12th December 2023

Indian Hotels Co. Ltd. – BUY

CMP : Rs. 441
Target Price : Rs. 535
Upside : 21%+
Stop Loss : Rs. 415 (Closing basis)

Investment Thesis

- Indian Hotels Co. Ltd. (IHCL), at the consolidated level, operates 193 hotels with a total inventory of 22,465 rooms under four brands—Taj, Vivanta, Seleqtions, and Ginger. Including those in the pipeline, the company has 276 hotels with an inventory of 33,527 rooms, and this is expected to increase to over 300 hotels by FY26. Supported by its brand equity, the company has consistently commanded premium RevPARs compared to the industry over the last several years and this has continued in FY23 and H1FY24 as well.
- IHCL's operations are spread across four continents, 12 countries and over 100 cities. As of Q2FY24, IHCL has 193 operational hotels and 83 hotels in the pipeline, wherein Taj accounts for 103 hotels and Vivanta and Ginger account for 86 hotels each. Further, the hotel portfolio is diversified across segments, with presence in luxury (Taj brand), upscale and upper upscale (Seleqtions/Vivanta) and midscale/lean luxury (Ginger).
- IHCL, over the years, has created multiple brands within the food & beverage portfolio like Bombay Brasserie, Golden Dragon, Thai Pavilion, Shamiana, Southern Spice and Machan. IHCL's dining program – Epicure grants several dining privileges and benefits to members. IHCL operates approx. 450+ restaurants in the hotels. It also operates food delivery app – Qmin, which enables customers to place food orders from their portfolio of restaurants and cloud kitchens.
- IHCL's hotel portfolio comprises a mix of owned and leased properties at the standalone level, properties held by subsidiaries, joint ventures (JVs) and associates, as well as hotels under management contracts. As on Q2FY23, 20% of the consolidated inventory was held by IHCL directly, 40% of the consolidated inventory was held via its Group companies and the remaining 40% was through management contracts. The share of management contract inventory has increased from 25% five years ago, with the company focusing on growing through an asset-light model over the last few years.
- The Tata Group holds a 38.19% stake in IHCL through Tata Sons (35.74% stake) and other Group companies.

Financials

- FY23 recorded the highest ever Revenue / EBITDA / PAT growth by 85.2% / 246.9% / 504% YoY respectively. The EBITDA margins stood at a healthy 32.7% and PAT margins came in at 16.85%.

Particulars	FY20	FY21	FY22	FY23	FY24E
Revenue (Rs in Crs)	4,463	1,575	3,056	5,810	6,740
EBITDA (Rs in Crs)	968	-362	405	1,805	1,752
Adj. PAT (Rs in Crs)	354	-720	-248	1,003	1,011
Adj. EPS (Rs.)	2.49	-5.07	-1.75	7.06	7.12
PE Multiple (x)	176x	-87x	-251x	62x	62x
RoE (%)	8%	-20%	-4%	13%	12%

Stock Data

Market Cap (Rs. Crs)	62,622
Market Cap ($ Mn)	7,510
Shares O/S (in Mn)	1,420
Avg. Volume (3 month)	2,903,390
52-Week Range (Rs.)	445 / 280

Shareholding Pattern

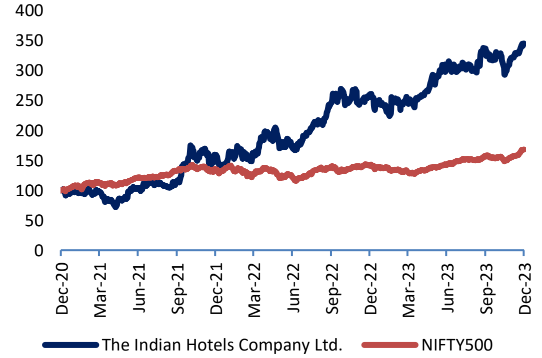
Promoters	38.19 %
FIIs	22.17 %
Institutions	23.13 %
Others (incl. body corporate)	16.51 %

Key Ratios

Div Yield	0.23%
TTM PE	57x
ROE	12.7 %
TTM EPS (Rs.)	7.75 /-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	7.7%	13.7%	32.5%
NIFTY500	(1.1%)	(4.1%)	13.9%



- The increase in revenue was driven by strong domestic demand and changing consumer behaviour, such as combining business with leisure, more weekend travel or working out of a destination.
- The stellar EBITDA growth was on account of higher RevPAR, improved productivity, better asset management, and portfolio premiumisation.
- RevPAR increased by 81% YoY with robust growth across customer segments in India and key international markets. India occupancy levels remained robust at 66%.
- Improved performance of subsidiaries, notably TajSATS, Roots Corporation (Ginger), and return to profitability of international operations positively impacted consolidated PAT.

Key Business Highlights

- IHCL signed 6 new hotels and opened 3 new hotels in the quarter, with a focus on expanding its portfolio. IHCL, during FY23 launched LOYA, a re-imgined Indian F&B (Food and Beverage) concept at Taj Palace, Delhi.
- IHCL added 1,412 keys from 16 new hotel openings across brands and achieved the milestone of 260 hotels during the year. As on April 30, 2023, IHCL's portfolio stood at 263 hotels and 31,483 Keys, including hotels in the pipeline.
- TajSATS achieved a 53% growth in revenues from the pre-COVID levels to Rs. 641 crore, its highest ever revenues in history and now commands a market share of 58%.
- Ginger brand in the lean luxe segment, saw a strong revenue growth of 44% from Pre-COVID levels aided by significant growth in average rates by 35%.
- Hotel demand is expected to grow at a CAGR of 8% to 10% in the next 5 years, while supply growth is projected to be just 5% to 6% annually.

Valuation

IHCL currently trades at a premium of 57x PE as compared to the industry PE of 32x. The company has shown stellar EPS growth of 56.2% in the last 5 years. The ROE / ROCE levels remain healthy at 12.7% / 12.6% respectively. We estimate the Revenue / EBITDA / PAT to grow at a CAGR of 12% / 5.5% / 6.8% respectively.

We are ascribing a **BUY** rating for **Indian Hotels Co. Ltd.** with a Target Price of Rs. 535, translating in an upside of 21%+.

Risk & Concern

- The operating performance of the properties remains vulnerable to industry cyclicality / seasonality, macro-economic cycles and exogenous factors. Nonetheless, the risk to revenues is partially mitigated by IHCL's geographically and segment diversified portfolio, which allow it to withstand any demand vulnerability related to any micro-market/particular segment.
- Contraction of the global economy or low levels of economic growth in the domestic and overseas markets where the company operates could adversely affect the revenues and profitability as well as limit or slow down future growth.

Graphs & Charts

Figure 1: Net Sales Trend (Rs. in Crs)

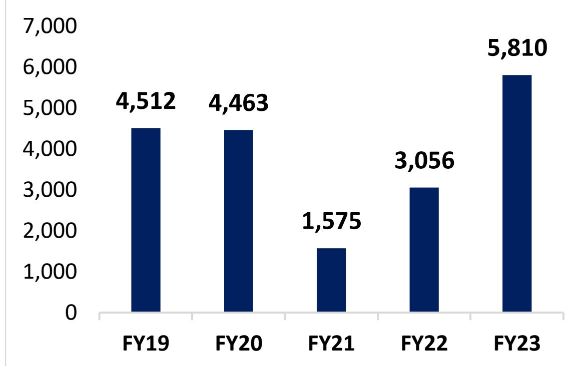


Figure 2: EBITDA & EBITDA Margin Trend

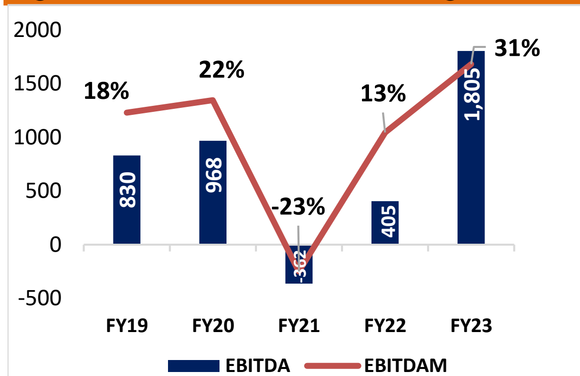


Figure 3: ROE & ROCE Trend

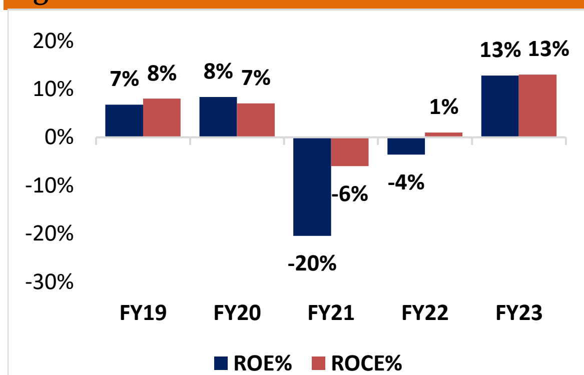
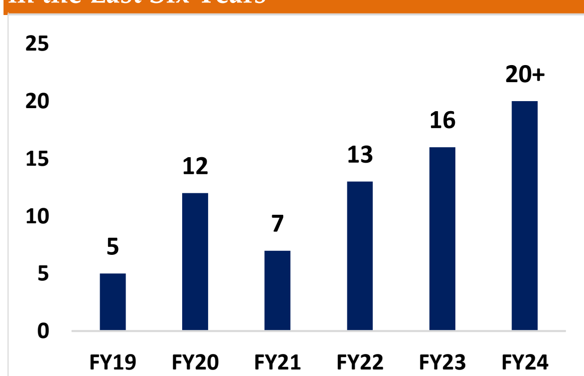


Figure 4: No. of Hotels Openings: 60+ Hotels in the Last Six Years



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