

Q2FY20 RESULT UPDATE | HOTELS

EIH Ltd.

Disappointing quarter even as corporates are warming up to ARR hikes; reiterate ACCUMULATE

EIH Ltd reported revenue/EBITDA de-growth of 13.7%/64.4% YoY in Q2FY20. The flight catering business shrank to Rs330mn vs Rs590mn in Q2FY19, owing to grounding of Jet Airways operations. Additionally, closure of air space by Pakistan also impacted EIH's flight catering tie-ups with other global carriers. The flight catering business reported zero EBITDA in Q2FY20 vs Rs127mn in Q2FY19. Adjusting for the flight catering business, EIH would have had 7.2%/46% revenue/EBITDA de-growth. The management is looking to fill in the revenue gap by tying up with a domestic carrier, despite being much lower in margin profile. This is also in preparation of the migrated Mumbai Kitchen facility it plans to operationalize by the end of FY20. EIH is spending over Rs1bn on the said facility. On a like-for-like basis, TajSATS does a 4x fixed asset turnover, 8% EBITDA, and ROCE of ~16% (excluding goodwill impact).

The core hotel business dropped 4.3% YoY in H1FY20, equally contributed by the RevPAR and F&B drop. We have trimmed our FY20 estimates for the poor Q2 performance and marginally tweaked our FY21 estimates. We take comfort from commentaries of EIH, Chalet, and IHCL management of lower resistance by corporates towards accommodating ARR hike post the GST cut on 6 October 2019. Further, it was highlighted that the pace of reservations post the GST cut has picked up. We reiterate our ACCUMULATE rating with a revised target price of Rs160 per share.

Exhibit 1: Impact of IndAS 116

Rs in mn	Reported	Pre IndAS	Increase/(Decrease)
Other expenses	1281	1315	(33.7)
Finance cost	129	106	22.9
Depreciation	341	309	31.6
PBT	(34.7)	-13.9	(20.8)

Source: Company, IndiaNivesh Institutional Research

Valuation: We value EIH using the SOTP method, assigning a 15x EV/EBITDA multiple to the asset-heavy business and a 25x PAT to the asset-light management contract business. We arrive at a target price of Rs160 per share, implying an upside of 4% from the CMP. Reiterate ACCUMULATE.

Financial Summary

Rs mn	FY17	FY18	FY19	FY20E	FY21E
Net sales	12,757	13,499	15,432	14,414	17,253
EBITDA	1,918	2,186	3,221	1,918	3,731
Adj. PAT	1,348	1,123	1,864	747	2,051
Adj. EPS (Rs)	2.4	2.0	3.3	1.3	3.6
EBITDA margin	15.0	16.2	20.9	13.3	21.6
RoE (%)	4.9	4.0	6.6	2.6	7.0
Adj. P/E (x)	65.3	78.4	47.2	117.9	42.9
EV/EBITDA (x)	47.4	42.2	28.8	48.4	24.6

Source: Company, IndiaNivesh Institutional Research

ACCUMULATE

CURRENT PRICE (INR)

154

UPSIDE/DOWNSIDE

▲4%

TARGET PRICE (INR)

160

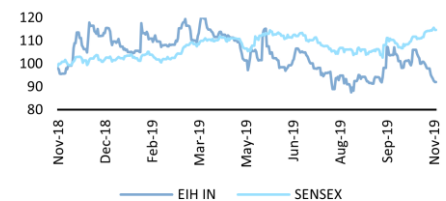
PREVIOUS TARGET (INR)

168
(CMP as on 11 Nov 2019 closing)
STOCK INFO

BSE	500840
NSE	EIHOTEL
Bloomberg	EIH IN
Reuters	EIHO.BO
Face Value (Rs)	2
Equity Capital (Rs mn)	1,143
Mkt Cap (Rs mn)	88,022
52wk High/Low	215 / 145
Avg Daily Vol (BSE+NSE)	163,263

SHAREHOLDING PATTERN (%)

Promoters	35.25
Public	64.75

(as on Sep, 2019)
PRICE PERFORMANCE

STOCK PERFORMANCE

	3m	6m	12m
EIH Ltd.	(4.8)	(11.5)	(10.3)
SENSEX	7.4	7.7	14.8

Source: Bloomberg, IndiaNivesh Institutional Research

Rajiv Bharati

+91 22 6240 6455

rajiv.bharati@indianivesh.in

Ankit Mahajan

+91 22 6240 6463

ankit.mahajan@indianivesh.in

Exhibit 2: Quarterly snapshot (standalone)

Particulars (Rs mn)	Q2FY20	Q2FY19	YoY % Change	Q1FY20	QoQ% Change	H1FY20	H1FY19	% Change
Net sales	2,877	3,335	-13.7%	2,896	-0.7%	5,773	6,684	-13.6%
Consumption of provisions, wines & others	377	495	-23.7%	413	-8.5%	790	978	-19.3%
as % of revenue	13%	15%		14%		14%	15%	
Other expenses	1,315	1,379	-4.7%	1,219	7.9%	2,534	2,727	-7.1%
as % of revenue	46%	41%		42%		44%	41%	
Employee cost	1,054	1,095	-3.8%	1,016	3.7%	2,070	2,130	-2.8%
as % of revenue	37%	33%		35%		36%	32%	
Total expenditure	2,746	2,969	-7.5%	2,647	3.7%	5,394	5,835	-7.6%
Operating profit	130	366	-64.4%	249	-47.6%	379	849	-55.3%
Other income	271	233	16.1%	134	102.6%	404	318	27.1%
EBITDA	401	599	-33.0%	383	4.8%	784	1,167	-32.8%
Depreciation	309	310	-0.3%	367	-15.8%	676	616	9.7%
EBIT	92	289	-68.1%	16	487.3%	108	551	-80.4%
Interest	106	119	-11.0%	144		250	221	13.2%
EBT	(14)	170		(128)		(142)	330	
Tax	(445)	22		(42)		(487)	80	
Tax as % of PBT	3202%	13%		32%		343%	24%	
PAT	431	148		(86)		345	250	
Exceptional items	-	(117)		-		-	(117)	
Net income	431	265		(86)		345	367	
Margins (%)			bps		bps			bps
GM	86.9%	85.2%	171	85.8%	113	86.3%	85.4%	96
OPM	4.5%	11.0%	(644)	8.6%	(406)	6.6%	12.7%	(613)
NPM (excl. exceptional item)	15.0%	4.4%	1,055	-3.0%	1,797	6.0%	3.7%	223
EPS	0.75	0.26		(0.15)		0.60	0.44	
Shares outstanding	572	572		572		572	572	

Source: Company, IndiaNivesh Institutional Research

Conference call highlights

- Oberoi and Trident ARR occupancy in Q2FY20 vs Q2FY19

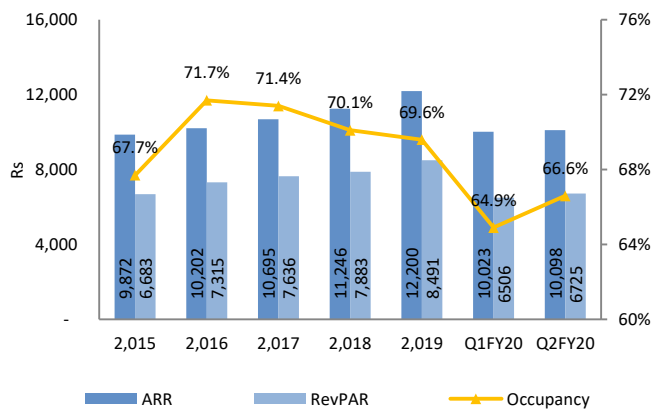
Exhibit 3: KPI by format

Hotel	Occupancy		+/-	RevPAR		+/-
	Q2FY20	Q2FY19		Q2FY20	Q2FY19	
Oberoi Hotels	55.70%	55.50%	0.36%	8,448	8,514	-0.78%
Trident Hotels	73.31%	72.98%	0.45%	5,294	5,232	1.19%

Source: Company, IndiaNivesh Institutional Research

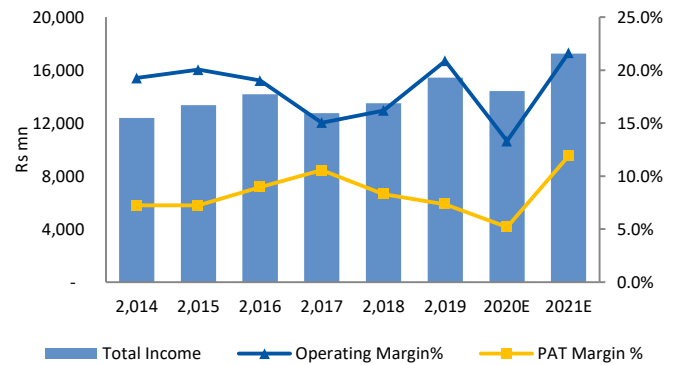
- Oberoi New Delhi saw occupancy rise from 53% to 59%, while ARR has been positive.
- The management indicated that direct business including OTA has grown sharply although corporate and MICE witnessed a fall.
- The management indicated that leases of other flight catering facilities of the competition are coming up for renewal by FY21, and EIH hopes to gain market share if the competition gets disrupted.

Exhibit 4: Historical ARR and occupancy



Source: Company, IndiaNivesh Institutional Research

Exhibit 5: FY20 is now expected to report 7% revenue de-growth, owing to poor H1



Source: Company, IndiaNivesh Institutional Research

Valuation

We value EIH using the SOTP method, assigning a 15x EV/EBITDA multiple to the asset-heavy business and a 25x PAT to the asset-light management contract business. We arrive at a target price of Rs160 per share, implying an upside of 4% from the CMP. Reiterate ACCUMULATE.

Exhibit 6: SOTP valuations

	Label	Criteria	Factor	Value	Multiple	Value	Rooms	EV/Room
EV (standalone)	A	15 x EBITDA	EBITDA	2,935	15	44,023	2,037	21.6
EIH Associated (36.8% stake)	B	Derived fair value per share				4,878	875	
EIH International	C	15 x EBITDA	EBITDA	1,082	15	16,229		
Management contract	D	25 x PAT	PAT	796	25	19,898		
Net debt	E					3,760		
Fair value (standalone)	F=A+B+C+D-E					81,268		
Fair value (other subsidiaries)	G					10,279		
Fair value	H=F+G					91,547		
Number of shares outstanding (million)	I					572		
Value per stock	J=H/I					160		
CMP	K					154		
Upside	L=J/K-1					4.0%		

Source: Company, IndiaNivesh Institutional Research

Income Statement (standalone)

Y E March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	12,757	13,499	15,432	14,414	17,253
Growth (%)	(10)	6	14	(7)	20
Operating expenses	(10,839)	(11,313)	(12,211)	(12,496)	(13,522)
Operating profit	1,918	2,186	3,221	1,918	3,731
Other operating income	0	0	0	0	0
EBITDA	1,918	2,186	3,221	1,918	3,731
Growth (%)	(28.8)	14.0	47.3	(40.5)	94.6
Depreciation	(1,105)	(1,090)	(1,230)	(1,035)	(1,073)
Other income	992	838	840	429	476
EBIT	1,806	1,934	2,831	1,311	3,134
Finance cost	(145)	(196)	(464)	(260)	(245)
Exceptional item	(382)	0	(731)	0	0
Profit before tax	1,279	1,739	1,637	1,052	2,889
Tax (current + deferred)	(313)	(616)	(504)	(305)	(838)
Profit / (Loss) for the period	965	1,123	1,133	747	2,051
Associates, minority interest	0	0	0	0	0
Reported net profit	965	1,123	1,133	747	2,051
Extraordinary item	0	0	0	0	0
Adjusted net profit	1,348	1,123	1,864	747	2,051
Growth (%)	6	(17)	66	(60)	175

Source: Company, IndiaNivesh Institutional Research

Balance Sheet (standalone)

Y E March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Share capital	1,143	1,143	1,143	1,143	1,143
Reserves & surplus	26,539	27,016	27,408	27,580	29,057
Net worth	27,682	28,159	28,551	28,723	30,200
Minority interest	0	0	0	0	0
Total liabilities	7,110	9,665	9,969	10,055	9,791
Non-current liabilities	3,499	4,570	4,049	4,667	3,988
Long-term borrowings	1,519	2,537	2,099	2,699	2,000
Deferred tax liabilities	1,741	1,762	1,599	1,599	1,599
Other long-term liabilities	238	271	351	369	389
Long-term provisions	0	0	0	0	0
Current liabilities	3,612	5,095	5,920	5,388	5,803
Short-term borrowings	1,160	1,400	2,247	2,247	2,247
Trade payables	1,295	1,608	1,958	1,829	2,189
Other current liabilities	881	1,424	1,101	1,150	1,203
Short-term provisions	0	211	162	162	164
Total liabilities and equity	34,792	37,824	38,520	38,779	39,991
Non-current assets	31,285	34,585	35,061	35,403	35,719
Net block	18,814	21,549	20,027	20,168	20,271
Goodwill	0	0	0	0	0
Non-current investments	7,637	7,630	9,392	9,392	9,392
Long-term loans and advances	2,442	2,420	2,583	2,610	2,639
Deferred tax assets	0	0	0	0	0
Other non-current assets	2,393	2,987	3,059	3,233	3,417
Current assets	3,506	3,238	3,459	3,376	4,272
Inventories	413	428	504	555	612
Sundry debtors	1,692	2,037	2,249	2,101	2,515
Cash & bank balances	98	79	91	129	487
Other current assets	358	501	389	365	432
Loans & advances	945	194	226	226	226
Current investments	0	0	0	0	0
Total assets	34,792	37,823	38,519	38,779	39,991

Source: Company, IndiaNivesh institutional Research

Cash Flow Statement (standalone)

Y E March (Rs m)	FY17	FY18	FY19	FY20E	FY21E
Profit before tax	1,279	1,739	1,637	1,052	2,889
Depreciation	1,105	1,090	1,230	1,035	1,073
Change in working capital	2	(15)	(76)	(52)	(57)
Total tax paid	(340)	(596)	(666)	(305)	(838)
Others	(120)	0	0	0	0
Cash flow from operations (a)	1,980	3,766	2,271	2,057	3,217
Capital expenditure	(2,585)	(3,825)	292	(1,176)	(1,176)
Change in investments	0	0	0	0	0
Others	64	0	0	0	0
Cash flow from investing (b)	(2,114)	(4,412)	(1,542)	(1,350)	(1,360)
Free cash flow (a+capex)	(605)	(58)	2,563	880	2,040
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	410	1,258	408	600	(699)
Dividend (incl. tax)	(2)	(570)	(574)	(574)	(574)
Others	1	0	0	0	0
Cash flow from financing (c)	145	626	(716)	(669)	(1,498)
Net change in cash (a+b+c)	10	(19)	12	38	358
Reconciliation of other balances	30	0	0	0	0
Cash as per balance sheet	98	79	91	129	487

Source: Company, IndiaNivesh Institutional Research

Key Ratios (standalone)

Y E March	FY17	FY18	FY19	FY20E	FY21E
Adjusted EPS (Rs)	2.4	2.0	3.3	1.3	3.6
<i>Growth</i>	5.9	(16.7)	66.0	(59.9)	174.7
Dividend/share (Rs)	0.9	0.9	0.9	0.9	0.9
Dividend payout ratio	53.3	45.5	45.4	68.9	25.1
EBITDA margin	15.0	16.2	20.9	13.3	21.6
EBIT margin	14.2	14.3	18.3	9.1	18.2
Net margin	10.6	8.3	12.1	5.2	11.9
Tax rate (%)	24.5	35.4	30.8	29.0	29.0
Debt/equity (x)	0.1	0.2	0.2	0.2	0.1
Inventory days	12	12	12	14	13
Sundry debtor days	48	55	53	53	53
Trade payable days	37	43	46	46	46
Du Pont analysis - ROE					
Net margin	10.6	8.3	12.1	5.2	11.9
Asset turnover (x)	0.4	0.4	0.4	0.4	0.4
Leverage factor (x)	1.3	1.3	1.3	1.3	1.3
ROE (%)	4.9	4.0	6.6	2.6	7.0
RoCE (%) (after tax)	5.7	5.8	8.1	3.7	8.7
Valuation (x)					
PER	65.3	78.4	47.2	117.9	42.9
PCE	35.9	39.8	28.4	49.4	28.2
Price/book	3.2	3.1	3.1	3.1	2.9
EV/EBITDA	47.4	42.2	28.8	48.4	24.6

Source: Company, IndiaNivesh Institutional Research

Disclaimer: This report has been prepared by IndiaNivesh Securities Limited and published in accordance with the provisions of Regulation 18 of the Securities and Exchange Board (Research Analysts) Regulations, 2014, for use by the investor for information only and is not for circulation or public distribution. This report includes subsidiaries, group and associate companies, promoters, directors, employees and affiliates. This report is not to be altered, transmitted, reproduced, copied, or otherwise published or made available to others, in any form, in whole or in part, any purpose without prior written permission. The projections and the forecasts described in this report are based upon a number of estimates and are inherently subject to significant uncertainties and contingencies. Projections and forecasts are necessarily speculative in nature and that there can be more of the estimates on which the projections and forecasts were based do not materialize or will vary significantly from actual results and such variations will likely increase over the life of the projections and forecasts described in this report have been prepared solely by authors of this report and the forecasts were prepared with a view towards compliance with published guidelines or generally accepted accounting principles.

This report should not be construed as an offer to sell or the solicitation of an offer to buy or purchase securities and neither this report nor anything contained therein shall form a basis of or be relied upon in connection with any contract or commitment whatsoever. It does not constitute an offer to sell or purchase securities. The investment objective, financial situation or needs of individual clients. The research analysts adhere to the code of conduct under Regulation 24 (2) of the Securities and Exchange Board of India (Research Analysts) Regulations, 2014. Recipients of this report must make their own investment decisions, based on their own investment objectives, needs and other factors. The recipients should consider and independently evaluate whether it is suitable for their particular circumstances and if necessary, seek professional / financial advice as there is a risk of loss. IndiaNivesh Securities Limited does not take any responsibility thereof. Any such recipient shall be responsible for conducting his/her own analysis of the information contained or referred to in this report and of evaluating the merits and risks involved in securities forming the subject matter of this report. The investment referred to in this report is not an offer and they may go up as well as down, and investors may realize profit/loss on their investments. Past performance does not guarantee future performance. Actual results may differ materially from those set forth in the projection.

Except for the historical information contained herein, statements in this report, which contain words such as 'will', 'would', etc., and similar expressions or variations of such words may constitute 'forward-looking statements'. These forward-looking statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those set forth in the forward-looking statements. Forward-looking statements are not predictions and may be subject to change. IndiaNivesh Securities Limited has no obligation to update forward-looking statements to reflect events or circumstances after the date hereof. IndiaNivesh Securities Limited accepts no liabilities for any loss or damage of any kind arising out of use of this report.

This report has been prepared only based upon the information available in the public domain and other public sources believed to be reliable. The analyst has endeavored to ensure its accuracy and completeness, no representation or warranty, express or implied, is made by IndiaNivesh Securities Limited that the information is accurate or complete and/or is independently verified. The contents of this report represent the assumptions and projections of IndiaNivesh Securities Limited and does not guarantee the accuracy or reliability of any projection, assurances or advice contained in this report constitutes investment, legal, accounting and/or tax advice or a representation that any investment or strategy is suitable for a particular investor or is based on a specific investment objective. This report is based on fundamental data of the Company and forward-looking statements as such, may not match with a report on a company's technical analysis report. This report may not be followed by any specific event update/ follow-up.

Following table contains the disclosure of interest to utmost transparency in the matter:

Disclosure of Interest Statement		
1	Details of business activity of IndiaNivesh Securities Limited (INSL)	INSL is a Stock Broker registered with BSE, NSE and IIFX the major segments viz. Cash, F&O and CDS segment. INSL is also a Depository Participant registered with both Depository viz. CDSL and NSDL. INSL is a Registered Portfolio Manager and is registered with SEBI.
2	Details of Disciplinary History of INSL	No disciplinary action was running / initiated against INSL
3	Research analyst INSL or its relatives'/associates' financial interest in the subject company or nature of such financial interest	No (except to the extent of shares held by Research Analyst or its relatives'/associates')
4	Whether Research analyst INSL or its relatives'/associates' is holding the securities of the subject company	Please refer to the important 'Stock Holding Disclosure' report on the INSL website http://www.indianivesh.com/Research/Holding_Disclosure.aspx?tid=10
5	Research analyst INSL or its relatives'/associates' actual/beneficial ownership of 1% or more of securities of the subject company, at the end of the month immediately preceding the publication of the document.	No
6	Research analyst INSL or its relatives'/associates' any other material conflict of interest of publication of the document	No
7	Has research analyst INSL or its associates received any compensation from the subject company in the past 12 months	No
8	Has research analyst INSL or its associates managed or managed public offering of securities of the subject company in the past 12 months	No
9	Has research analyst INSL or its associates received any compensation for investment banking, merchant banking or brokerage services from the subject company in the past 12 months	No
10	Has research analyst INSL or its associates received any compensation for products other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months	No
11	Has research analyst INSL or its associates received any compensation or other benefit from the subject company or third party in connection with the document.	No
12	Has research analyst served as an officer, director or employee of the subject company	No
13	Has research analyst INSL engaged in market making activity for the subject company	No
14	Other disclosures	No

INSL, its affiliates, directors, its employees, trading and investment businesses may, from time to time, make investment decisions that are inconsistent with the recommendations expressed herein. The views contained in this document are those of the analyst, and the company does not subscribe to all the views expressed within. This information is subject to change without any prior notice. IndiaNivesh Securities Limited reserves the right to make modifications and alternations to this statement, as may be required, from time to time.

Definitions of ratings

Rating	Market Cap	>= USD 2 bn	>USD 500 mn to 2 bn	<= USD 500 mn
BUY		>= 15%	>= 20%	>= 25%
ACCUMULATE		0 to <15%	0 to <20%	0 to <25%
REDUCE		0 to <15%	0 to <-20%	0 to <25%
SELL		<-15%	<-20%	<-25%

Our target prices are on a 12 month horizon basis.

Other definitions

NR = Not Rated. The investment rating and target price, if any, have been arrived at under circumstances not in conformity with the information is not meaningful and is therefore excluded.

CS = Coverage Suspended. IndiaNivesh Securities Limited has suspended coverage of this company.

UR=Under Review. Such an invest review happens when any developments have already occurred or likely to occur and IndiaNivesh Securities Limited is waiting for some more information to draw conclusion on rating/target.

Research Analyst has not served as an officer, director or employee of Subject Company

One year Price history of the daily closing price of the securities covered in this report is available at www.economicstimes.indiatimes.com/markets/stocks (Choose name of company in the list browse companies and select 1 year in icon YTD in the price chart)



IndiaNivesh Securities Limited
 Research Analyst SEBI Registration No. INH000000511
 Corporate Office: Lodha Supremus, 17th Floor, Sapat Marg, Lower Parel (West), Mumbai 400013.
 Registered Office: 601 & 602, Sukh Sagar, N. S. Patkar Marg, Girgaum Chowpatty, Mumbai 400007
 Tel (Board): 022 6240 6240 | Fax: 022 6240 6241
 e-mail: institutionalresearch@indianivesh.in Website: www.indianivesh.in