

Indian Hotels

 BSE SENSEX
 40,363

 S&P CNX
 11,829

IHCL

Stock Info

Bloomberg	IH IN
Equity Shares (m)	1,189
M.Cap.(INRb)/(USDb)	164 / 2.3
52-Week Range (INR)	164 / 121
1, 6, 12 Rel. Per (%)	-2/-8/-16
12M Avg Val (INR M)	186
Free float (%)	60.9

Financials Snapshot (INR b)

Y/E Mar	2020E	2021E	2022E
Sales	47.2	51.7	55.6
EBITDA	11.3	13.6	15.8
PAT	4.0	5.2	6.8
EBITDA (%)	23.9	26.4	28.4
EPS (INR)	3.4	4.4	5.7
EPS Gr. (%)	43.0	30.3	30.4
BV/Sh. (INR)	39.2	42.7	47.5

Ratios

Net D/E	0.7	0.6	0.4
RoE (%)	8.9	10.7	12.7
RoCE (%)	7.2	7.9	9.2
Payout (%)	21.7	19.4	17.0

Valuations

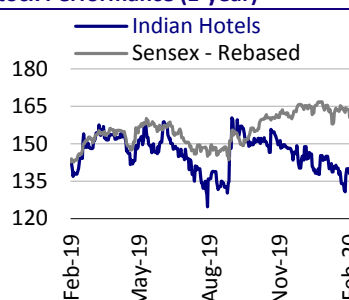
P/E (x)	40.9	31.4	24.1
EV/EBITDA (x)	18.3	14.8	12.4
Div Yield (%)	0.4	0.5	0.6
FCF Yield (%)	(7.7)	4.4	5.5

Shareholding pattern (%)

As On	Dec-19	Sep-19	Dec-18
Promoter	39.1	39.1	39.1
DII	35.5	41.1	28.2
FII	11.8	0.0	14.0
Others	13.7	19.8	18.7

FII Includes depository receipts

Stock Performance (1-year)


CMP: INR138 TP: INR189 (+37%)
Buy

Strategy execution on track

Support from industry yet to follow

Indian Hotels (IHIN) appears to be firing well on its 'Aspiration 2022' target on EBITDA margin (expansion of 800bp), revenue (improvement of 3-4%), cost (reduction by 3-5%), project addition (15 every year) and portfolio (equal proportion of owned and managed rooms). At its third Capital Markets meet, the company articulated execution toward this goal – it will achieve 400bp margin expansion by FY20 and the proportion of managed rooms has already reached 43% (as of 9MFY20). Key highlights from the meet:

Looking beyond near term; hotel industry still in upcycle

- India's hotel industry performance this fiscal has been impacted by various factors, including Jet Airways shutdown, general elections, protests (albeit to a smaller extent) in the NCR region, and the lack of pick-up in corporate demand due to the economic slowdown.
- However, Mr Achin Khanna from Hotelivate (hospitality consulting firm) appeared sanguine about the underlying theme on the back of the prospects of a favorable demand-supply scenario. While supply CAGR is estimated at 5% over FY20-24, demand growth will likely outpace that rate going forward (interestingly, demand growth has ranged from 9-14% over the last 14 years, including some very challenging years).
- Although bookings have been cancelled following the outbreak of coronavirus, domestic demand has been good enough to compensate for the same. The shift of wedding destinations from South East Asia to India in the wake of coronavirus has also supported the bookings trend.

Staying asset light – room addition under management contracts

- As part of its 'Aspiration 2022' goal, IHIN targets to strike a balance between managed and owned rooms at 50:50. The company has progressed well on this front with 43% managed rooms as of 9MFY20 versus 32% as of FY18 (incl. pipeline rooms).
- IHIN has signed 27 hotels (3,542 rooms) in 9MFY20, higher than 22 (3,258 rooms) in FY19. With that, the company has outpaced industry in terms of room addition under management contracts, in our view. Asset owners are fast getting associated with IHIN because of (a) inclination toward being associated with the 'Taj' brand and (b) transparent contract terms.
- IHIN estimates income from management contracts at INR2,350m in FY20, which has ~70% flow through to EBITDA. It expects further ramp up as hotels launched in FY20 stabilize going forward.
- Overall management contract pipeline stands at 4,727 rooms, which is ~50% of rooms that generate management fee income (total of ~9,500 rooms and fees are also earned from owned managed hotels, JV, subsidiary and associates).

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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

From a 'Branded House' to a 'House of Brands' – generating additional revenue stream

- IHIN had guided for generating an additional revenue stream by capitalizing on the existing brands (Chambers)/launching new brands (Ama, nui&nau, launch 'Anuka' brand in Taj SATS for directly offering services to B2C segment, Brew Pub with AB InBev and Paper Moon).
- For instance, IHIN has re-launched 'Chambers' and added 115 new members; 150 have migrated to its global membership which cumulatively generated revenue of INR320m in four months.

Core hotel assets generate >16% RoCEs

- Of total capital employed of INR75b, 52% pertains to hotel assets which generate >16% RoCE.
- Of the balance capital employed, IHIN is monetizing its non-core assets (sale of residential apartments and land in Pune generated INR1.5b) and unlocking value of latent assets (Ginger hotel addition in Mumbai).
- Additionally, the company is efficiently allocating capital by the sale and manage-back method, thereby releasing capital (sale of Gateway Vizag and Vivanta Trivandrum generated cash flow of INR1.7b).
- Thus, we believe these initiatives would free up capital for expansion, debt reduction and efficient capital allocation, which in turn would drive the return ratios.
- Management targets to generate double-digit return on incremental capital employed (capex and renovation).

Rebranding of Ginger hotel yielding higher ARRs

- IHIN rebranded and re-launched 13 of its 64 Ginger properties under the lean-luxury segment, which led to a 26% increase in ARRs in 3QFY20. Around 24% of the portfolio would be rebranded by FY20, which will eventually increase to 50% by FY21.
- Roots Corporation, which operates the Ginger brand, generated revenue of INR2,035m, which management targets to increase to INR4,500-5,000m by 2022.
- Intimation of disapproval has been received for its 371-room owned Ginger property in Mumbai. IHIN will soon commence the construction and will incur cost of INR2,000m. It is to be noted that the hotel is constructed on the existing landbank only. IHIN expects 50-60% EBITDA margin for the hotel.

Valuation and view

- IHIN is well on track to achieve its 'Aspiration 2022' goal and has made good progress on other strategic initiatives like rebranding of Ginger, monetizing of existing landbank, selling non-core assets, JV with GIC to add rooms and creating alternative revenue streams (like re-launching of Chambers, Ama).
- More importantly, the underlying thesis of favorable demand-supply led growth in India's hotels industry remains intact. This will also work in favor of IHIN.
- We maintain our estimates: revenue/EBITDA/PAT CAGR (FY20-22) of 9%/18%/30% to INR55.6b/INR15.8b/INR6.8b.
- We value the stock at 16x FY22E EV/EBITDA. On an SOTP (consol. and JV & associate) basis, we arrive at a target price of INR189. Maintain **Buy**.

Exhibit 1: Valuation Methodology

Particulars	Methodology	Metrics	FY22E	Multiple (x)	Value (INRm)	Value/ share (INR)
IHCL- ex JV/ Associate						
EV	EV/EBITDA (x)	EBITDA	15,813	16.0	253,002	213
Less: Net Debt					-23,601	(20)
Less: Minority Interest					-7,999	(7)
Sub Total					221,402	186
JV/Associate						
Taj GVK (IHCL's share - 25.5%) - JV	20% discount to MCAP	Attributable Mcap	2,627	0.8	2,101	1.8
Oriental Hotel (IHCL's share - 35.7%) - Associate	20% discount to MCAP	Attributable Mcap	1,721	0.8	1,377	1.2
Sub Total					3,478	2.9
Target Price					224,879	189
CMP						138
Upside (%)						37%

Source: MOFSL

Other key takeaways from the Capital Market Day

- Chennai and Kolkata market would take some time to absorb higher inventory supply.
- IHIN would acquire balance 15% stake in Searock from the other party in the next one month.

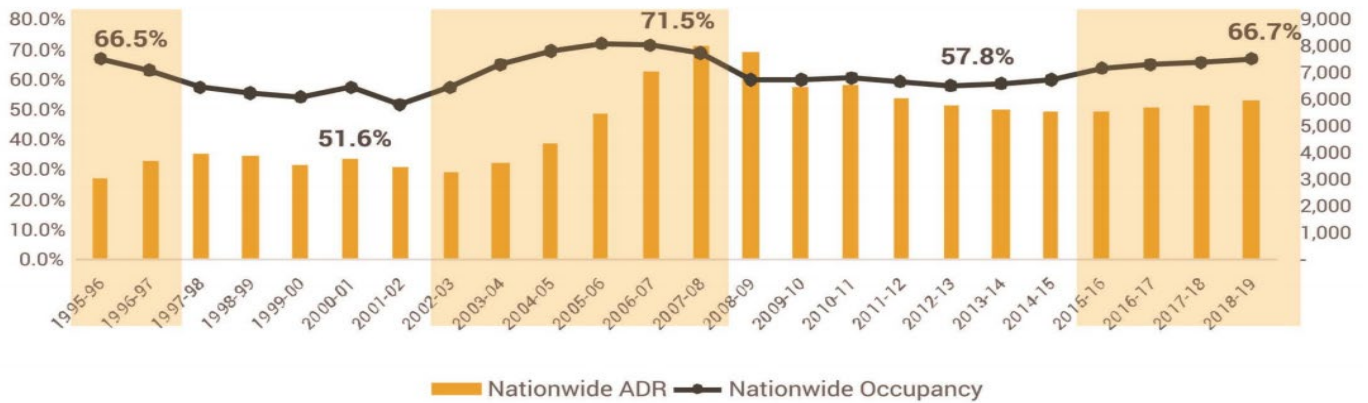
Cost initiatives:

- PBT losses from the US and UK hotels (which stood at USD6.6m in 9MFY18) have turned into profit of USD1.9m in 9MFY20.
- The company is working on several initiatives to reduce power cost, using shared services for laundry, rationalizing its F&B menu and others.

Taj SATS

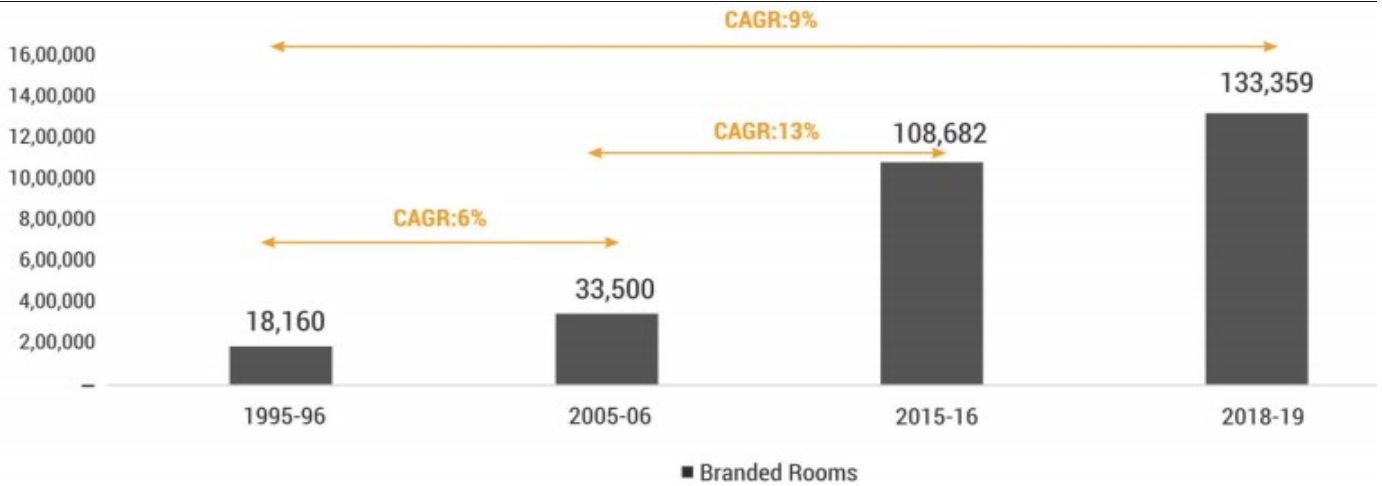
- Taj SATS is the market leader in the flight catering business with 34% market share and operates six kitchens.
- As part of its initiative to simplify the holding structure, Taj SATS has acquired Taj Madras Flight Kitchen.
- It intends to launch a new brand – Anuka – which will offer services directly to B2C customers.

Exhibit 2: Hotel industry cycles in India



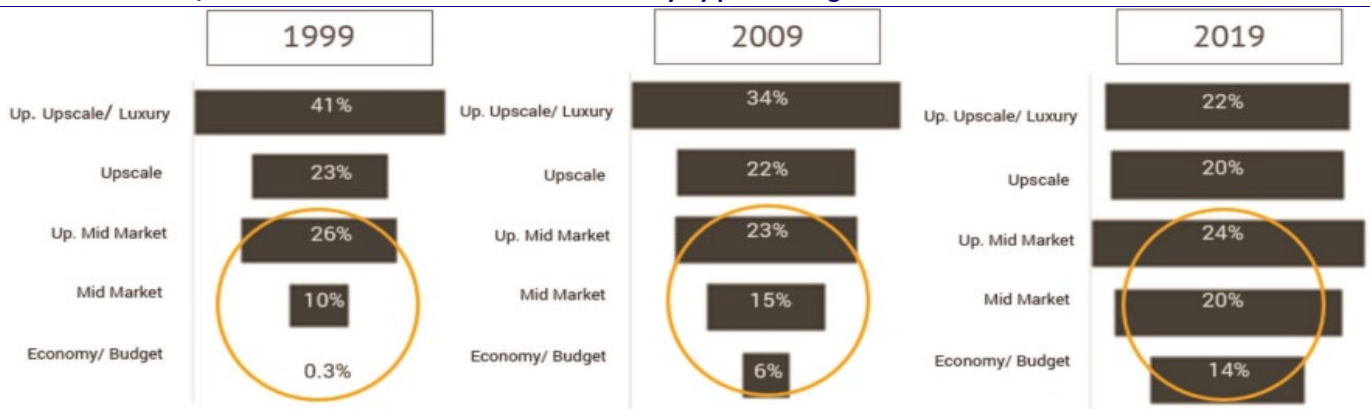
Source: Hotelivate, Company, MOFSL

Exhibit 3: Growth in branded/traditional chain-affiliated room inventory



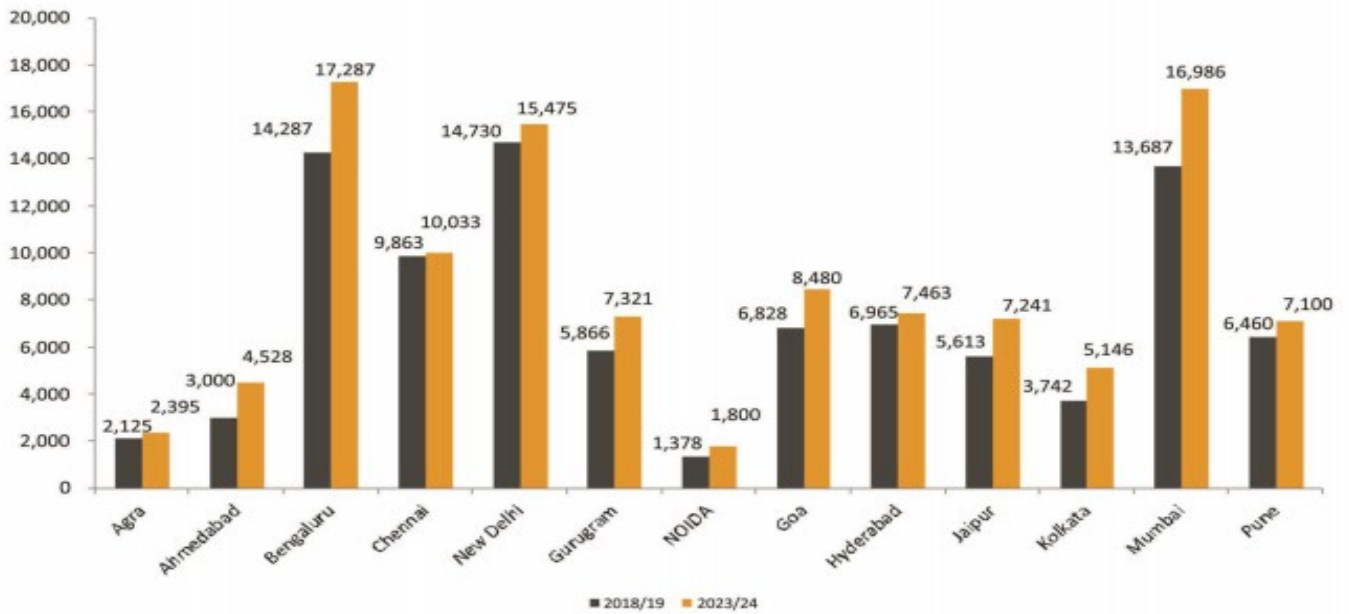
Source: Hotelivate, Company, MOFSL

Exhibit 4: Branded/traditional chain-affiliated room inventory by positioning



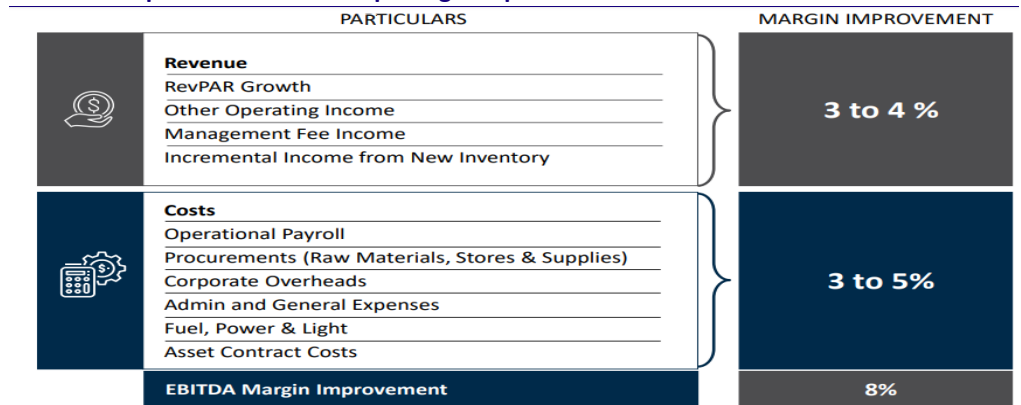
Source: Hotelivate, Company, MOFSL

Exhibit 5: Room inventory in pipeline – City wise



Source: Hotelivate, Company, MOFSL

Exhibit 6: Aspiration 2022 – 800bp margin expansion



Source: Company, MOFSL

Exhibit 7: From a branded house to a house of brands - IHCL



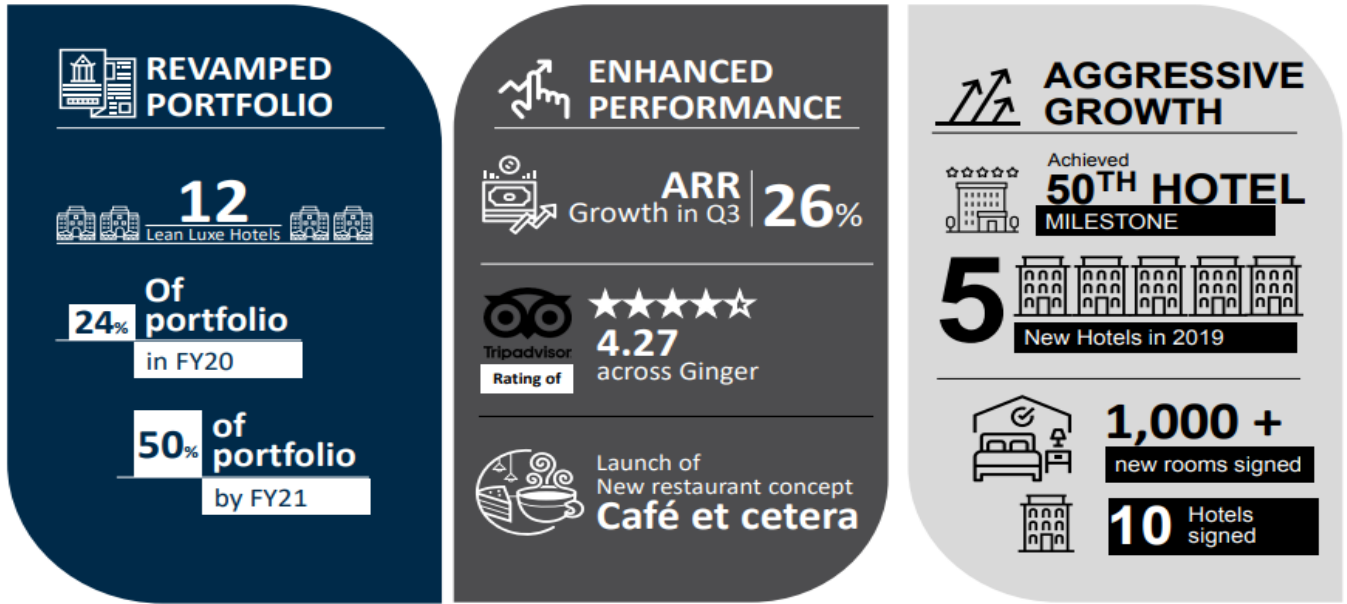
Source: Company, MOFSL

Exhibit 8: Change in Ginger brands repositioning

ORIGIN 2004	METAMORPHOSIS Dec 2018 onwards
<p>ROOMS CENTRIC</p> <ul style="list-style-type: none"> Self Service Smart Basics 	<p>BRAND NEW GINGER</p> <ul style="list-style-type: none"> Vibrant & Interactive Spaces Lifestyle Approach F&B offering

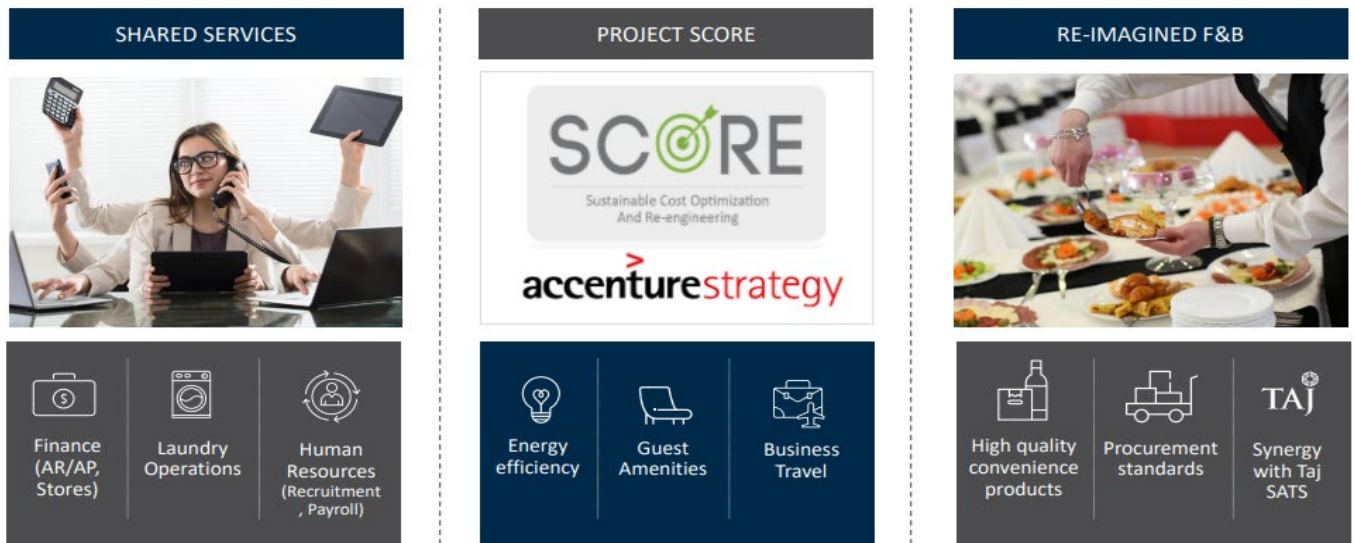
Source: Company, MOFSL

Exhibit 9: Ginger rebranding impact



Source: Company, MOFSL

Exhibit 10: Cost initiatives to drive performance



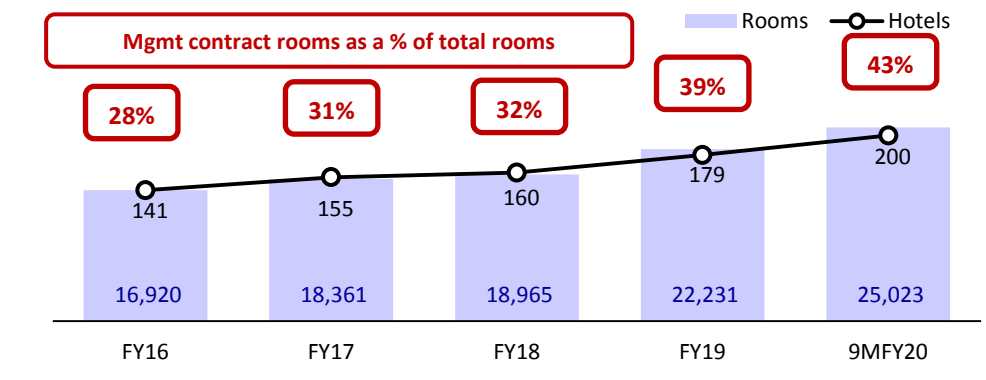
Source: Company, MOFSL

Exhibit 11: Development strategy across brands

TAJ	Pure Management Contract	Pure Management Contract	Management Contract with Sliver Investment Operating Lease/ Ownership
SELEQTIONS	Pure Management Contract	Pure Management Contract	Management Contract with Sliver Investment Operating Lease/ Ownership
VIVANTA	Pure Management Contract	Pure Management Contract	Management Contract with Sliver Investment Operating Lease/ Ownership
GINGER	Operating Lease	Operating Lease / Ownership	Operating Lease/ Ownership
	← GOOD LOCATION →		
	QUALIFYING	GOOD	EXCELLENT

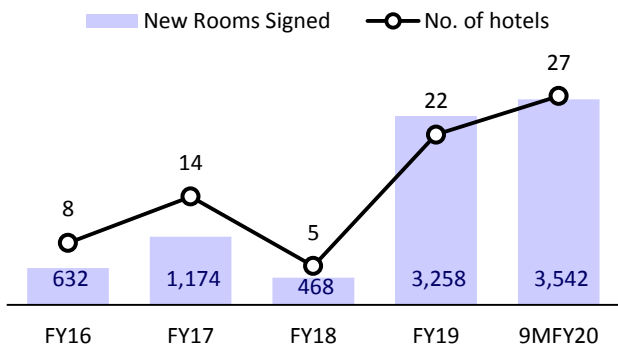
Source: Company, MOFSL

Exhibit 12: Portfolio of rooms over years including pipeline rooms



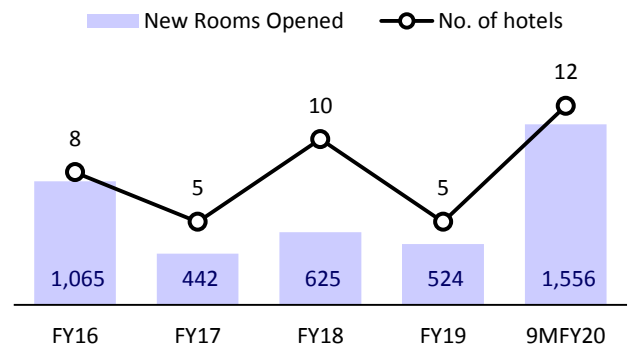
Source: Company, MOFSL

Exhibit 13: New hotel signings trend



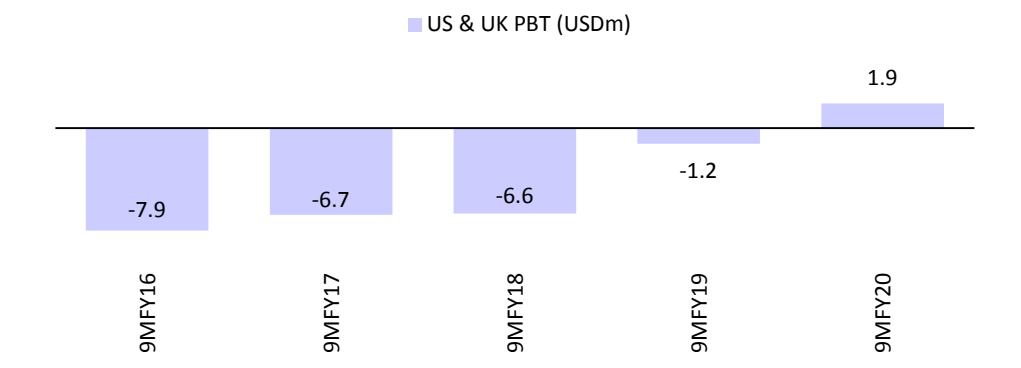
Source: Company, MOFSL

Exhibit 14: Hotel openings accelerated in FY20



Source: Company, MOFSL

Exhibit 15: US and UK hotel losses have reduced



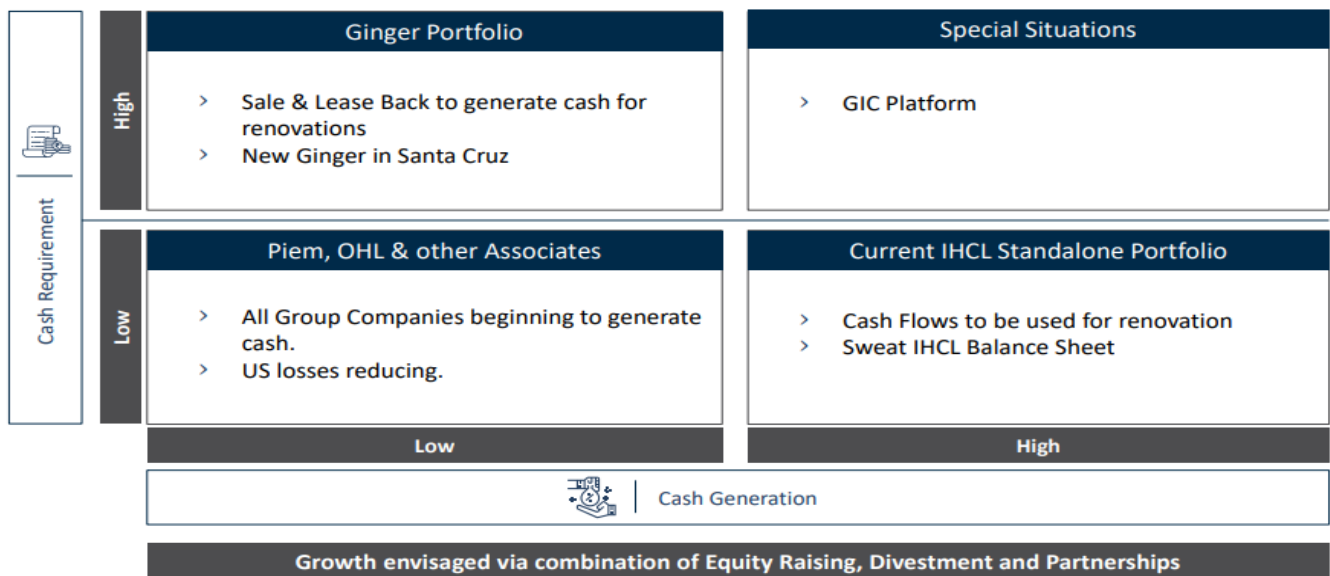
Source: Company, MOFSL

Exhibit 16: Revenue streams of IHIN

	<p>ROOM REVENUE</p> <ul style="list-style-type: none"> > 45% SHARE > 70% FLOWTHROUGH 		<p>F&B REVENUE</p> <ul style="list-style-type: none"> > 40% SHARE > 50% FLOWTHROUGH
	<p>MANAGEMENT FEES</p> <ul style="list-style-type: none"> > 5% SHARE > 75% FLOWTHROUGH 		<p>CHAMBERS, SPA, KHAZANA</p> <ul style="list-style-type: none"> > 10% SHARE > 60% FLOWTHROUGH

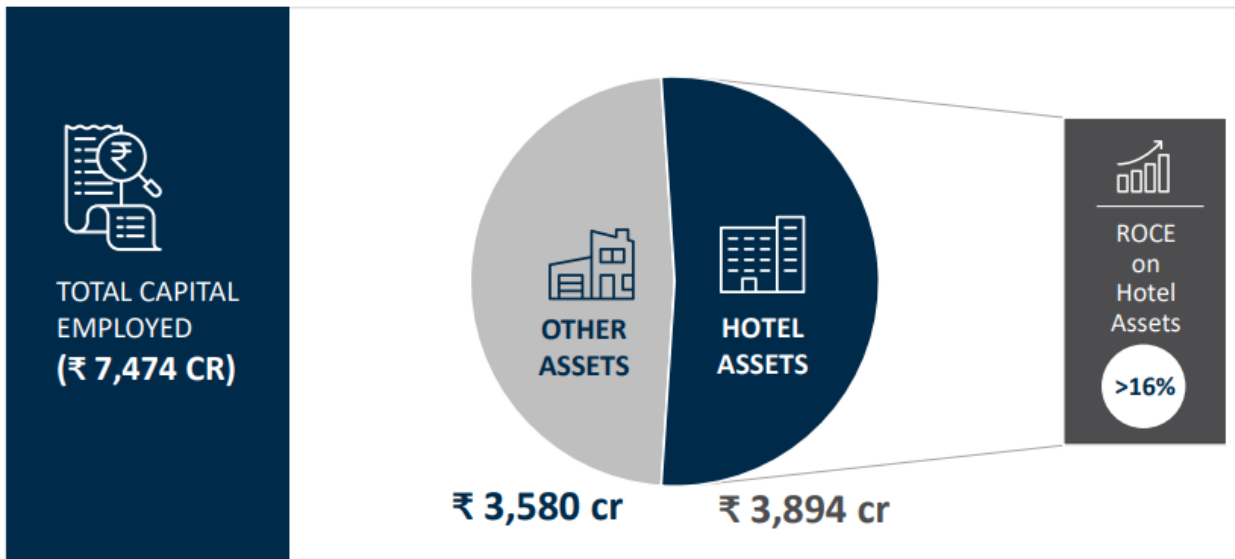
Source: Company, MOFSL

Exhibit 17: Approach to funding expansion



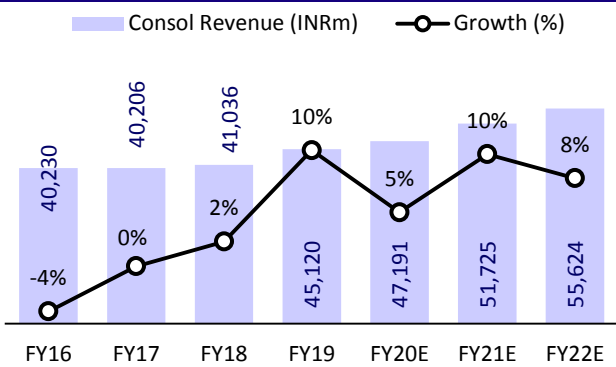
Source: Company, MOFSL

Exhibit 18: Return on capital employed is >16% on the hotel asset



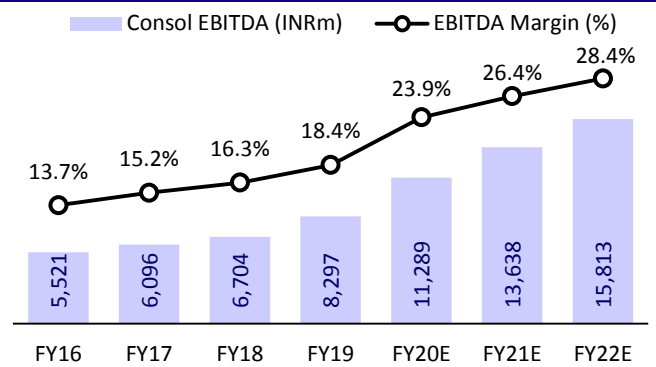
Source: Company, MOFSL

Exhibit 19: Expect revenue CAGR of 9% over FY20-22



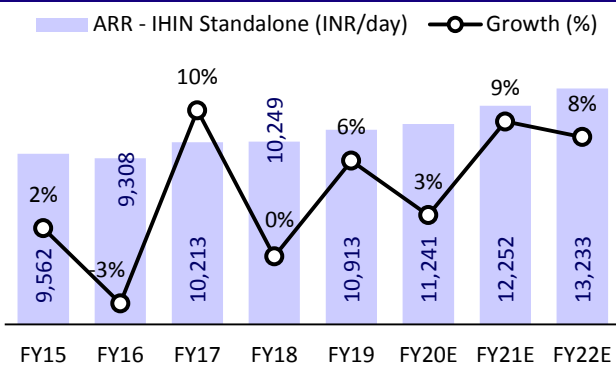
Source: Company, MOFSL

Exhibit 20: Expect EBITDA CAGR of 18% over FY20-22



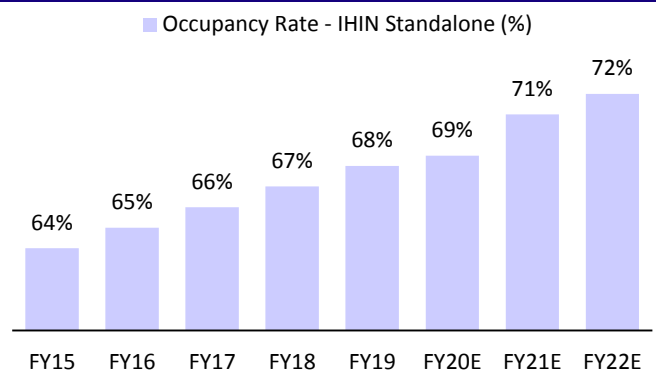
Source: Company, MOFSL

Exhibit 21: Standalone ARR to clock 8% CAGR over FY20-22



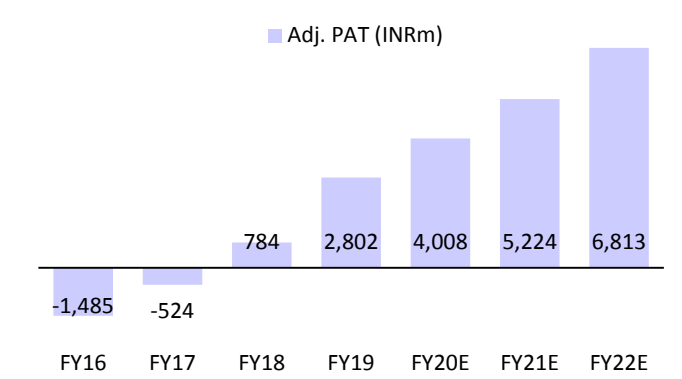
Source: Company, MOFSL

Exhibit 22: Standalone occupancy trend



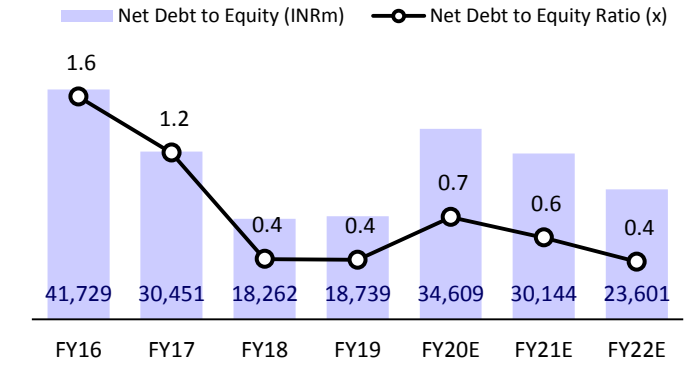
Source: Company, MOFSL

Exhibit 23: Adj PAT trend



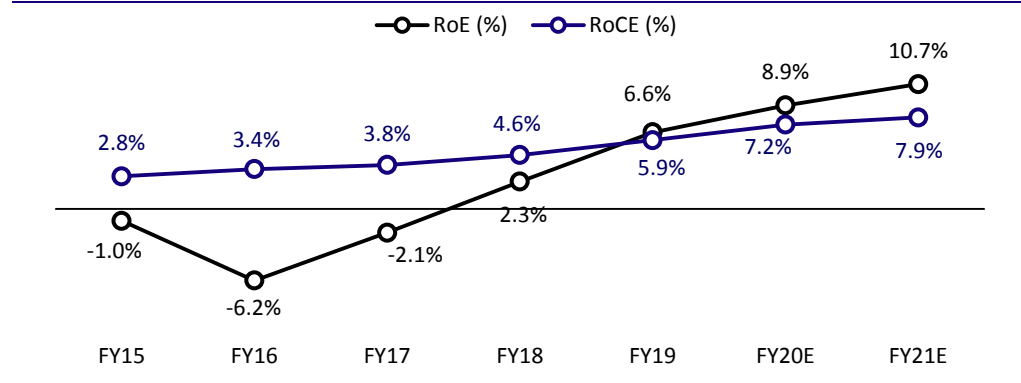
Source: Company, MOFSL

Exhibit 24: Net debt to equity trend



Source: Company, MOFSL

Exhibit 25: RoE and RoCE trend



Source: Company, MOFSL

Financials and Valuations

Consolidated - Income Statement								INRm
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Total Income from Operations	41,886	40,230	40,206	41,036	45,120	47,191	51,725	55,624
Change (%)	3.0	-4.0	-0.1	2.1	10.0	4.6	9.6	7.5
Total Expenditure	37,001	34,709	34,110	34,332	36,823	35,902	38,087	39,812
% of Sales	88.3	86.3	84.8	83.7	81.6	76.1	73.6	71.6
EBITDA	4,886	5,521	6,096	6,704	8,297	11,289	13,638	15,813
Margin (%)	11.7	13.7	15.2	16.3	18.4	23.9	26.4	28.4
Depreciation	2,913	2,848	2,994	3,012	3,279	4,077	4,427	4,611
EBIT	1,973	2,673	3,102	3,692	5,019	7,212	9,211	11,202
Int. and Finance Charges	1,756	3,756	3,238	2,690	1,901	3,400	3,366	3,114
Other Income	987	997	549	617	834	1,099	1,204	1,295
PBT bef. EO Exp.	1,204	-86	413	1,618	3,951	4,911	7,050	9,384
EO Items	-3,529	-827	-108	225	66	8	0	0
PBT after EO Exp.	-2,325	-913	306	1,843	4,017	4,919	7,050	9,384
Total Tax	1,146	906	1,137	1,211	1,571	854	2,326	3,097
Tax Rate (%)	-49.3	-99.3	372.2	65.7	39.1	17.4	33.0	33.0
Minority Interest	310	493	-200	-376	-422	49	-501	-526
Reported PAT	-3,781	-2,312	-632	1,009	2,868	4,016	5,224	6,813
Adjusted PAT	-252	-1,485	-524	784	2,802	4,008	5,224	6,813
Change (%)	NA	NA	NA	NA	257.4	43.0	30.3	30.4
Margin (%)	-0.6	-3.7	-1.3	1.9	6.2	8.5	10.1	12.2

Consolidated - Balance Sheet								(INR m)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Equity Share Capital	808	989	989	1,189	1,189	1,189	1,189	1,189
Total Reserves	21,465	24,813	24,188	40,622	42,291	45,437	49,645	55,298
Net Worth	22,272	25,803	25,177	41,811	43,480	46,626	50,835	56,487
Minority Interest	7,378	7,429	7,378	7,774	7,999	7,999	7,999	7,999
Total Loans	50,741	45,260	33,830	24,270	23,260	40,567	39,567	34,567
Deferred Tax Liabilities	2,516	2,382	2,820	3,563	3,768	3,768	3,768	3,768
Capital Employed	82,908	80,874	69,206	77,418	78,506	98,959	102,167	102,820
Gross Block	86,887	64,751	57,923	63,356	69,051	91,300	95,086	99,043
Less: Accum. Deprn.	28,727	2,661	5,506	7,385	10,663	14,740	19,167	23,777
Net Fixed Assets	58,160	62,090	52,417	55,971	58,388	76,560	75,919	75,266
Goodwill on Consolidation	4,832	5,527	5,737	5,655	5,835	5,835	5,835	5,835
Capital WIP	3,057	2,900	2,227	1,970	1,162	2,232	2,446	2,489
Total Investments	15,869	15,152	12,437	15,965	13,351	15,351	17,351	17,351
Curr. Assets, Loans&Adv.	16,951	12,305	13,173	14,184	17,102	16,952	19,841	22,452
Inventory	1,030	802	804	857	804	784	832	869
Account Receivables	3,029	2,420	2,721	3,286	3,214	3,232	3,543	3,657
Cash and Bank Balance	5,035	1,825	2,471	2,703	2,409	1,846	3,311	4,853
Loans and Advances	7,857	7,258	7,177	7,338	10,675	11,090	12,155	13,072
Curr. Liability & Prov.	15,961	17,099	16,785	16,328	17,331	17,971	19,225	20,573
Account Payables	3,645	3,240	3,370	3,513	3,253	3,246	3,364	3,517
Other Current Liabilities	10,711	11,846	11,305	10,349	11,579	12,111	13,274	14,275
Provisions	1,605	2,013	2,110	2,465	2,500	2,614	2,586	2,781
Net Current Assets	990	-4,794	-3,612	-2,143	-229	-1,019	616	1,879
Appl. of Funds	82,908	80,874	69,206	77,418	78,506	98,959	102,167	102,820

Financials and Valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Basic (INR)								
EPS	-0.2	-1.2	-0.4	0.7	2.4	3.4	4.4	5.7
Cash EPS	2.2	1.1	2.1	3.2	5.1	6.8	8.1	9.6
BV/Share	18.7	21.7	21.2	35.2	36.6	39.2	42.7	47.5
DPS	0.0	0.0	0.2	0.3	0.5	0.6	0.7	0.8
Payout (%)	-0.9	0.0	-53.9	41.9	25.3	21.7	19.4	17.0
Valuation (x)								
P/E		NA	NA	209.3	58.6	40.9	31.4	24.1
Cash P/E		120.4	66.5	43.2	27.0	20.3	17.0	14.4
P/BV		6.4	6.5	3.9	3.8	3.5	3.2	2.9
EV/Sales		5.3	5.0	4.6	4.2	4.4	3.9	3.5
EV/EBITDA		38.6	33.1	28.4	23.0	18.3	14.8	12.4
Dividend Yield (%)		0.0	0.2	0.2	0.4	0.4	0.5	0.6
FCF per share		2.1	8.0	-0.1	-0.4	-10.6	6.0	7.6
EV/ Adj Rooms (INRm)		22.8	21.2	19.3	18.9	20.4	19.3	18.2
EBITDA/ Room (INR)		3,710	4,107	4,313	5,144	6,821	7,628	8,506
Return Ratios (%)								
RoE	-1.0	-6.2	-2.1	2.3	6.6	8.9	10.7	12.7
RoCE	2.8	3.4	3.8	4.6	5.9	7.2	7.9	9.2
RoIC	5.1	8.9	-14.9	2.3	5.2	8.4	7.8	9.5
Working Capital Ratios								
Fixed Asset Turnover (x)	0.5	0.6	0.7	0.6	0.7	0.5	0.5	0.6
Asset Turnover (x)	0.5	0.5	0.6	0.5	0.6	0.5	0.5	0.5
Inventory (Days)	9	7	7	8	7	6	6	6
Debtor (Days)	26	22	25	29	26	25	25	24
Creditor (Days)	32	29	31	31	26	25	24	23
Leverage Ratio (x)								
Current Ratio	1.1	0.7	0.8	0.9	1.0	0.9	1.0	1.1
Interest Cover Ratio	1.1	0.7	1.0	1.4	2.6	2.1	2.7	3.6
Net Debt/Equity	1.8	1.6	1.2	0.4	0.4	0.7	0.6	0.4

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
OP/(Loss) before Tax	-2,325	-912	306	1,618	4,017	4,919	7,050	9,384
Depreciation	2,913	2,848	2,994	3,012	3,279	4,077	4,427	4,611
Interest & Finance Charges	1,267	3,293	3,015	2,073	1,068	2,302	2,161	1,818
Direct Taxes Paid	-197	-900	-868	-1,425	-1,571	-854	-2,326	-3,097
(Inc)/Dec in WC	-206	948	-599	-1,033	-2,208	226	-170	279
CF from Operations	1,452	5,278	4,848	4,246	4,584	10,670	11,141	12,995
Others	3,496	910	498	675	0	0	0	0
CF from Operating incl EO	4,948	6,188	5,345	4,920	4,584	10,670	11,141	12,995
(Inc)/Dec in FA	-3,111	-3,657	4,193	-5,094	-5,067	-23,319	-4,000	-4,000
Free Cash Flow	1,836	2,531	9,538	-174	-483	-12,649	7,141	8,995
(Pur)/Sale of Investments	-4,501	5,028	4,425	-1,462	2,614	-2,000	-2,000	0
Others	954	1,196	496	912	834	1,099	1,204	1,295
CF from Investments	-6,658	2,567	9,114	-5,644	-1,619	-24,221	-4,796	-2,705
Issue of Shares	0	0	0	14,999	0	0	0	0
Inc/(Dec) in Debt	6,865	-9,850	-11,719	-9,498	-1,010	17,307	-1,000	-5,000
Interest Paid	-1,774	-1,880	-1,637	-4,089	-1,901	-3,400	-3,366	-3,114
Dividend Paid	-180	-235	-458	-447	-725	-871	-1,016	-1,161
Others	0	-1	0	-7	378	-49	501	526
CF from Fin. Activity	4,911	-11,966	-13,814	957	-3,258	12,987	-4,880	-8,748
Inc/Dec of Cash	3,200	-3,211	645	233	-294	-564	1,465	1,542
Opening Balance	1,836	5,036	1,826	2,471	2,704	2,409	1,846	3,311
Closing Balance	5,036	1,825	2,471	2,704	2,409	1,846	3,311	4,853

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

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