

Decline contained; maintain BUY

ElH Ltd surprised positively in Q3FY20 beating our estimates on all fronts. Revenues for the quarter declined 5% YoY to ₹ 422 crore (vs. I-direct estimate of ₹ 395 crore). The decline is mainly attributable to loss of business in flight catering on account of grounding of Jet Airways. However, the decline in revenues has been contained during the quarter compared to double digit de-growth since Q1FY20. RevPAR (both domestic & international) saw an improvement led by higher occupancy. Lower revenues led to a decline in EBITDA margins by 160 bps YoY to 28.2%. However, they were above I-direct estimate of 26%. On an absolute level, EBITDA declined 10% YoY to ₹ 119 crore. PAT saw strong growth of 64% YoY led by higher other income and lower tax expenses.

FY20E to remain challenging, recovery expected in FY21E

ElH's flight catering segment is a significant revenue generator for the company. Its domestic operations faced a setback with the grounding of Jet Airways. While the segment caters mainly to international flights, they have recently tied up with domestic carriers for in-flight catering. Within the next six months, the management expects commencement of a new flight kitchen at Mumbai. Weakness was seen in December 2019 at the domestic level; January has seen the outbreak of the Corona Virus. Thus, we do not expect a significant recovery in the business before the next financial year. Hence, we revise our estimates for FY20E on the lower side. We expect ElH to post ~3% CAGR in revenues over FY19-21E to ₹ 1913 crore by FY21E.

New properties in pipeline; balance sheet to remain firm

ElH plans to add five hotels in India and four in international destinations. These are in addition to the recently opened Oberoi Marrakech, which is a 80+ key property for which ElH has invested in excess of ₹ 100 crore in connection with its 46% stake in the entity that owns the property. The management said that the capital required to set up new hotels should be funded by internal accruals only. They also intend to trim debt further. Debt/EBITDA is expected to improve from 1.3x in FY19 to 0.8x in FY21E led by debt reduction and EBITDA improvement from ₹ 406 crore in FY19 to ₹ 448 crore by FY21E at a CAGR of 5.1% over the period.

Valuation & Outlook

The sector has seen several measures being taken up by the government to boost growth. GST rate cut, reduction in visa charges, extending the e-visa scheme further, among others, are expected to support the sector, going ahead. However, in the near term, the growth of the sector may pause, in light of the outbreak of Corona Virus, which remains a key risk in the medium term. While we remain positive on the company in the long term, considering the near term risk, we reduce the target multiple to ~23x FY21E EV/EBITDA to arrive at a target price of ₹ 175.



Stock Data

Particulars	Amount
Market Capitalization	₹ 8516 crore
Total Debt (FY19)	₹ 531 crore
Cash and Investments (FY19)	₹ 249 crore
EV	₹ 8798 crore
52 week H/L	214/135
Equity capital	114.3
Face value	₹ 2

Key Highlights

- Domestic owned hotels show strong improvement in occupancy from 70.5% to 76.5% YoY
- RevPAR growth of 3.2% for ElH network hotels
- Five properties to be opened over the next few years in India
- Maintain BUY with reduced target price of ₹ 175 (₹ 195 earlier)

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Key Financial Summary

Key Financials	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	1529	1599	1811	1698	1913	2.8%
EBITDA	261	299	406	347	448	5.1%
EBITDA (%)	17.1	18.7	22.4	20.5	23.4	
PAT	128	179	193	175	253	14.5%
EPS (₹)	2.2	3.1	3.4	3.1	4.4	
EV/EBITDA	33.4	29.4	21.7	25.1	19.4	
D/E	0.1	0.2	0.2	0.1	0.1	
RoNW (%)	4.6	6.2	6.4	5.7	7.8	
RoCE (%)	6.5	8.2	9.2	7.7	10.2	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q3FY20	Q3FY20E	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	Comments
Total Operating Income	422.0	395.1	443.9	-4.9	287.7	46.7	Lower revenues from flight catering business lead to revenue decline
Other Operating Income	27.1	10.0	13.1	107.5	27.1	0.1	
Raw Material Expenses	49.1	47.1	55.4	-11.4	37.8	30.1	
Employee Expenses	102.0	101.0	102.4	-0.4	105.4	-3.3	
Other Exp	151.9	143.7	153.7	-1.2	128.1	18.5	
EBITDA	119.1	103.3	132.4	-10.1	16.4	627.2	Lower revenue in flight catering segment drags operating profits
EBITDA Margin (%)	28.2	26.1	29.8	-162 bps	5.7	2252 bps	
Interest	13.2	13.0	12.9	2.0	12.9	2.3	
Depreciation	34.1	34.5	31.1	9.6	34.1	0.0	
PBT	98.9	65.8	101.5	-2.5	-3.5	-2,917.4	
Total Tax	23.9	16.4	37.6	-36.4	-44.5	-153.7	
PAT	75.0	49.3	63.9	17.4	41.0	82.9	PAT growth led by lower tax provisions
EPS	1.3	0.9	1.1	17.4	0.7	82.9	

Source: Company, ICICI Direct Research

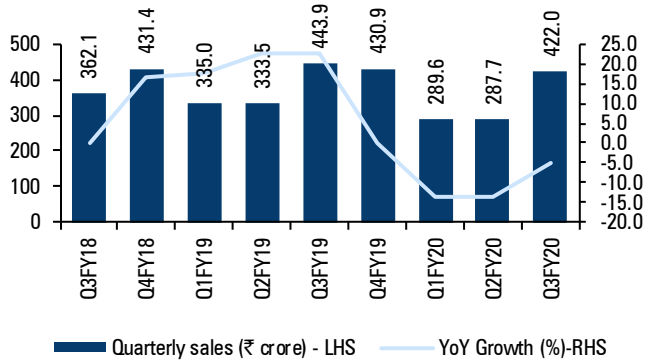
Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,724.6	1,697.6	-1.6	1,942.6	1,913.4	-1.5	
EBITDA	349.6	347.5	-0.6	447.7	448.5	0.2	
EBITDA Margin (%)	20.3	20.5	20 bps	23.0	23.4	39 bps	Margins to recover from FY21E
PAT	175.9	174.9	-0.6	251.6	252.8	0.5	Lower taxation to lead to 15.3% CAGR over FY19-21E
EPS (₹)	3.1	3.1	-0.6	4.4	4.4	0.5	

Source: Company, ICICI Direct Research

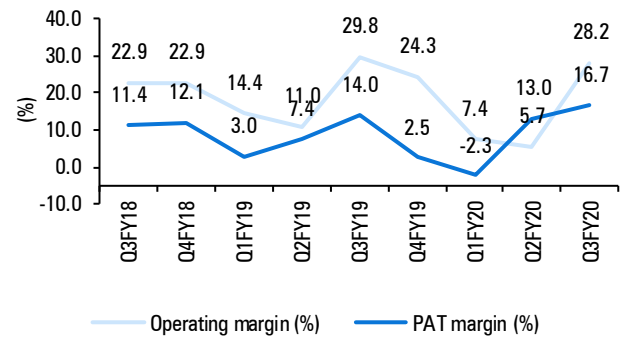
Financial Story in Charts

Exhibit 3: Revenues decline 5% YoY in Q3FY20



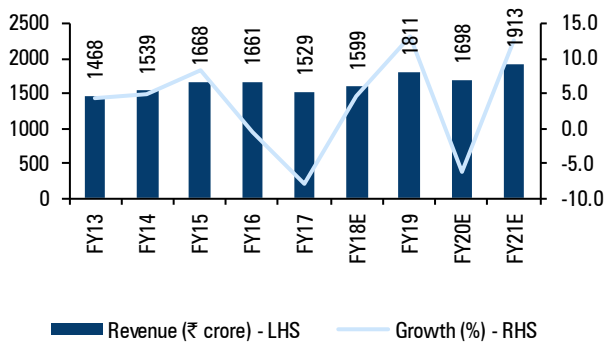
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA margins decline 160 bps YoY in Q3FY20



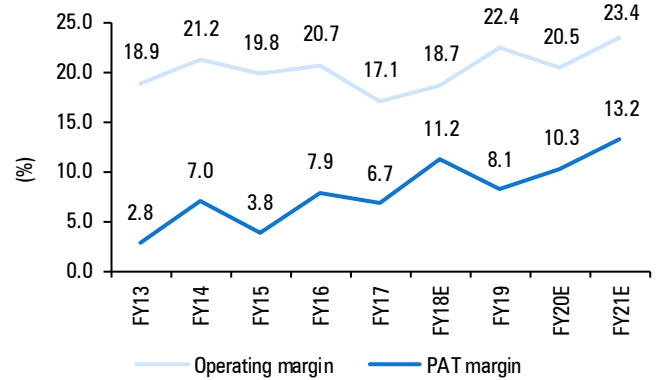
Source: Company, ICICI Direct Research

Exhibit 5: Revenues to grow at ~3% CAGR over FY19-21E



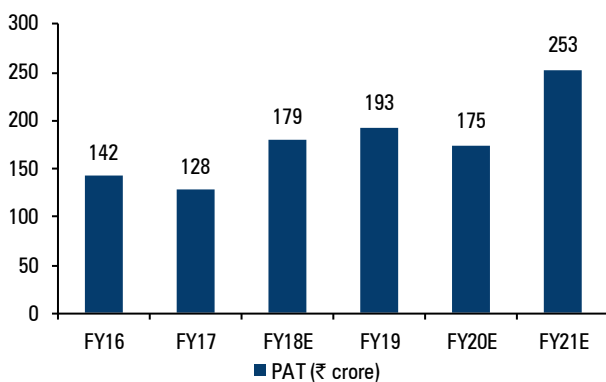
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA margins to rebound in FY21E



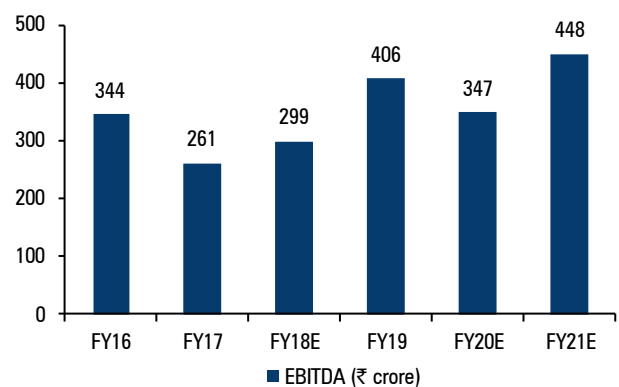
Source: Company, ICICI Direct Research

Exhibit 7: PAT to grow led by higher EBITDA, lower tax



Source: Company, ICICI Direct Research

Exhibit 8: EBITDA to witness 5% CAGR over FY19-21E



Source: Company, ICICI Direct Research

Exhibit 9: EIH Group portfolio

Balanced Portfolio

EIH Limited
A MEMBER OF THE OBEROI GROUP

	Business	Leisure
Luxury	<ul style="list-style-type: none"> The Oberoi Mumbai (287) The Oberoi New Delhi (220) The Oberoi Grand, Kolkata (209) The Oberoi, Bangalore (160) Trident, Gurgaon (136)* Trident, Nariman Point (555) Trident, Bandra Kurla (436) The Oberoi, Gurgaon (202)* The Oberoi Dubai (252)* 	<ul style="list-style-type: none"> The Oberoi Amarvilas (102)* The Oberoi Rajvilas (71)* The Oberoi Sukhvilas (60)* The Oberoi Cecil (75)* The Oberoi, Marrakech(40)* The Oberoi, Lombok (50)* The Oberoi, Sahl Hasheesh (102)* The Oberoi Zahra (Cruiser) (27)* The Oberoi Udaivilas (87) The Oberoi Vanyavilas (25) The Oberoi M.V.Vrinda(8) Wildflower Hall (85)* The Oberoi, Bali (74)* The Oberoi Al Zorah (104)*
Great Value for Money	<ul style="list-style-type: none"> Trident, Chennai (167)* Trident, Bhubaneswar (62)* Maidens Hotel (54) Trident Hyderabad (323)* 	<ul style="list-style-type: none"> Trident, Agra (137)* Trident, Udaipur (143)* Trident, Jaipur (134)* Trident, Cochin (85)*

Figures in brackets are number of rooms

- Significant presence in major tourist & business destinations with high room inventory
- Assets irreplaceable in terms of location, ambience and experience
- Geographic spread helps
 - achieve synergies in occupancy by cross selling our properties
 - mitigate affect of seasonality by efficiently utilizing personnel by re-deploying them between hotels

* Properties managed by EIH limited and its step down WOS 6

Source: Company, ICICI Direct Research

Exhibit 10: Market leader in most micro markets where EIH has presence

Market Leader
FY 2018-19

EIH Limited
A MEMBER OF THE OBEROI GROUP

Hotel-wise STR ranking suggests Oberoi & Trident branded hotels continue to be the leaders across India with 7 hotels ranked # 1 and 6 hotels ranked # 2 out of total 18 hotels in India

Oberoi Branded Hotels	STR Rank	Trident Branded Hotels	STR Rank
The Oberoi, Mumbai	3	Trident, Nariman Point	2
The Oberoi, Bengaluru	1	Trident, Bandra Kurla	2
The Oberoi Grand, Kolkata	1	Trident, Gurgaon	1
The Oberoi, Gurgaon	1	Trident, Chennai	6
The Oberoi, Rajvilas	1	Trident, Hyderabad	2
The Oberoi, Udaivilas	2	Trident, Agra	3
The Oberoi, New Delhi	1	Trident, Jaipur	2
The Oberoi, Cecil	2	Trident, Udaipur	1
The Oberoi, Sukhvilas	3	Trident, Cochin	5

* STR date in respect of The Oberoi Amarvilas, The Oberoi Vanyavilas, Wild Flower Hall, The Oberoi MV Vrinda, Trident Bhubaneswar and Maidens Hotel is not available.

International Oberoi Branded Hotels	STR Rank
The Oberoi, Bali	7 of 11
The Oberoi, Mauritius	3 of 6
The Oberoi, Sahl Hasheesh	1 of 6

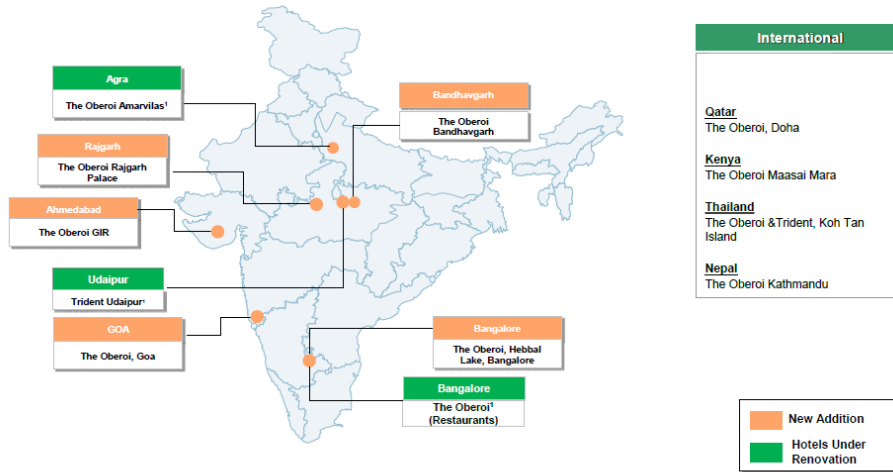
* STR data in respect of other International properties is not available.

Source: ICICI Direct Research, Company

Exhibit 11: Future plans

Planned Addition/ Renovation

EIH Limited
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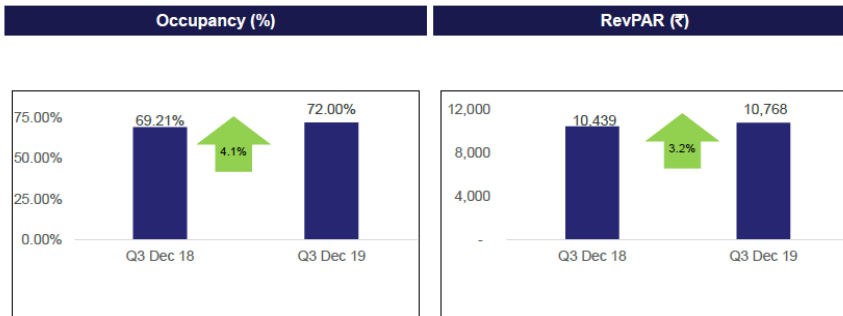
¹Existing properties under renovation

Source: Company, ICICI Direct Research

Exhibit 12: RevPAR of EIH network hotels increases 3.2% YoY

Operational Statistics – Q3 Domestic + International (Owned & Managed)

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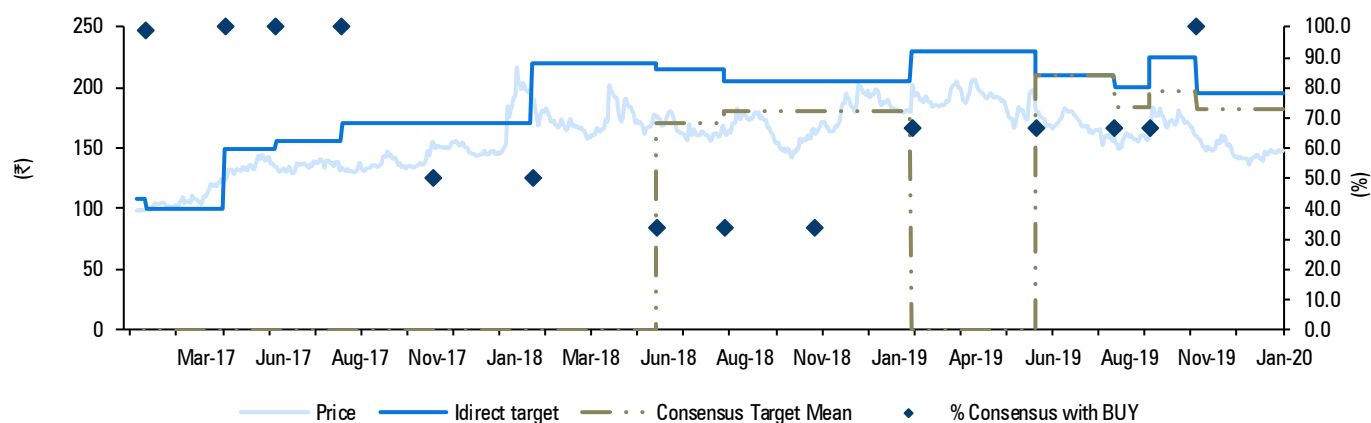
Note:

1) Includes managed properties.

2) Q3 Dec 19 Includes The Oberoi, Marrakech started operations w.e.f. 1st December 2019

Source: Company, ICICI Direct Research

Exhibit 13: Recommendation History vs. Consensus



Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 14: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Itc Ltd	30-Jun-19	15.0	85.6	0.0
2	Oberoi Hotels Pvt Lt	30-Jun-19	14.6	83.6	0.0
3	Oberoi Holdings Pvt	30-Jun-19	5.9	33.4	0.0
4	Oberoi Investments P	30-Jun-19	4.9	28.2	0.0
5	Reliance Capital Tru	31-Dec-19	3.8	21.5	0.4
6	Oberoi Building	30-Jun-19	3.2	18.1	0.0
7	L&T Mutual Fund	31-Dec-19	2.8	15.8	0.0
8	Jpmorgan Chase & Co	30-Nov-19	1.9	10.6	0.0
9	Sundaram Asset Manag	31-Dec-19	1.8	10.4	0.2
10	Life Insurance Corp	30-Jun-19	1.7	9.9	-3.4

Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 15: Shareholding Pattern

(in %)	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Promoter	35.25	35.25	35.25	35.25	35.25
FII	3.69	3.99	4.25	4.38	4.26
DII	15.44	15.11	14.55	16.05	16.11
Others	45.62	45.65	45.95	44.32	44.38

Source: Company, ICICI Direct Research, Thomson Reuters

Financial summary

Exhibit 16: Profit and Loss Statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating Income	1,598.8	1,810.8	1,697.6	1,913.4
Growth (%)	4.6	13.3	-6.3	12.7
Raw Material Expenses	226	244	221	239
Employee Expenses	461	481	476	504
Other Exp	613	680	654	721
Total Operating Expenditure	1,299.9	1,404.9	1,350.2	1,465.0
EBITDA	298.9	405.9	347.5	448.5
Growth (%)	14.5	35.8	-14.4	29.1
Depreciation	117.3	132.6	136.6	137.6
Interest	23.1	50.4	45.3	42.6
Other Income	106.0	68.8	72.9	75.1
PBT	264.5	291.7	238.5	343.3
Others	-0.3	62.5	3.6	4.1
Total Tax	85.5	82.0	60.0	86.4
Adjusted PAT	179.2	192.9	174.9	252.8
Growth (%)	40.5	7.7	-9.3	44.6
Adjusted EPS (₹)	3.1	3.4	3.1	4.4

Source: Company, ICICI Direct Research

Exhibit 18: Balance Sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Capital	114.3	114.3	114.3	114.3
Reserve and Surplus	2,768.4	2,878.8	2,952.7	3,131.6
Total Shareholders funds	2,882.7	2,993.1	3,067.0	3,245.9
Total Debt	455.9	531.0	431.0	341.0
Deferred Tax Liability	113.5	98.5	98.5	98.5
Minority Interest / Others	70.2	88.5	105.1	105.1
Total Liabilities	3,522	3,711	3,702	3,790
Assets				
Gross Block	3,740.6	3,812.5	4,041.1	4,141.1
Less: Acc Depreciation	1,509.9	1,642.5	1,779.1	1,916.7
Net Block	2,230.6	2,170.0	2,261.9	2,224.3
Capital WIP	147.6	78.6	100.0	200.0
Total Fixed Assets	2,378.2	2,248.6	2,361.9	2,424.3
Goodwill on consolidation	308.3	339.9	339.9	339.9
Investments	457.0	579.8	579.8	579.8
Inventory	51.1	59.8	44.9	72.6
Debtors	223.8	248.0	241.9	262.1
Loans and Advances	306.4	367.6	311.5	377.3
Other Current Assets	81.6	70.9	72.1	89.0
Cash	174.7	248.7	213.9	168.6
Total Current Assets	837.5	995.0	884.2	969.7
Creditors	339.5	306.0	288.4	325.0
Provisions	127.7	146.2	175.9	198.3
Total Current Liabilities	467.2	452.2	464.3	523.3
Net Current Assets	370.3	542.8	419.9	446.4
Others Assets	8.6	0.0	0.0	0.0
Application of Funds	3,522	3,711	3,702	3,790

Source: Company, ICICI Direct Research

Exhibit 17: Cash Flow Statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	179.2	147.3	174.9	252.8
Add: Depreciation	117.3	132.6	136.6	137.6
(Inc)/dec in Current Assets	168.9	-83.4	75.9	-130.8
Inc/(dec) in CL and Provisions	189.5	-15.0	12.1	59.0
CF from operating activities	655.0	181.4	399.6	318.7
(Inc)/dec in Investments	23.1	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-398.9	5.7	-250.0	-200.0
Others	-84.8	-28.3	16.6	0.0
CF from investing activities	-460.6	-22.6	-233.4	-200.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	73.0	75.0	-100.0	-90.0
Dividend paid & dividend tax	-60.5	-60.5	-74.0	-74.0
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-35.4	23.7	-27.0	0.0
CF from financing activities	-22.9	38.2	-201.0	-164.0
Net Cash flow	21.3	74.1	-34.8	-45.3
Opening Cash	153.3	174.7	248.7	213.9
Closing Cash	174.7	248.7	213.9	168.6

Source: Company, ICICI Direct Research

Exhibit 19: Key Ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
Adjusted EPS	3.1	3.4	3.1	4.4
Cash EPS	5.2	4.9	5.5	6.8
BV	50.4	52.4	53.7	56.8
DPS	0.9	0.9	1.1	1.1
Cash Per Share	3.1	4.4	3.7	2.9
Operating Ratios (%)				
EBITDA Margin	18.7	22.4	20.5	23.4
PBT / Total Operating income	11.2	8.1	10.3	13.2
PAT Margin	11.2	8.1	10.3	13.2
Inventory days	11.5	11.2	11.3	11.2
Debtor days	51.1	50.0	52.0	50.0
Creditor days	77.5	61.7	62.0	62.0
Return Ratios (%)				
RoE	6.2	6.4	5.7	7.8
RoCE	8.2	9.2	7.7	10.2
RoIC	6.3	9.0	6.9	10.1
Valuation Ratios (x)				
P/E	47.5	57.8	48.7	33.7
EV / EBITDA	29.4	21.7	25.1	19.4
EV / Net Sales	5.5	4.9	5.1	4.5
Market Cap / Sales	5.3	4.7	5.0	4.5
Price to Book Value	3.0	2.8	2.8	2.6
Solvency Ratios				
Debt/EBITDA	1.5	1.3	1.2	0.8
Debt / Equity	0.2	0.2	0.1	0.1
Current Ratio	1.4	1.7	1.4	1.5
Quick Ratio	1.3	1.5	1.3	1.4

Source: Company, ICICI Direct Research

Exhibit 20: ICICI Direct Coverage Universe (Hospitality)

Sector/Company	CMP		M Cap (₹ Cr)	EPS			P/E (X)			EV/EBITDA			ROCE (%)			RoE (%)			
	(₹)	TP(₹)		Rating	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Indian Hotel (INDHOT)	147	175	BUY	17423	2.5	3.3	4.2	59	35	35	23	18	15	7.1	8.5	10.6	6.8	11.0	10.1
EIH (EIH)	149	175	BUY	8516	3.4	3.1	4.4	58	49	34	22	25	19	9.2	7.7	10.2	6.4	5.7	7.8
TajGVK Hotels(TAJGVK)	170	245	BUY	1066	4.3	6.2	7.4	39	27	23	16	14	13	9.7	11.3	11.4	6.9	9.8	10.6
Lemon Tree Hotels (LEMTRE)	58	74	BUY	4570	0.7	0.9	1.3	81	62	46	34	23	18	5.5	6.8	7.8	6.7	8.1	10.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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