

BSE SENSEX
35,353

S&P CNX
10,604

CMP: INR137 TP: INR189 (+38%)

Buy



Stock Info

Bloomberg	IH IN
Equity Shares (m)	1,189
M.Cap.(INRb)/(USD\$b)	163.4 / 2.3
52-Week Range (INR)	156 / 110
1, 6, 12 Rel. Per (%)	3/14/-5
12M Avg Val (INR M)	213
Free float (%)	60.9

Financials Snapshot (INR b)

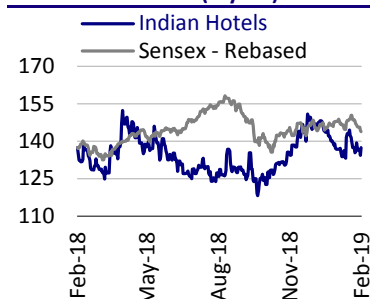
Y/E Mar	2019E	2020E	2021E
Sales	45.3	49.4	53.9
EBITDA	8.3	10.5	12.9
NP	2.9	3.7	5.0
EPS (INR)	2.4	3.1	4.2
EBITDA Gr. (%)	24.1	26.0	23.1
EPS Gr. (%)	270.2	26.8	36.7
RoE (%)	6.8	8.0	10.2
RoCE (%)	5.7	7.6	9.4
EV/ EBITDA (x)	22.5	17.5	14.0
P/E (x)	56.3	44.4	32.5

Shareholding pattern (%)

As On	Dec-18	Sep-18	Dec-17
Promoter	39.1	39.1	39.1
DII	28.2	27.2	24.9
FII	14.0	14.6	15.4
Others	18.7	19.1	20.6

FII Includes depository receipts

Stock Performance (1-year)



On track to turn ‘Aspiration 2022’ into reality

Industry dynamics favorable

We attended Indian Hotels Company’s (IH) Capital Markets Day. Key highlights:

- IH remains confident about achieving its ‘Aspiration 2022’ goal of being an iconic and profitable hospitality company.
- As part of this pivotal program, the company targets EBITDA margin expansion of 800bp to 25%, which will be supported by (a) industry tailwinds (IH’s ARR increased 8% in the free individual traveler segment; took an ARR hike of 8.5% in the corporate segment in Jan’19) and (b) cost reduction (by 3-5%).
- IH rebranded and relaunched the Ginger Goa hotel in Dec’18, post which the ARR has increased by 30-40%; EBITDA margin is also likely to improve as costs have not increased proportionally. In FY20, the company plans to rebrand 14 Ginger hotels.
- IH intends to centralize its laundry and other common facilities. It has hired Siemens to reduce power cost at its 20 key properties.
- The company plans to open a 400-room Ginger hotel on its existing land in Mumbai with a capex of INR2b. At the Connaught Hotel, it plans to increase rooms to 104 from 85 now and put one floor for commercial leasing.

‘Aspiration 2022’ arrow to strike the target led by industry tailwinds

In the last year’s Capital Market Day Meet, IH had shared its ‘Aspiration 2022’ vision to achieve EBITDA margin expansion of 8% by improving revenue by 3-4% and reducing cost by 3-5%. This will be supported by favorable industry dynamics. According to a STR Horwath report, occupancy of domestic hotels stood at 65.3% (+0.2pp) with ARR growth of 1.8% to INR5,846 in 2018. IH recorded ARR growth of 8% in the FIT segment; it took an ARR hike of 8.5% in the corporate segment (40% of customer mix) in Jan’19.

Old wine in new bottle tasting good – Goa Ginger hotel ARR up 30-40%

In Dec’18, IH rebranded and relaunched the Ginger Goa hotel, following which ARR increased by 30-40%. We note that Ginger hotels are operated by the company’s subsidiary, which contributes 4%/2% of overall revenue/EBITDA (as of FY18). The flow through to EBITDA will be higher as incremental cost involved in operating rooms has not increased in proportion to ARR growth. In FY20, IH intends to rebrand 14 Ginger hotels and open 4-5 Ginger hotels in key micro-markets. This strategy augurs well for long-term profitability, in our view.

Cost measures to support margins

The company aims to achieve EBITDA margin expansion of 8% by 2022, of which 3-5% would come from cost measures. For instance, IH plans to centralize its laundry and other common facilities for hotels located in the same vicinity, which would not only lower costs but also allow it to dedicate more area for rooms/F&B. IH has hired Siemens to reduce its power cost at its 20 key properties.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Focusing on monetizing existing landbank

IH plans to open a 400-room Ginger hotel on its existing land in Mumbai with a capex of INR2b. At the Connaught Hotel, it plans to increase rooms to 104 from 85 now and put one floor for commercial leasing to utilize space efficiently. Moreover, only one approval is pending for the Sea Rock property, which it expects to receive in a year. The company also plans to monetize its 133 residential apartments, of which it has already sold 3-4 units.

Employing asset-light model in hotel addition

In 9MFY19, IH signed for 20 hotels, of which only one hotel (Connaught Hotel, New Delhi) is owned and the rest are under management contract. Unless a new property offers a strategic locational advantage, IH will follow the management contract route only.

Valuation and view

We maintain our estimates – revenue/EBITDA CAGR (FY18-21) of 10%/24% to INR53.9b/INR12.9b. In our view, IH is well on track to achieve its ‘Aspiration 2022’ goal and other strategic initiatives like rebranding of Ginger/monetizing the existing landbank. Moreover, IH is witnessing ARR growth of 8% in the FIT segment and has taken an ARR hike of 8.5% in the corporate segment in Jan’19 (in line with the view in [our initiation report](#)). Thus, the underlying thesis of favorable demand-supply-led growth in the Indian hospitality industry remains intact. We value the stock at 20x Dec’20E EV/EBITDA (on a one-year forward EV/EBITDA basis, the stock has traded at a 10-year average of 21.4x). On an SOTP (consol. and JV & associate) basis, we arrive at a target price of INR189, implying an upside of 38%. Maintain **Buy**.

Exhibit 1: Valuation methodology

Particulars	Methodology	Metrics	Dec FY21E	Multiple (x)	Value (INRm)	Value/ share (INR)
IHCL- ex JV/ Associate						
EV	EV/EBITDA (x)	EBITDA	12,068	20.0	241,363	203
Less: Net Debt					-12,720	(11)
Less: Minority Interest					-7,774	(7)
Sub Total					220,869	186
JV/Associate						
Taj GVK (IHCL's share - 25.5%) - JV	20% discount to MCAP	Attributable Mcap	2,778	0.8	2,222	1.9
Oriental Hotel (IHCL's share - 35.7%) - Associate	20% discount to MCAP	Attributable Mcap	2,550	0.8	2,040	1.7
Sub Total					4,263	3.6
Target Price					225,132	189
CMP						137
Upside (%)						38%

Source: MOSL

Other key takeaways from the Capital Market Day

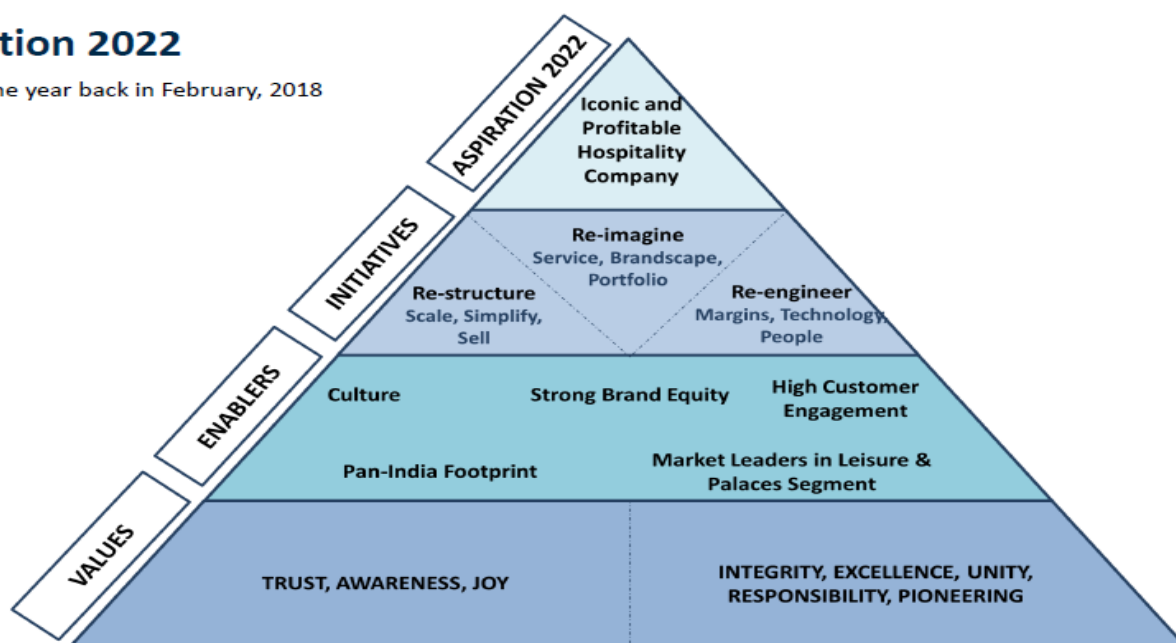
- Convention centers coming up in Mumbai, Delhi (Pragati Maidan) and Dwarka would be key in driving room demand in those markets.
- In 2018, despite new inventory coming in the Bangalore market, ARR's improved but occupancy dipped (new inventory coming online led to a dip in occupancy).
- GST has provided a level-playing field for luxury hotels in Delhi as demand had shifted to Gurgaon (as it had lower luxury tax).
- Mumbai (+5.2%), Pune (11.1%), New Delhi (+11.6%) and Hyderabad (+8.6%) markets witnessed healthy ARR growth in 2018, according to STR Horwath.
- Domestic customers provide occupancy support, but international customers provide volume and ARR support.
- 80% of Indian hotels are chain-affiliated ones.
- The company has launched homestay under 'Ama' brand with 9 bungalows (7 on Coorg and 2 in Chikmagalur). IH will manage guest houses of TATA group. One general manager will take care of seven guest houses.
- F&B business accounts for >40% of total domestic revenue. The contribution of F&B income is higher in the domestic market due to high income from wedding segment. Wedding segment revenue grew at 15% YoY. F&B is operated through 380+ restaurants and bars across networks. Going ahead, IH intends to leverage brand and explore partnerships to drive growth.
- As per STR Horwath, luxury and upper upscale accounted for 44% of total room inventory in 2012, which has declined to 35% in 2018.
- The company had bid for two hotel properties in Hyderabad which were in NCLT with strategic partnership in SSG.
- Chambers is India's leading business club with ~2,000 members. It is operated across six locations in India and one in Dubai. It plans to re-launch the membership for Chamber by enhancing benefits and facilities which would aid in generating cash flows.
- 77% of the room inventory is in Taj and Ginger brand.
- Jiva operates 66 spas and 37 salons. Going ahead, it intends to launch new spas and wellness programs.
- Company will launch a new website for Vivanta and SeleQtions brand (in March 2019). They have already launched for Taj and Ginger (with 360 degree view of hotel room).
- IH intends to focus on refurbishment, which would require lower capex. Company goes for renovation when entire room and hotel need to be renovated.
- Khazana – Operated through 13 outlets which promote Indian Art forms, handicrafts and heritage. Going ahead, it intends to increase store expansion, and have exclusive curated product lines.
- IH operates 33% of its hotels in Maharashtra, Karnataka and Delhi NCR (operates 156 hotels across India).
- New openings - Taj Aravali Resort & Spa, Udaipur, Taj TheogResort & Spa, Shimla and Vivanta Kathmandu with total keys of 301.
- Taj SATS is the market leader in Indian air catering business with 42% market share (prepares 23 million meals annually). There is huge opportunity in air catering business as air traffic is growing at 26% annually.

- IH intends to monetize its assets through: (i) sales and manage back, (ii) unlocking value of landbank – sale / new build, (iii) exploring sale & lease back opportunities, (iv) sale of non-core assets and (v) exploring alliances with funds and development partners.
- IH intends to simplify its holding structure, which would also aid in reducing cost.
- Higher unbranded room inventory associating with international brand will have execution risk.
- It targets net debt to EBITDA of ~2.0x v/s 2.3x now.

Exhibit 2: Aspiration 2022

Aspiration 2022

Unveiled one year back in February, 2018



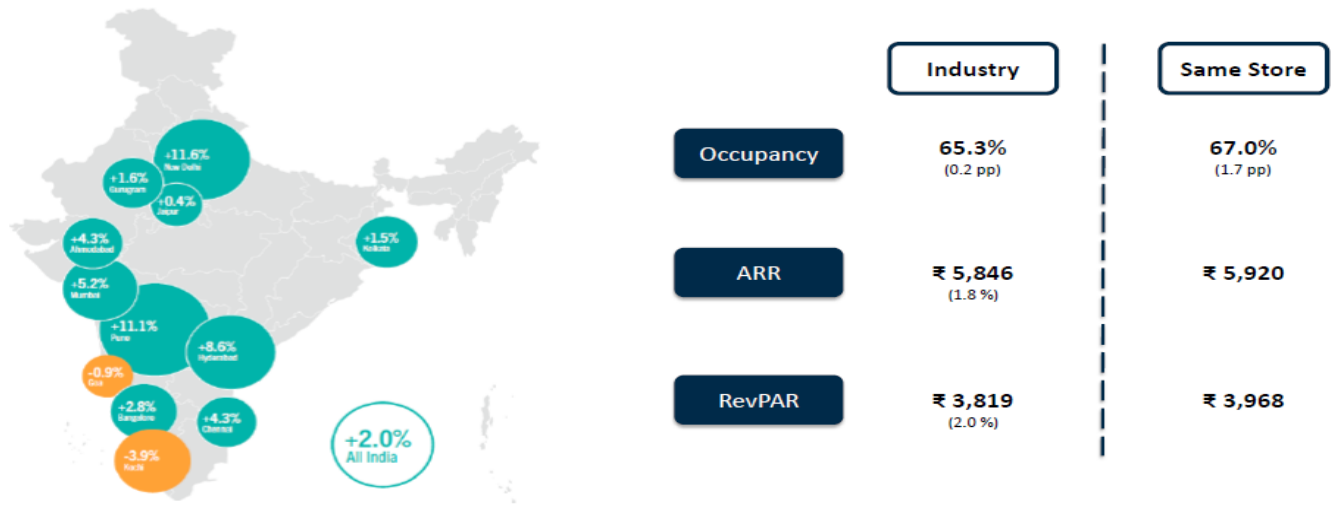
Source: Company, MOSL

Exhibit 3: Targets margin expansion of 8% by 2022

Particulars	Margin Improvement
Revenue RevPAR Growth Other Operating Income Management Fee Income Incremental Income from New Inventory	} 3 to 4 %
Costs Operational Payroll Procurements (Raw Materials, Stores & Supplies) Corporate Overheads Admin and General Expenses Fuel, Power & Light Asset Contract Costs	
EBITDA Margin Improvement	8.0%

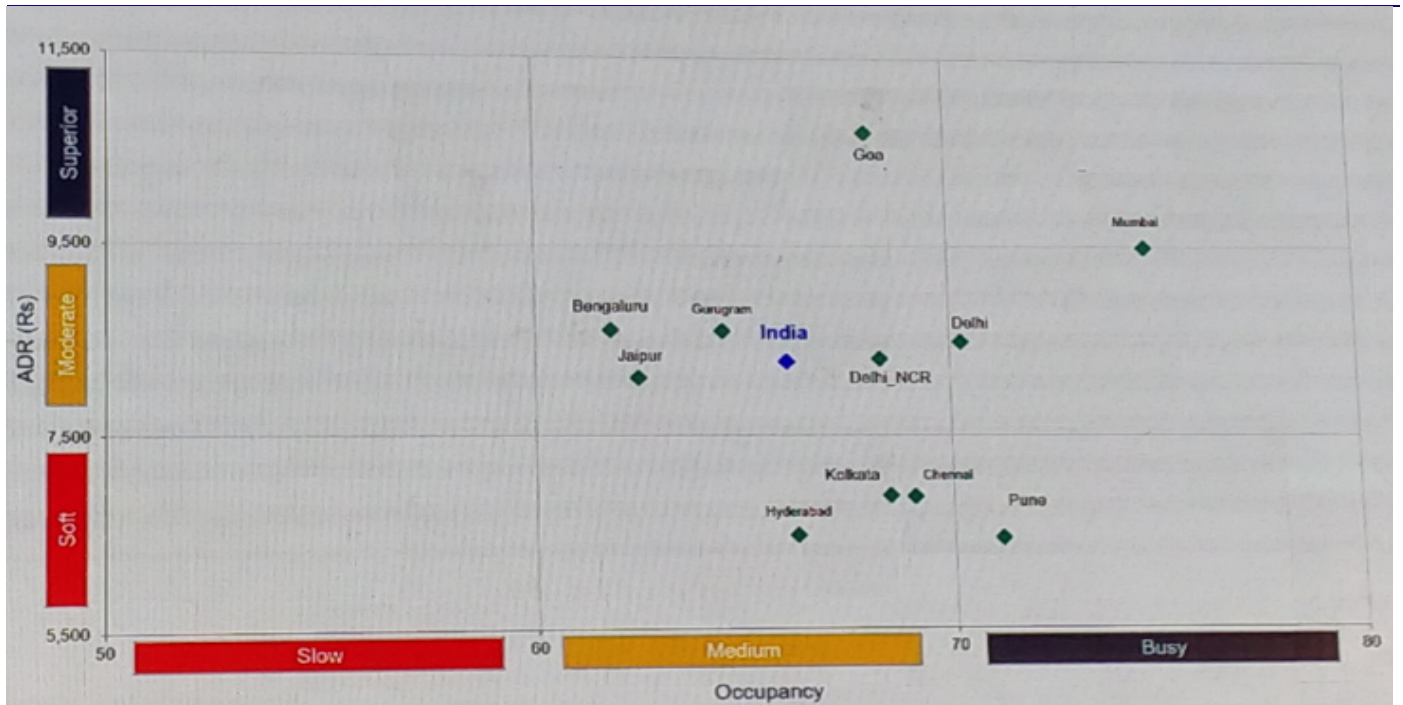
Source: Company, MOSL

Exhibit 4: ARRr improving across Indian hospitality market



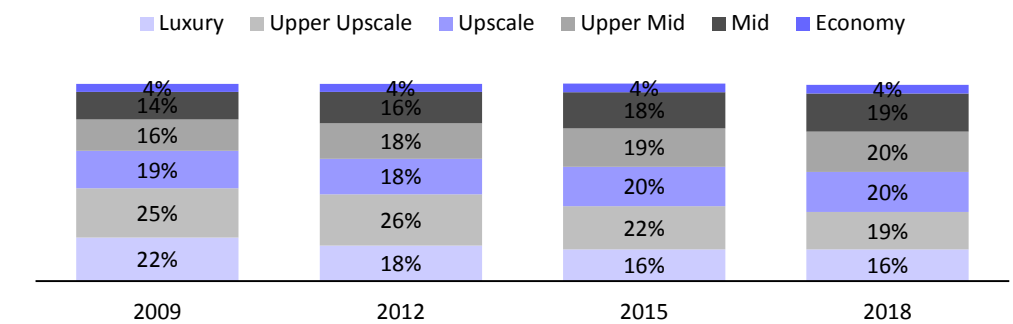
Source: STR Horwath, Company, MOSL

Exhibit 5: Luxury and upper upscale performance of cities



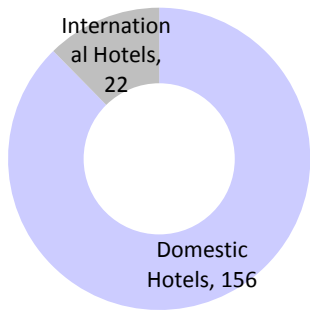
Source: STR Horwath, Company, MOSL

Exhibit 6: Hotel supply evolution over years



Source: STR Horwath, Company, MOSL

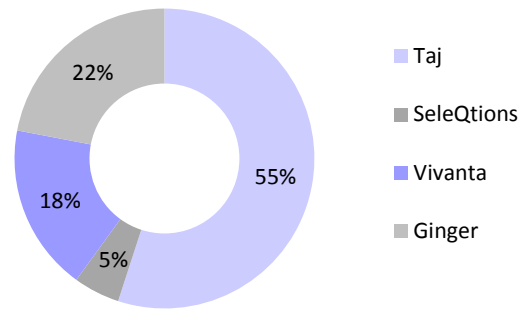
Exhibit 7: IH's portfolio of hotels (178 hotels)



* Includes hotels in pipeline

Source: Company, MOSL

Exhibit 8: Brand split



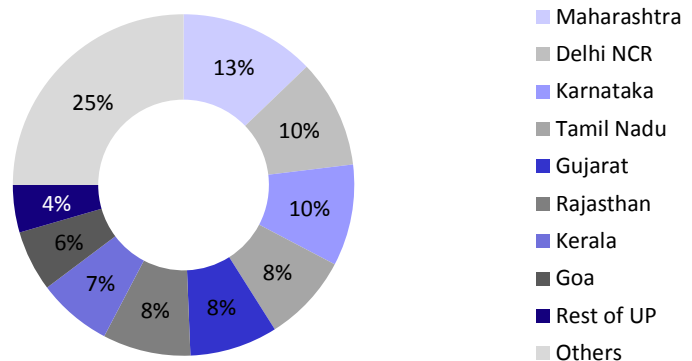
Source: Company, MOSL

Exhibit 9: IH's journey so far

	2015 / 16	2016 / 17	2017 / 18	Now
Industry uptick	✗	✗	✓	✓
Balance Sheet strength	✗	✗	✓	✓
Strategic Clarity	✗	✗	✓	✓
Delivery of Performance	✗	✗	✗	✓
Development Momentum	✗	✗	✗	✓

Source: Company, MOSL

Exhibit 10: Geographic presence of IH (156 hotels)



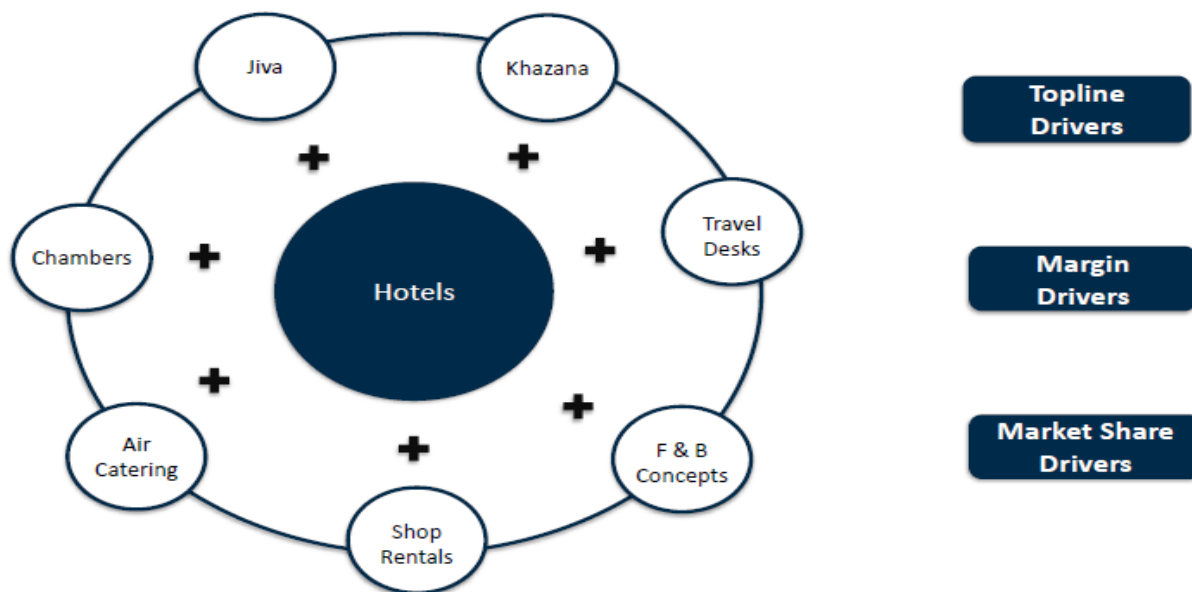
Source: Company, MOSL

Exhibit 11: 2900 rooms signed in 9MFY19

Taj		SeleQtions		Vivanta		Ginger	
Location	Rooms	Location	Rooms	Location	Rooms	Location	Rooms
Pawna Dam, Lonavla	145	Connaught Hotel, New Delhi	85	Katra	80	Vizag	56
Makkah	340	Cidade de Goa	207	Vadodara Expansion	60	Jhansi	76
Taj Bangalore Expansion	220			Heathrow Airport	108	Noida	119
Deira Water Front, Dubai	200			Jhamel, Kathmandu	111	Bharuch	55
Udaipur Expansion	80			Bhubaneswar	137	Margao	47
Taj Lucknow	185					Nashik	56
Taj Alwar	170					Srinagar	64
Taj at Cidade de Goa	299						

Source: Company, MOSL

Exhibit 12: An ecosystem for revenue and margin growth



Source: Company, MOSL

Exhibit 13: Approach to funding going ahead

Cash Requirement	High	<p>Ginger Portfolio</p> <ul style="list-style-type: none"> Recapitalised Ginger with Rs. 75 crores Sale & Lease Back to generate cash for renovations without further capital from IHCL 	<p>Special Situations</p> <ul style="list-style-type: none"> Explored NCLT Bid with SSG
	Low	<p>Piem, OHL & other Associates</p> <ul style="list-style-type: none"> All Group Companies beginning to generate cash. US losses reducing. 	<p>Current IHCL Standalone Portfolio</p> <ul style="list-style-type: none"> Cash Flows to be used for renovation Sweat IHCL Balance Sheet
		Low	High
		Cash Generation	

Source: Company, MOSL

Financials and Valuations

Consolidated - Income Statement							(INR Million)
Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Total Income from Operations	41,886	40,230	40,206	41,036	45,255	49,395	53,892
Change (%)	3.0	-4.0	-0.1	2.1	10.3	9.1	9.1
Food and beverages consumed	4,431	3,669	3,640	3,764	4,070	4,149	4,365
Employees Cost	14,625	14,233	13,647	13,466	14,619	15,598	16,667
Power & Fuel Cost	3,204	2,754	2,586	2,591	2,761	2,914	3,018
Licence Fees	2,096	2,408	2,502	2,544	2,806	3,013	3,252
Other Expenses	12,645	11,644	11,736	11,967	12,677	13,238	13,689
Total Expenditure	37,001	34,709	34,110	34,332	36,933	38,912	40,990
% of Sales	88.3	86.3	84.8	83.7	81.6	78.8	76.1
EBITDA	4,886	5,521	6,096	6,704	8,322	10,482	12,902
Margin (%)	11.7	13.7	15.2	16.3	18.4	21.2	23.9
Depreciation	2,913	2,848	2,994	3,012	3,330	3,504	3,682
EBIT	1,973	2,673	3,102	3,692	4,992	6,979	9,220
Int. and Finance Charges	1,756	3,756	3,238	2,690	1,917	1,856	1,793
Other Income	987	997	549	617	682	744	812
PBT bef. EO Exp.	1,204	-86	413	1,618	3,756	5,866	8,239
EO Items	-3,529	-827	-108	225	-82	0	0
PBT after EO Exp.	-2,325	-913	306	1,843	3,675	5,866	8,239
Total Tax	1,146	906	1,137	1,211	1,464	2,640	3,708
Tax Rate (%)	-49.3	-99.3	372.2	65.7	39.8	45.0	45.0
Minority Interest	310	493	-200	-376	-611	-455	-501
Reported PAT	-3,781	-2,312	-632	1,009	2,821	3,682	5,032
Adjusted PAT	-252	-1,485	-524	784	2,903	3,682	5,032
Change (%)	NA	NA	NA	NA	270.2	26.8	36.7
Margin (%)	-0.6	-3.7	-1.3	1.9	6.4	7.5	9.3

Consolidated - Balance Sheet							(INR Million)
Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Equity Share Capital	808	989	989	1,189	1,189	1,189	1,189
Total Reserves	21,465	24,813	24,188	40,622	43,007	46,109	50,415
Net Worth	22,272	25,803	25,177	41,811	44,197	47,298	51,605
Minority Interest	7,378	7,429	7,378	7,774	7,774	7,774	7,774
Total Loans	50,741	45,260	33,830	24,270	22,914	22,364	21,364
Deferred Tax Liabilities	2,516	2,382	2,820	3,563	3,563	3,563	3,563
Capital Employed	82,908	80,874	69,206	77,418	78,448	80,999	84,306
Gross Block	86,887	64,751	57,923	63,356	66,682	70,147	73,640
Less: Accum. Deprn.	28,727	2,661	5,506	7,385	10,715	14,218	17,900
Net Fixed Assets	58,160	62,090	52,417	55,971	55,967	55,929	55,740
Goodwill on Consolidation	4,832	5,527	5,737	5,655	5,655	5,655	5,655
Capital WIP	3,057	2,900	2,227	1,970	2,144	2,179	2,186
Total Investments	15,869	15,152	12,437	15,965	15,965	17,965	19,965
Curr. Assets, Loans&Adv.	16,951	12,305	13,173	14,184	16,141	18,145	20,656
Inventory	1,030	802	804	857	911	959	1,123
Account Receivables	3,029	2,420	2,721	3,286	3,623	3,955	4,429
Cash and Bank Balance	5,035	1,825	2,471	2,703	3,461	4,339	4,864
Loans and Advances	7,857	7,258	7,177	7,338	8,146	8,891	10,239
Curr. Liability & Prov.	15,961	17,099	16,785	16,328	17,425	18,873	19,896
Account Payables	3,645	3,240	3,370	3,513	3,845	4,051	4,267
Other Current Liabilities	10,711	11,846	11,305	10,349	10,861	11,855	12,934
Provisions	1,605	2,013	2,110	2,465	2,719	2,967	2,695
Net Current Assets	990	-4,794	-3,612	-2,143	-1,284	-729	760
Appl. of Funds	82,908	80,874	69,206	77,418	78,448	80,999	84,306

Financials and Valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Basic (INR)							
EPS	-0.2	-1.2	-0.4	0.7	2.4	3.1	4.2
Cash EPS	2.2	1.1	2.1	3.2	5.2	6.0	7.3
BV/Share	18.7	21.7	21.2	35.2	37.2	39.8	43.4
DPS	0.0	0.0	0.2	0.3	0.3	0.4	0.5
Payout (%)	-0.9	0.0	-53.9	41.9	15.4	15.8	14.4
Valuation (x)							
P/E			NA	208.4	56.3	44.4	32.5
Cash P/E			66.2	43.0	26.2	22.7	18.8
P/BV			6.5	3.9	3.7	3.5	3.2
EV/Sales			5.0	4.6	4.1	3.7	3.3
EV/EBITDA			33.0	28.3	22.5	17.5	14.0
Dividend Yield (%)			0.2	0.2	0.2	0.3	0.4
FCF per share			8.0	-0.1	2.7	3.9	4.0
EV/ Adj Rooms (INRm)			21.1	19.2	18.7	17.9	17.1
EBITDA/ Room (INR)			4,107	4,454	5,246	6,233	7,141
Return Ratios (%)							
RoE	-1.0	-6.2	-2.1	2.3	6.8	8.0	10.2
RoCE	2.8	3.4	3.8	4.6	5.7	7.6	9.4
RoIC	5.1	8.9	-14.9	2.3	5.3	6.8	8.9
Working Capital Ratios							
Fixed Asset Turnover (x)	0.5	0.6	0.7	0.6	0.7	0.7	0.7
Asset Turnover (x)	0.5	0.5	0.6	0.5	0.6	0.6	0.6
Inventory (Days)	9	7	7	8	7	7	8
Debtor (Days)	26	22	25	29	29	29	30
Creditor (Days)	32	29	31	31	31	30	29
Leverage Ratio (x)							
Current Ratio	1.1	0.7	0.8	0.9	0.9	1.0	1.0
Interest Cover Ratio	1.1	0.7	1.0	1.4	2.6	3.8	5.1
Net Debt/Equity	1.8	1.6	1.2	0.4	0.4	0.3	0.2

Cash Flow Statement

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
(INR M)							
OP/(Loss) before Tax	-2,325	-912	306	1,618	3,675	5,866	8,239
Depreciation	2,913	2,848	2,994	3,012	3,330	3,504	3,682
Interest & Finance Charges	1,267	3,293	3,015	2,073	1,236	1,113	981
Direct Taxes Paid	-197	-900	-868	-1,425	-1,464	-2,640	-3,708
(Inc)/Dec in WC	-206	948	-599	-1,033	-101	323	-964
CF from Operations	1,452	5,278	4,848	4,246	6,675	8,165	8,231
Others	3,496	910	498	675	0	0	0
CF from Operating incl EO	4,948	6,188	5,345	4,920	6,674	8,165	8,231
(Inc)/Dec in FA	-3,111	-3,657	4,193	-5,094	-3,500	-3,500	-3,500
Free Cash Flow	1,836	2,531	9,538	-174	3,174	4,665	4,731
(Pur)/Sale of Investments	-4,501	5,028	4,425	-1,462	0	-2,000	-2,000
Others	954	1,196	496	912	682	744	812
CF from Investments	-6,658	2,567	9,114	-5,644	-2,819	-4,756	-4,688
Issue of Shares	0	0	0	14,999	0	0	0
Inc/(Dec) in Debt	6,865	-9,850	-11,719	-9,498	-1,356	-550	-1,000
Interest Paid	-1,774	-1,880	-1,637	-4,089	-1,917	-1,856	-1,793
Dividend Paid	-180	-235	-458	-447	-435	-581	-726
Others	0	-1	0	-7	611	455	501
CF from Fin. Activity	4,911	-11,966	-13,814	957	-3,098	-2,532	-3,018
Inc/Dec of Cash	3,200	-3,211	645	233	758	878	525
Opening Balance	1,836	5,036	1,826	2,471	2,704	3,461	4,339
Closing Balance	5,036	1,825	2,471	2,704	3,461	4,339	4,864

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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