Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Indian Hotels Company

Good room left for growth after eventful FY2024

Consumer Discretionary	Sharekhan code: INDHOTEL

Reco/View: Buy ↔	CMP: Rs. 407	Price Target: Rs. 492 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 26.39
Updated Aug 08, 2023

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

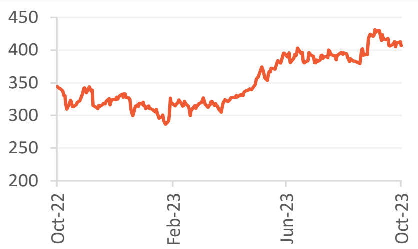
Company details

Market cap:	Rs. 57,789 cr
52-week high/low:	Rs. 436 / 280
NSE volume: (No of shares)	41.4 lakh
BSE code:	500850
NSE code:	INDHOTEL
Free float: (No of shares)	87.8 cr

Shareholding (%)

Promoters	38.2
FII	22.3
DII	24.2
Others	15.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.3	5.6	25.6	18.2
Relative to Sensex	-2.7	6.5	16.3	5.9

Sharekhan Research, Bloomberg

Summary

- We re-iterate our Buy rating on Indian Hotels Company with a revised PT of Rs. 492. Stock is valued at 22x/19x/16x is FY24E/25E/26E EV/EBIDTA. Good earnings growth visibility with structural growth story of hotel industry intact.
- FY2024 has been eventful with G-20 summit driving strong room demand even in a weak Q2FY24, while Cricket World Cup in October/November 2023 followed by festive season will boost room demand in a seasonally strong Q3FY24.
- What lies ahead? After an eventful FY2024, Indian hotels industry has good room for growth with foreign tourist arrivals (FTAs) recovering to 56% of pre-COVID levels and domestic tourism recovering to 75% of pre-COVID levels.
- Higher RevPar and focus on asset-light business model will consistently drive profitability and cashflows for IHCL (eyeing FY25 EBIDTA margins of 33%) in the coming years.

The Indian hotels industry is gearing up for a strong FY2024 with the G-20/B-20 summit and Cricket World Cup 2023 followed by an extended festive season, resulting in strong room demand and high RevPar in the coming quarters (including lull Q2FY2024). However, this is not the end of optimism for the hotels industry and there is good room left for growth in the coming years. India's domestic tourism grew by 2.6x in CY2022 to 1,731 million visits (75% of 2019 levels). The change in consumer behaviour along with improved per-capita income, resulted in consumers opting for multiple domestic holiday trips and week-end outings which was supported by improved infrastructure in past few years (better roads and development of new airports). Further, FTAs recovered to just 56% of pre-covid level and strong promotion by G-20 summit and improving infrastructure will lead to fast recovery in FTAs. IHCL, with a strong room inventory, will be one of the key beneficiaries of strong optimism in the domestic hotel industry.

- **Demand outpacing supply will continue to support occupancies and room rentals:** Indian hotels industry saw strong rebound in the room demand in last 16-18 months post COVID-19 due to revenge domestic travel after two years of a lull (reached 75% of 2019 levels). Change in consumer traveling habits, improvement in business travel and a recovery in FTAs (to 56% of pre-COVID levels in CY2022) would keep room demand high in the coming years. On the other hand, the supply constraints are expected to remain with more than 50% of room inventory coming up in tier-2 and tier-3 towns. If RevPar continues to remain high for hotel companies (including IHCL), it will lead to better profitability and higher cash flow generation in the medium term.
- **G20 Summit - A long-term growth lever for IHCL:** IHCL's management indicated that the impact of G20 and B20 summits is higher than just few days of rooms completely sold. Some of the Taj iconic properties hosted G20/B20 summit, which not only resulted in complete sold of out rooms but also boosted food & beverages and services revenues making Sept,23 one of the extraordinary months of business in seasonally weak quarter. Further, such events indirectly promote India as a great tourist destination and will help in getting more foreign tourist arrivals in the coming years.
- **Revenues and PAT to grow at 17% & 27% CAGR over FY2023-26E:** With room demand expected to stay ahead of room supply, occupancy ratio is expected to remain high, which will help IHCL to clock in good rental hikes in the coming years. Further, with a good scale-up in some of the new ventures, IHCL's revenues are expected to grow at CAGR of 17% over FY2023-26E. The company is targeting EBIDTA margins to reach 33% in FY2025. However, we believe the company might achieve its targeted margins by FY2024 and expect consistent improvement in the coming years. Thus overall, PAT is expected to grow at CAGR of 27% over FY2023-26E, healthy among the hotel companies.

Our Call

View – Retain Buy with a revised PT of Rs. 492: Room demand is expected to exceed room supply, which will help RevPar grow in double digits in FY2024. The company has charted a strong growth plan to be achieved by FY2025-26 with a strong improvement in cash flows and strengthening the balance sheet with a focus on becoming debt-free. EBITDA margins will consistently improve in coming years. Thus, we maintain IHCL as one of our top picks in the hospitality space. We have introduced FY2026E earnings estimates in this note. Stock trades at 21.9x/18.5x/15.5x its FY2024E/25E/26E EV/EBIDTA. We maintain our Buy recommendation on the stock with a revised PT of Rs. 492 (rolling it over to September 2025 earnings).

Key Risks

Key risks: Any slowdown in corporate travel or a slower recovery in inbound and outbound tourism industry would act as a key risk to our earnings estimates.

Valuation (consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Revenue	3,056	5,810	7,088	8,151	9,211
EBITDA margin (%)	13.3	31.1	32.3	33.0	33.7
Adjusted PAT	-235	968	1,293	1,631	1,974
Adjusted EPS (Rs.)	-2.0	7.4	9.3	11.7	14.1
P/E (x)	-	55.1	43.8	34.9	28.9
P/B (x)	7.5	6.7	5.9	5.1	4.4
EV/EBIDTA (x)	-	29.7	21.9	18.5	15.5
RoNW (%)	-3.9	11.9	14.0	15.5	16.2
RoCE (%)	1.4	13.0	16.5	18.9	20.5

Source: Company; Sharekhan estimates

FY2024 will be boosted by major events such as G-20 summit and Cricket world cup

- **G20 a long term lever for Indian hotel industry and IHCL:** IHCL's management indicated that the impact of G20 and B20 summit is higher than just few days of rooms completely sold. Some of the iconic Taj properties hosted the G20/B20 summit, which not only resulted in complete sold of out rooms but also boosted food & beverages and services revenues. The G20/B20 summit made September,23 one of the extraordinary months of business in a seasonally weak quarter. Further, such events indirectly promote Indian tourist destinations and will help in getting more FTAs in the second half of the year.

G-20/B-20 meetings in India

Meetings	IHCL properties
G20 Sherpa (first few meetings)	Taj in Havelock, Andaman
G20 Sherpa (Second tranche of meetings)	Lake palace, Udaipur
G20 meetings	Taj Mahal Palace, Mumbai
B20 meeting of ministers	Taj Rambagh Palace, Jaipur
B20 meeting of ministers	Taj Mahal Palace, Delhi

Source: Media reports; Sharekhan Research

- **Strong room demand during World Cup would boost occupancies and ARRs in Q3FY24:** IHCL has properties within 5-6 km radius of the cricket stadium in 6 out of the 10 cities in which the Cricket World Cup matches are scheduled. Apart from bookings by spectators, the rooms are also booked for players, support staff, cricket board officials, media etc. Due to such strong demand, occupancies during the match days are already running high, with rooms not available (100% occupancy) at a few of hotels. This has led to a sharp rise in average room rentals (ARRs) during this period and rates are likely to increase further closer to match dates.

  As per our analysis, during the World Cup period, ARRs in IHCL's Delhi and Bengaluru properties (which are at proximity to the cricket stadium) is expected to by higher by 10-100% and 15-70%, respectively, compared to the off-season. While in Mumbai, Chennai and Kolkata, ARRs are expected to surge by 20-160%, 70-150% and ~70-170%, respectively. Highest rise in ARR is likely in Ahmedabad with room rentals expected to be up by over 30-500% during the World Cup season.

ARR higher at all properties during World Cup season

Stadium, city	No of matches to be held	IHCL Properties	Avg. ARR (Rs./ night) (World cup)	ARR (Rs./ night) (Off season)	Premium
Arun Jaitley Stadium, Delhi	5	The Connaught, New Delhi - IHCL SeleQtions	18,000	14,500	24%
		Ambassador, New Delhi - IHCL SeleQtions	16,000	14,500	10%
		Taj Mahal, New Delhi	26,000	22,000	18%
		Ginger East Delhi	6,000	3,000	100%
		Taj Palace, New Delhi	23,000	17,000	35%
Wankhede Stadium, Mumbai	5	Taj Wellington Mews, Mumbai	65,000	25,000	160%
		The Taj Mahal Palace & Tower, Mumbai	51,000	42,000	21%
		President, Mumbai - IHCL SeleQtions	18,000	14,000	29%
M.Chinnaswamy Stadium, Bengaluru	5	Taj West End, Bengaluru	18,000	14,000	29%
		Vivanta Bengaluru, Residency Road	12,000	7,000	71%
		Taj M G Road, Bengaluru	16,000	14,000	14%
		Taj Yeshwantpur, Bengaluru	12,000	10,000	20%
MA Chidambaram Stadium, Chennai	5	Taj Connemara, Chennai	17,000	10,000	70%
		Taj Club House, Chennai	20,000	8,000	150%
		Taj Coromandel, Chennai	28,000	11,000	155%
		Ginger Chennai (Vadapalani)	8,000	3,500	129%
		Taj Wellington Mews, Chennai	18,000	12,000	50%

ARR higher at all properties during World Cup season

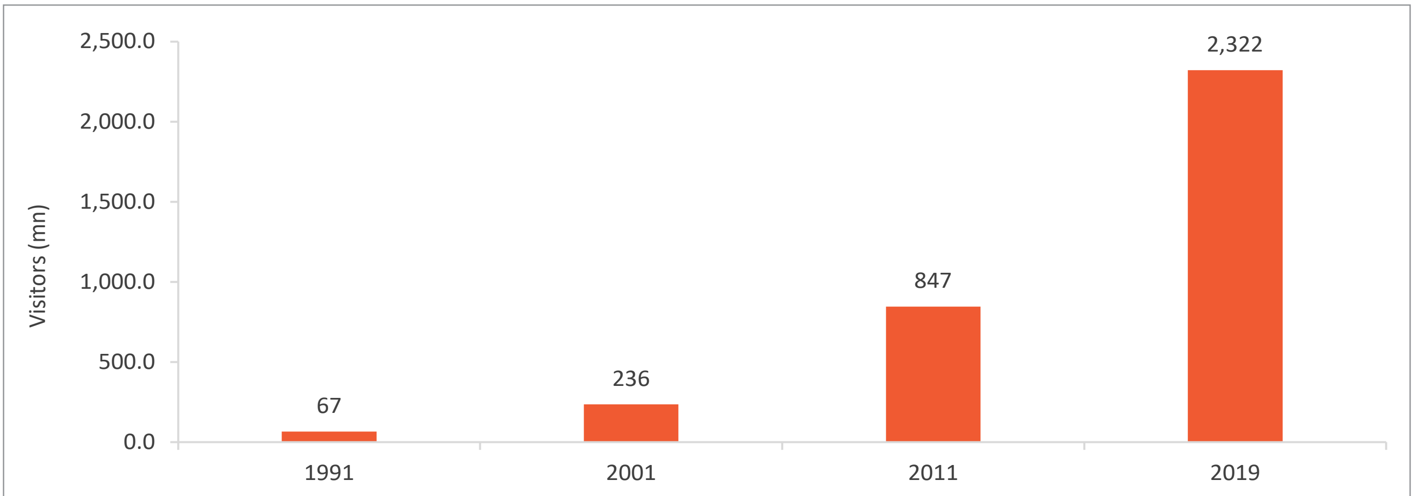
Stadium, city	No of matches to be held	IHCL Properties	Avg. ARR (Rs./ night) (World cup)	ARR (Rs./ night) (Off season)	Premium
Eden Gardens, Kolkata	5	Taj Bengal, Kolkata	38,000	14,000	171%
		Vivanta Kolkata, EM Bypass	17,000	10,000	70%
		Raajkutir, Kolkata - IHCL SeleQtions	27,000	11,500	135%
Narendra Modi Stadium, Ahmedabad	5	Ginger Ahmedabad, RTO Circle	20,000	3,300	506%
		Ginger Ahmedabad, Vastrapur	4,000	3,000	33%
		Vivanta Ahmedabad, SG Highway	26,000	9,000	189%
		Ginger Ahmedabad, S.G. Road	6,000	4,000	50%
		Ginger Ahmedabad, Satellite	19,000	4,500	322%
Maharashtra Cricket Association Stadium, Pune	5	Ginger Pune Wakad	3,000	3,000	0%
		Vivanta Pune, Hinjawadi	20,000	9,000	122%
Bharat Ratna Shri Atal Bihari Vajpayee Ekana Cricket Stadium, Lucknow	5	Ginger Lucknow	4,000	3,000	33%
		Taj Mahal, Lucknow	40,000	20,000	100%
Himachal Pradesh Cricket Association Stadium, Dharamsala	5	Norbu The Montanna, Dharamshala - IHCL SeleQtions	34,000	20,000	70%
Rajiv Gandhi International Stadium, Hyderabad	3	Taj Krishna, Hyderabad	15,000	10,000	50%
		Vivanta Hyderabad, Begumpet	9,000	8,000	13%
		Taj Deccan, Hyderabad	11,000	7500	47%

Source: Sharekhan Research

Will occupancies and ARRs remain high in the coming years?

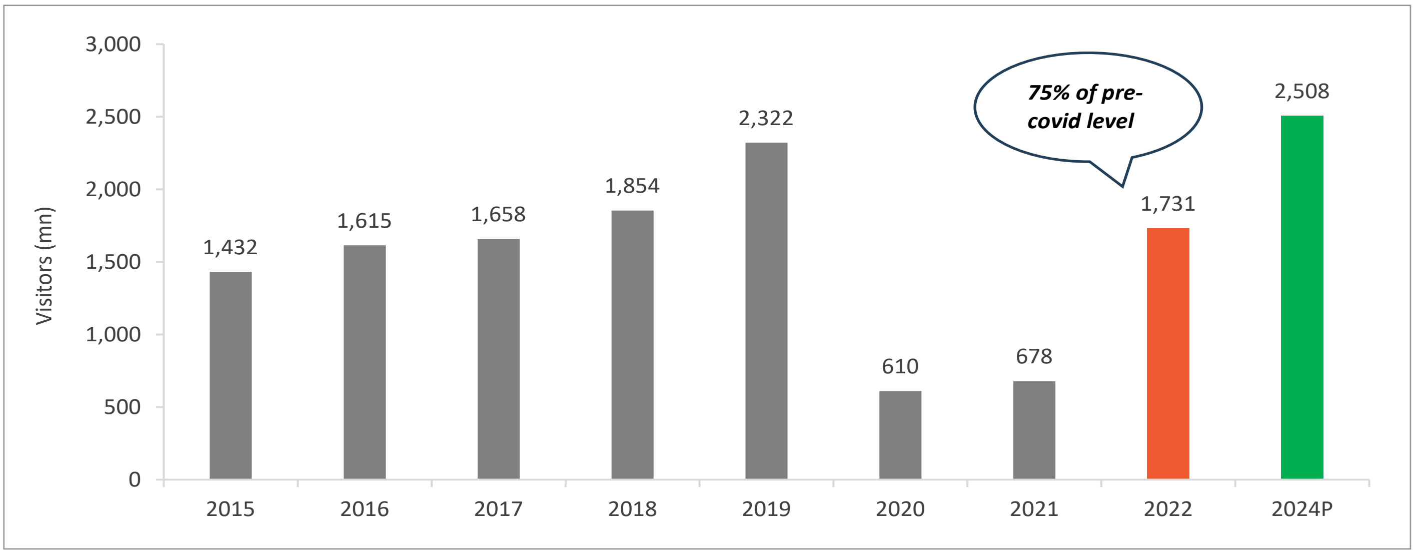
- **Domestic tourism to maintain strong growth momentum:** Domestic tourists visit in India grew by 3x in last decade to 2,322 million in CY2019. It grew at a CAGR of 13% over CY2015-2019. Covid-19 pandemic break the momentum with domestic tourism dropping to 610-680 million visits in CY2020 and CY2021. However same grew by 2.6x in CY2022 to 1,731 million visits (75% of 2019 levels). Change in consumer behaviour is one of the major change post pandemic which led to sharp recovery in the domestic tourism in post pandemic era. Multiple domestic trips and higher tendency of weekend outings has grown in India. This is well supported by improved infrastructure with opening of new airports (especially covering tier-2 towns) and development of new hotels by top brands in new locations provides fresh tourist travel options in India. If we expect domestic tourism reaching growing by ~10% in CY2024 over CY2019 suggest strong growth of 20%+CAGR CY2022-24. This will lead to higher room demand in the coming years.

Domestic tourism grew by 3x in last decade



Source: PIB; Sharekhan Research

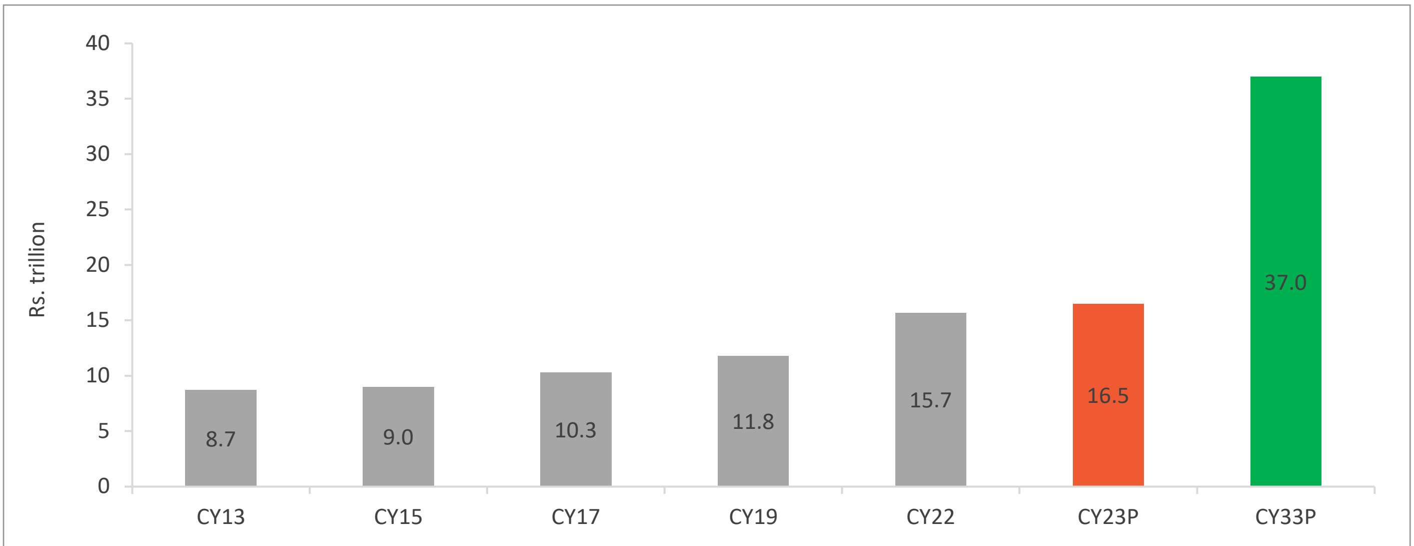
Pandemic break the momentum in 2020-21



Source: PIB; Ministry of Tourism

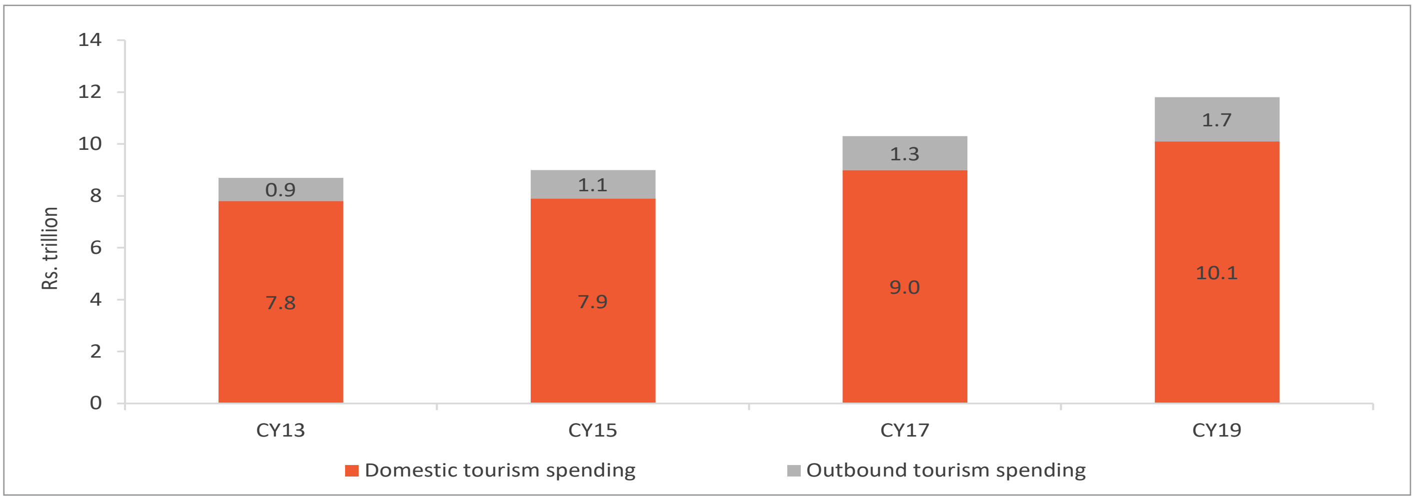
- **Spending on travel & tourism is increasing in India:** Change in the consumer behaviour has led to travel expenses surging by 15-20% in CY2023 this year compared to pre-pandemic figures of 2019. This is despite a sharp increase in the air fares and room rentals due to events such as G-20 summit and Cricket World Cup 2023. Resilience in discretionary spendings, rise in solo travel, airline partnership and loyalty programs has led to substantial increase in the domestic in the post pandemic era. According to World Travel and Tourism Council (WTTC), India's spending on tourism showed a growth of 33% and reached Rs. 15.7 trillion in 2022 from Rs. 11.8 trillion in CY2019 driven by substantial increase in the domestic tourism. The same is expected to reach Rs. 37.0 trillion by CY3033 driven by growth in the domestic tourism and fast growth in the outbound tourism.

India's spending on travel & tourism to reach Rs. 37 trillion by CY33



Source: Industry reports, Sharekhan Research

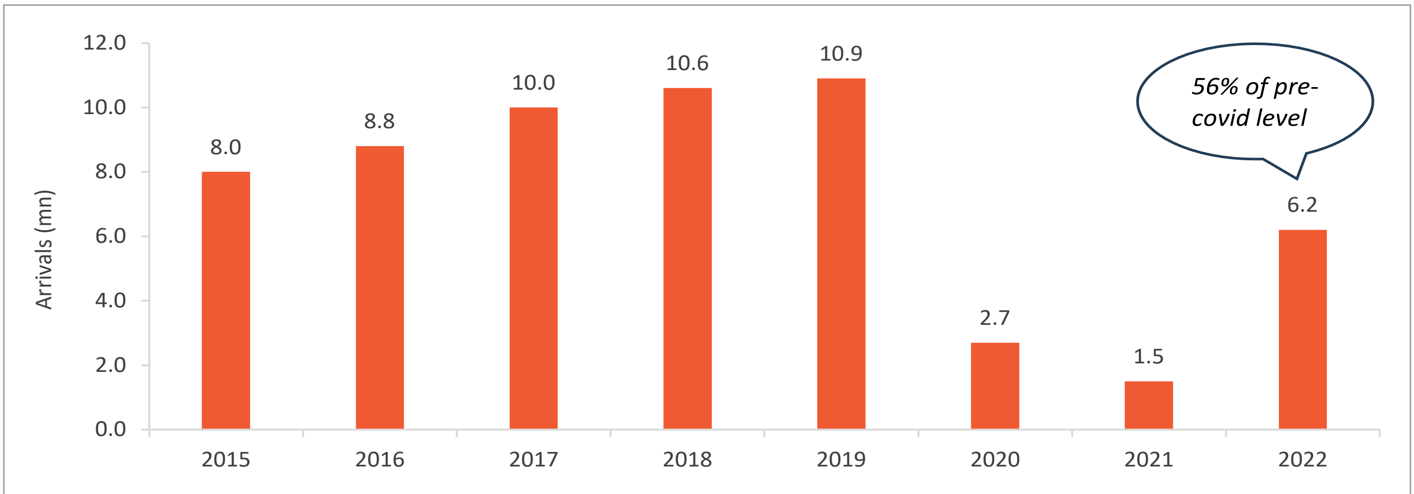
India's spending on domestic tourism continued to increase



Source: Industry reports, Sharekhan Research

- **FTAs to grow strongly in next five years:** FTAs in India grew at a CAGR of 8.0% from 8.0 million in 2015 to 10.9 million in 2019. Visits by foreign nationals in India are mainly driven by leisure travel on account of India's rich cultural heritage and geographical diversity. Medical tourism is another key driver of visits by foreign nationals in India, particularly from developing nations. In CY2022, FTAs in India recovered to 56% of pre-covid levels due to restrictions imposed on international travel by most of the countries. However, the same stood at 4.4 million in Jan-Jun,23 period (growth of 106%). The same is expected to cross pre-pandemic level by end of CY2023 due large arrival expected during G-20 summit and Cricket World cup 2023. FTA in India is expected to grow in low to mid-single digits in the coming years as the major events, emergence of new tourist destinations and improving infrastructure will help to attract foreign tourist arrivals in the coming years.

FTAs reached 56% of pre-COVID level in CY2022

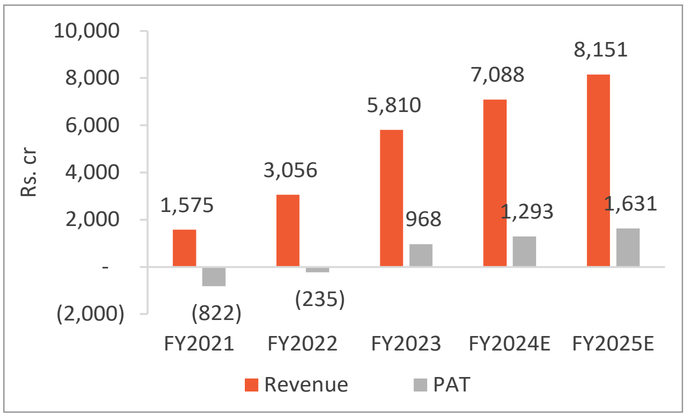


Source: Ministry of Tourism

- **Demand outpacing supply will continue support occupancies and Room rentals:** Industry room demand rebounded strongly in the past 16-18 months post COVID-19 due to revenge domestic traveling happening after two years of lull. Change in the consumer traveling habits, improvement in the business travel and recovery in the foreign tourist arrival would keep room demand high in the coming years. On the other hand, the supply constraints are expected to remain with more than 50% of room inventory is coming up in tier-2 and tier-3 towns. Thus, supply in top 10 markets is constrained, that helps you drive the performance and newer markets are opening up (especially in the spiritual sectors). Spiritual places such as Banaras, Ayodhya and Mahakaleshwar (Ujjain) is gaining strong traction in recent times providing new locations and segments of growth for hotel companies. Thus, these factors will help occupancies and ARRs to remain high in the coming years. If RevPar remains high, it will also lead to better profitability and higher cash flow generation in the medium term.

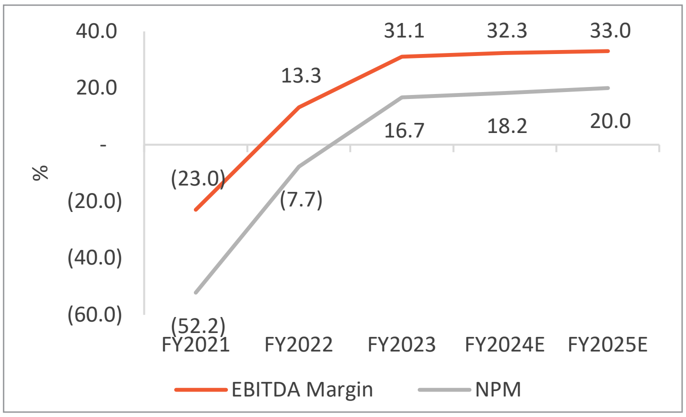
Financials in charts

Revenue and profits to grow in coming years



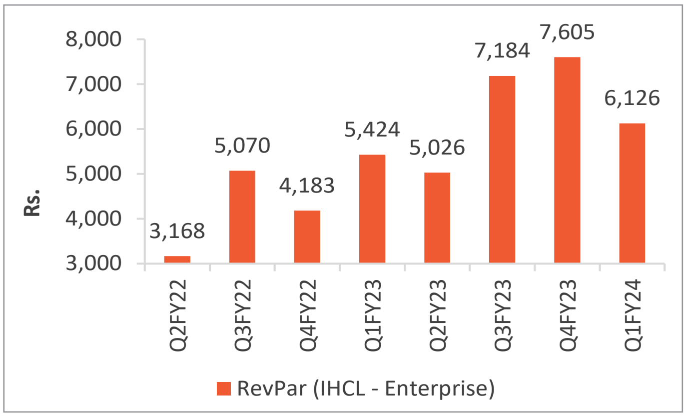
Source: Company, Sharekhan Research

Margins to move North



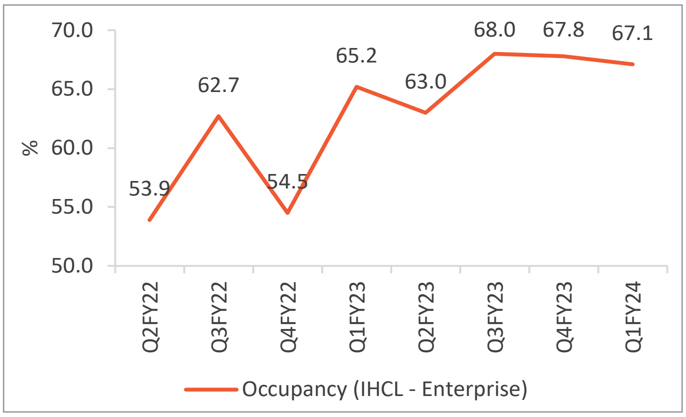
Source: Company, Sharekhan Research

Quarterly trend in RevPAR



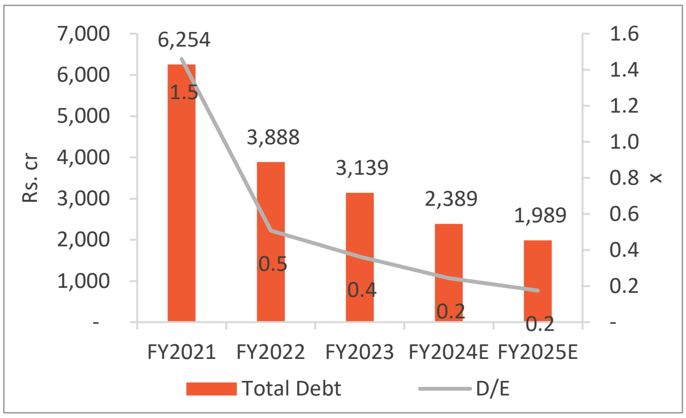
Source: Company, Sharekhan Research

Trend in occupancy ratio



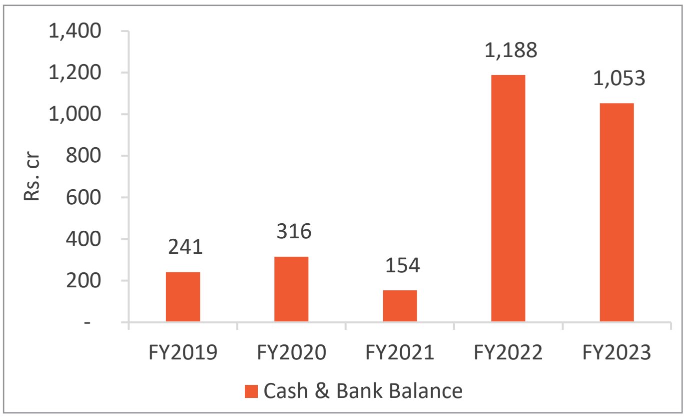
Source: Company, Sharekhan Research

Company to reduce debt



Source: Company, Sharekhan Research

Cash and bank balance stays adequate



Source: Company, Sharekhan Research

Outlook and Valuation

■ **Sector view - Hotel industry to benefit from demand supply gap**

Hotels posted a strong comeback in FY2023, after two years of a lull owing to the pandemic. Higher demand from domestic leisure travellers, recovery in FTAs, and revival in corporate travels will keep room demand high for hotel companies (also helping in achieving higher room rentals) in the short to medium term. According to the most recent industry data, demand is expected to continue to grow by double-digits (~10%), however, supply is expected to grow by 3-4% over the next 4-5 years. This augurs well for the industry because hotel performance in India is highly sensitive to supply and demand dynamics. Margins of hotel companies are likely to expand aided by better operating leverage coupled with various cost-saving initiatives undertaken by the companies.

■ **Company outlook - Strong growth eyed over FY2023-26**

IHCL started FY2024 on good note with revenues growing in double digit driven by double digit growth in RevPar. With room demand expected to exceed supply, domestic performance is expected to be strong in the coming years. This along with expected recovery in international properties and higher contribution from new ventures, will aid the revenues and PAT to grow at a CAGR of 17% and 27% over FY2023-26E. Cost-saving initiatives undertaken in FY2021 will help operating profit to improve in coming years. We expect IHCL EBIDTA margins to touch ~33% in FY2025. Asset-light model will help in high free cash generation. Return ratios are expected to improve with RoE/RoCE expected to increase to 16%/21% in FY2025 from 12%/13% in FY2023.

■ **Valuation - Retain Buy with a revised price target of Rs. 492**

Room demand is expected to exceed room supply, which will help RevPar grow in double digits in FY2024. The company has charted a strong growth plan to be achieved by FY2025-26 with a strong improvement in cash flows and strengthening the balance sheet with a focus on becoming debt-free. EBITDA margins will consistently improve in coming years. Thus, we maintain IHCL as one of our top picks in the hospitality space. We have introduced FY2026E earnings estimates in this note. Stock trades at 21.9x/18.5x/15.5x its FY2024E/25E/26E EV/EBIDTA. We maintain our Buy recommendation on the stock with a revised PT of Rs. 492 (rolling it over to September 2025 earnings).

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Lemon Tree Hotels	66.2	47.2	33.1	21.1	17.7	13.7	10.0	11.7	13.8
Chalet Hotels	64.5	42.3	28.8	23.9	17.3	13.7	5.5	11.6	14.7
Indian Hotels Company	55.1	43.8	34.9	29.7	21.9	18.5	13.0	16.5	18.9

Source: Company; Sharekhan Research

About company

IHCL and its subsidiaries bring together a group of brands and businesses that offer a fusion of warm Indian hospitality and world-class service. These include Taj, the iconic brand for the most discerning travellers; SeleQtions, a named collection of hotels; Vivanta, sophisticated upscale hotels; and Ginger, which is revolutionising the lean luxe segment. Incorporated by the founder of the Tata Group, Jamsetji Tata, the Company opened its first hotel - The Taj Mahal Palace, in Bombay in 1903. IHCL currently has a portfolio of 263 hotels including 75 under development globally across 4 continents, 12 countries and in over 100 locations.

Investment theme

The hotel industry's business fundamentals have recently improved with room demand outpacing room supply. Strong domestic travel coupled with recovery in foreign travel would help IHCL in posting better performance in the medium term. A strong focus on building an asset-light model, market share gains in key markets and recovery in the business environment will help IHCL recover to 100% of pre-COVID levels in FY2023 with strong growth in profitability. Further, the company is focusing on strengthening its balance sheet by a sustained reduction in debt, which augurs well from a long-term perspective.

Key Risks

- On the backdrop of the economic slowdown, room supply is going ahead of room demand, which will affect overall business fundamentals of the hotel industry and performance of hotel companies.
- Any disruption in the performance of international properties will affect the consolidated performance of IHCL in the coming years.

Additional Data

Key management personnel

N. Chandrasekaran	Chairman
Giridhar Sanjeevi	Executive Vice President & Chief Financial Officer
Puneet Chhatwal	Executive Director, Chief Executive Officer & Managing Director
Beejal Desai	Senior Vice President - Corporate Affairs, Company Secretary (Group) & Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Asset Management Co.	4.11
2	Nippon Life India Asset Management Company	3.13
3	Axis AMC	3.07
4	SBI Retirement Benefit	2.38
5	BlackRock Inc	2.19
6	Jhunjhunwala Rekha Rakesh	2.11
7	Vanguard Group Inc	1.97
8	SBI Funds Management	1.88
9	HDFC Life Insurance Co	1.88
10	Canara Robeco AMC	1.45

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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by BNP PARIBAS

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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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