

Sector to remain sluggish; downgrade to Reduce...

Indian Hotels (IHCL) reported 14.6% drop in revenue to ₹ 1,063 crore (I-direct estimate: ₹ 995 crore) led by 48% drop in income for March 2020. Revenues were flattish at ₹ 4,463 crore in FY20, in contrast to 4% growth on 9MFY20 basis. Consolidated EBITDA margins for Q4FY20 fell 330 bps YoY to 19.6% (I-direct estimate: 20.5%); standalone (pure domestic) business saw a sharper decline of 522 bps. EBITDA for the quarter dropped 27% YoY to ₹ 207.9 crore (I-direct estimate: ₹ 203.7 crore). For FY20, EBITDA increased 16.6% YoY, with higher share of growth coming from international business. On a full year basis, consolidated EBITDA margins improved 330 bps, driven by international business seeing a healthy recovery, with margins improving from 5.8% in FY19 to 12% in FY20. PBT for Q4FY20, saw a 52% decline led by lower EBITDA and higher interest and depreciation charges (lease expense reclassification). However, decline on the PBT, PAT front was restricted by exceptional gains from sale of non-core assets.

Focus on cost optimisation to continue...

IHCL had already charted a plan in their Aspiration 2022 initiative to reduce costs. It has progressed well on that front (refer Exhibit 5): EBITDA margin improved from 15.2% in FY17 to 22% in FY20. The management has taken further initiatives on the cost front (e.g. relocating staff, moving to digital on the advertisement front, converted certain fixed costs into variable). These combined with certain temporary concessions (e.g. employee costs in UK, electricity charges in Maharashtra, re-negotiation of lease, deferring renovations, etc) will help reduce its cash burn. Currently the company said that its months fixed costs are down 40% for its domestic and 65% for international properties. We believe these initiatives will bode well in the long term as business returns to normal. Selling of non-core assets would continue, which will help contain the increase in debt.

New business initiatives; liquidity concerns negated

IHCL plans to launch food delivery business from its hotels. Launching of its brand Chambers and brewery (partnered with AB InBev), F&B revenues (high margin segment) will receive a boost. Ease of restrictions in domestic market is key for the company, as it gets a major chunk of revenues from domestic guests, MICE and weddings. On the liquidity front, IHCL has raised long term debt totalling ₹ 835 crore payable over the next three to six years. Deferral of capex, reducing renovations, sale of non-core assets and raising long term debt via LTRO and NCDs, provide comfort on the liquidity front.

Valuation & Outlook

The sector outlook remains grim as recovery would be slow and back ended. FY21 would most probably be a washout year for the sector. This prolonged recovery could pose a significant challenge for IHCL. However, given its strong parentage and brand visibility, these concerns get softened. However, we remain cautious and downgrade the company to **REDUCE** with a target price of ₹ 80/share (i.e. 18x FY22E EV/EBITDA).



Stock Data

Particular	Amount
Market Cap	₹ 10346 crore
Debt (FY20)	₹ 2903 crore
Cash (FY20)	₹ 315 crore
EV	₹ 12934 crore
52 week H/L	164/62
Equity capital	₹ 118.9 crore
Face value	₹ 1

Key Highlights

- Only 50% of hotels currently operating, with very low levels of occupancy
- Occupancies coming back more important, will automatically drive ARR
- Not opted for moratorium, raised ₹ 835 crore since March
- Higher exposure towards domestic guests. Thus, ease of restrictions (central, state wise) is key
- Downgrade from HOLD to REDUCE with target price of ₹ 80/share

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Key Financial Summary

	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	4,104	4,512	4,463	2,228	3,030	-17.6%
EBITDA	670	830	968	198	676	-16.4%
EBITDA (%)	16.3	18.4	21.7	8.9	22.3	
Net Profit	101	287	259	(251)	131	-28.9%
EPS (₹)	0.8	2.4	2.7	(2.1)	1.1	
EV/EBITDA	18.2	15.2	13.4	66.2	19.1	
RoNW	2.2	6.5	7.3	(6.2)	3.2	
RoCE	5.5	7.4	7.0	(1.0)	4.6	
ROE	2.2	6.5	7.3	(6.2)	3.2	

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Total Operating Income	1,063.0	995.5	1,244.3	-14.6	1,372.7	-22.6	A 48% revenue drop in March led to drop in revenues
Other Income	38.0	26.2	37.2	2.2	36.2	5.1	
Raw Material Expenses	83.7	85.0	107.7	-22.3	117.2	-28.6	RM costs decline significantly led by cost initiatives
Employee Expenses	368.5	328.5	378.7	-2.7	390.3	-5.6	
Other Expenses	402.9	378.3	473.6	-14.9	439.5	-8.3	
EBITDA	207.9	203.7	284.3	-26.9	425.7	-51.2	EBITDA decline attributable to lower revenues
EBITDA Margin (%)	19.6	20.5	22.8	▼329 bps	31.0	▼1145 bps	EBITDA margins contract due to lower profitability
Interest	84.8	84.9	47.4	78.9	84.9	-0.1	Lease expense reclassified into finance costs and depreciation
Depreciation	103.1	101.8	84.9	21.5	100.8	2.3	Lease expense reclassified into finance costs and depreciation
PBT	98.2	43.3	204.0	-51.9	275.0	-64.3	
Exceptional	-40.1	0.0	-14.8	171.7	1.2	-3,442.5	Gain on sale of land and hotel property
Less: Tax	31.4	12.8	87.1	-64.0	81.3	-61.4	
PAT	74.3	38.9	115.0	-35.4	203.1	-63.4	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	3,556.0	2,227.8	-37.3	3,983.0	3,029.9	-23.9	We further reduce our estimates, led by prolonged weakness seen in the sector
EBITDA	732.0	198.3	-72.9	931.0	675.8	-27.4	
EBITDA Margin (%)	20.6	8.9	-1168 bps	23.4	22.3	▼107 bps	
PAT	42.0	-251.4	-698.6	220.0	131.1	-40.4	
EPS (₹)	0.4	-2.1	-698.6	1.8	1.1	-40.4	

Source: Company, ICICI Direct Research

Financial story in charts

Exhibit 3: Large part of room inventory not operational

Operations Shut Down & Staggered Re-opening

50% of our hotels across portfolio were closed/acting as active quarantine centers as on 31st May 2020

Post relaxation of lockdown, there is a staggered re-opening plan in place as outlined in the table below

Factors considered while creating the plan

- 1 Rules and regulations of the state/country
- 2 Profitability of the hotel in terms of steady-state EBITDA margins
- 3 Threshold occupancy levels for the hotel to be profitable
- 4 Ability to synergize within a city and maximize business potential through re-routing etc.
- 5 Owner relations/cash flow limitations from owner's point of view



Source: Company, ICICI Direct Research

Exhibit 4: Business has taken a sharp hit since March 2020

Q4 2019 / 20 - IHCL Consolidated Reported P&L (Post Ind AS)

Despite lockdowns, we put up a creditable performance in Q4

₹ /crores

Particulars	Jan - Feb			March			Q4		
	2019/20 Actual	2018/19 Actual	Actual vs PY	2019/20 Actual	2018/19 Actual	Actual vs PY	2019/20 Actual	2018/19 Actual	Actual vs PY
Revenue	883	864	2%	218	418	-48%	1,101	1,282	-14%
Operating Expenses	610	638	-4%	245	322	-24%	855	960	-11%
EBITDA	273	226	21%	(27)	96	-	246	322	-24%
EBITDA Margin	30.89%	26.11%	+478 bps	-	22.98%	-	22.34%	25.09%	-275 bps
Depreciation	67	55	23%	36	30	18%	103	85	21%
Finance Costs	56	29	92%	29	18	58%	85	47	79%
Profit Bef. except. items & Tax	149	142	5%	(91)	48	-	58	189	-
Exceptional Items	53	(10)	+	(13)	25	-	40	15	+
Profit Before Tax	202	132	54%	(104)	72	-	98	204	-
Profit After Tax	145	71	104%	(70)	44	-	74	115	-

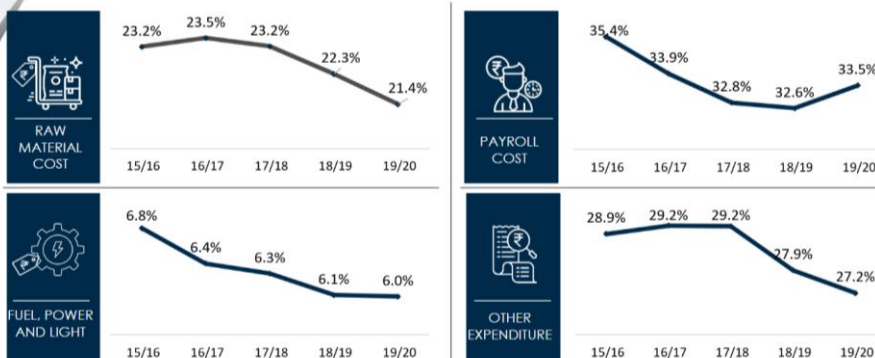
*Pre-IND AS EBITDA: ₹ 202 cr, EBITDA Margin: 18.35% (QTD Feb 27.46% (+135 bps)); PAT: ₹ 83 cr



Source: Company, ICICI Direct Research

Exhibit 5: Company delivering well on cost front

Continuous Improvement In Operating Cost Base



*All Percentages of Consolidated Revenue

*Other Expenditure excludes License fees



Source: Company, ICICI Direct Research

Exhibit 6: Raises long term debt; no major repayment of existing debt scheduled in FY21

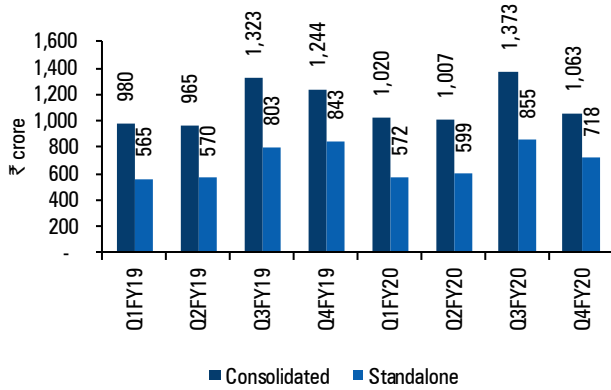
Funding Update

Particulars	₹/Crores
Long Term Loans Raised since March	
Kotak Mahindra Bank Term Loan	185
Axis Bank Term Loan	200
Non-Convertible Debenture Issue (Axis Bank) – Unsecured	150
Non-Convertible Debenture Issue (ICICI Bank) – Unsecured	300
Funds Raised Till Now	835

- Recent fund raising – all long term :
 - NCDs – 3 years, Unsecured
 - Bank loans - 4.3 years average maturity (6 years door-to-door)
- Credit Rating reaffirmed - AA (stable) by ICRA and AA+ (Negative) by CARE
- Borrowings are covenant light

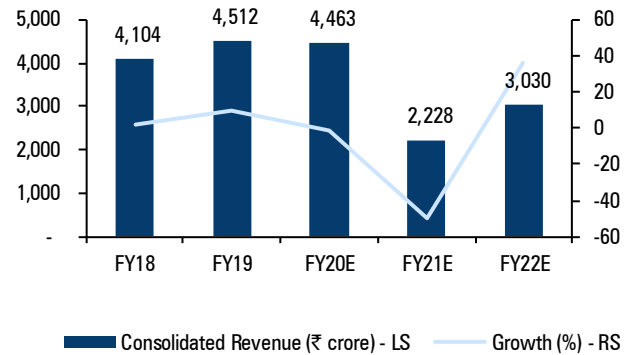
Source: Company, ICICI Direct Research

Exhibit 7: Severe impact on revenue during March leading to 14.6% drop in revenues



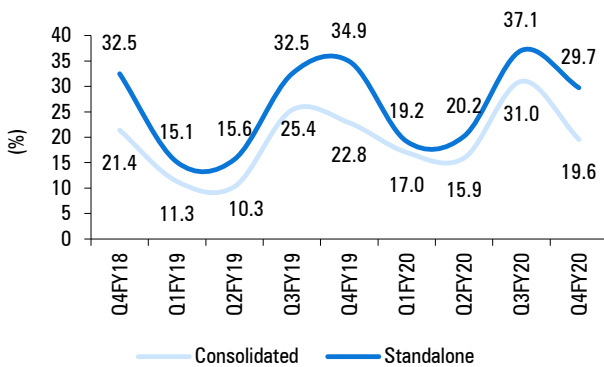
Source: Company, ICICI Direct Research

Exhibit 8: Recovery expected only after FY22E



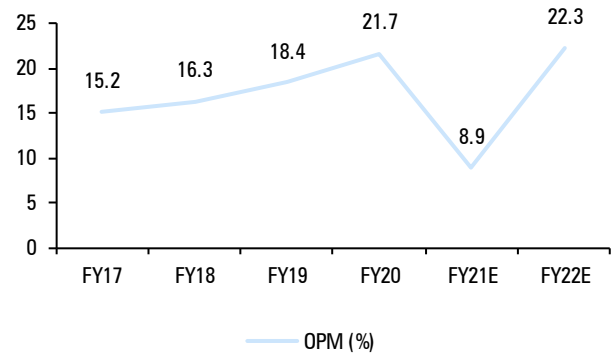
Source: Company, ICICI Direct Research

Exhibit 9: Consolidated margins fall sharply in peak season



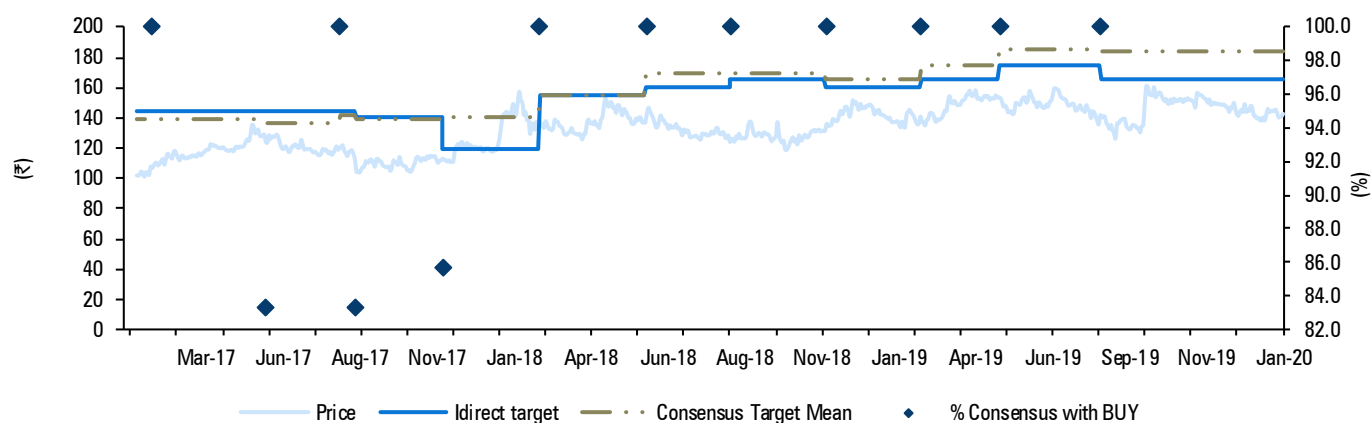
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA margins to cross 25% by FY21E



Source: Company, ICICI Direct Research

Exhibit 11: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 12: Top 10 shareholders

Rank	Investor Name	Filing Date	% O/S	Position (m)	Change
1	Tata Sons Ltd	30-Jun-19	36.4	433.2	0.0
2	Reliance Capital Tru	31-Dec-19	7.6	90.7	7.7
3	Hdfc Asset Managemen	31-Dec-19	6.6	78.5	0.2
4	Franklin Resources	31-Dec-19	3.6	43.1	-1.2
5	Norges Bank	31-Dec-18	3.6	42.4	0.0
6	Icici Prudential Lif	30-Jun-19	2.8	33.3	15.9
7	Government Pension F	30-Jun-19	2.7	31.6	-10.8
8	Icici Prudential Ass	31-Dec-19	2.2	26.7	-0.1
9	Sbi Funds Management	31-Dec-19	2.2	25.5	-0.2
10	Life Insurance Corp	30-Jun-19	1.8	21.2	-22.3

Source: Company, Thomson Reuters, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	39.09	39.09	39.09	40.75	40.75
FII	0.00	0.00	11.78	11.61	11.31
DII	41.11	41.11	35.09	33.30	33.60
Others	19.80	19.80	14.04	14.34	14.34

Source: Company, Thomson Reuters, ICICI Direct Research

Financial summary

Exhibit 14: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Total operating income	4,512.0	4,463.1	2,227.8	3,029.9
Growth (%)	10.0	-1.1	-50.1	36.0
Raw Material Expenses	404.1	370.6	180.5	239.4
Employee Expenses	1,470.8	1,494.6	980.3	1,039.1
Power & Fuel Exp	0.0	0.0	0.0	0.0
Other Exp	1,807.4	1,630.5	868.9	1,075.6
Total Operating Exp	3,682.2	3,495.6	2,029.6	2,354.0
EBITDA	829.8	967.5	198.3	675.8
Growth (%)	23.8	16.6	-79.5	240.9
Depreciation	327.9	404.2	343.6	354.6
Interest	190.1	341.1	322.1	277.2
Other Income	83.4	132.4	44.6	121.2
PBT	395.2	354.6	-422.9	165.3
Others/Minority Int	54.3	-18.7	8.1	29.7
Total Tax	157.1	44.8	-139.5	54.5
Adjusted PAT	286.9	259.4	-251.4	131.1
Growth (%)	184.4	-9.6	-196.9	-152.1
Adjusted EPS (₹)	2.4	2.2	-2.1	1.1

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Profit after Tax	286.9	354.4	-251.4	131.1
Add: Depreciation	327.9	404.2	343.6	354.6
(Inc)/dec in Current Assets	-158.2	-1.5	465.1	-154.5
Inc/(dec) in CL and Provisions	60.8	-87.1	-469.1	119.1
CF from operating activit	517.4	670.0	88.2	450.3
(Inc)/dec in Investments	322.1	4.7	0.0	0.0
(Inc)/dec in Fixed Assets	116.9	-569.6	-265.0	-195.0
Others	-965.2	-61.8	46.3	-3.7
CF from investing activiti	-526.2	-626.7	-218.7	-198.7
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	99.3	377.1	25.0	-100.0
Dividend paid & dividend tax	-71.7	-71.7	-59.5	-59.5
Inc/(Dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-74.0	-248.3	0.0	0.0
CF from financing activiti	-46.4	57.1	-34.5	-159.5
Net Cash flow	-55.3	100.4	-165.0	92.2
Opening Cash	270.3	215.0	315.5	150.5
Closing Cash	215.0	315.5	150.5	242.7

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Equity Capital	118.9	118.9	118.9	118.9
Reserve and Surplus	4,203.3	4,237.8	3,926.9	3,998.5
Total Shareholders funds	4,322.2	4,356.7	4,045.8	4,117.4
Total Debt	2,526.3	2,903.4	2,928.4	2,828.4
Deferred Tax Liability	307.3	110.4	100.4	90.4
Minority Interest / Others	799.9	2,625.5	2,566.8	2,508.1
Total Liabilities	7,955.7	9,995.9	9,641.4	9,544.3
Gross Block	9,117.9	9,559.6	9,998.7	10,183.7
Less: Acc Depreciation	3,884.7	4,288.9	4,632.5	4,987.1
Net Block	5,233.2	5,270.7	5,366.1	5,196.6
Capital WIP	116.2	244.1	70.0	80.0
Total Fixed Assets	5,349.4	5,514.7	5,436.1	5,276.6
Investments	1,335.1	1,426.6	1,376.6	1,376.6
Goodwill on consolidation	1,189.2	1,204.9	1,204.9	1,204.9
Right-of-use-asset				
Inventory	80.4	93.6	52.9	96.5
Debtors	321.4	290.0	146.5	199.2
Loans and Advances	369.2	410.3	347.2	380.0
Cash	215.0	315.5	150.5	242.7
Other current assets	620.4	599.0	381.2	406.6
Total Current Assets	1,606.4	1,708.4	1,078.3	1,325.0
Current liabilities	325.3	389.3	244.1	273.9
Provisions	0.0	0.0	0.0	0.0
Total Current Liabilities	325.3	389.3	244.1	273.9
Net Current Assets	1,281.2	1,319.1	834.1	1,051.0
Application of Funds	7,955.7	9,995.9	9,641.4	9,544.3

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
(Year-end March)	FY19	FY20P	FY21E	FY22E
Per share data (₹)				
EPS	2.4	3.0	-2.1	1.1
Cash EPS	5.2	6.4	0.8	4.1
BV	36.3	36.6	34.0	34.6
DPS	0.5	0.5	0.5	0.5
Cash Per Share	5.2	6.4	0.8	4.1
Operating Ratios (%)				
EBITDA Margin	18.4	21.7	8.9	22.3
PBT / Total Operating income	8.9	8.9	-19.0	5.5
PAT Margin	6.4	7.9	-11.3	4.3
Inventory days	6.7	7.1	12.0	9.0
Debtor days	26.0	23.7	24.0	24.0
Creditor days	26.3	31.8	40.0	33.0
Return Ratios (%)				
RoE	6.6	8.1	-6.2	3.2
RoCE	6.6	7.0	-1.9	4.2
RoIC	6.6	6.0	-1.5	3.5
Valuation Ratios (x)				
P/E	36.1	29.2	0.0	78.9
EV / EBITDA	15.2	13.4	66.2	19.1
EV / Net Sales	2.8	2.9	5.9	4.3
Market Cap / Sales	2.3	2.3	4.6	3.4
Price to Book Value	2.4	2.4	2.6	2.5
Solvency Ratios				
Debt/EBITDA	3.0	3.0	14.8	4.2
Debt / Equity	0.6	0.7	0.7	0.7
Current Ratio	1.0	1.2	1.1	1.2
Quick Ratio	0.9	1.0	1.0	1.0

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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