
P/E	(34.4)	(117.1)	49.3	41.1
Mcap (Rs Mn)	328,539	328,539	328,539	328,539
MCap/ Sales	20.9	10.7	7.0	6.6
EV	378,292	346,803	337,469	329,897
EV/Sales	24.0	11.3	7.2	6.6
EV/EBITDA	(104.6)	85.7	24.4	22.2
P/BV	9.0	4.7	4.3	3.9
Dividend Yield (%)	0.2	0.2	0.4	0.4
(F) Growth Rate (%)				
Revenue	(64.7)	94.0	54.2	5.9
EBITDA	(137.4)	(211.9)	241.5	7.7
EBIT	(236.9)	(99.8)	(74340.3)	9.5
PBT	(314.8)	(69.6)	(436.2)	17.2
APAT	(500.3)	(70.6)	(337.7)	20.0
EPS	(500.3)	(70.6)	(337.7)	20.0

Cash Flow

(Rs Mn)	FY21A	FY22E	FY23E	FY24E
CFO	(2,306)	3,788	15,979	13,490
CFI	(6,321)	32,573	(3,069)	(2,862)
CFF	7,130	(21,480)	(11,386)	(7,139)
FCFF	(9,401)	(335)	12,105	9,823
Opening Cash	7,519	6,023	20,903	22,427
Closing Cash	6,023	20,903	22,427	25,915

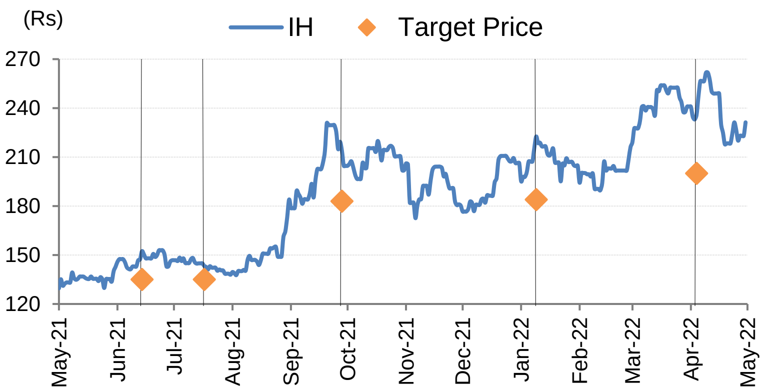
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jul-21	Sell	135	152
Aug-21	Sell	135	143
Oct-21	Sell	183	214
Feb-22	Sell	184	223
Apr-22	Sell	200	236

*Price as on recommendation date

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