

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.

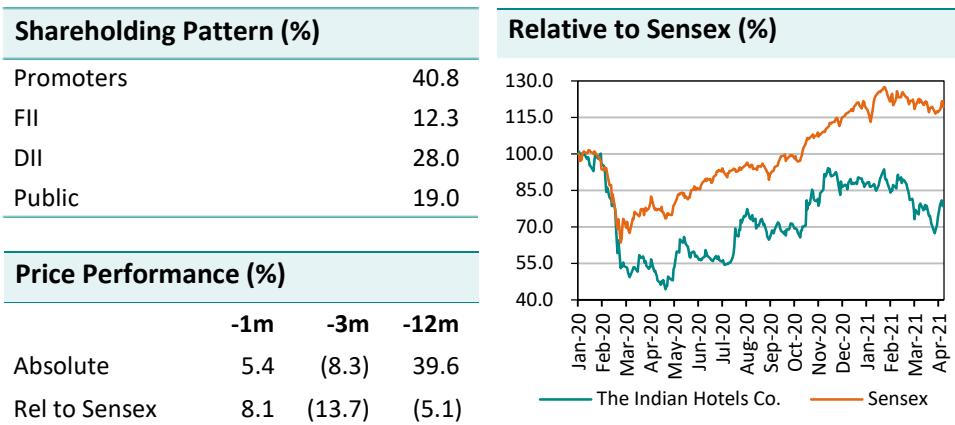
Prudent cost cutting supported EBITDA margin

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.

TP CMP	Rs121	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)



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>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	-

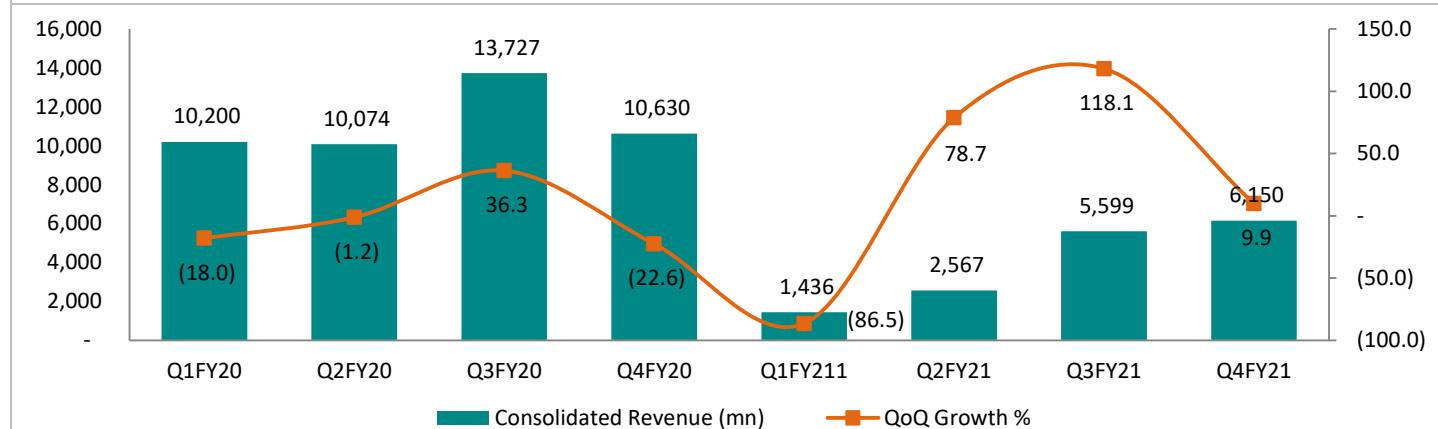
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs Estimates

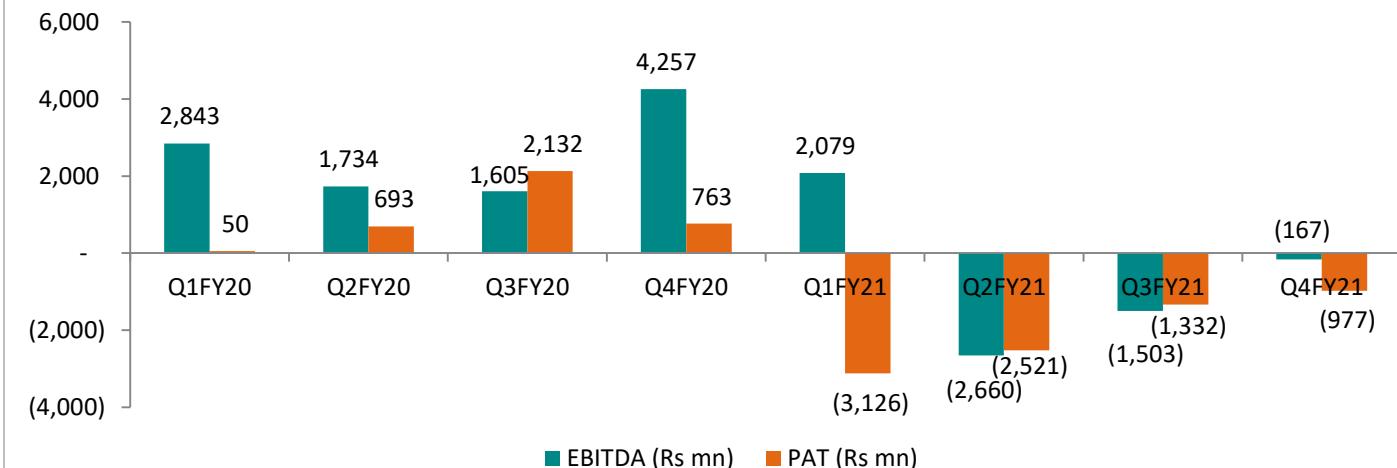
Particulars (Rs mn)	Q4FY20A	Q4FY21E	Variance (%)
Net Sales	6,150	6,612	(7.0)
EBITDA	713	184	287.6
EBITDA Margin (%)	11.6	2.8	980bps
Net Profit	(977)	(1,057)	-
EPS, Rs	(0.8)	(0.9)	-

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)	Cash Flow Statement					(Rs mn)
Year-end: March	FY20	FY21	FY22E	FY23E		Year-end: March	FY20	FY21	FY22E	FY23E	
Net sales	44,631	15,752	36,270	48,964		Pre-tax profit	3,955	(9,095)	1,533	4,666	
<i>Growth (%)</i>	(1.1)	(64.7)	130.3	35.0		Depreciation	4,042	4,096	4,820	5,000	
Operating expenses	(34,956)	(19,369)	(29,379)	(37,947)		Tax paid	(2,418)	51	(878)	(1,351)	
EBITDA	9,675	(3,618)	6,891	11,017		Chg in working capital	(3,406)	10,897	2,060	1,276	
<i>Growth (%)</i>	16.6	(137.4)	(290.5)	59.9		Other operating activities	-	-	-	-	
Depreciation	(4,042)	(4,096)	(4,820)	(5,000)		Cash flow from operations (a)	2,174	5,949	7,535	9,592	
EBIT	5,633	(7,714)	2,071	6,017		Capital expenditure	(5,689)	(7,888)	(3,582)	(3,104)	
Interest paid	(3,411)	(4,028)	(3,515)	(3,339)		Chg in investments	645	(864)	(378)	(289)	
Other income	1,324	2,647	2,977	1,988		Other investing activities	-	-	-	-	
Pre-tax profit	3,955	(9,095)	1,533	4,666		Cash flow from investing (b)	(5,044)	(8,752)	(3,960)	(3,393)	
Tax	(448)	1,553	(763)	(1,175)		Equity raised/(repaid)	-	-	-	-	
<i>Effective tax rate (%)</i>	11.3	17.1	49.8	25.2		Debt raised/(repaid)	5,689	1,743	(1,233)	(1,172)	
Minority Interest	129.7	(1,014.2)	(500.0)	100.0		Dividend (incl. tax)	(725)	(580)	(725)	(725)	
Net profit	3,637	(8,556)	270	3,592		Chg in minorities	(220)	(2,318)	(500)	100	
Exceptional items	410	-	-	-		Other financing activities	(1,127)	1,557	1,310	(1,342)	
Adjusted net profit	3,228	(8,556)	270	3,592		Cash flow from financing (c)	3,616	402	(1,149)	(3,139)	
<i>Growth (%)</i>	11.5	(365.1)	(103.2)	1,231.2		Net chg in cash (a+b+c)	746	(2,401)	2,426	3,061	
<i>Shares o/s (mn nos)</i>	1,189	1,189	1,189	1,189							

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

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Key to Ratings Stocks:

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

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