

Indian Hotels Company **ACCUMULATE**

A positive surprise on EBITDA margin front

Summary

Indian Hotels Company Ltd.'s (IHCL) Q4FY21 result was a mixed as net sales was a tad below our estimate, while sequential EBITDA margin improvement was a positive surprise. Net sales declined by 42.1% YoY to Rs6,150mn. EBITDA came in at Rs713mn compared to Rs2,079mn in Q4FY20. The company reported net loss of Rs977mn. After a healthy recovery in H2FY21, the occupancies are under pressure from second half of March,21 on account of increasing second wave of Covid-19 pandemic across the country. The management guided that though domestic operations have witnessed traction, recovery in international business is commendable. Also, the company's focus on being cost prudent will aid in EBITDA margin expansion, despite subdued net sales in near future. IHCL's increasing inventory, majorly through management contract, should pave the way for sustainable margin expansion going forward. We have marginally increased our net sales/EBITDA estimates for FY22E/FY23E. We upgrade the stock to **ACCUMULATE** (from **HOLD**) with a revised TP of Rs 121 (earlier Rs115), assigning 14x EV/EBITDA on FY23E.

Key Highlights and Investment Rationale

Smart recovery in RevPAR continued

After a subdued H1FY21, IHCL reported pick up in RevPAR from Q3FY21, which further strengthened in the current quarter. The company's occupancy improved by 10% QoQ to 55.9%, while ADR was higher by 5.5% QoQ to Rs5,953. Domestic leisure travel remained at a sweet spot, which reflected in RevPAR growth for the organized players. Though currently the industry is again staring at drop in occupancy driven by selective state wide travel restrictions, the management believes that with nationwide vaccination drive, leisure travel will bounce back as things normalize in near term.

Prudent cost cutting supported EBITDA margin

From the beginning of FY21E, the management took prudent cost optimization measures, which resulted in positive EBITDA margin in Q4FY21. The management's commentary on sustainable cost savings in future, despite higher sales is encouraging.

Gradually coming out of the woods, **ACCUMULATE** with a TP of Rs121

We believe IHCL is well placed to benefit from recovery in RevPAR as domestic leisure segment picks up in H2FY22E. The company's asset light business strategy bodes well for both margin improvement as well as keeping the balance sheet. IHCL remains our preferred pick in the organized hospitality space given its strong brand recall, well-diversified portfolio. **ACCUMULATE** with a TP of Rs121.

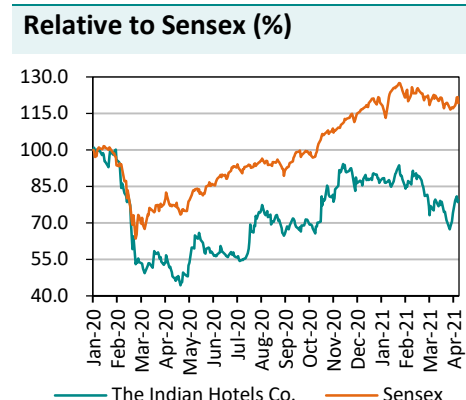
Q4FY21 Result Review

TP	Rs121	
CMP	Rs 112	
Potential upside / downside	9%	
Previous Rating	HOLD	
V/s Consensus		
EPS (Rs)	FY22E	FY23E
IDBI Capital	0.2	3.0
Consensus	0.4	3.3
% difference	(35.5)	(9.9)

Shareholding Pattern (%)	
Promoters	40.8
FII	12.3
DII	28.0
Public	19.0

Price Performance (%)			
	-1m	-3m	-12m
Absolute	5.4	(8.3)	39.6
Rel to Sensex	8.1	(13.7)	(5.1)

Key Stock Data	
Bloomberg/Reuters	IH IN / IHTL.BO
Sector	Hotels
Shares o/s (mn)	1,189
Market cap. (Rs mn)	1,32,543
Market cap. (US\$ mn)	1,914
3-m daily avg Trd value(Rs mn)	189.1
52-week high / low	Rs139 / 62
Sensex / Nifty	48,782 / 14,631



Financial snapshot

	(Rs mn)				
Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	41,036	44,631	15,752	36,270	48,964
EBITDA	6,703	9,675	(3,618)	6,891	11,017
EBITDA (%)	16.3	21.7	(23.0)	19.0	22.5
Adj. PAT	784	3,228	(8,556)	270	3,592
EPS (Rs)	0.7	2.7	(7.2)	0.2	3.0
EPS Growth (%)	(224.2)	11.5	-	-	1,231.2
PE (x)	169.2	41.1	-	491.5	36.9
Dividend Yield (%)	0.3	0.4	0.4	0.4	0.4
EV/EBITDA (x)	22.9	15.7	(43.0)	22.1	13.4
RoE (%)	2.3	7.4	(21.4)	0.7	9.1
RoCE (%)	5.1	6.6	(8.4)	2.4	6.8

Source: Company; IDBI Capital Research

Concall Highlights:

- **IHCL Portfolios:** The Company has reached total domestic portfolio of 200 hotels of which 50 hotels are in pipeline. The total portfolio including international hotels stands at 221 hotels. IHCL is present in 90+ locations in India and 100+ locations globally.
- **Impact of Covid-19 on global hospitality:** In 2020, RevPAR in Europe declined by 59%, in North America it declined by 64%, 56% decline in MENA region and 71% decline in APAC region. There was a revenue loss of Rs 900bn, overall RevPAR drop of 57-59%, 30pp+ drop in occupancies and 18-20% drop in ADR.
- **Performance across cities:** IHCL outperformed across key cities, In Mumbai, IHCL/ Industry RevPAR was at 37%/30%, In Delhi & NCR it was 30%/27%, Bengaluru was 30%/19%.
- **Reduced employee cost aided operations:** Staff to room ratio improved to 1.14 in Mar'21 from 1.53 in Apr '20. This could be achieved with the help of redeployments, multiskilling & new Ways of working.
- **Other initiatives updates:** The Company has a focus on scaling up Qmin. It is now operational in 17 cities, received 70,000 orders worth Rs 27crs. Ama stays and trails reached a portfolio of 38 including 19 in pipeline.
- **Current scenario:** Pick-up was good till 31st March but post that there have been a lot of cancellations. Currently, pick-up is positive albeit at a lower level. However, if compared April-21 to April-20, the difference is significant because last year there was a complete lockdown.
- **M&A outlook:** The management expects M&A activity to pick up in the industry in next 3-4 months based on visibility on cashflow generation.
- **International business updates:** IHCL with its efforts on cost optimization expects US losses to come down below Rs 100crs and UK market to recover and losses to go way i.e. of 2mn pounds last year.
- **Capex:** For FY22, company has guided a capex of Rs 250crs. This includes spend on Ginger in Santacruz, international Chambers renovations in the UK and Banquet renovation in the US.

Exhibit 1: Financial snapshot

Particulars (Rs mn)	Q4FY21	Q3FY21	QoQ (%)	Q4FY20	YoY (%)
Total revenues	6,150	5,599	9.9	10,630	(42.1)
Total expenditure	5,437	5,766	(5.7)	8,551	(36.4)
EBIDTA	713	(167)	-	2,079	(65.7)
<i>EBIDTA margin (%)</i>	<i>11.6</i>	<i>(3.0)</i>	<i>-</i>	<i>19.6</i>	<i>(800)bps</i>
Depreciation	1,043	1,023	2.0	1,031	1.2
Interest cost	1,061	1,121	(5.3)	848	25.2
Other income	115	547	(79.1)	380	(69.9)
Exceptional Item	254	280	(9.6)	401	(36.8)
PBT	(1,277)	(1,764)	-	581	-
Tax	(124)	(307)	-	314	-
Adj. net profit	(1,153)	(1,457)	-	267	-
share of profit of JV and associate	(78)	(156)	-	95	-
Minority int. & exceptional items	-	-	-	-	-
consolidated profit	(977)	(1,332)	-	763	-
EPS (INR)	(0.8)	(1.1)	-	0.6	-

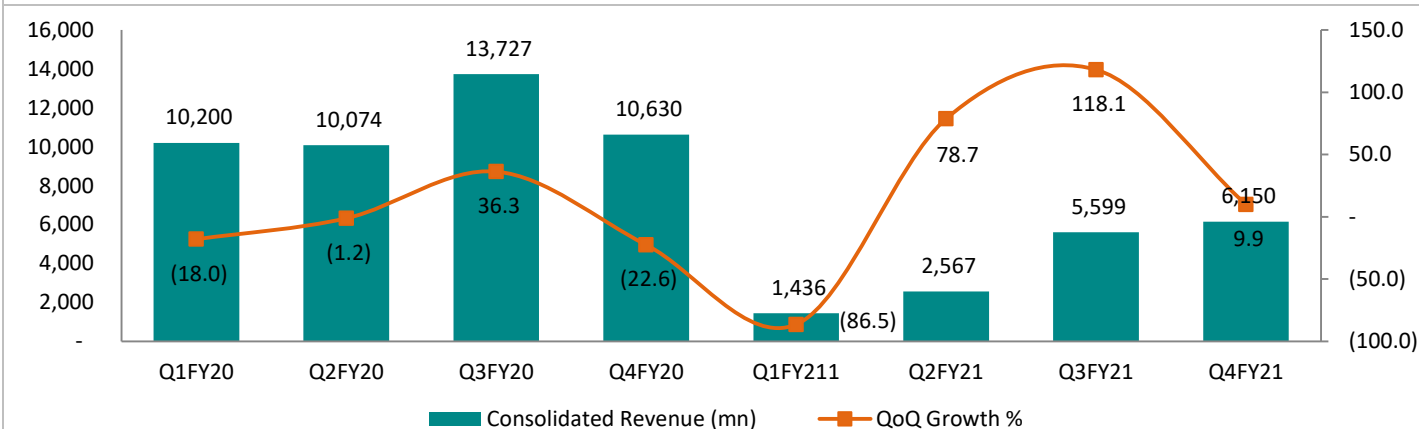
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs Estimates

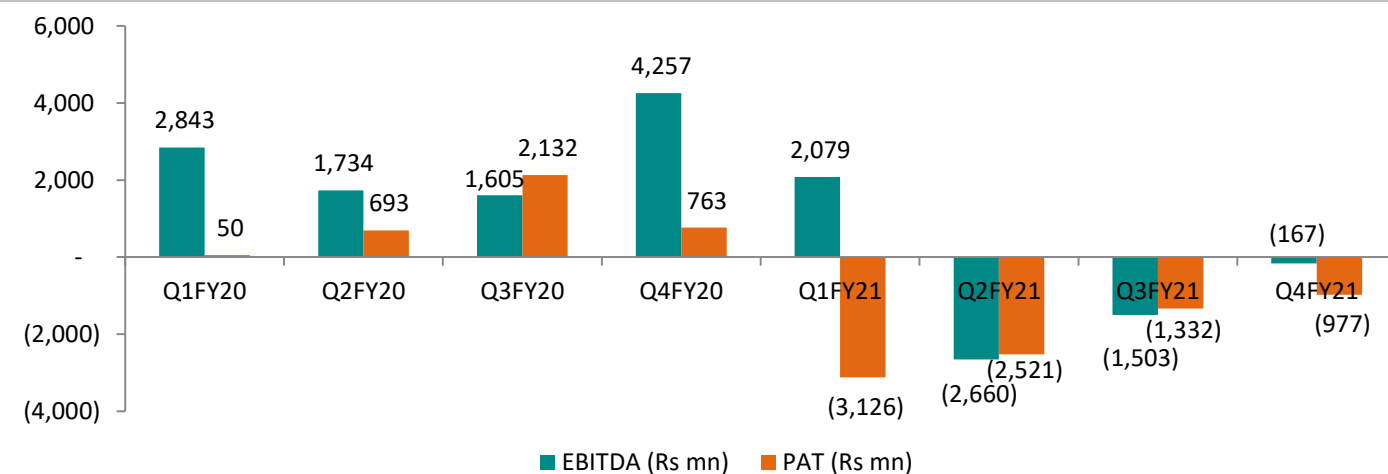
Particulars (Rs mn)	Q4FY20A	Q4FY21E	Variance (%)
Net Sales	6,150	6,612	(7.0)
EBITDA	713	184	287.6
<i>EBITDA Margin (%)</i>	<i>11.6</i>	<i>2.8</i>	<i>980bps</i>
Net Profit	(977)	(1,057)	-
EPS, Rs	(0.8)	(0.9)	-

Source: Company; IDBI Capital Research

Exhibit 3: Consolidated revenue



Source: Company; IDBI Capital Research

Exhibit 4: EBITDA/PAT


Source: Company; IDBI Capital Research

Exhibit 5: Change in estimates

Particulars (Rs mn)	FY22E			FY23E		
	Old	New	% Chg	Old	New	% Chg
Net Sales	35,555	36,270	2.0	48,710	48,964	0.5
EBITDA	4,871	6,891	41.5	10,351	11,017	6.4
EBITDA Margin (%)	13.7	19.0	530bps	21.3	22.5	120bps
PAT	(1,053)	270	-	3,281	3,592	7.9
EPS (Rs)	0.9	0.2	-	2.8	3.0	7.9

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account (Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net sales	44,631	15,752	36,270	48,964
<i>Growth (%)</i>	<i>(1.1)</i>	<i>(64.7)</i>	<i>130.3</i>	<i>35.0</i>
Operating expenses	(34,956)	(19,369)	(29,379)	(37,947)
EBITDA	9,675	(3,618)	6,891	11,017
<i>Growth (%)</i>	<i>16.6</i>	<i>(137.4)</i>	<i>(290.5)</i>	<i>59.9</i>
Depreciation	(4,042)	(4,096)	(4,820)	(5,000)
EBIT	5,633	(7,714)	2,071	6,017
Interest paid	(3,411)	(4,028)	(3,515)	(3,339)
Other income	1,324	2,647	2,977	1,988
Pre-tax profit	3,955	(9,095)	1,533	4,666
Tax	(448)	1,553	(763)	(1,175)
<i>Effective tax rate (%)</i>	<i>11.3</i>	<i>17.1</i>	<i>49.8</i>	<i>25.2</i>
Minority Interest	129.7	(1,014.2)	(500.0)	100.0
Net profit	3,637	(8,556)	270	3,592
Exceptional items	410	-	-	-
Adjusted net profit	3,228	(8,556)	270	3,592
<i>Growth (%)</i>	<i>11.5</i>	<i>(365.1)</i>	<i>(103.2)</i>	<i>1,231.2</i>
<i>Shares o/s (mn nos)</i>	<i>1,189</i>	<i>1,189</i>	<i>1,189</i>	<i>1,189</i>

Cash Flow Statement (Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Pre-tax profit	3,955	(9,095)	1,533	4,666
Depreciation	4,042	4,096	4,820	5,000
Tax paid	(2,418)	51	(878)	(1,351)
Chg in working capital	(3,406)	10,897	2,060	1,276
Other operating activities	-	-	-	-
Cash flow from operations (a)	2,174	5,949	7,535	9,592
Capital expenditure	(5,689)	(7,888)	(3,582)	(3,104)
Chg in investments	645	(864)	(378)	(289)
Other investing activities	-	-	-	-
Cash flow from investing (b)	(5,044)	(8,752)	(3,960)	(3,393)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	5,689	1,743	(1,233)	(1,172)
Dividend (incl. tax)	(725)	(580)	(725)	(725)
Chg in minorities	(220)	(2,318)	(500)	100
Other financing activities	(1,127)	1,557	1,310	(1,342)
Cash flow from financing (c)	3,616	402	(1,149)	(3,139)
Net chg in cash (a+b+c)	746	(2,401)	2,426	3,061

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net fixed assets	55,138	58,930	57,692	55,796
Investments	4,530	5,394	5,772	6,060
Other non-curr assets	41,141	39,264	39,807	40,290
Current assets	14,373	11,539	14,382	18,468
Inventories	936	929	975	1,034
Sundry Debtors	2,900	2,198	2,308	2,424
Cash and Bank	3,156	1,536	3,574	6,852
Marketable Securities	-	-	-	-
Loans and advances	1,658	1,056	1,151	1,220
Total assets	1,15,183	1,15,127	1,17,653	1,20,614
Shareholders' funds	43,568	36,484	38,029	40,795
Share capital	1,189	1,189	1,189	1,189
Reserves & surplus	42,379	35,295	36,839	39,606
Total Debt	22,921	24,664	23,430	22,259
Secured loans	21,258	22,238	21,126	20,070
Unsecured loans	1,663	2,425	2,304	2,189
Other liabilities	23,050	20,052	19,956	19,803
Curr Liab & prov	17,995	27,582	29,893	31,412
Current liabilities	14,902	24,607	26,790	28,164
Provisions	3,093	2,975	3,103	3,248
Total liabilities	63,966	72,297	73,279	73,474
Total equity & liabilities	1,15,183	1,15,127	1,17,653	1,20,614
Book Value (Rs)	35	29	31	33

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	2.7	(7.2)	0.2	3.0
Adj. EPS growth (%)	11.5	-	-	1,231.2
EBITDA margin (%)	21.7	(23.0)	19.0	22.5
Pre-tax margin (%)	8.9	(57.7)	4.2	9.5
ROE (%)	7.4	(21.4)	0.7	9.1
ROCE (%)	6.6	(8.4)	2.4	6.8
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.4	0.1	0.3	0.4
Leverage factor (x)	2.4	2.9	3.1	3.0
Net margin (%)	7.2	(54.3)	0.7	7.3
Net Debt/Equity (x)	0.5	0.6	0.5	0.4
Working Capital & Liquidity ratio				
Inventory days	8	22	10	8
Receivable days	24	51	23	18
Payable days	41	60	43	35

Valuation

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	41.1	-	491.5	36.9
Price / Book value (x)	3.2	3.8	3.6	3.4
PCE (x)	18.2	(29.7)	26.1	15.4
EV / Net sales (x)	3.4	9.9	4.2	3.0
EV / EBITDA (x)	15.7	(43.0)	22.1	13.4
Dividend Yield (%)	0.4	0.4	0.4	0.4

Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
---------	-------------------	-------------------------

Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

IDBI Capital Markets & Securities Ltd.

Equity Research Desk

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

Compliance Officer: Christina D'souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907

Disclaimer

This report has been published by IDBI Capital Markets & Securities Ltd. (hereinafter referred to as "IDBI Capital") for private circulation. This report should not be reproduced or copied or made available to others. No person associated with IDBI Capital is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this report. The information contained herein is strictly confidential and meant for solely for the selected recipient and may not be altered in any way, transmitted to copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without the prior written consent of IDBI Capital.

Recipients may not receive this report at the same time as other recipients. IDBI Capital will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from the public domain or sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Opinions expressed are current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis, the information discussed in this material, IDBI Capital, its directors, employees are under no obligation to update or keep the information current. Further there may be regulatory, compliance, or other reasons that prevent us from doing so.

Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

IDBI Capital, its directors and employees and any person connected with it, will not in any way be responsible for the contents of this report or for any losses, costs, expenses, charges, including notional losses/lost opportunities incurred by a recipient as a result of acting or non-acting on any information/material contained in the report.

This is not an offer to sell or a solicitation to buy any securities or an attempt to influence the opinion or behavior of investors or recipients or provide any investment/tax advice.

This report is for information only and has not been prepared based on specific investment objectives. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment decision based on their own investment objectives, goals and financial position and based on their own analysis.

Trading in stocks, stock derivatives, and other securities is inherently risky and the recipient agrees to assume complete and full responsibility for the outcomes of all trading decisions that the recipient makes, including but not limited to loss of capital.

Opinions, projections and estimates in this report solely constitute the current judgment of the author of this report as of the date of this report and do not in any way reflect the views of IDBI Capital, its directors, officers, or employees.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IDBI Capital and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this report may come are required to inform themselves of and to observe such restriction.

E-mail is not a secure method of communication. IDBI Capital cannot accept responsibility for the accuracy or completeness of any e-mail message or any attachment(s).

This transmission could contain viruses, be corrupted, destroyed, incomplete, intercepted, lost or arrived late. IDBI Capital, its directors or employees or associates accept no liability for any damage caused, directly or indirectly, by this email.

Analyst Disclosures

I, Archana Gude, hereby certify that the views expressed in this report accurately reflect my personal views about the subject companies and / or securities. I also certify that no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report. Principally, I will be responsible for the preparation of this research report and have taken reasonable care to achieve and maintain independence and objectivity in making any recommendations herein.

Other Disclosure

IDBI Capital Markets & Securities Ltd. (hereinafter referred to as "IDBI Capital") was incorporated in the year 1993 under Companies Act, 1956 and is a wholly owned subsidiary of IDBI Bank Limited. IDBI Capital is one of India's leading securities firm which offers a full suite of products and services to individual, institutional and corporate clients namely Stock broking (Institutional and Retail), Distribution of financial products, Merchant Banking, Corporate Advisory Services, Debt Arranging & Underwriting, Portfolio Manager Services and providing Depository Services. IDBI Capital is a registered trading and clearing member of BSE Ltd. (BSE) and National Stock Exchange of India Limited (NSE). IDBI Capital is also a SEBI registered Merchant Banker, Portfolio Manager and Research Analyst. IDBI Capital is also a SEBI registered depository participant with National Securities Depository Limited (NSDL) and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI).

IDBI Capital and its associates IDBI Bank Ltd. (Holding Company), IDBI Intech Ltd. (Fellow Subsidiary), IDBI Asset Management Ltd. (Fellow Subsidiary) and IDBI Trusteeship Services Ltd. (Fellow Subsidiary).

IDBI Group is a full-serviced banking, integrated investment banking, investment management, brokerage and financing group. Details in respect of which are available on www.idbicapital.com IDBI Capital along with its associates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our associates have investment banking and other business relationships with a significant percentage of the companies covered by our Research Department. Investors should assume that IDBI Capital and/or its associates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material. IDBI Capital generally prohibits its analysts, persons reporting to analysts, and their dependent family members having a financial conflict of interest in the securities or derivatives of any companies that the analysts cover. Additionally, IDBI Capital generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Directors of IDBI Capital or its associates may have interest in the Companies under recommendation in this report either as Director or shareholder. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of IDBI Capital. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. We and our associates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether IDBI Capital and its associates holds beneficially owns or controls, including the right to vote for directors, 1% or more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by IDBI Asset Management Company/ IDBI Mutual Fund.

IDBI Capital hereby declares that our activities were neither suspended nor we have materially defaulted with any Stock Exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on IDBI Capital for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time. IDBI Capital, its directors or employees or associates, may from time to time, have positions in, or options on, and buy and sell securities referred to herein. IDBI Capital or its associates, during the normal course of business, from time to time, may solicit from or perform investment banking or other services for any company mentioned in this document or their connected persons or be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or their affiliate companies or act as advisor or lender / borrower to such company(ies)/associates companies or have other potential conflict of interest. This report may provide hyperlinks to other websites. Except to the extent to which the report refers to the website of IDBI Capital, IDBI Capital states that it has not reviewed the linked site and takes no responsibility for the content contained in such other websites. Accessing such websites shall be at recipient's own risk. IDBI Capital encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. Accordingly, neither IDBI Capital nor Research Analysts have any material conflict of interest at the time of publication of this report. We offer our research services to primarily institutional investors and their employees, directors, fund managers, advisors who are registered with us. The Research Analyst has not served as an officer, director or employee of Subject Company. We or our associates may have received compensation from the subject company in the past 12 months. We or our associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research Analyst or his/her relative's may have financial interest in the subject company. IDBI Capital or its associates may have financial interest in the subject company. Research Analyst or his/her relatives does not have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. IDBI Capital or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. The Subject Company may have been a client during twelve months preceding the date of distribution of the research report. Price history of the daily closing price of the securities covered in this note is available at www.bseindia.com; www.nseindia.com and www.economictimes.indiatimes.com/markets/stocks/stock-quotes.