

Indian Hotels Company

BUY

'AHVAAN 2025'-A new beginning

Summary

We attended IHCL's Capital Market Day to understand 1) The management's roadmap for IHCL in near term, 2) the industry's performance post 3rd wave and opportunities and challenges ahead and 3) update on IHCL's new initiatives in allied businesses and growth outlook. IHCL introduced AHVAAN 2025 which will focus on IHCL's route map for profitable growth till FY2025/26. Under this, the company would target 1) EBITDA margin of 33% at consolidated level, 2) EBITDA from new brands and management fees to be 35%, 3) to achieve 50%-50% hotel portfolio in terms of owned and managed/leased and 4) to focus on being a zero net debt company. We believe hotel industry has rebounded post hiccup of 3rd Covid-19 wave and the growth across the segments is encouraging. IHCL, being the industry leader, is in a sweet spot to benefit from improving industry trends. Maintain BUY with a TP of Rs278, assigning 22x EV/EBITDA to FY24E.

Key Highlights and Investment Rationale

- **Robust pipeline of assets:** Post Omicron wave, IHCL has shown industry leading recovery with Revpar recovery of 76% compared to 65% of industry. The company has signed ~100 new hotels with 25 Taj, 35 Vivanta & Seleqtions and 40 Ginger and covered 25+ new destinations with new signings. With this, IHCL will expand portfolio of hotels to +300 hotels consisting of 100 Taj, 75 Vivanta & Seleqtions, 125 Ginger.
- **Many growth levers, BUY with a TP of Rs278:** The management guided that it will focus on making itself the most iconic portfolio, most profitable with most valued brands, healthy balance sheet and have highest growth footprint. IHCL's focus on revenue growth, cost optimization, increasing contribution of new initiatives in net sales and EBITDA, strengthening of balance sheet paves the way for promising future in near future. BUY with a TP of Rs278.

TP	Rs278
CMP	Rs231
Potential upside/downside	20%
Previous Rating	BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	(4.0)	12.9	83.1
Rel to Sensex	1.1	18.0	75.6

V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	5.5	8.0
Consensus	4.2	6.1
% difference	29.6	32.1

Key Stock Data

Bloomberg / Reuters	IH IN / IHTL.BO
Sector	Hotels
Shares o/s (mn)	1,420
Market cap. (Rs mn)	328,325
3-m daily avg Trd value(Rs mn)	122.0
52-week high / low	Rs269 / 118
Sensex / Nifty	54,289 / 16,215

Shareholding Pattern (%)

Promoters	38.2
FII	16.0
DII	28.5
Public	17.3

Financial snapshot

Year	FY20	FY21	FY22	FY23E	FY24E
Revenue	44,631	15,752	30,562	45,577	56,743
Change (yoy, %)	(1)	(65)	94	49	25
EBITDA	9,675	(3,618)	4,048	13,217	17,250
Change (yoy, %)	17	(137)	(212)	227	31
EBITDA Margin(%)	21.7	(23.0)	13.2	29.0	30.4
Adj.PAT	3,228	(8,556)	(1,806)	7,799	11,313
EPS (Rs)	2.7	-	-	5.5	8.0
Change (yoy, %)	11.5	-	-	-	45.1
PE(x)	85.2	-	-	42.1	29.0
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.6
EV/EBITDA (x)	30.5	(82.4)	84.0	24.7	18.6
RoE (%)	7.4	(21.4)	(3.4)	10.6	14.1
RoCE (%)	6.6	(8.4)	(0.0)	7.4	11.0

Source: IDBI Capital Research

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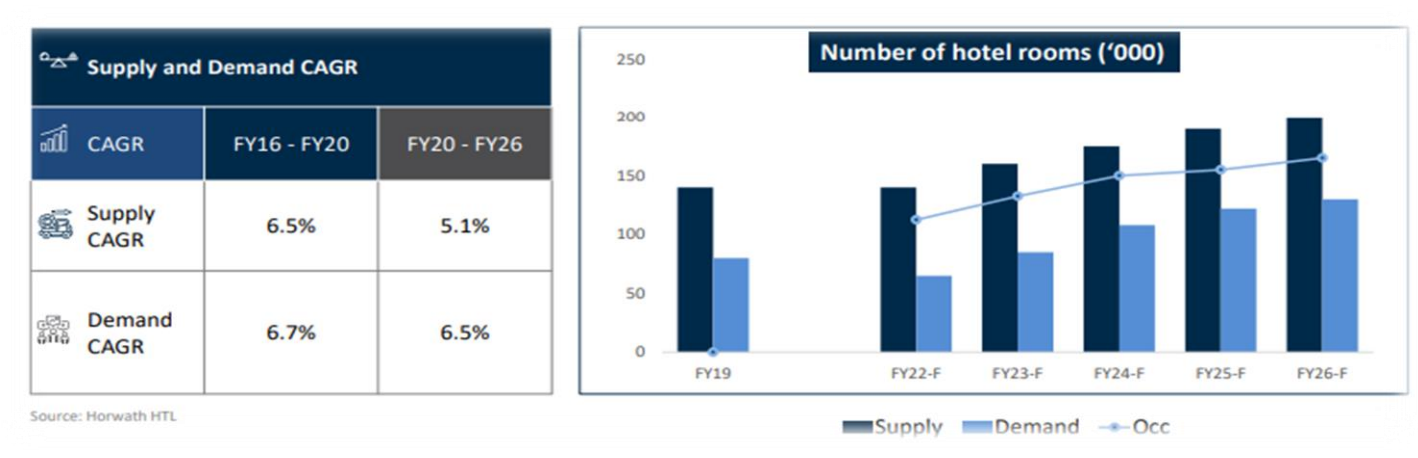
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Investor Meet Highlights:

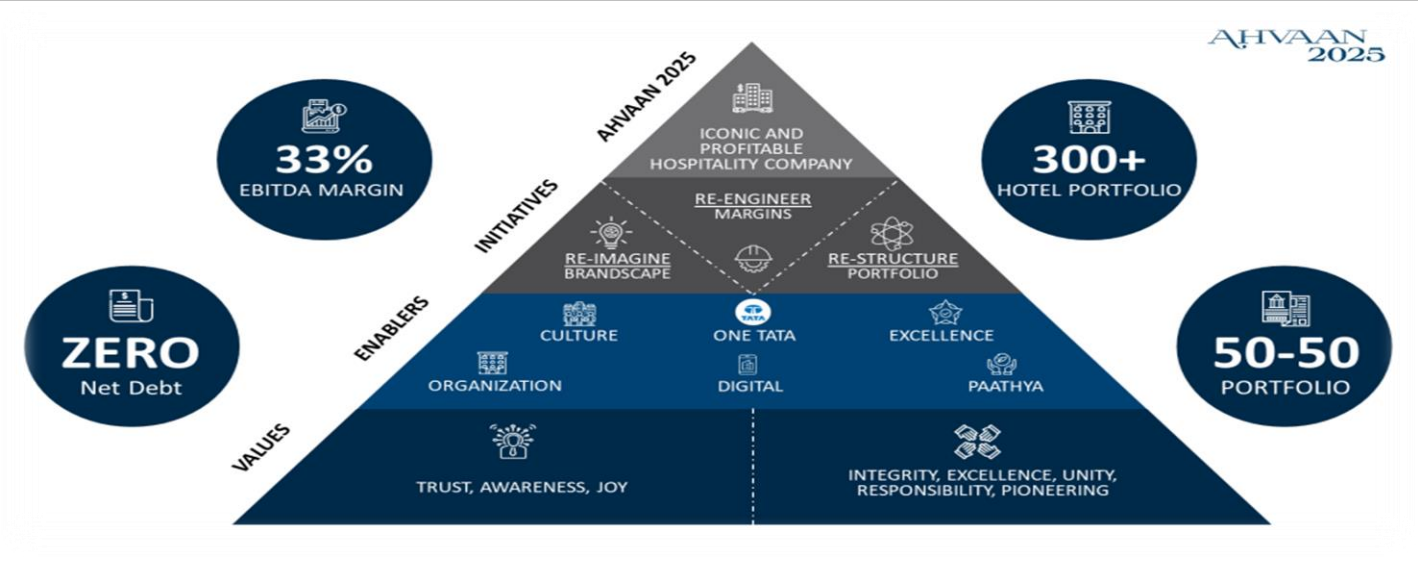
- IHCL introduced AHVAAN 2025 which will focus on IHCL's route map for profitable growth till FY2025/26. The company will expand portfolio of hotels to +300 hotels consisting of 100 Taj, 75 Vivanta & Seleqtions, 125 Ginger & +500 Ama stays. It would target EBITDA margin of 33% and expects EBITDA from new brands and management fees to be 35%. It expects to achieve 50-50 hotel portfolio and focus on being a zero net debt company.
- Revenue growth drivers for IHCL are 1)L-FL growth driven by strong industry recovery. 2) As per management April performance has remained robust and same store Revpar was 133% up compared to April 2019 on all India level. 3) Company is focusing on widening Revpar premium from 1.94 in FY22 to 2+. 4) New F&B concept to drive revenue growth (Seven rivers, paper moon etc). 5) Robust hotel pipeline would lead to growth in incremental management fees. 6) Growth in topline is expected from new brands and businesses such as Ginger, Ama stays, Qmin, The chambers. The Chambers membership fees is expected to grow from Rs850mn in FY22 to potential 150+ under AHVAAN 2025, In next 4 years it expects to achieve management fees of Rs4,000mn. In FY23 company expects to exceed FY19/20 performance by double digit.
- Revenue contribution from Traditional Businesses/New Brands, Initiatives & Management Fees is expected to be 75%/25% in FY26 and EBITDA margin contribution is expected to be 65%/35% in FY26.
- Company stated it will focus on corporate overheads and under AHVAAN 2025 it will keep it under 5% compared to 8% in FY20.
- Company stated by leveraging the Tata ecosystem it has potential to contribute 30% of IHCL's enterprise revenue in 3 years and synergize with Tata group aviation companies for driving base occupancies, curated trips ,Joint promotions and Air Catering.
- For Sea rock company stated its vision is to have 1,200 rooms between Lands End & Sea Rock and aims to achieve a revenue of Rs10,000mn.
- Company has signed ~100 new hotels. With new signings it has covered 25+ new destinations. It expects to add value through strategic projects such as the Flagship Ginger Santacruz and Ginger & Vivanta in Kevadia, Gujarat.

Exhibit 1: All India - Rooms Supply Vs Demand – Current And Future



Source: Company; IDBI Capital Research

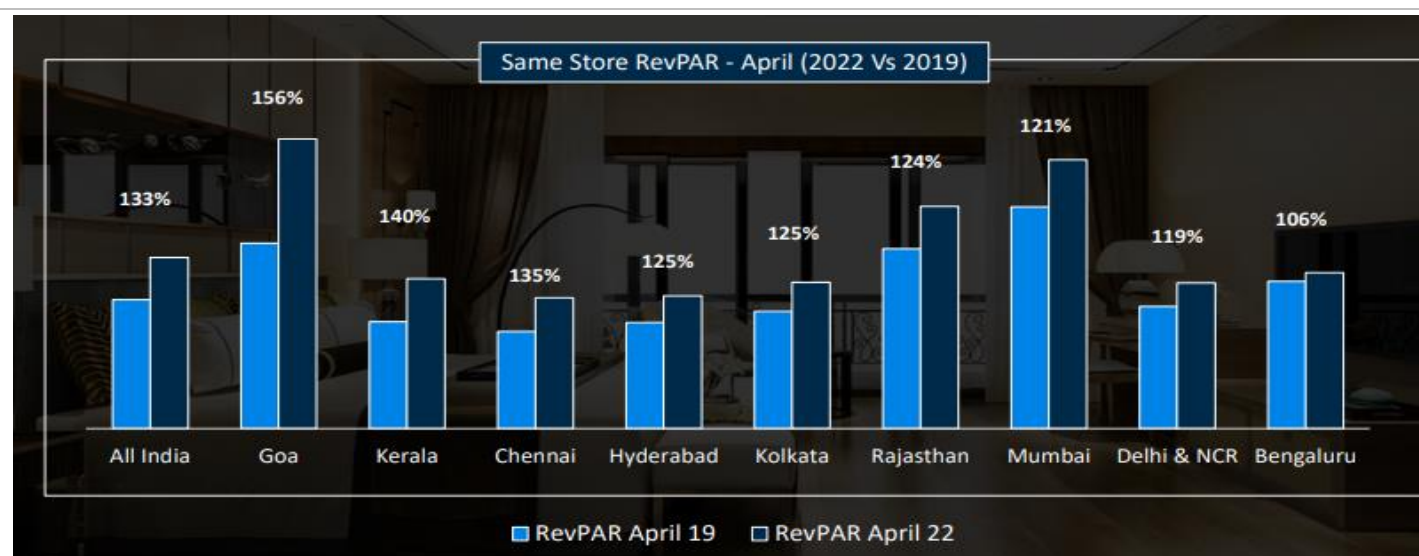
Exhibit 2: AHVAAN 2025



Source: Company; IDBI Capital Research







Exhibit 3: IHCL well placed to revive and surge ahead

Source: Company; IDBI Capital Research

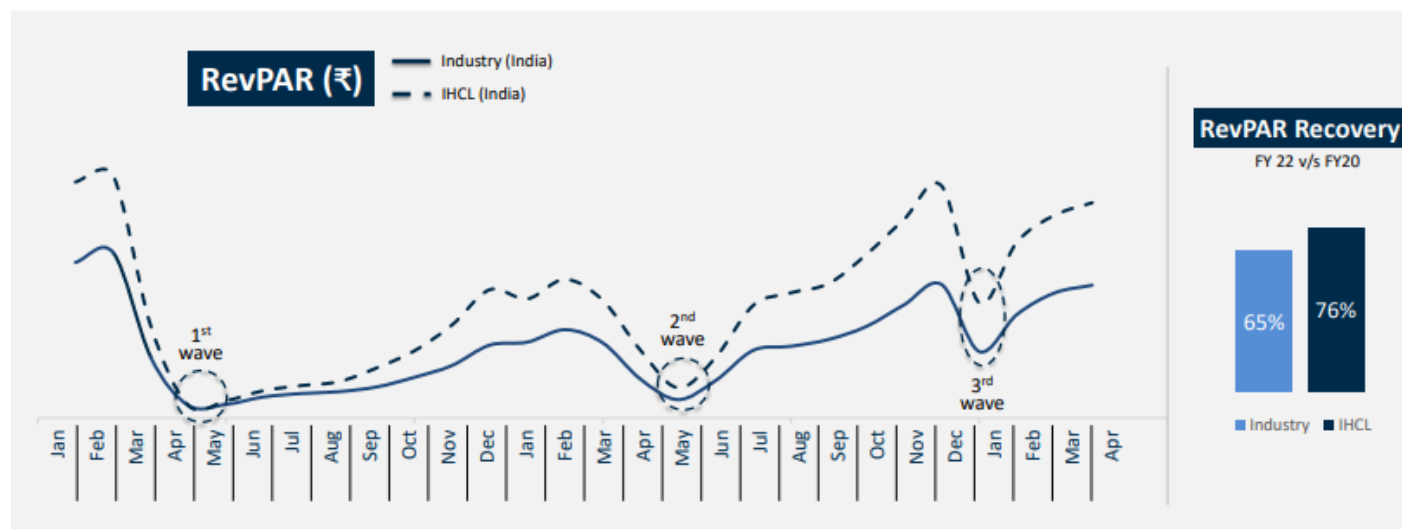
Exhibit 4: April 2022 same store Revpar has exceeded April 2019

Source: Company; IDBI Capital Research

Exhibit 5: Focus On Free Cash Flow

IHCL CONSOLIDATED		% of Revenue
 Total Revenue		100%
 EBITDA		30 - 35%
 Fixed Leases, Taxes, Working Capital & Dividends		10%
 Normal Capex & Renovations		5%
 Cash Flow before Expansion Capex		15% - 20%
 Capex for Expansion Projects/Inorganic Opportunities		10%
Free Cash Flow Accruals Targeted		5% - 10%

Source: Company; IDBI Capital Research

Exhibit 6: Industry leading recovery

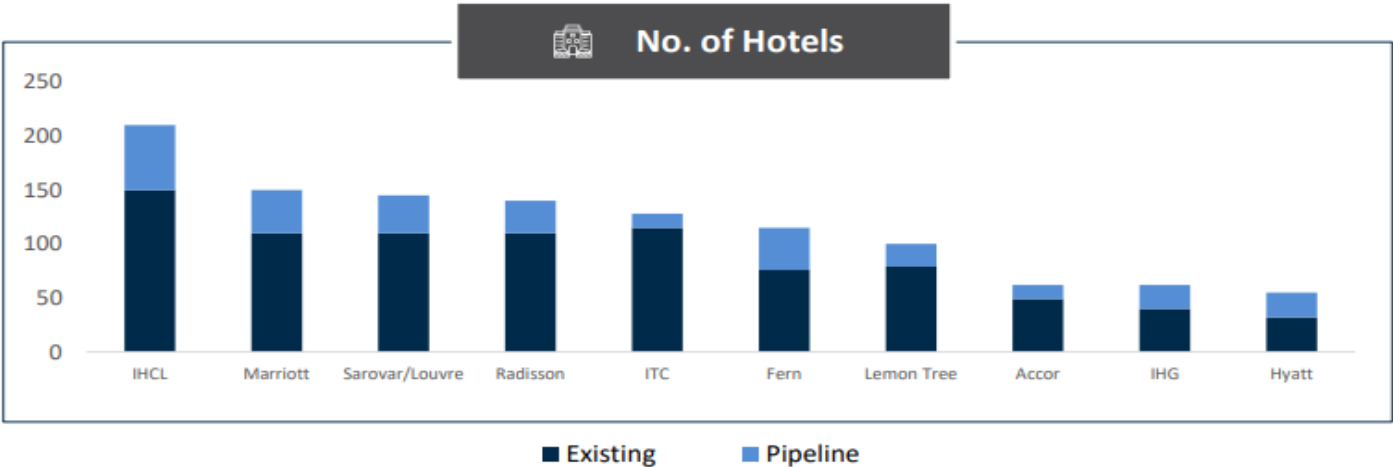
Source: Company; IDBI Capital Research

Exhibit 7: Focus On Optimal Manning



Source: Company; IDBI Capital Research

Exhibit 8: Industry leading portfolio in India



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	45,120	44,631	15,752	30,562	45,577	56,743
<i>Change (yoy, %)</i>	10.0	(1.1)	(64.7)	94.0	49.1	24.5
Operating expenses	(36,822)	(34,956)	(19,369)	(26,515)	(32,360)	(39,493)
EBITDA	8,298	9,675	(3,618)	4,048	13,217	17,250
<i>Change (yoy, %)</i>	23.8	16.6	-137.4	-211.9	226.6	30.5
<i>Margin (%)</i>	18.4	21.7	-23.0	13.2	29.0	30.4
Depreciation	(3,279)	(4,042)	(4,096)	(4,061)	(4,696)	(4,971)
EBIT	5,019	5,633	(7,714)	(13)	8,522	12,279
Interest paid	(1,937)	(3,411)	(4,028)	(4,277)	(1,198)	(341)
Other income	870	1,324	2,647	2,552	2,629	2,711
Pre-tax profit	4,018	3,955	(9,095)	(1,738)	9,953	14,649
Tax	(1,571)	(448)	1,553	358	(2,253)	(3,435)
<i>Effective tax rate (%)</i>	39.1	11.3	17.1	20.6	22.6	23.5
Minority Interest	515.3	129.7	(1,014.2)	(425.7)	100.0	100.0
Net profit	2,962	3,637	(8,556)	(1,806)	7,799	11,313
Exceptional items	66	410	-	-	-	-
Adjusted net profit	2,896	3,228	(8,556)	(1,806)	7,799	11,313
<i>Change (yoy, %)</i>	269.6	11.5	(365.1)	(78.9)	(531.9)	45.1
EPS	2.4	2.7	-	-	5.5	8.0
Dividend per sh	0.5	0.6	0.4	0.4	0.5	1.4
<i>Dividend Payout %</i>	25.1	25.0	(7.5)	(38.4)	10.3	21.4

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Shareholders' funds	43,480	43,568	36,484	70,623	76,516	84,312
Share capital	1,189	1,189	1,189	1,420	1,420	1,420
Reserves & surplus	42,291	42,379	35,295	69,202	75,096	82,892
Total Debt	17,232	22,921	24,664	23,628	7,989	2,275
Other liabilities	5,566	23,050	20,052	20,303	19,986	19,488
Curr Liab & prov	21,561	17,995	27,582	10,413	11,262	12,239
Current liabilities	18,733	14,902	24,607	7,503	8,217	9,042
Provisions	2,828	3,093	2,975	2,909	3,045	3,198
Total liabilities	44,359	63,966	72,297	54,344	39,237	34,003
Total equity & liabilities	95,838	1,15,183	1,15,127	1,30,896	1,21,683	1,24,245
Net fixed assets	53,491	55,138	58,930	59,192	59,132	59,306
Investments	5,175	4,530	5,394	5,166	5,579	6,026
Other non-curr assets	25,583	41,141	39,264	39,797	40,285	40,858
Current assets	11,588	14,373	11,539	26,741	16,687	18,055
Inventories	804	936	929	1,008	1,099	1,220
Sundry Debtors	3,214	2,900	2,198	2,553	2,783	3,062
Cash and Bank	2,409	3,156	1,536	11,878	9,396	9,644
Loans and advances	1,636	1,658	1,056	865	969	1,085
Total assets	95,838	1,15,183	1,15,127	1,30,896	1,21,683	1,24,245

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Pre-tax profit	4,018	3,955	(9,095)	(1,738)	9,953	14,649
Depreciation	3,229	4,042	4,096	4,061	4,696	4,971
Tax paid	(1,460)	(2,418)	51	53	(2,591)	(3,951)
Chg in working capital	5,856	(3,406)	10,897	(17,412)	426	462
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	11,643	2,174	5,949	(15,037)	12,482	16,130
Capital expenditure	6,860	(5,689)	(7,888)	(4,323)	(4,635)	(5,145)
Chg in investments	6,634	645	(864)	228	(413)	(446)
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	13,493	(5,044)	(8,752)	(4,095)	(5,049)	(5,591)
Equity raised/(repaid)	(0)	-	-	42,413	-	-
Debt raised/(repaid)	(6,110)	5,689	1,743	(1,036)	(15,639)	(5,714)
Dividend (incl. tax)	(726)	(806)	(645)	(693)	(806)	(2,417)
Chg in minorities	740	(220)	(2,318)	(841)	100	100
Other financing activities	(19,334)	(1,046)	2,403	58,833	6,429	(2,259)
Cash flow from financing (c)	(25,430)	3,617	1,184	98,676	(9,916)	(10,291)
Net chg in cash (a+b+c)	(294)	747	(1,620)	79,544	(2,482)	249

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (Rs)	35.2	35.3	29.4	49.7	53.9	59.4
Adj EPS (Rs)	2.4	2.7	-	-	5.5	8.0
Adj EPS growth (%)	269.6	11.5	-	-	-	45.1
EBITDA margin (%)	18.4	21.7	(23.0)	13.2	29.0	30.4
Pre-tax margin (%)	8.9	8.9	(57.7)	(5.7)	21.8	25.8
Net Debt/Equity (x)	0.3	0.5	0.6	0.2	(0.0)	(0.1)
ROCE (%)	6.6	6.6	(8.4)	(0.0)	7.4	11.0
ROE (%)	6.8	7.4	(21.4)	(3.4)	10.6	14.1

DuPont Analysis

Asset turnover (x)	0.5	0.4	0.1	0.2	0.4	0.5
Leverage factor (x)	2.2	2.4	2.9	2.3	1.7	1.5
Net margin (%)	6.4	7.2	(54.3)	(5.9)	17.1	19.9

Working Capital & Liquidity ratio

Inventory days	6.5	7.7	22	12	9	8
Receivable days	26.0	23.7	51	30	22	20
Payable days	32.2	40.7	60	53	48	44

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	94.9	85.2	-	-	42.1	29.0
Price/Book value (x)	6.6	6.5	7.9	4.7	4.3	3.9
EV/Net sales (x)	6.4	6.6	18.9	11.1	7.2	5.7
EV/EBITDA (x)	34.9	30.5	(82.4)	84.0	24.7	18.6
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2	0.6

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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