Stock Note

Indian Hotels Company Ltd.

March 31, 2023

RETAILRESEARCH

Indian Hotels Company Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Hotels	Rs. 319	Buy in Rs 317-322 band and add more on dips in Rs 279-285 band	Rs. 353	Rs. 376	2-3 quarters

HDFC Scrip Code	INDHOTEL
BSE Code	500850
NSE Code	INDHOTEL
Bloomberg	IH IN
CMP – March 29, 2023	319
Equity Capital (Rs Cr)	142
Face Value (Rs)	1
Equity Share O/S (Cr)	142
Market Cap (Rs Cr)	45310
Book Value (Rs)	57
Avg. 52 Wk Volumes (in '000s)	6111
52 Week High	348
52 Week Low	208

Share holding Pattern % (Dec, 2022)	
Promoters	38.19
Institutions	45.69
Non Institutions	16.12
Total	100.0

* Refer at the end for explanation on Risk Ratings

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Our Take:

Notable trends are evolving in the Indian Hospitality sector that are likely to provide attractive opportunities for long term investors. These include (a) robust demand with occupancies at ~64-66% post pandemic shock. Demand in the near term is projected to outpace supply thereby improving occupancies to 68-70%. This is expected to drive healthy ARR growth over FY22-26. Hotels being a high operating leverage business, margins are thus expected to improve significantly. (b) Improving customer mix with rising proportion of individual consumers and SMEs vs. large corporate with higher bargaining power. (c) Consolidation of inventory among branded asset owners through management contracts (asset light). This too improves pricing. (d) Balance sheet strengthening through sale of non-core assets, sale and lease back, equity issuance etc.

With 182 hotels and 21,094 rooms, the Indian Hotel Company Ltd. (IHCL) is a perfect play in the hospitality sector as its portfolio straddles across some of the best properties, locations and multiple income groups. It boasts of an unparalleled market share of 11.6% by inventory in Indian market with a presence in 77 cities. Given the industry needs, this portfolio is capital intensive but IHCL is in the middle of restructuring its portfolio to achieve a 50:50 mix between its owned/leased and managed hotels (FY22 mix – 45:55). IHCL is strongly placed to benefit from this strong demand and limited upcoming supply trend, as the company plans to add ~8,700 rooms (+42% from FY22 inventory level) over FY23-FY26 period. The underpinnings of IHCL's success lies in: (1) pricing power due to increased demand and reduced supply in market, (2) strong pipeline, (3) an asset-light strategy, (4) rejuvenation of Ginger brand, and (5) increasing contributions from ancillary businesses and services like Qmin, ama, Chambers, among others.

Valuation & Recommendation:

The occupancy visibility for the next eight weeks is higher, and the upcoming G20, Men's IPL and World Cup, and the wedding season will further support the growth of the hospitality industry. The domestic corporate segment is back to pre-COVID levels, and domestic leisure is much ahead of pre-COVID which is a significant achievement for the industry. Foreign tourist arrivals are expected to cross pre-COVID levels in the second half of FY24.

IHCL is at an inflection point to tap the next cycle of growth. IHCL has laid out strategic priorities and key drivers to increase revenue and enhance margin. We expect IHCL's consolidated revenue to grow at a CAGR of 28% over FY22-FY25E to reach Rs 6458 Cr in FY25E led by improved ARR, better occupancy and room additions. EBITDA, however, is expected to grow more significantly at a CAGR of 76% to Rs 2199 Cr over the same period led by sustainable cost reduction initiatives and higher contributions from new high-margin businesses. The

EBITDA margin is expected to escalate from 13.2% in FY22 to 34.0% in FY25E (9MFY23 at 30.3%). PAT is expected to increase to Rs 1410 Cr in FY25E compared to loss of Rs 277 Cr reported by the company in FY22, led by improved operational performance and lower interest expenses from debt repayments. **We think the base case fair value of the stock is Rs 353 (37x FY25E EPS & 21.5x FY25E EV/EBITDA) and the bull case fair value of is Rs 376 (39.2x FY25E EPS & 23x FY25E EV/EBITDA). Investors can buy the in stock Rs 317-322 (33x FY25E EPS & 19x FY25E EV/EBITDA) band and add more on dips in Rs 279-285 band (29.5x FY25E EPS & 17x FY25E EV/EBITDA).**

Financial Summary

Particulars (in Rs Cr)	Q3FY23	Q3FY22	YoY-%	Q2FY23	QoQ-%	FY20	FY21	FY22	FY23E	FY24E	FY25E
Operating Income	1686	1111	52%	1233	37%	4,463	1,575	3,056	5,322	5,818	6,458
EBITDA	597	322	86%	294	103%	968	41	405	1,669	1,852	2,199
APAT	404	94	332%	126	220%	333	-513	-277	1,011	1,147	1,410
Diluted EPS (Rs)	2.8	0.7	332%	0.9	220%	2.8	-7.7	-1.9	7.1	8.1	9.9
RoE-%						7.7	-12.8	-5.2	13.4	13.3	14.2
P/E (x)						108.2			46.7	41.0	33.2
EV/EBITDA						41.3	1,020.0	95.7	26.8	23.7	19.3

(Source: Company, HDFC sec)

Key triggers

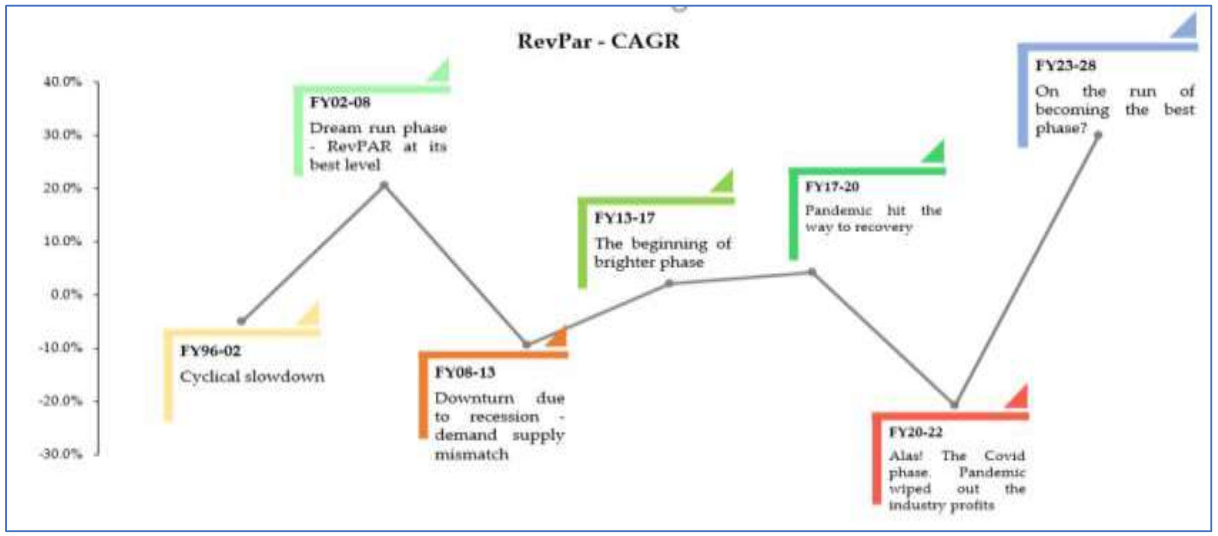
Industry overview

Industry at an inflection point

The Indian hospitality industry witnessed a boom period during 2002-2008, led by strong domestic travel trends and a positive economic and investment environment. This was led by a series of ambitious economic reforms aimed at deregulating the country, which led to a strong inflow of foreign investment (betting on skilled managerial and technical manpower with a highly-educated and huge middle class population). The phase saw rapid economic growth, which fueled the domestic travel industry (both tourism and corporate travels), which was contributing a miniscule 2% of GDP in FY04. Accordingly, the industry witnessed a structural shift and saw massive investment in the hotel sector, with greater focus on building the mid-scale segment to fulfill the requirement of the growing middle-class segment.

However, the recession phase of 2008 significantly impacted the segment, which was then impacted by the double whammy of a fall in demand for hotel rooms and a strong supply addition in the segment. For a prolonged period between FY06 and FY16, hoteliers in India added capacity at a CAGR of over 10%, outpacing demand. This impacted the occupancy and ARR across the industry, thus impacting RevPar of the companies. While the sector witnessed some revival after 2014 with moderate demand growth until 2020, it was significantly impacted during the pandemic, eroding profits across segments.

The lockdown phase forced hoteliers to undertake certain permanent/temporary measures to bring down their overhead expenses, which became necessary for its survival. While the sector also witnessed shutting down and exit of many unorganised and small players, the branded entities with lean balance sheets managed to survive this down-cycle. On the contrary, their cost-cutting efforts have begun to pay off well during the post-pandemic era, which is seeing robust demand revival and limited room supply in the market. The current phase seems to be very similar to the 2004-2008 era, which saw a strong uptrend in the hotel industry and which could last for another 3-4 years barring unforeseen developments. The upcycle could normalise with moderation in demand and large supply addition hitting the market post 2026-27.



Cycles in Indian Hotel industry

CAGR	Period	Room Supply	Occupancy	Room Demand	ARR	RevPAR
Phase 1	FY96-02	6.90%	-3.90%	3.10%	-1.20%	-5.10%
Phase 2	FY02-08	7.60%	4.90%	12.50%	14.90%	20.60%
Phase 3	FY08-13	16.70%	-3.40%	13.30%	-6.30%	-9.50%
Phase 4	FY13-17	6.70%	2.60%	9.30%	-0.40%	2.10%
Phase 5	FY17-20	6.40%	0.70%	8.20%	1.70%	4.20%
Covid Phase	FY20-22	4.20%	-12.80%	-5.80%	-11.50%	-20.80%

Shift from luxury to balanced supply: While we can see spurts of consolidation of independent hotels into chain-affiliated hotels, the phase beginning from 2003 (Lemon Tree and IHCL - Ginger coming into the picture) marks an era of exploration across the midscale-economy segment so as to capture the huge market and sync with profitability.

Moving from luxury supply to a more balanced supply, the midscale-economy segment has gained material supply share, almost trebling its supply relevance between FY01 (when it had a fledgling share) and 2021. The supply concentration has reduced in the luxury-upper upscale segment, from 56% in 2001 to 35.5% in December 2022 in spite of 44,000 new rooms being added in this segment.

The trend for the coming 2-4 years is broadly expected to be the same, with the luxury-upper scale supply share continuing to gradually decline with gains in other segments.

Demand-supply dynamics across key markets in India

In absolute terms, New Delhi continues to have the largest base of hotel rooms, followed by Mumbai (including Navi Mumbai) and Bengaluru whereas Noida is the smallest. Over the past few years, due to the surge in domestic tourism, hotel companies have shifted their focus toward budget and mid-market positioned hotels in Tier II and Tier III cities to cater to the lower paying domestic traveler and to capture the previously untapped demand, which exists in these cities.

Table below shows the existing supply of rooms for the major Indian cities in FY10, FY17 and FY22 and the proposed supply

	FY10	FY17	FY22	CAGR (FY10-17)	CAGR (FY17-22)	Proposed Supply	Increase in Supply %
Agra	1439	2092	2209	5%	1%	495	22%
Ahmedabad	1521	3117	3586	11%	3%	1,380	38%
Amritsar			1736			1,165	67%
Bengaluru	5597	11995	14022	12%	3%	6,802	49%
Chandigarh			2676			316	12%
Chennai	3806	8332	9763	12%	3%	841	9%
Dehradun			624			1,016	163%
New Delhi	8129	14296	15082	8%	1%	2,810	34%
Gurugram	1980	5263	6151	15%	3%	2,323	38%
Noida	300	1422	1569	25%	2%	2,979	40%
Goa	3288	6400	8244	10%	5%	3,268	60%
Hyderabad	3782	6254	7450	7%	4%	302	12%
Jaipur	2472	5058	5478	11%	2%	853	17%
Kochi			2585			1,300	69%

Kolkata	1520	3199	4878	11%	9%	5,409	41%
Lucknow			1884			642	46%
Mumbai	9877	13494	13217	5%	0%	1,852	12%
Navi Mumbai			1395			1,268	81%
Pune	2672	6445	6689	13%	1%	506	8%
Udaipur			1953			1,065	55%
Other Cities	15412	31852	41754	11%	6%	22,646	55%
Total	**61795**	**119219**	**152945**	**10%**	**5%**	**59238**	**39%**

Key demand drivers of Hotel Sector include:

Business Travel: It comprises inbound and domestic visits for business-related purposes. This includes travel on corporate account and by individual business travelers. This segment is a prime source of demand for hotels especially in business-oriented locations.

Leisure Travel: It comprises vacation travel, including short duration stays. Vacation travel is concentrated during school holidays (summer, Diwali, and Christmas). Thus, demand mainly occurs between October and March and to a lesser extent (with low visitor profile and travel budgets) during the summer and monsoon seasons. Leisure travel is one of the largest sources of demand.

MICE (Meetings, Incentives, Conferences & Exhibitions): MICE requirements are mainly corporate driven for conferences, training programs and other events. The demand locally arises during weekdays and occurs across the year, barring the main holiday periods and from March to May. MICE demands are price sensitive. Conferences that include recreational elements choose either city center or resort destinations.

Weddings and social travel: The weddings segment mainly involves domestic travel for family weddings, destination weddings, and other celebrations. Other social demand also arises from time to time with guests increasingly seeking to use hotels in preference to the earlier practice of staying with the family. Such demand will likely to gravitate to hotels that have the required function areas, guest room capacity and the desired quality to host such events.

The wedding business for hotels is almost back at the pre-COVID level. While weddings after the pandemic generally have fewer guests, the expenditure ranges more or less in the same range as that at pre-COVID. With numerous travel restrictions during the pandemic, the wedding business was undeniably affected. Since people didn't get to enjoy the big fat Indian weddings during the pandemic, the wedding business would keep the hotels running during the season.

Diplomatic travel: Diplomatic travel brings in government representatives of other countries, arriving for a variety of purposes and is often accompanied by large delegations. This demand is typically in major capital or other cities that are source markets for international travel. Thus, Delhi gets the bulk of such demand followed by Mumbai.

G-20 Presidency: After two long years of absolute stalling, the G20 event has come as an excellent opportunity for the tourism and hospitality industry. The country is expected to host over 200 meetings at 56 locations, which not only include heritage sites like Udaipur, Agra, Varanasi, Hampi but also other lesser known destinations. Lasting until November 2023, this event will draw a welcome spotlight on several lesser-known destinations, bringing them to the forefront. This is also a perfect opportunity for the industry to rewrite the recovery plan for inbound tourism, which has been slow to recover post the pandemic. G20 delegates and diplomats will gain exposure to a unique Indian experience through state-wide range of tourist offerings.

Cricket World Cup/IPL: Sports tourism in India is also on an upswing and these events have turned out to be an accelerator for driving the demand for travel. With rising disposable incomes and growing awareness of social media, Indian sport fans are flying to various destinations to watch matches. According to the Future Market Insights (FMI), the total spending in the Indian sports tourism market that was pegged at $9.5bn in 2022 is expected to rise to $37.6 bn in 2032 at a CAGR of 14.8%; during this period, the number of sports tourists will go up from 37.2 mn to 213.3 mn. Of this, the inbound market has a growth prediction of 9.4%, while outbound would nearly double at 17.4%. With India hosting the upcoming Cricket World Cup in CY23, inbound tourism is expected to benefit.

New cycle has come out swinging:

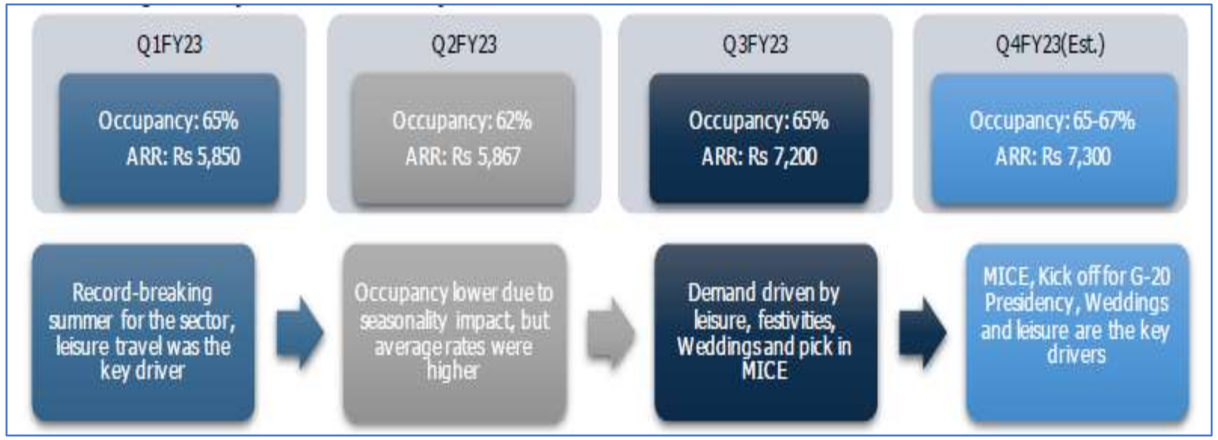
While a series of factors, as discussed above, had repressed the hotel sector's growth from FY09-15, FY17-FY20 phase saw some recovery. CY19 was the best year for the hospitality industry in the past 10 years. Occupancy for branded hotels grew by 200bps to 69% in CY19 from 67% in CY18 and average room rate (ARR) increased by 4.7% on a like-to-like basis. As many as four major markets namely – Delhi, Mumbai, Hyderabad and Gurugram – recorded industry-wide occupancy of >70%, with Delhi and Mumbai crossing the 75% mark. The hospitality sector was expected to perform at similar levels of growth as witnessed in CY19 fuelled by a swift recovery, however, with the sudden disruption in business due to successive Covid waves in CY20 and CY21 globally and across India, the hospitality industry has seen a lot of volatility in occupancies and room rates over the last two years.

There is sufficient evidence that the next up-cycle is in the offing as FY23 so far has played witness to a year that has been positive on both occupancies and ARR. Domestic travel is driving recovery and travel operators have enjoyed significant RevPAR growth until now, wherein industry occupancy is in the 63-65% range, almost touching the pre-COVID levels. As demand aligns with that of the pre-pandemic level, H2FY23 and FY24 look promising. The growth in RevPAR is largely driven by Average Room Rates (ARRs), which are higher currently than the FY20 level. The new cycle has begun on a promising note, with FY23 acting as a transition year, and FY24 expected to benefit from international arrivals picking up and stability in geopolitical events and global economy, which should support the hotel RevPAR growth.

Time to reap benefits has arrived: Industry stakeholders must not lose cognizance of the fact that the inherent cyclical nature of the hotel business would allow the opportunity to increase ARR only for a finite period. Thus, it is time for hoteliers to truly elevate the sectoral performance to the next level through higher ARR.

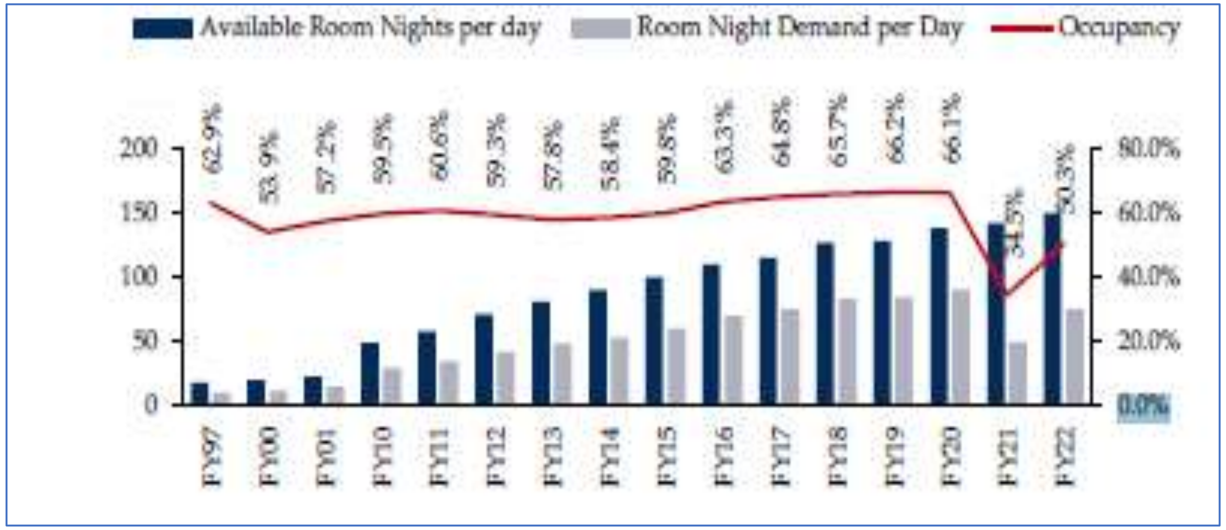
Led by healthy demand-supply outlook for the next couple of years, most markets in India are at a point where both occupancy and ARRs can substantially improve. The question is whether the sector's stakeholders will truly manage to capitalize on this evident opportunity.

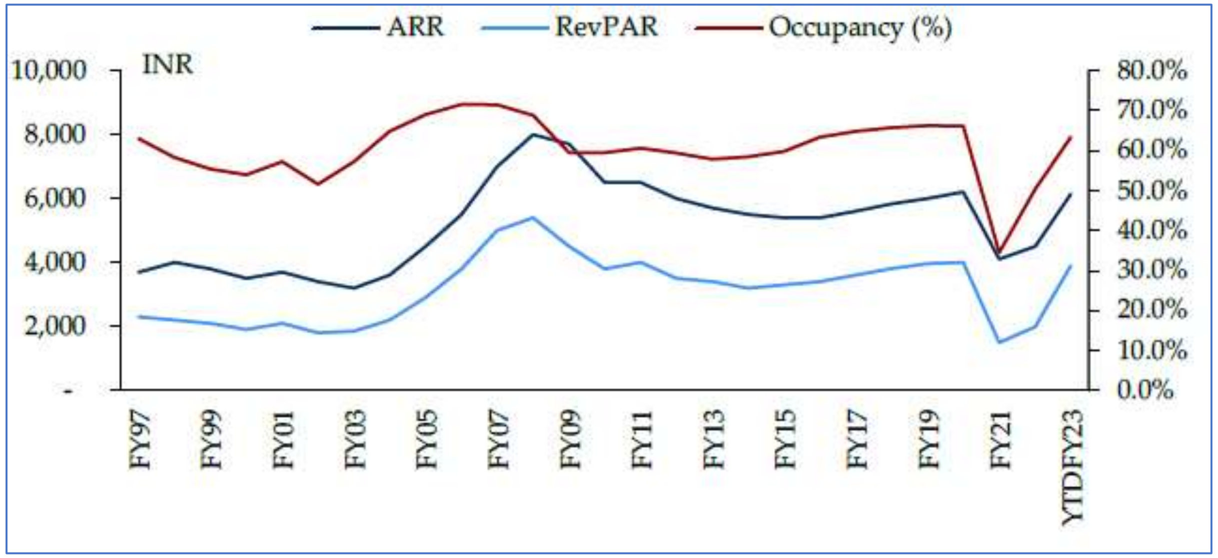
Quarterly Growth Journey of KPI's in FY23



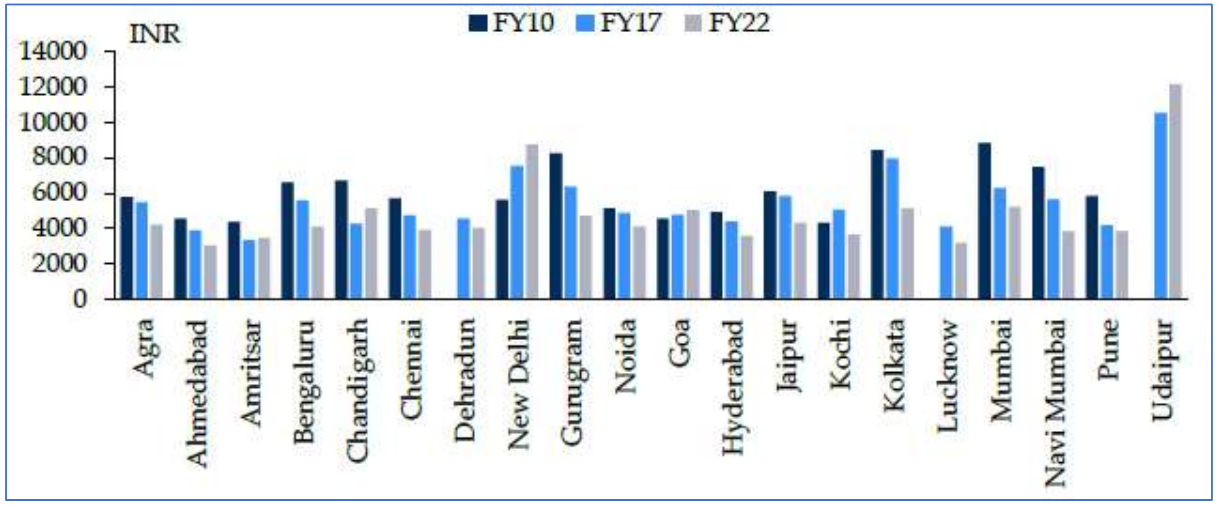
Key charts:

Recovery witnessed post pandemic

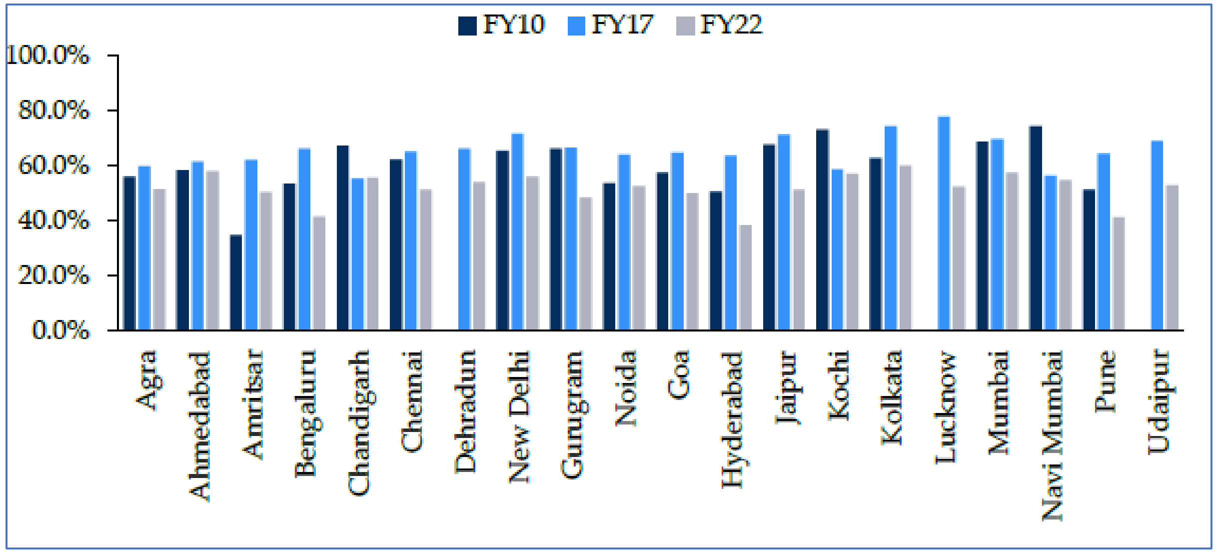




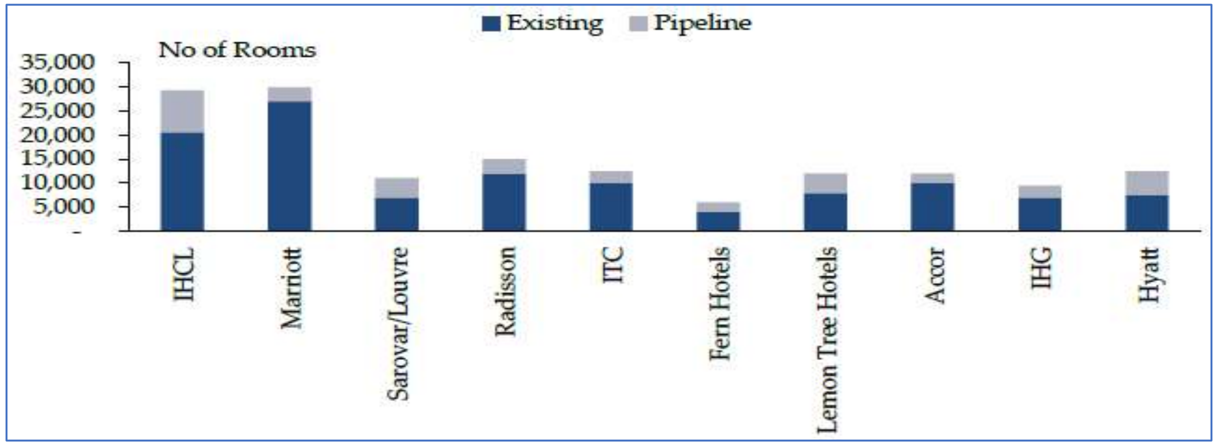
ARR trend across states



Occupancy trend across states

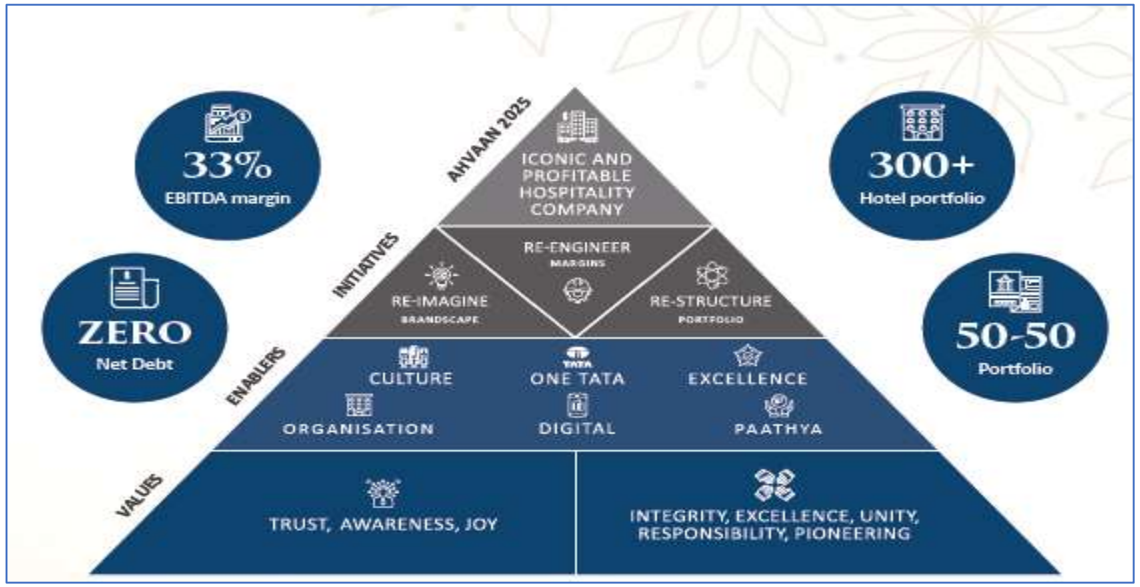


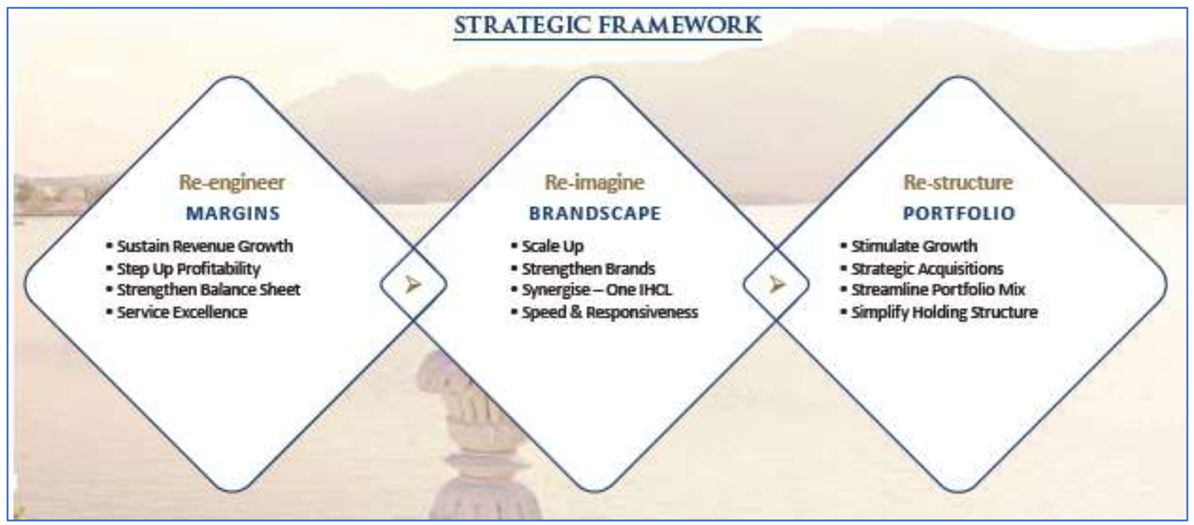
Top 10 hotel chains existing and upcoming pipeline



IHCL's AHVAAN 2025 Business Plan

IHCL has introduced 'AHVAAN 2025'- a strategic roadmap to profitable growth. As per this, it aims to reach a portfolio of 300 hotels and scale EBIDTA margin to 33% by FY25/26. Its focus is to strengthen the balance sheet with emphasis on free cash flow generation and achieving zero net debt status over the same period.





(Source: Company, HDFC sec)

Re-engineering margins — Through sustained revenue growth aided by:
- market share enhancement
- 20% and 15% CAGR growth in management and membership fees respectively,
- cost optimization measures and operational excellence.

Re-imagining brandscape — During the pandemic, IHCL successfully launched and scaled up new brands and businesses like Qmin, amã stays and trails, Seven Rivers microbrewery, niu&nau, among others, thus creating alternate revenue streams and expanding the hospitality ecosystem.

Existing brands like Ginger and The Chambers were completely re-imagined. Thus it will focus on shifting from a ‘hotels only’ business to a hospitality ecosystem and from a branded house to a house of brands.

Re-structuring the portfolio — through growth/acquisition, simplification of holding structure to eliminate non-value adding activities and sale of non-core assets.

IHCL’s Brand Portfolio:
Taj: “Taj” is the flagship brand used by the company’s palace hotels, landmark hotels, resorts and safaris and leisure destinations across the globe. As of December 31, 2022, under the “Taj” brand the company has a portfolio of 95 hotels with 14,300+ keys.

SeleQtions: “SeleQtions” is the brand under which the company includes a collection of its marquee hotels in, and around, key metro cities across India. As of December 31, 2022, under the “SeleQtions” brand the company has a portfolio of 31 hotels with 2,400+ keys.

Vivanta: “Vivanta” is the brand under which hotels in business and leisure centres across India and South East Asia operate. As of December 31, 2022, under the “Vivanta” brand the company has a portfolio of 41 hotels with 5800+ keys.

Ginger: “Ginger” is the brand for budget travelers with hotels in approximately 50 cities in India, which is operated through the company’s subsidiary, Roots Corporation Limited. As of December 31, 2022, under the “Ginger” brand the company has a portfolio of 85 hotels with 7500+ keys.

With its refurbished hotels and new openings under the Lean Luxe model the brand is well poised to harness the opportunities offered by a new normal. During the year, Ginger achieved close to 95% of its pre-pandemic business aided by a good recovery in accommodations, increased revenue from its new food and beverage outlets and increased fees from managed properties

PIPELINE - AS OF DECEMBER 31, 2022

Brands	Dec 2022 to March 24	2024-25	2025-26	2026-27	2027-28	Pipeline Rooms	No. of Hotels
Taj	**765**	**438**	**1,181**	**0**	**389**	**2,773**	**14**
IHCL			220		73	293	2
Management Contracts	765	438	961		316	2,480	12
SeleQtions	**625**	**423**	**104**	**0**	**19**	**1,171**	**13**
IHCL						0	0
Management Contracts	625	423	104		19	1,171	13
Vivanta	**297**	**893**	**494**	**280**	**26**	**1,990**	**14**
IHCL			125			125	1
Management Contracts	297	893	369	280	26	1,865	13
Ginger	**1,133**	**729**	**573**	**325**	**160**	**2,920**	**26**
Owned/Leased	999*	404	573	255		2,231	21
Management Contracts	134	325		70	160	689	5
Grand Total	**2,820**	**2,483**	**2,352**	**605**	**594**	**8,854**	**67**

(Source: Company, HDFC sec)

Ama: "amã Stays & Trails" is the company's homestay brand for exclusive and longer duration stays in unexplored destinations. A collection of heritage villas, plantation bungalows, colonial houses, havelis and quaint private residences in local markets. It comprises managed properties where as per the contract IHCL gets around 18% of revenue from the property. Company is looking to expand to 500 properties by FY26. The strategy is to developed properties within driving distance of existing hotels to share management, resources and costs. Occupancy stays around 30-40% and tariffs range between Rs 50,000 to Rs 80,000 per night.

QMIN: It was launched during pandemic to benefit from growing demand for food delivery platforms. It is Gourmet delivery platform offering the food from IHCL's portfolio of restaurants and cloud kitchens across hotels. Extended culinary experiences with Qmin Shop, Qmin Truck, Qmin Cafe. QMIN is present in 20 cities and targets to scale upto 25 cities by FY26.

Focusing on new business ventures to reduce the impact of cyclicality

IHCL is becoming a comprehensive hospitality ecosystem with a whole new range of brands across different hotel segments. These new businesses include Qmin, ama stays and trails, 7Rivers, niu&nau, among others. These businesses are expected to complement the mainstream hotel revenue and are relatively less vulnerable to the cyclicality of the hospitality industry. Furthermore, enhancing the proportion of management contracts to its portfolio not only enhances the consolidated margin but also acts as a cushion during a down cycle as these contracts don't have any fixed payment commitments towards operation, maintenance, interest and salary of employees.

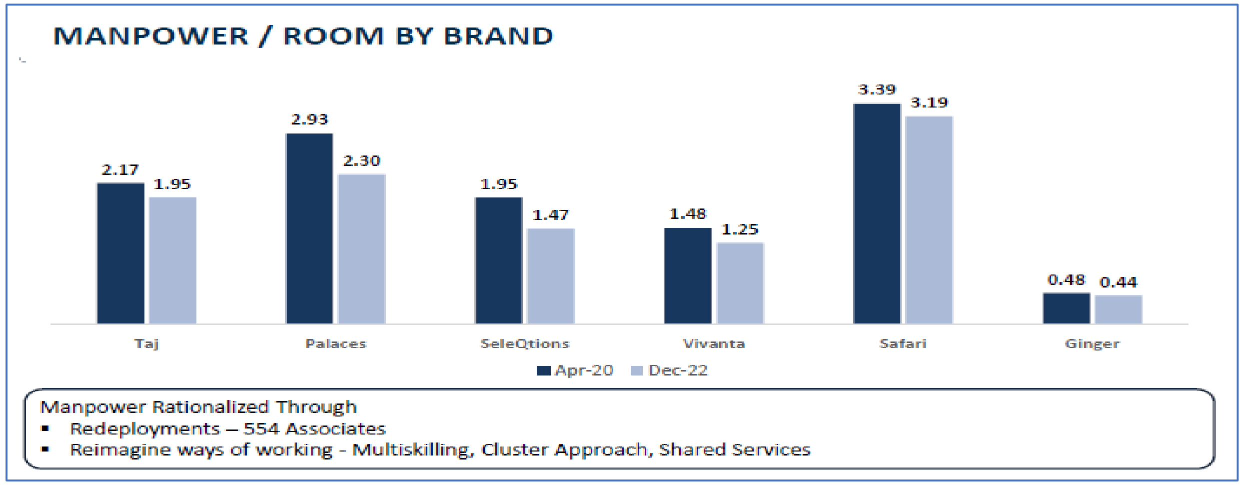
This will provide stable growth in earnings profitability. Under AHVAAN 2025, ama stays & trails is expected to rise up to a portfolio of 500 properties by FY25E-26E and Qmin is expected to expand to 25 cities. Among its existing business, apart from relaunching Ginger, the company is targeting 3000+ members under Chambers. Management targets to enhance the share of these asset-light high-margin business ventures in the overall revenue/EBITDA from 10%/22% in FY20 to 25%/35% by FY26E. This along with a steep reduction in overhead expenses by the company during the pandemic is expected to scale up the consolidated EBITDA margin to 34% in FY25E.

Demand supply gap to drive ARR uptick

IHCL has emerged stronger post the Covid-led slump in business and has led the Industry recovery in terms of RevPAR. With Industry-leading Hotel signups/pipeline, IHCL will benefit from expansion in market share and rate premium and growth in management fees income as it grows its portfolio of owned and management contracts. We expect IHCL's consolidated revenue to grow at a CAGR of 28% over FY22-FY25E to reach Rs 6458 Cr in FY25E led by improved ARR, better occupancy and room additions.

EBITDA margins set to expand

IHCL has significantly reduced its cost structure, compared to the pre-COVID levels. The company has optimised employee costs by redeployment, multiskilling as well as by adopting a cluster and shared services approach. The company has reduced power and fuel expenses through a higher share of renewable energy and has reduced overhead expenses by improving efficiency. We expect company to report EBITDA growth of 75.8% CAGR over FY22-25E led by sustainable cost reduction initiatives and higher contributions from new high-margin businesses. The EBITDA margin is expected to escalate from 13.2% in FY22 to 34.0% in FY25E. PAT is expected to increase to Rs 1410 Cr in FY25E compared to loss of Rs 277 Cr reported by the company in FY22, led by improved operational performance and lower interest expenses from debt repayments.



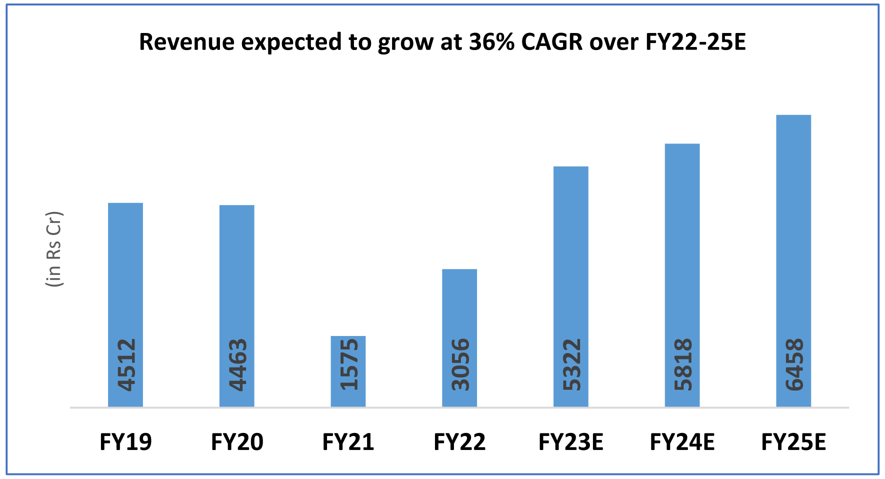
Sharp reduction in debt levels

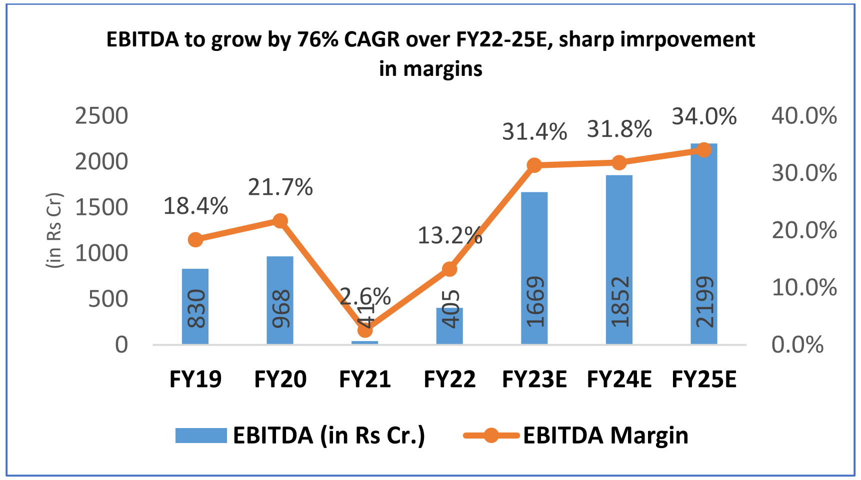
As of Mar 2020, IHCL's consolidated net debt stood Rs 1976 Cr. However, owing to successive Covid waves in FY21 and FY22, the company's consolidated net debt had increased to Rs. 3812 Cr as of Sep 2021. In Dec 2021, the company has subsequently raised Rs 1982 Cr through a rights issue of which Rs 1275 Cr was proposed to be utilised to repay debt, Rs 454 Cr to acquire 37.07% of Roots Corporation (Ginger), Rs175 Cr towards part payment of ELEL from Excalibur (Searock) and balance towards general corporate purposes. With the rights issue fund raise, IHCL's consolidated net debt reduced to Rs 1900 Cr by Dec 2021. Further, the company has raised a further Rs 2000 Cr through the QIP route in Mar'22 and subsequently achieved net cash position. IHCL is now a net debt zero company and seems primed to step up expansion.

Expect robust cash flow generation

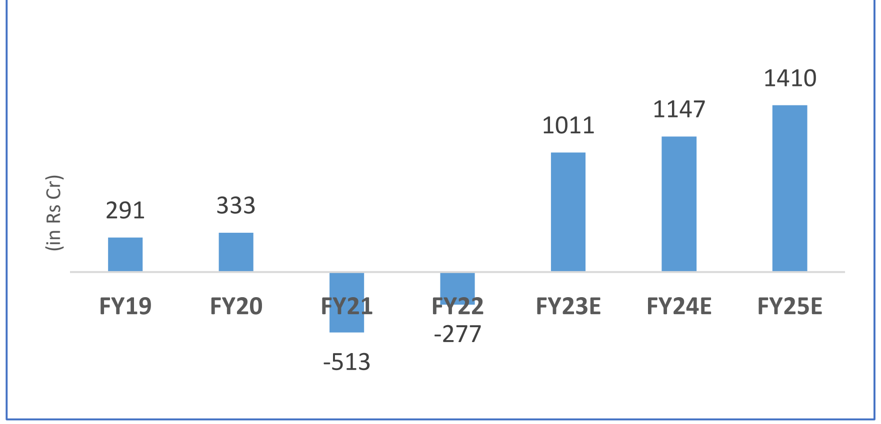
We expect IHCL to generate FCF of Rs 4258 Cr over FY23-FY26 (an average of Rs 1064 Cr p.a) after incurring a Capex of Rs 3,218 Cr over the same period (an average of ~Rs. 800 Cr). Furthermore, the company is looking to monetise assets worth ~Rs. 1000 Cr under AHVAAN by offloading stakes across selected hotels and land banks. This could further improve its cash flow when it materialises.

Improved profitability and lower D/E is expected to improve IHCL's RoE to ~14.2% in FY25 vs 7.7% in FY20. RoCE is expected to enhance from 7.2% in FY20 to 12.4% in FY25.

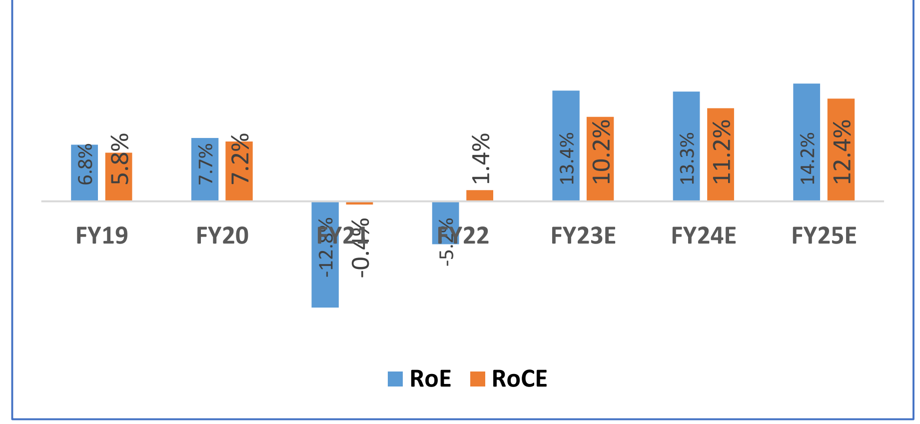




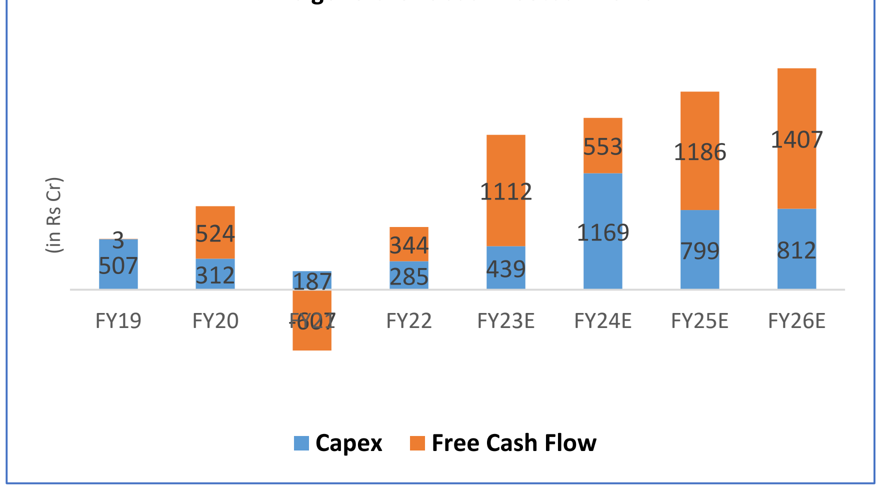
Higher operating margin and lower debt to drive PAT growth



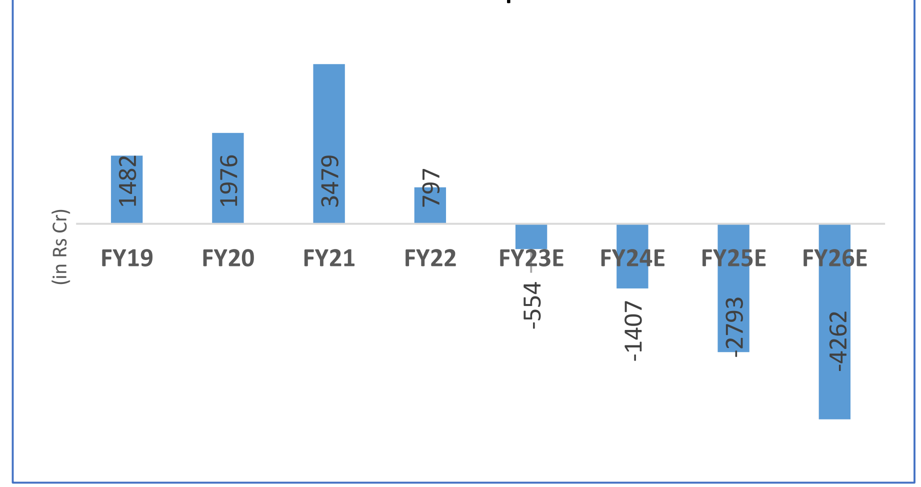
Steady improvement in return ratios



IHCL to generate robust freecash flows



IHCL to maintain its net cash position over near term



(Source: Company, HDFC sec)

Key risks

Relatively weak performance of overseas subsidiaries: IHCL's consolidated margins and profitability has been affected historically because of subdued performance of some of its key overseas properties and the sizeable investment in Sea Rock property. Overseas investment acts more like sunk advertisement cost which helps the company to bring in foreigners to a familiar name in India. Significant improvement in operating performance of overseas subsidiaries and adequate sweating of Sea Rock asset would be critical for its consolidated profitability going forward. The company is halfway through the clearance of Sea-Rock Development,

Global Recession: Although India is in sweet spot and current rising demand has brought some cheer to the sector, rising cost of materials, high manpower costs, increasing borrowing costs due to rising interest rates might hurt hotel operations and margins. However, since the demand is outpacing supply in the current cycle, we believe hoteliers have the upper hand and can pass on some of these rising costs to the customers in the form of higher ARR.

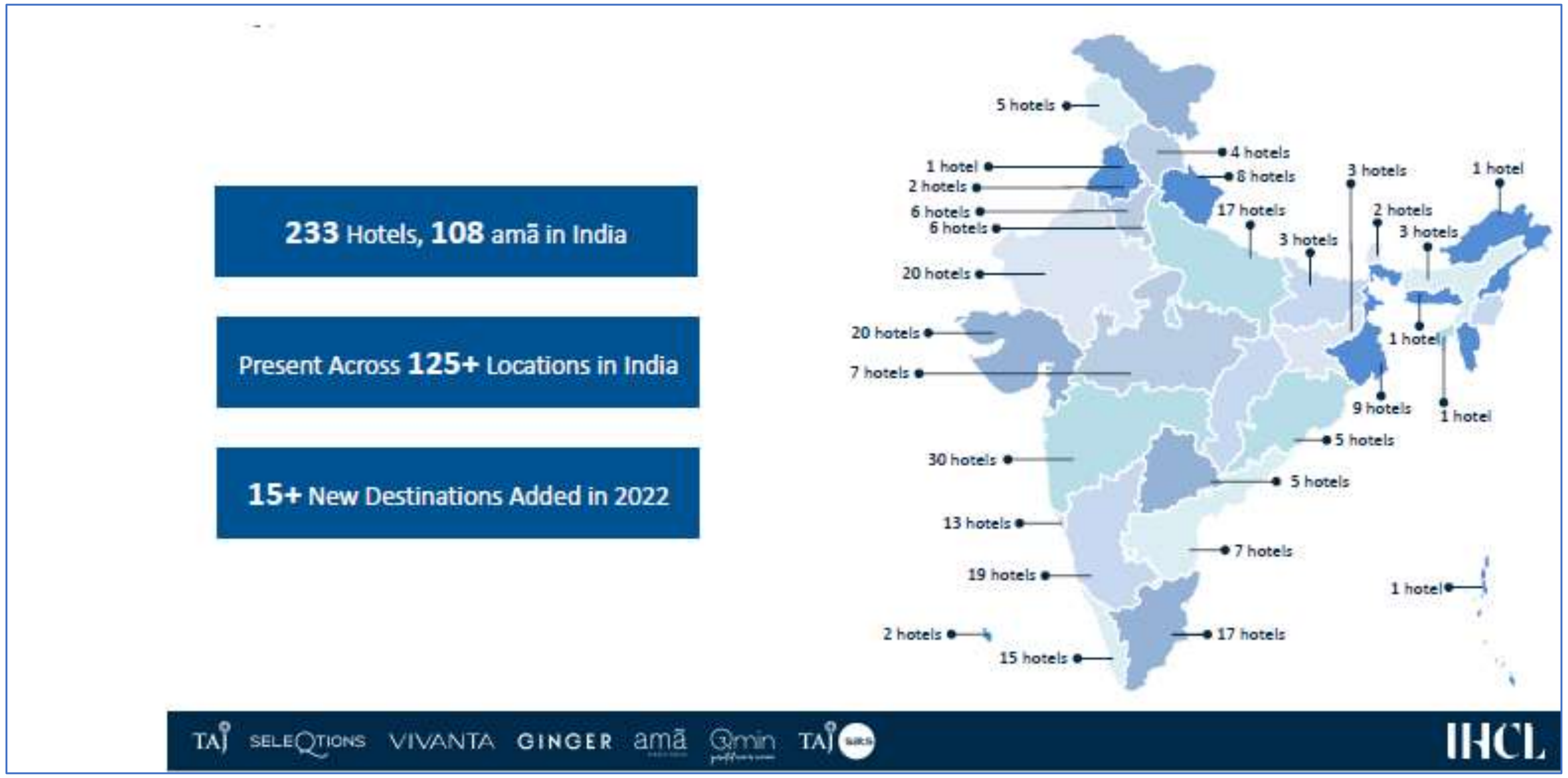
Cyclical industry: Operating performance of the company remains vulnerable to industry cyclicality/seasonality, macro-economic cycles and exogenous factors. However, given the diverse presence of its portfolio has partially mitigated the risk and company will able to withstand any demand vulnerability in a particular/micro segment.

About the company

Incorporated by the founder of the Tata Group, Jamsetji Tata, the Indian Hotels Company Ltd. (IHCL) opened its first hotel - The Taj Mahal Palace, in Bombay in 1903. IHCL, at present, is one of the leading hospitality chains in India by number of hotels focused on being a dynamic hospitality ecosystem. It is primarily engaged in the business of owning, operating and managing hotels and resorts primarily under various brands including, flagship brand “Taj”. In the past few decades, the company has expanded geographically to register its presence in key travel destinations both in India and internationally. It has also converted or restored former royal palaces in India into flagship hotels. Some of its marquee hotels which are operated out of former royal palaces include Rambagh Palace, Jaipur, Umaid Bhawan Palace, Jodhpur, Taj Falaknuma Palace, Hyderabad and Taj Lake Palace, Udaipur. In addition to the palace hotels, many hotels are located in iconic or heritage buildings, such as the Taj Mahal Palace, Mumbai, The Pierre, New York or the Taj Cape Town, South Africa. In 2004, IHCL launched hotels under the brand, “Ginger”, formerly, “Indione”, to cater to the budget segment. IHCL, over time, systematically invested in creating assets directly or through subsidiaries, joint ventures or associates in both India and international locations.

IHCL operates its hospitality business through its hospitality brands of “Taj”, “SeleQtions”, “Vivanta” and “Ginger” as well as the recently launched “amã Stays and Trails”. In addition, it operates restaurants and food and beverage business under brands such as Golden Dragon, Wasabi by Morimoto, Thai Pavilion, House of Ming, Shamiana. In recent past, it has launched “Qmin”, a repertoire of culinary offerings, delivered to homes using a proprietary Qmin mobile application and also has an offline presence through shops and food trucks. It also launched a global version of “The Chambers”, an exclusive business club in eight cities granting members exclusive benefits and privileges. In addition, the company operates spas under the “Jiva” brand, shops under “Khazana”, salons under “niu&nau” and cater to airlines from “TajSATS”, through its joint venture Taj SATS Air Catering Limited.

IHCL's presence across India



(Source: Company, HDFC sec)

Financials

Income Statement

Particulars (in Rs Cr)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Revenues	**4512**	**4463**	**1575**	**3056**	**5322**	**5818**	**6458**
Growth (%)	***10.0***	***-1.1***	***-64.7***	***94.0***	***74.1***	***9.3***	***11.0***
Operating Expenses	3682	3496	1535	2651	3653	3966	4259
EBITDA	**830**	**968**	**41**	**405**	**1669**	**1852**	**2199**
Growth (%)	***23.8***	***16.6***	***-95.8***	***896.8***	***312.4***	***10.9***	***18.7***
EBITDA Margin (%)	***18.4***	***21.7***	***2.6***	***13.2***	***31.4***	***31.8***	***34.0***
Depreciation	328	404	410	406	422	448	467
Other Income	90	173	325	171	136	149	163
EBIT	**502**	**563**	**-369**	**-1**	**1247**	**1404**	**1731**
Interest expenses	190	341	403	428	88	81	77
PBT	**402**	**396**	**-447**	**-258**	**1295**	**1472**	**1817**
Tax	**157**	**45**	**-155**	**-36**	**324**	**368**	**454**
PAT	**245**	**351**	**-292**	**-222**	**971**	**1104**	**1363**
Share of Asso./Minority Int.	56	44	19	-31	40	43	47
Adj. PAT	**291**	**333**	**-513**	**-277**	**1011**	**1147**	**1410**
Growth (%)	***235.9***	***14.4***	***-254.1***	***-46.1***	***-465.3***	***13.4***	***22.9***
EPS	2.4	2.8	-7.7	-1.9	7.1	8.1	9.9

Balance Sheet

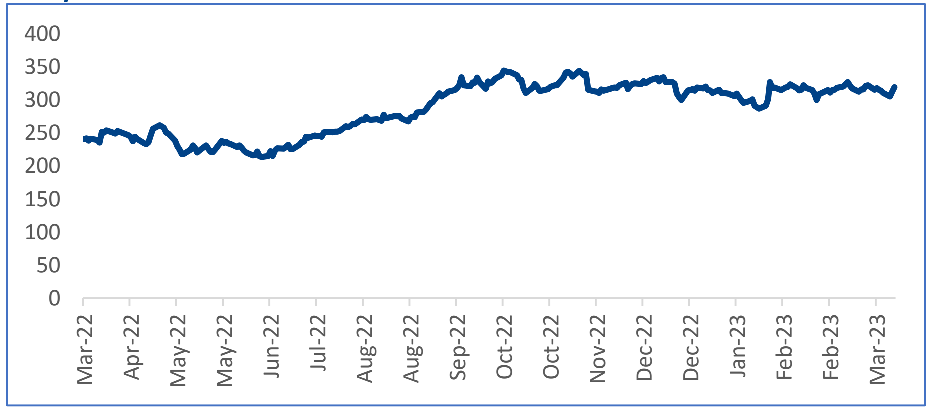
Particulars (in Rs Cr) - As at March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
SOURCE OF FUNDS							
Share Capital	119	119	119	142	142	142	142
Reserves	4229	4238	3530	6920	7931	9078	10488
Shareholders' Funds	**4348**	**4357**	**3648**	**7062**	**8073**	**9220**	**10630**
Minority Interest	800	765	635	593	600	600	600
Total Debt	1723	2292	3633	1985	646	243	131
Net Deferred Taxes	377	187	78	88	88	88	88
Other Non-Curr. Liabilities	282	2183	1980	1995	2002	2010	2012
Total Sources of Funds	**7530**	**9784**	**9974**	**11723**	**11409**	**12160**	**13460**
APPLICATION OF FUNDS							
Net Block & Goodwill	5233	5271	5728	5726	5771	6511	6853
CWIP	116	243	165	193	165	145	135
Investments	1124	990	1035	1064	904	744	584
Other Non-Curr. Assets	1952	3577	3431	3432	3519	3586	3678
Total Non Current Assets	**8425**	**10081**	**10359**	**10415**	**10359**	**10987**	**11251**
Inventories	80	94	93	101	106	111	115
Debtors	321	290	220	255	271	281	292
Cash & Equivalents	241	316	154	1188	1200	1650	2924
Other Current Assets	516	738	688	1130	935	687	529
Total Current Assets	**1159**	**1437**	**1154**	**2674**	**2511**	**2729**	**3860**
Creditors	325	389	318	387	412	437	462
Other Current Liab & Provisions	1729	1345	1221	980	1049	1119	1188
Total Current Liabilities	**2054**	**1735**	**1539**	**1367**	**1461**	**1556**	**1650**
Net Current Assets	-895	-297	-385	1307	1050	1173	2209
Total Application of Funds	**7530**	**9784**	**9974**	**11723**	**11409**	**12160**	**13460**

Indian Hotels Company Ltd.

Cash Flow Statement

Particulars (in Rs Cr)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	453	409	-951	-301	1,335	1,515	1,864
Non-operating & EO items	0	22	-74	78	33	30	29
Interest Expenses	107	184	249	269	56	51	49
Depreciation	328	404	410	406	422	448	467
Working Capital Change	-221	23	-77	121	29	46	30
Tax Paid	-157	-206	23	55	-324	-368	-454
OPERATING CASH FLOW (a)	**510**	**836**	**-420**	**629**	**1,551**	**1,722**	**1,985**
Capex	-507	-312	-187	-285	-439	-1,169	-799
Free Cash Flow	3	524	-607	344	1,112	553	1,186
Investments	261	-222	67	-517	275	325	245
Non-operating income	83	32	1	-840	192	116	90
INVESTING CASH FLOW (b)	**-162**	**-502**	**-120**	**-1,642**	**29**	**-727**	**-464**
Debt Issuance / (Repaid)	-101	223	712	-1,656	-1,339	-403	-112
Interest Expenses	-190	-155	-232	-281	-88	-81	-77
FCFE	57	402	-59	-2,950	152	511	1,332
Share Capital Issuance	0	0	0	3,946	0	0	0
Dividend	-73	-76	-60	-52	0	0	0
FINANCING CASH FLOW (c)	**-326**	**-265**	**280**	**1,659**	**-1,420**	**-477**	**-187**
NET CASH FLOW (a+b+c)	**22**	**69**	**-259**	**645**	**159**	**518**	**1,334**

One-year Share Price Chart



Key Ratios

Particulars	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profitability Ratios (%)							
EBITDA Margin	18.4	21.7	2.6	13.2	31.4	31.8	34.0
EBIT Margin	11.1	12.6	-23.4	0.0	23.4	24.1	26.8
APAT Margin	6.5	7.5	-32.6	-9.1	19.0	19.7	21.8
RoE	6.8	7.7	-12.8	-5.2	13.4	13.3	14.2
RoCE	5.8	7.2	-0.4	1.4	10.2	11.2	12.4
Solvency Ratio (x)							
Net Debt/EBITDA	1.8	2.0	85.7	2.0	-0.3	-0.8	-1.3
Net D/E	0.3	0.5	1.0	0.1	-0.1	-0.2	-0.3
Per share Data (Rs)							
EPS	2.1	2.9	-2.5	-1.6	6.8	7.8	9.6
CEPS	5.2	6.2	-0.9	0.9	10.1	11.2	13.2
DPS	4.6	6.0	5.0	3.3	3.3	5.0	7.5
Book Value	36.6	36.6	30.7	59.4	56.8	64.9	74.8
Turnover Ratios (days)							
Debtor days	27	28	29	30	31	32	33
Inventory days	7	8	22	12	7	7	7
Creditors days	26	32	74	46	28	27	26
Valuation (X)							
P/E	155.1	108.2	-130.0	-203.7	46.7	41.0	33.2
P/BV	8.7	8.7	10.4	5.4	5.6	4.9	4.3
EV/EBITDA	47.5	41.3	1020.0	95.7	26.8	23.7	19.3
EV / Revenues	8.7	8.9	26.3	12.7	8.4	7.5	6.6
Dividend Yield (%)	1.4	1.9	1.6	1.0	1.0	1.6	2.4

HARSH RAJENDRA SHETH

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HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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