

March 25, 2020

Hotel Sector – Facing Turbulent Tides

The ongoing coronavirus outbreak has had a severe impact on the hotel bookings in India from Feb-20 onwards with massive forward booking cancellations across cities. This in turn has eroded the ability of hotels across India with heavy loss of business during this peak season time. The extent of this lost business has primarily been seen across all major tourist and business destinations and we expect the situations to remain severely weak with individuals cancelling or deferring their travel plans and thousands of companies adopting the 'work from home' and 'no travel' policies. This would lead to weak Q4FY20E and H1FY21E respectively. We anticipate a significant drop in revenues (or expected revenue growth) owing to lower occupancy. Revenue from MICE and F&B which are lucrative segments for hotels, are also expected to fall off the cliff. We thus expect our coverage companies to report drop in revenues in the range of 4%-19% in FY21E with revival expected only in FY22E. We model a revenue drop of -3% and -17% in FY20E and FY21E and a growth of 15% in FY22E for our coverage companies to ₹ 6942 crore, ₹ 5746 crore and ₹ 6602 crore in FY20E, FY21E and FY22E respectively.

Profitability to take a back seat; revival only in FY22E

Hotel industry has majority of its costs fixed, with power/lighting and employee costs taking the major share. With a drop in room rates owing to abysmally low levels of occupancy and a sharp fall in non-room (most profitable) revenues, hotel players are expected to take a massive hit on their profitability. We reduce our overall EBITDA estimates by 10% and 49% and PAT estimates by 24% and 99% for FY20E and FY21E respectively. Higher impact is seen on the PAT level owing to interest and depreciation burden. Lemon Tree is the only company which is expected to report loss on the PAT level in FY21E as the company is on a capex mode. In FY22E, EBITDA is expected to rise by 42% with PAT expected to rise multi-fold over FY21E.

Heavily levered companies to face challenges

In our coverage universe, EIH Limited is the best placed on the B/S front. EIH has the lowest leverage, with Debt/Equity below 0.5x, combined with a strong institutional investor backing. While Indian Hotels has a strong promoter backing, its Debt/Equity is 0.8x which combined with capex requirement could create cash flow issues if current COVID issue persist for a longer period. TajGVK's leverage is at comfortable levels, however we remain sceptical with GVK group (which is highly levered) being the promoter entity. Lemon Tree Hotels, being on a capex mode is significantly levered with a Debt/Equity of ~2x, which could be a matter of concern at this point. With balance sheet taking prominence over profitability in turbulent times, we have a positive stance only on EIH Ltd.

Valuation & Outlook

Considering the reduction in revenue and profitability estimates, a reduction in target price is also eminent. On the other hand, the recent broad based corrections in hotel stocks majorly factors in this weak scenario. At the same time there is also an uncertainty as to how long this issue is going to prevail extent of its damage to the economy. Hence, we prefer only companies with strong balance sheet and better margin profile. Accordingly, our preferred pick in this space would be EIH which is a domestic play with low leverage; while we downgrade, TajGVK and Lemon tree hotels (Higher debt) to HOLD rating.

Rating Matrix

	Rating	
	Old	New
EIH Limited	BUY	BUY
Indian Hotels	HOLD	HOLD
TajGVK Hotels & Resorts	BUY	HOLD
Lemon Tree Hotels	BUY	HOLD

Target price (₹)

	CMP	Target	
		Old	New
EIH Limited	65	175	90
Indian Hotels	76	135	84
TajGVK Hotels & Resorts	93	220	105
Lemon Tree Hotels	22	71	25

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Change in Estimates

Exhibit 1: Indian Hotels

₹ crore	FY20E			FY21E			FY22E
	Old	New	Change (%)	Old	New	Change (%)	(Introduced)
Sales	4731	4396	-7%	5063	3556	-30%	3983
EBITDA	1149	1051	-9%	1316	732	-44%	931
PAT	354	283	-20%	470	42	-91%	220

Source: ICICI Direct Research, Company

Led by its global presence, we expect IHCL's international revenues also to take a major hit. Capex requirement, debt repayment and drop in profitability are our key concerns for the company

Exhibit 2: EIH Limited

₹ crore	FY20E			FY21E			FY22E
	Old	New	Change (%)	Old	New	Change (%)	(Introduced)
Sales	1698	1611	-5%	1913	1333	-30%	1566
EBITDA	348	320	-8%	449	178	-60%	303
PAT	175	153	-13%	253	15	-94%	117

Source: ICICI Direct Research, Company

EIH has high end properties spread across India. The company does not face balance sheet issues on the back of low leverage. This improves the company's ability to absorb losses for a couple of quarters if situation worsens.

Exhibit 3: TajGVK Hotels & Resorts

₹ crore	FY20E			FY21E			FY22E
	Old	New	Change (%)	Old	New	Change (%)	(Introduced)
Sales	339	312	-8%	366	257	-30%	290
EBITDA	87	73	-16%	96	49	-49%	66
PAT	39	24	-38%	49	5	-90%	25

Source: ICICI Direct Research, Company

TajGVK is one of the most profitable company, along with a lean balance sheet. However prioritizing balance sheet concerns, we remain wary of the highly levered promoter group, which is a cause for concern.

Exhibit 4: Lemon Tree Hotels

₹ crore	FY20E			FY21E			FY22E
	Old	New	Change (%)	Old	New	Change (%)	(Introduced)
Sales	718	624	-13%	897	601	-33%	763
EBITDA	275	222	-19%	353	170	-52%	298
PAT	36	-4	N.A	88	-58	N.A	36

Source: ICICI Direct Research, Company

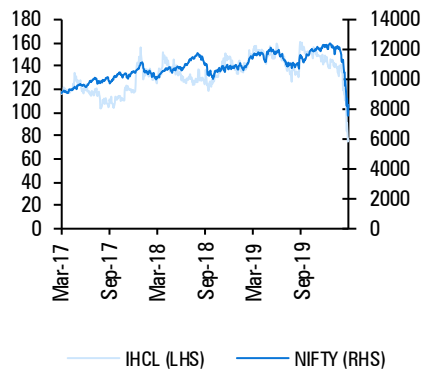
Lemon Tree's future was very much linked to the ramping up of new hotels as the company sits on significant debt. Prolonged disruption in tourism, could lead to the balance sheet problem further worsening the P&L situation.

Exhibit 5: ICICI Direct Coverage Universe (Hotels)

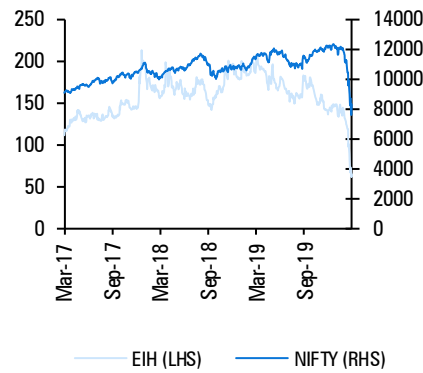
Sector/Company	CMP			M Cap	EPS			P/E (X)			EV/EBITDA			ROCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Indian Hotel (INDHOT)	76	84	HOLD	8985	2.4	2.4	0.4	31	24	213	13	12	17	7.1	7.4	3.8	6.6	8.7	1.0
EIH (EIH)	65	90	BUY	3701	3.4	2.7	0.3	25	24	249	10	12	22	9.2	6.9	2.1	6.4	5.0	0.5
TajGVK Hotels(TAJGVK)	93	105	HOLD	583	4.3	3.9	0.8	21	24	117	10	10	16	9.7	9.0	4.6	6.9	6.3	1.3
Lemon Tree Hotels (LEMTRE)	22	25	HOLD	1731	0.7	0.0	-0.7	31	NM	NM	17	15	20	5.5	5.4	2.4	6.7	-0.4	-7.2

Source: Company, ICICI Direct Research

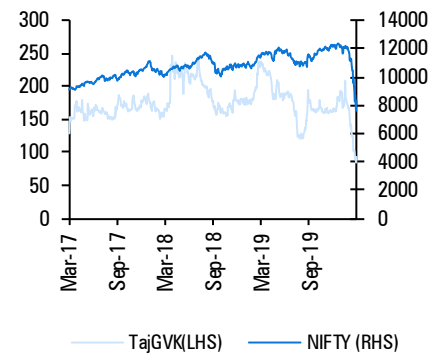
Indian Hotels



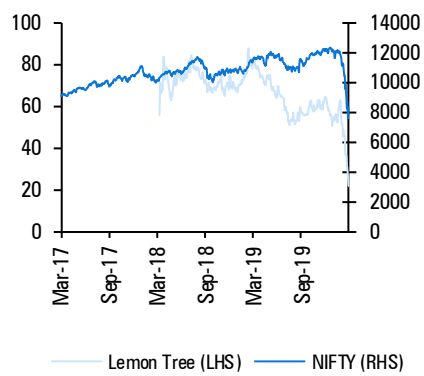
EIH Limited



TajGVK hotels & Resorts



Lemon Tree Hotels



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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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