Hotels

Company	Mcap (Rs bn)	CMP (Rs)	TP/FV (Rs)	Rating
Indian Hotels	148.6	120	150	BUY
Lemon Tree	52.6	68	86	BUY
EIH Ltd*	85.1	141	156	NA
EIH Associated*	9.3	307	313	NA
TajGVK*	10.2	159	205	NA

*Fair Value

Absolute Return (%)

Company	3M	6M	12M
Indian Hotels	-1.8	-8.7	14.5
Lemon Tree	-7.1	na	na
EIH Ltd.	-8.8	-10.7	10.2
EIH Associated	-25.5	-38.6	-17.9
TajGVK	-25.8	-3.5	-12.0
AH East	-5.3	-11.3	-7.1
AH West	-8.8	6.2	69.5
AH North	-25.8	-39.4	52.3

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Make hay while the sun shines

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% in FY16-18 vs. 59% over FY09-15. 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 FY19-21. Hotels being a high operating leverage business, margins are thus expected to improve significantly. (b) Improvising 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 issue etc.

We believe that the industry leaders like Indian Hotels (IHCL) in luxury segment (five star and above) and Lemon Tree (LTHL) in mid-market segment (2-star to 4-star) with their superior execution capabilities are best placed. Initiate BUY on Indian Hotels with TP of Rs 150 @ 20x Sep-20E EV/EBITDA in-line with its historical average and Lemon Tree with TP of Rs 86 @ 30x Sep-20E EV/EBITDA owing to its superior growth.

Key risks to our thesis include (a) increase in competition as the industry revives (b) reluctance from hoteliers to raise rates (c) downgrading by customers and (d) higher ARR and tax incidences may divert domestic leisure and MICE demand overseas. Poor infrastructure may accentuate this as travel numbers are burgeoning, but airport/highway capacities are coming under pressure.

- **Cyclical upswing - levers lining up:** Indian hospitality industry is at the cusp of an up-cycle that has just begun. Demand-supply imbalance starting from global financial crisis and economic slowdown led to reluctance to raise rates commensurate with adequate ROCE. This trend has, however begun to change. With the changing dynamics and improved occupancies, ARRs are expected to improve significantly in the medium term (next 2-3 years).

- **Consumption shift from B2B to B2C:** Traditionally, large corporate (50%) has been one of the major demand drivers with strong bargaining powers followed by SMEs (35%) and Individuals (15%) for branded hotels. However, contribution from the millennials has been on rise. This is owing to greater affordability, changing attitudes, improved connectivity and increasing number of short stay vacations. This shift in consumer mix is positive.
- **Shift in business to asset light approach:** The hotel business has three major parts (a) development (b) owning and (c) managing and branding of hotels. Managing and branding of hotels is an asset light model providing highest ROCE followed by developing the hotels as it involves high risks including the gestation period. As dominant players showcased capability to run hotel chains with success, room keys are increasingly getting concentrated amongst them. This is positive as it increases brand visibility, pricing power and is attracting more keys and faster stabilization.

Contents

Room penetration in India is lowest

Increasing purchasing power is reducing the gap between the lean and peak seasons in occupancies

Guests are increasingly seeking to use hotels in preference to the earlier practice of staying with family

Delhi gets bulk of diplomatic travel demands followed by Mumbai

Short stay vacations phenomenon including those taken on weekends and extended weekends are on rise

Industry overview

Industry at an inflection point

- The Indian hotel market is comparatively under-penetrated to global peers

Region	Supply of Hotel Rooms (in mn)	Population (in mn)	Penetration (Rooms/1,000 people)
World	16.2	7,349	2.2
USA	5.0	321	15.7
China	3.8	1,379	2.7
India	0.2	1,211	0.2

Source: Lemon Tree, STR; STR census inventory as at December 2016

- However, we believe this is likely to change with improving fundamentals on the back of growth in domestic travel, which is expected to continue to rise with increasing urbanisation, higher disposable incomes and changing aspirations of the consuming Indian middle class. The rising purchasing power has aided the exponential growth of domestic tourism, and helped in narrowing the gap between lean and peak seasons.

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.
- **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.

- **Airlines and airline crew:** This segment helps create an occupancy base, albeit at a significantly discounted price. Crew demand could arise from international or domestic carriers. While major international airlines will use luxury hotels, price sensitive airlines are open to using upper-midscale hotels. This demand is relatively nominal and mainly takes place for airport hotels.

Indian Hospitality industry has witnessed four major cycles

Cycles in Hotel Industry

Phases	CAGR					
	Period	Room Supply	Occupancy	Room demand	ARR	RevPAR
Phase I	FY96-02	6.9%	-3.9%	3.1%	-1.2%	-5.1%
Phase II	FY02-08	7.6%	4.9%	12.5%	14.9%	20.6%
Phase III	FY08-13	16.7%	-3.4%	13.3%	-6.3%	-9.5%
Phase IV	FY13-17	6.7%	2.6%	9.3%	-0.4%	2.1%

Source: HVS, HDFC sec Inst Research

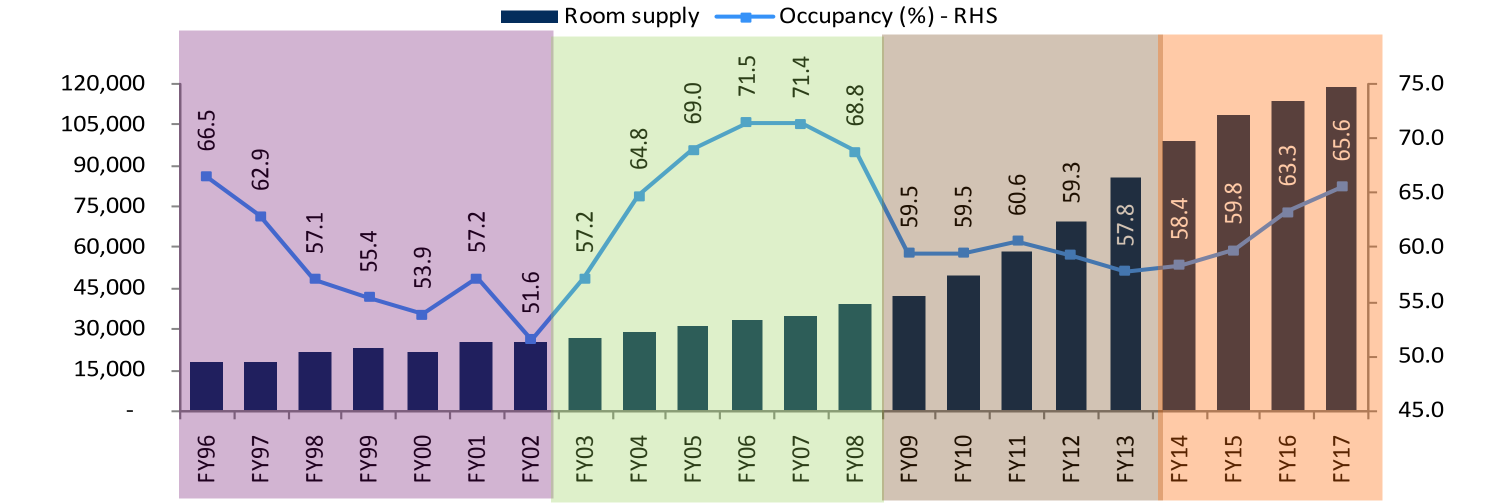
Decline in occupancies in early 2000 owing to IT bubble

Occupancy on an uptick for sixth year in a row, though still below the highs of global financial crisis

Robust demand growth and low interest rates over FY03-08 led to increase in new hotel developments (2-7 years gestation)….

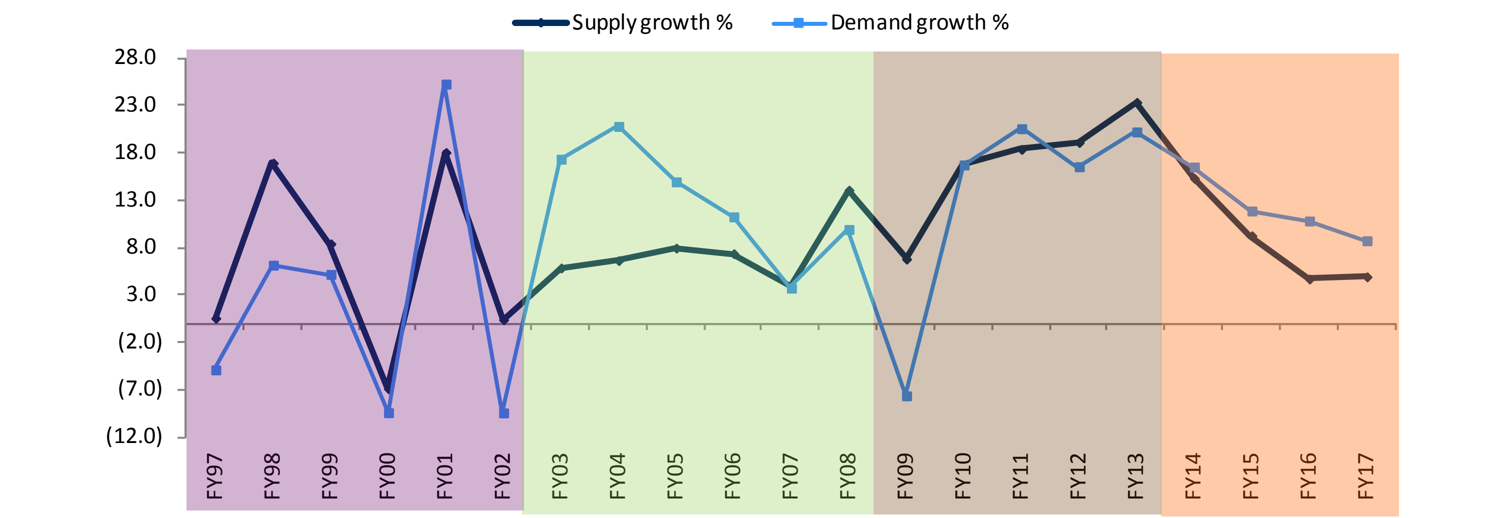
…..consequent increased supply over FY08-13 coupled with global and economic slowdown in India led to slump in demand

Room supply and Occupancy trend (%)



Source : HVS, HDFC sec Inst Research

Room supply and demand growth trend YoY (%)



Source : HVS, HDFC sec Inst Research

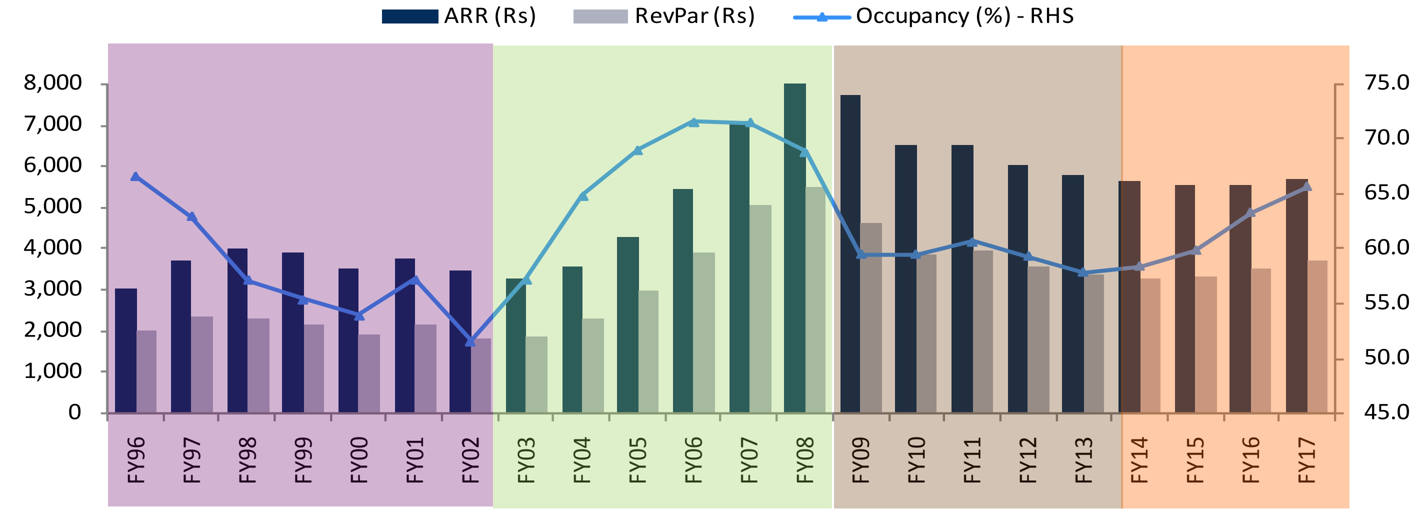
Higher the occupancies, higher the ARR and its growth but with lag

However, RevPAR growth in FY13-17 has been largely led by occupancies while ARR has been on broadly flat

Led by robust demand, healthy increase in ARR remains probable

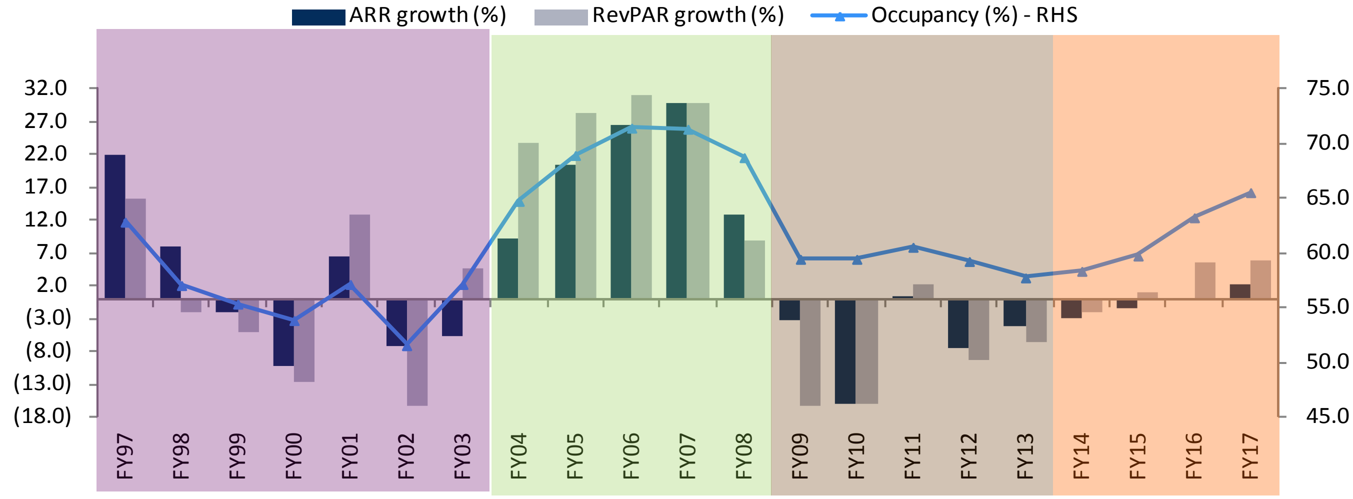
The occupancy ratios of hotels are yet to reach the peak levels seen in FY08. Increasing ARR would lead to massive operating leverage, and the incremental benefit would directly flow into the bottom line

ARR, RevPAR and Occupancy (%)



Source : HVS, HDFC sec Inst Research

YoY growth in ARR, RevPAR and Occupancy (%)



Source : HVS, HDFC sec Inst Research

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.
- Table below shows the existing supply for the 13 major cities in FY10 and FY17 and the upcoming inventory over next five years.

	Room Supply											ARR			Occupancy		
	FY10	FY17	CAGR (FY10-17)	Proposed Supply*	Increase in Supply (%)	Active Development of Supply	Luxury	Upscale	Mid Market	Budget	Extended Stay	FY10	FY17	CAGR (FY10-17)	FY10	FY17	CAGR (FY10-17)
Agra	1,439	2,092	5%	754	36%	34%	33.2%	39.4%	13.3%	14.2%	0.0%	5,773	5,541	-0.6%	55.9%	61.2%	1.3%
Ahmedabad	1,521	3,117	11%	1,345	43%	47%	22.8%	14.9%	37.6%	11.3%	13.4%	4,540	3,840	-2.4%	58.2%	62.3%	1.0%
Bengaluru	5,597	11,995	12%	4,418	37%	72%	11.7%	30.3%	22.5%	23.2%	12.3%	6,597	5,596	-2.3%	53.2%	65.9%	3.1%
Chennai	3,806	8,332	12%	1,767	21%	94%	0.0%	6.6%	47.0%	31.1%	15.2%	5,710	4,785	-2.5%	62.1%	65.4%	0.7%
New Delhi	8,129	14,296	8%	1,715	12%	62%	12.7%	14.4%	38.8%	25.6%	8.5%	8,834	6,332	-4.6%	68.3%	70.3%	0.4%
Gurugram	1,980	5,263	15%	1,743	33%	23%	0.0%	32.5%	29.4%	18.9%	19.2%	8,247	6,404	-3.5%	66.0%	66.6%	0.1%
Noida	300	1,422	25%	1,043	73%	18%	24.4%	12.5%	35.7%	9.2%	18.2%	7,496	5,484	-4.4%	74.0%	56.9%	-3.7%
Goa	3,288	6,400	10%	2,870	45%	48%	5.2%	28.6%	45.8%	20.4%	0.0%	5,613	7,534	4.3%	65.1%	72.3%	1.5%
Hyderabad	3,782	6,254	7%	1,475	24%	89%	30.2%	0.0%	27.8%	30.0%	12.0%	5,146	4,927	-0.6%	53.3%	63.6%	2.6%
Jaipur	2,472	5,058	11%	1,713	34%	51%	0.0%	55.3%	44.7%	0.0%	0.0%	4,539	4,835	0.9%	57.3%	65.0%	1.8%
Kolkata	1,520	3,199	11%	2,194	69%	64%	22.3%	33.7%	16.0%	27.9%	0.0%	6,087	5,818	-0.6%	67.5%	70.2%	0.6%
Mumbai	9,877	13,494	5%	3,680	27%	37%	25.8%	1.1%	46.9%	26.2%	0.0%	8,428	7,693	-1.3%	62.5%	74.2%	2.5%
Pune	2,672	6,445	13%	1,308	20%	47%	15.1%	41.3%	17.2%	26.4%	0.0%	5,810	4,147	-4.7%	50.9%	65.2%	3.6%
Other Cities**	15,412	31,852	11%	21,042	66%	75%	1.2%	14.3%	56.9%	25.3%	2.2%						
TOTAL	**61,795**	**119,219**	**10%**	**47,067**	**39%**	**64%**	**8.5%**	**19.1%**	**44.1%**	**23.3%**	**4.9%**						

Source : HVS, HDFC sec Inst Research * Proposed Supply includes 5,197 rooms which have been open for less than six months, and therefore, not included in the existing supply ** Other Cities includes all other hotel markets across India

70% of the incremental supply is expected in the budget and mid-market segment

Mumbai, Delhi and Goa are the best performing markets in India

- In India, demand is not a problem. While the branded supply has more than doubled from FY10 to FY17 (5x since FY03), the growth in demand has kept pace with (if not overtaken) the growth in supply. This strengthens our belief that there is still unaccommodated demand, at least in Tier II and Tier III Indian cities, which is currently being tapped by the unbranded/unorganized inventory.
- Going forward, brands must be cognizant of the markets they are entering. 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.

The Indian hospitality sector has woken up after a long and, it is now time to get the cash registers ringing

Hotel demand in India sustained during the challenging times of demonetisation and GST

Indian Hospitality sector is on the path to recovery: Ready, steady, go!

- UDAN (Ude Desh Ka Aam Nagrik) will open up many markets; domestic mid-tier brands particularly stand to gain. UDAN is a Regional Connectivity Scheme launched by the government that aims to provide opportunity to unserved / underserved. Besides this government has launched many schemes like 'Swachh Bharat', 'Smart City projects', 'Visa-on-arrival' etc that may drive tourism. All this should go long way in improving the demand dynamics.

Time to get the cash registers ringing

- While a series of factors had repressed the hotel sector's growth from FY09-15, there is sufficient evidence that the next up-cycle is in the offing. FY17 & FY18 played witness to a year that has been positive on both occupancies and ARR.
- Hotel markets have started indicating signs of sustained growth, thereby paving the way to an eventual recovery. This growth is attributed to a moderation in the development and opening of new hotels, complemented with stronger than average demand.
- It is also encouraging to see that the performance of all major hotel markets in India saw an increase or held stable during the very challenging times for the sector (viz. demonetization and GST).
- Nationwide occupancy was the highest since 2008 downturn, countrywide average room rates clocked a clear and measurable increase over preceding years and the demand is outpacing supply.
- <u>Though the increase in ARR was expected to occur, the degree to which rates have grown continues to be marginal</u>. Sector has been unable to move the needle on the ARR front. India has some of the finest hotels – both in business as well as leisure destinations; their inability to earn a net room rate that is commensurate to their product and service offering is unfortunate.
- **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.
- **We believe the industry leaders like Indian Hotels (IHCL) in luxury segment (five star and above) and Lemon Tree (LTHL) in mid-market segment (2-star to 4-star) with their superior execution capabilities are best placed. Initiate BUY on Indian Hotels with TP of Rs 154 @ 21x Sep-20E EV/EBITDA and Lemon Tree with TP of Rs 86 @ 30x Sep-20E EV/EBITDA.**

Valuation Summary

	CMP (Rs)	TP/FV (Rs)	Rating	Mcap (Rs Bn)	Net Debt (Rs Bn)			EV/EBITDA (x)			Net Debt/EBITDA (x)			ROCE (%)		
					FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Lemon Tree	68	86	BUY	52.6	9.8	12.2	13.9	45.9	35.4	27.8	7.2	6.7	5.8	3.1	3.3	3.7
Indian Hotels	120	150	BUY	148.6	20.8	19.0	15.8	27.1	22.1	18.5	3.3	2.5	1.8	3.7	4.6	5.5
EIH*	141	156	NA	85.1	2.8	2.3	1.5	29.4	24.9	21.8	0.9	0.7	0.4	3.5	3.8	4.6
EIH Associated*	307	313	NA	9.3	(0.4)	(0.7)	(0.7)	13.1	11.6	11.6	(0.6)	(1.0)	(0.9)	10.8	11.2	10.3
Taj GVK*	159	205	NA	10.2	2.1	2.0	1.9	17.2	16.8	15.0	3.0	2.8	2.3	7.3	6.7	7.5

Source: Company, HDFC sec Inst Research * Fair Value

Key Financial Highlights

	Revenue (Rs Mn)			EBITDA (Rs Mn)			EBITDA Margin (%)			EBITDA/Avg Cap Employed (%)		
	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Lemon Tree	4.8	5.8	7.1	1.4	1.8	2.4	28.1	31.7	33.7	9.3	10.2	10.8
Indian Hotels	40.6	44.1	47.5	6.3	7.6	8.9	15.4	17.2	18.7	12.6	13.1	14.0
EIH	16.0	18.5	19.7	3.0	3.5	4.0	18.7	19.0	20.3	8.9	10.0	11.1
EIH Associated	2.6	2.7	2.7	0.7	0.7	0.7	25.6	27.3	28.1	21.1	21.2	19.8
Taj GVK	2.9	2.9	3.1	0.7	0.7	0.8	24.8	25.0	26.0	14.7	15.0	16.1

Source: Company, HDFC sec Inst Research

Peer Set Comparison: Historic key financials

	Revenue (Rs Mn)			EBITDA (Rs Mn)			EBITDA Margin (%)			EBITDA/Avg CE (%)			Net Debt (Rs Bn)			Net Debt/EBITDA (x)		
	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18
Lemon Tree	3.7	4.1	4.8	1.0	1.2	1.4	27.5	28.3	28.1	7.8	8.6	9.3	6.1	7.8	9.8	6.0	6.7	7.2
Indian Hotels	40.2	40.2	40.6	5.5	6.1	6.3	13.7	15.2	15.4	9.9	12.1	12.6	45.0	34.6	20.8	8.2	5.7	3.3
EIH	16.6	15.3	16.0	3.4	2.6	3.0	20.8	17.1	18.7	10.5	8.2	8.9	1.5	1.8	2.8	0.4	0.7	0.9
EIH Associated	2.5	2.6	2.6	0.7	0.7	0.7	29.7	27.7	25.6	24.6	24.6	21.3	0.3	(0.3)	(0.4)	0.4	(0.4)	(0.6)
Taj GVK	2.7	2.6	2.9	0.6	0.6	0.7	23.3	21.9	24.8	12.7	11.7	14.7	2.7	2.5	2.1	4.3	4.3	3.0
AH East	1.9	2.0	1.9	0.5	0.4	0.4	24.7	22.1	20.4	5.3	5.0	4.7	1.0	0.9	0.7	2.1	2.1	1.9
AH West	3.2	3.6	3.9	0.8	1.1	1.2	24.9	29.7	31.2	7.4	10.2	11.6	8.5	8.6	8.2	10.6	8.0	6.7
AH North	2.4	2.5	2.7	0.7	0.8	0.8	28.9	32.3	30.4	5.4	6.2	6.6	11.2	11.5	11.4	16.0	14.2	13.6
Leela	6.6	7.0	7.2	1.5	1.7	1.9	23.2	25.1	27.0	3.3	3.9	4.5	43.0	41.4	37.6	28.1	23.7	19.3
ITC	13.1	13.3	14.0	2.4	2.8	3.1	18.6	21.1	22.2	4.7	5.3	5.5	-	-	-	-	-	-
Chalet	5.8	7.4	8.9	1.4	2.4	3.2	24.2	33.0	35.3	5.4	6.2	6.6	23.3	26.1	27.0	16.5	10.7	8.5
Total	**98.7**	**100.6**	**105.6**	**18.7**	**20.5**	**22.7**	**18.9**	**20.4**	**21.4**	**9.9**	**10.7**	**11.5**	**142.5**	**135.0**	**119.9**	**7.6**	**6.6**	**5.3**

Source: Company, HDFC sec Inst Research

Global Peers

	CMP (USD)	Mcap (USD Bn)	Net Debt (USD Bn)			Revenue (USD Bn)			EBITDA (USD Bn)			EBITDA Margin (%)			EV/EBITDA (x)			Net Debt/EBITDA (x)		
			CY17	CY18E	CY19E	CY17	CY18E	CY19E	CY17	CY18E	CY19E	CY17	CY18E	CY19E	CY17	CY18E	CY19E	CY17	CY18E	CY19E
Marriott International	122.2	42.7	7.9	8.9	9.6	22.9	21.3	22.4	2.8	3.5	3.8	12.2	16.2	16.8	21.4	14.8	13.5	2.8	2.6	2.5
Hilton Inc	75.4	22.5	6.0	6.9	7.2	9.1	9.1	9.9	1.7	2.1	2.2	19.1	22.7	21.9	18.3	14.2	13.6	3.4	3.3	3.3
InterContinental	75.9	11.4	1.8	2.0	1.8	1.8	1.9	2.0	0.9	0.9	1.0	52.2	48.4	49.9	16.7	14.6	13.4	2.0	2.2	1.9
Wyndham Worldwide	52.7	4.0	3.8	2.6	2.5	5.1	4.0	4.2	1.2	1.0	1.0	24.3	24.2	24.2	16.6	7.1	6.7	3.1	2.7	2.5
Hyatt Hotels Corporation	76.0	8.6	0.9	0.7	0.8	4.7	4.5	4.7	0.7	0.8	0.8	14.9	17.2	17.3	13.8	11.4	10.8	1.3	0.9	1.0
Accor Hotels Group	42.0*	14.0	2.3	(0.2)	0.1	2.2	3.8	4.3	0.8	0.8	1.0	34.4	21.7	22.3	28.3	16.2	13.8	3.0	(0.3)	0.1
Choice Hotels	79.5	4.4	0.5	0.7	0.6	1.0	1.1	1.2	0.3	0.3	0.4	27.8	30.6	31.0	17.5	14.7	14.5	1.8	2.0	1.6
Total		**107.7**	**23.2**	**21.5**	**22.6**	**46.8**	**45.6**	**48.6**	**8.5**	**9.3**	**10.1**	**18.1**	**20.4**	**20.7**	**15.5**	**13.9**	**12.9**	**2.7**	**2.3**	**2.2**

Source: Bloomberg, HDFC sec Inst Research * price in EUR

Hotel Companies: EBITDA/room and EV/room as of FY18

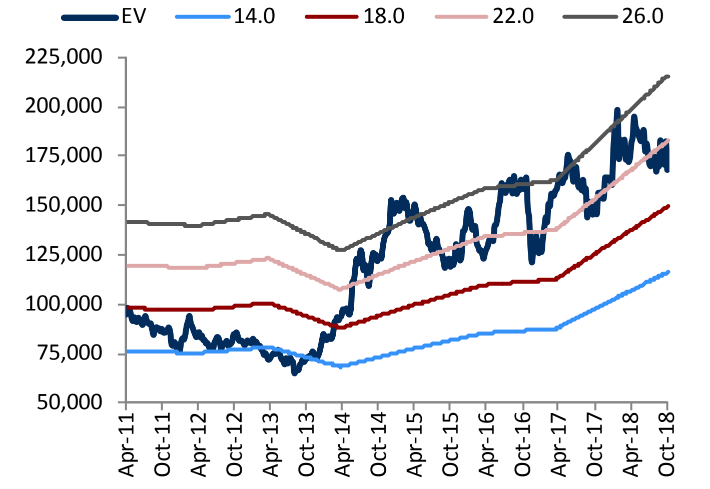
	No of Keys	TRevPAR (Rs)	Revenue (Rs bn)	EBITDA (Rs bn)	EBITDA Margin %	EBITDA/ Room (Rs Mn)	EV/ Room (Rs Mn)
Standalone							
IHCL	4,357	16,065	25.4	5.8	23.0	1.35	38.4
EIH*	2,018	20,569	13.5	2.2	16.2	1.22	44.0
EIH Associated	867	8,327	2.6	0.7	25.6	0.78	10.5
Taj GVK	1,083	7,293	2.9	0.7	24.8	0.66	11.7
Lemon Tree	1,765	3,587	2.3	0.7	29.4	0.39	31.2
Leela	1,408	13,982	7.2	1.9	27.0	1.38	32.9
AH** East	233	12,010	1.0	0.2	18.2	0.80	9.5
AH** West	408	9,423	1.4	0.3	22.4	0.77	12.9
AH** North	507	14,830	2.7	0.8	30.8	1.67	24.7
Consolidated							
IHCL	9,599	11,584	40.6	6.3	15.4	0.65	17.9
EIH	2,230	21,787	16.0	3.0	18.7	1.49	39.2
Lemon Tree	3,277	4,185	4.8	1.4	28.1	0.43	19.8
AH East	558	9,310	1.9	0.4	20.4	0.69	6.2
AH West	931	11,514	3.9	1.2	31.2	1.31	12.5
AH North	507	14,830	2.7	0.8	30.4	1.65	29.7

Source: HDFC sec Inst Research * For EIH TRevPAR we have excluded Oberoi Delhi on account of it being under renovation in FY18; ** AH is Asian Hotels

Most of the hotel companies have already seen one-round of re-rating post FY13-14 followed by recent correction

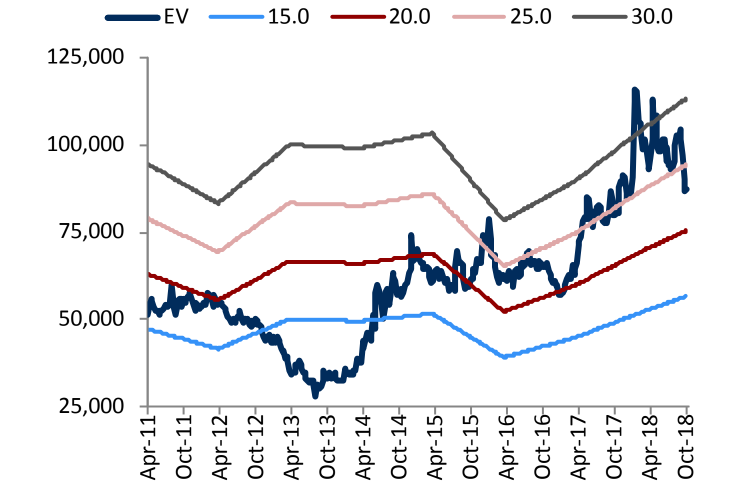
Operating performance of 2HFY19 would hold the key for sustained performance

IHCL: 1yr fwd EV/EBITDA



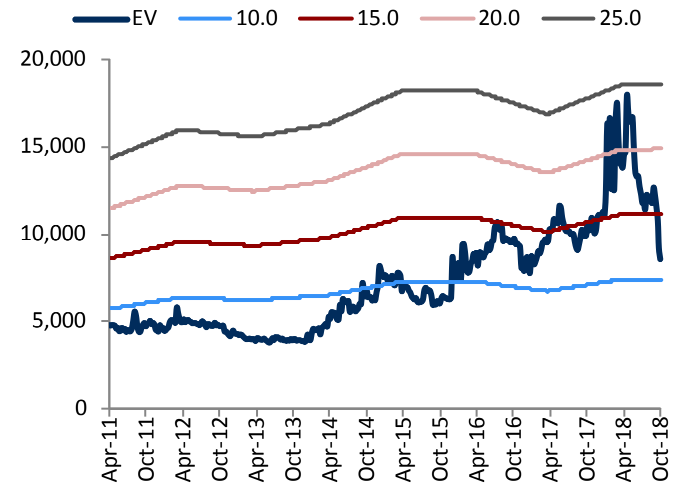
Source: Bloomberg, Company, HDFC sec Inst Research

EIH: 1yr fwd EV/EBITDA



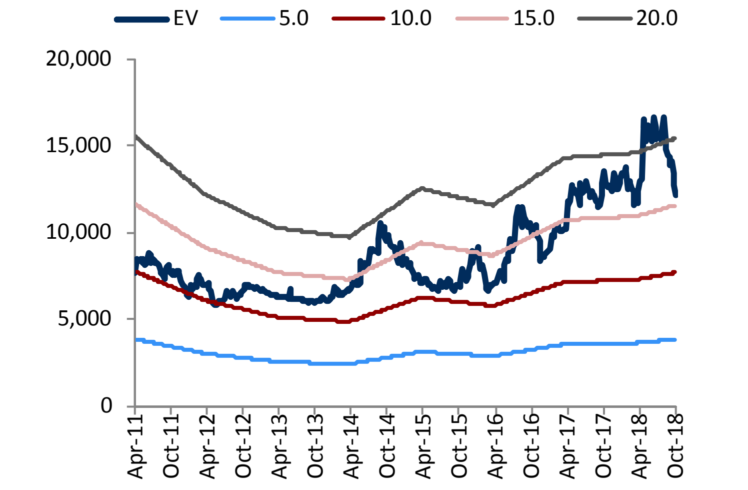
Source: Bloomberg, Company, HDFC sec Inst Research

EIH Associated: 1yr fwd EV/EBITDA



Source: Bloomberg, Company, HDFC sec Inst Research

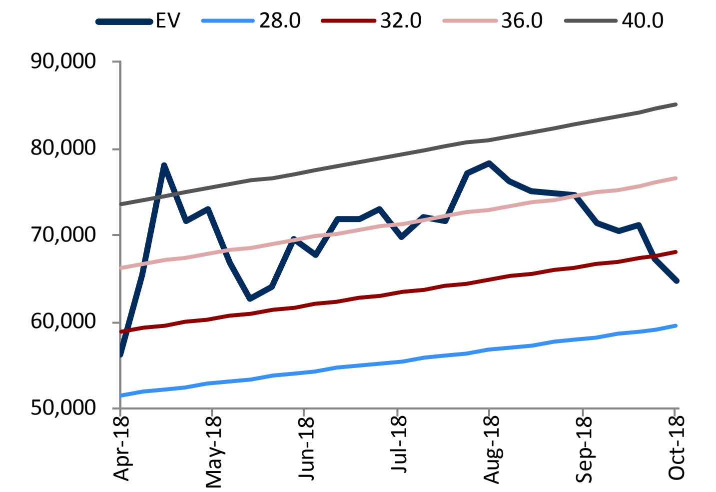
TajGVK: 1yr fwd EV/EBITDA



Source: Bloomberg, Company, HDFC sec Inst Research

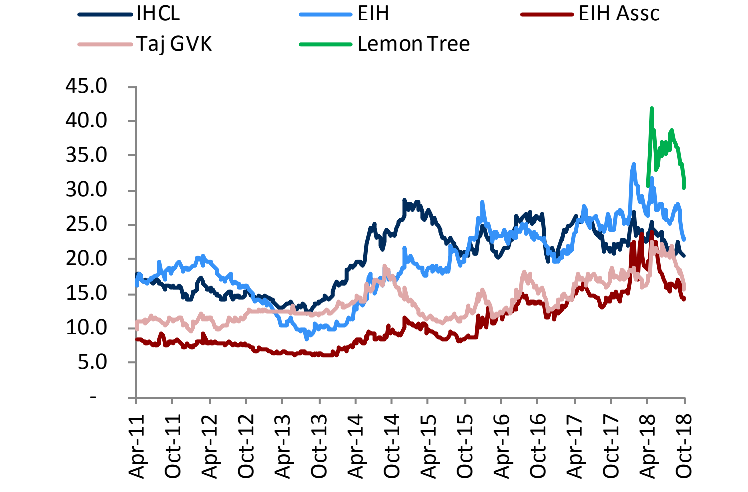
Lemon Tree trades at industry leading multiple owing to asset-ownership and strong execution reflected in industry leading growth

Lemon Tree: 1yr fwd EV/EBITDA



Source: Bloomberg, Company, HDFC sec Inst Research

1yr fwd EV/EBITDA trend



Source: Bloomberg, Company, HDFC sec Inst Research

Indian Hotels Company

BUY

INDUSTRY	HOTELS
CMP *(as on 08 Oct 2018)*	**Rs 120**
Target Price	**Rs 150**
Nifty	10,348
Sensex	34,474
KEY STOCK DATA	
Bloomberg	IH IN
No. of Shares (mn)	1,189
MCap (Rs bn) / ($ mn)	141/1,910
6m avg traded value (Rs mn)	188

STOCK PERFORMANCE (%)

52 Week high / low: Rs 161/103

	3M	6M	12M
Absolute (%)	(6.7)	(13.6)	10.4
Relative (%)	(2.7)	(15.6)	2.1

SHAREHOLDING PATTERN (%)

Promoters	39.1
FIs & Local MFs	25.0
FPIs	15.5
Public & Others	20.4

Source : BSE

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Well-poised, growth to rebound

Indian Hotels (IHCL) has performed poorly in the trailing decade due to a cyclical down-turn and ambitious acquisitions during 2007-09. However, legacy balance sheet issues are behind with equity issuance of Rs 10bn in FY15 & Rs 15bn in FY18 and sale of assets worth Rs 15bn in FY15-17. Consolidated net debt has reduced from Rs 46bn in FY14 to Rs 20bn as of FY18 end.

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. Management intends to increase its consolidated EBITDA margin to 25% by FY22/23 from 15% in FY18. This in our opinion is achievable but a daunting task.

We like IHCL owing to its strong brand equity, pan India footprint and leadership in luxury segment (~20% market share, 10% in standalone), healthy EBITDA/Capital Employed (30% in standalone) and significant scope for performance improvement in subsidiary companies. Asset light strategy for expansions and monetization of non-core assets are additional positives. BUY with TP of Rs 150 @ 20x Sep20E EV/EBITDA (25% upside) in-line with its past average.

- **Standalone business – on strong footing:** IHCL's standalone business comprises of 4,357 keys of owned rooms (25% of total) and accounts for bulk of the profitability and cash flows. With major of the renovations behind (except Taj Mansingh), favorable demand supply outlook; we expect the performance to remain healthy. IHCL's standalone EBITDA after declining over FY12-15 grew by a healthy 17% CAGR over FY15-18. We estimate EBITDA growth of 14% over FY18-21E.
- **Taj Mansingh-Winners Curse:** Retention of Taj Mansingh, Delhi at aggressive revenue share of 32.5% is financially negative but sentimentally positive as uncertainty recedes. Loss of Mansingh would have lead to market share, revenue and EBITDA loss besides one-time loss of fixed assets.
- **Subsidiary investments drags performance:** In FY18, subsidiaries accounted for 37% of revenues but a meager 6% of EBITDA. Repositioning of budget hotel chain Ginger in high growth mid-market segment, better costs management and asset light expansion strategy through management contracts are key triggers. Management aspires to improve the Consolidated EBITDA margin from 15.4% in FY18 to 25% in FY22/23E. Subsidiaries performance improvement would be key driving factor.
- **Key risk:** Lower than expected occupancies and/or ARR growth, downgrading by customers as smaller hotel chains in mid-market segment improves their offering and increased competitive intensity are key risk.

Consolidated Financial Summary

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	40,206	40,587	44,081	47,528	50,908
EBITDA	6,096	6,255	7,570	8,874	10,008
APAT	-524	336	2,075	3,060	4,089
Diluted EPS (Rs)	(0.5)	0.3	1.7	2.6	3.4
P/E (x)	(234.2)	439.3	71.1	48.2	36.1
EV / EBITDA (x)	29.9	26.9	22.0	18.4	15.9
RoE (%)	(2.1)	1.0	4.8	6.7	8.3

Source: Company, HDFC sec Inst Research

Standalone business contributes bulk of the profitability and cash flows

Roots Corportation comprises of IHCL's econmomy brand 'Ginger (1 and 2-star properties)' operations

Oriental Hotel recently sold its Gateway Visakhapatnam property to Varun group for ~Rs 1.2bn. It had ~95 keys.

Company Overview: Key operating entities and number of hotel/keys

	Holding %	Owned		Managed		Total	
		No of Hotels	No of Keys	No of Hotels	No of Keys	No of Hotels	No of Keys
Standalone		**25**	**4,357**	**30**	**3,733**	**55**	**8,090**
- Domestic		25	4,357	24	2,603	49	6,960
- International		-	-	6	1,130	6	1,130
Domestic Subsidiaries		**44**	**4,520**	**9**	**584**	**53**	**5,104**
- Roots Corporation	63.3	33	3,179	9	584	42	3,763
- Benares Hotels Ltd*	51.7	3	174	-	-	3	174
- Piem Hotels	51.6	7	1,079	-	-	7	1,079
- United Hotels	55.0	1	88	-	-	1	88
International Subsidiaries		**4**	**722**	**-**	**-**	**4**	**722**
- United Overseas Holding Inc**	100.0	2	299	-	-	2	299
- St James Court Hotels Ltd***	72.3	2	423	-	-	2	423
Consolidated excl JV/Associates		**73**	**9,599**	**39**	**4,317**	**112**	**13,916**
Joint Venture		**18**	**1,680**	**1**	**29**	**19**	**1,709**
- Taj GVK Hotels & Resorts*		6	1,083	-	-	6	1,083
- Taj Kerala Hotels & Resorts		3	166	-	-	3	166
- Kaveri Retreats & Resorts		1	63	-	-	1	63
- Taj Karnataka Hotels & Resorts		1	29	-	-	1	29
- Taj Safaris		4	54	1	29	5	83
- IHMS Pty Ltd (South Africa)		1	159	-	-	1	159
- Taj Maldives (Maldives)		2	126	-	-	2	126
Associates		**11**	**1,518**	**-**	**-**	**11**	**1,518**
- Oriental Hotels Limited*		9	1,058	-	-	9	1,058
- Taj Lanka Hotels Plc****		1	300	-	-	1	300
- Lanka Island Resorts****		1	160	-	-	1	160
Joint Venture + Associates		**29**	**3,198**	**1**	**29**	**30**	**3,227**
Consolidated incl JV/Associates		**102**	**12,797**	**40**	**4,346**	**142**	**17,143**
Geography Wise Split of Properties incl JV/Associates							
- Domestic		93	11,330	34	3,216	127	14,546
- International		9	1,467	6	1,130	15	2,597
Total		**102**	**12,797**	**40**	**4,346**	**142**	**17,143**

Source: Company, HDFC sec Inst Research * Listed entities ** US based subsidiary with property in San Francisco and New York *** UK based subsidiary with properties in London **** Srilanka based properties

IHCL's current portfolio is a mix of 75% Owned/leased properties vs. 25% Managed. Management aspires to have a 50:50 mix

Traditionally IHCL has been a asset-heavy company with ownership of properties either directly or through subsidiaries/JVs

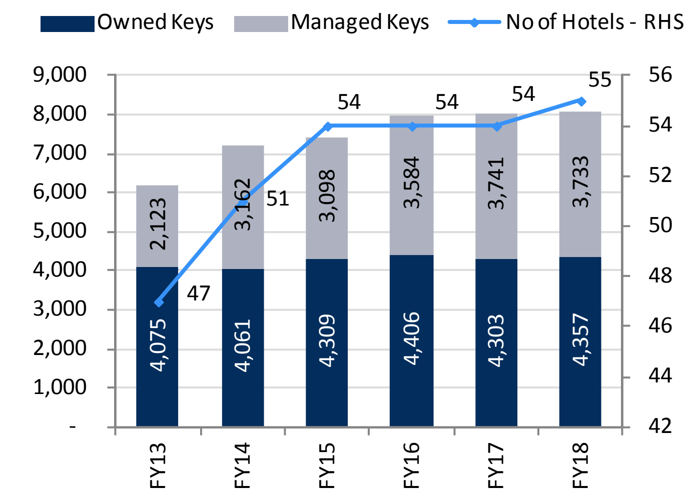
However IHCL going forward primarily intents to expand in an asset-light manner through management contracts

IHCL: No of Keys break-up

	Domestic			International			Total		
	Owned	Managed	Total	Owned	Managed	Total	Owned	Managed	Total
Standalone	4,357	2,603	6,960	-	1,130	1,130	4,357	3,733	8,090
Subsidiaries	4,520	584	5,104	722	-	722	5,242	584	5,826
JV/Associates	2,453	29	2,482	745		745	3,198	29	3,227
Total	**11,330**	**3,216**	**14,546**	**1,467**	**1,130**	**2,597**	**12,797**	**4,346**	**17,143**
Mix of Keys									
Standalone	25.4%	15.2%	40.6%	0.0%	6.6%	6.6%	25.4%	21.8%	47.2%
Subsidiaries	26.4%	3.4%	29.8%	4.2%	0.0%	4.2%	30.6%	3.4%	34.0%
JV/Associates	14.3%	0.2%	14.5%	4.3%	0.0%	4.3%	18.7%	0.2%	18.8%
Total	**66.1%**	**18.8%**	**84.9%**	**8.6%**	**6.6%**	**15.1%**	**74.6%**	**25.4%**	**100.0%**

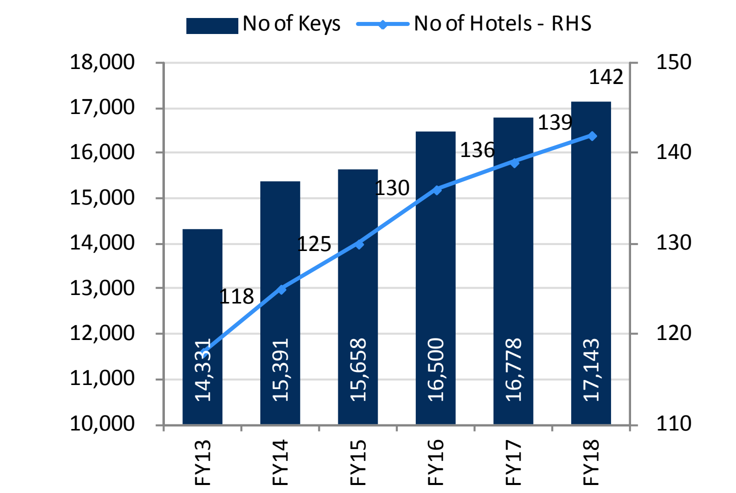
Source: HDFC sec Inst Research, Company

Standalone: Number of hotels and keys



Source: HDFC sec Inst Research, Company

Consolidated: Number of hotels and keys



Source: HDFC sec Inst Research, Company

IHCL operates bouquet of three brand across the various segments of consumers. To simplify consumer offering it is in the process of doing away with 'Gateway' brand. Instead it has launched a new brand 'SeleQtions' for select hotels

Business destinations especially Mumbai, Delhi, and Bengaluru and leisure destination Goa account for 74% of the keys in standalone business

Mumbai, Delhi and Goa are the busiest destinations

Key brands of IHCL

Brands	No of Hotels	No of Rooms	Target
Taj (Hotels | Palaces | Resorts | Safaris)	46	6,945	Luxury (5-star & above)
Vivanta (Hotels | Resorts)	27	4,041	Upper Upscale (4-star and 5-star)
Ginger (Hotels)	42	3,763	Economy (1-star & 2-star)

Source: HDFC sec Inst Research, Company

Key properties of IHCL in Standalone Entity

	No of Hotels				No of Keys				
	Taj	Vivanta	Gateway	Total	Taj	Vivanta	Gateway	Total	Keys Mix %
Business destinations									
Mumbai	3	-	-	3	1,114	-	-	1,114	25.6
Delhi	2	1	-	3	695	250	-	945	21.7
Bengaluru	1	2	1	4	117	526	98	741	17.0
Kolkata	1	-	-	1	229	-	-	229	5.3
Chennai	-	1	-	1	-	150	-	150	3.4
Hyderabad	1	-	-	1	60	-	-	60	1.4
Sub Total	**8**	**4**	**1**	**13**	**2,215**	**926**	**98**	**3,239**	**74.3**
Leisure destinations									
Goa	1	2	-	3	140	285	-	425	9.8
Guwahati	-	1	-	1	-	150	-	150	3.4
Jaipur	1	-	-	1	100	-	-	100	2.3
Jodhpur	-	1	-	1	-	93	-	93	2.1
Udaipur	1	-	-	1	83	-	-	83	1.9
Calicut	-	-	1	1	-	-	74	74	1.7
Aurangabad	-	1	-	1	-	63	-	63	1.4
Andaman	1	-	-	1	50	-	-	50	1.1
Ooty	1	-	-	1	40	-	-	40	0.9
Gwalior	1	-	-	1	40	-	-	40	0.9
Sub Total	**6**	**5**	**1**	**12**	**453**	**591**	**74**	**1,118**	**25.7**
Total	**14**	**9**	**2**	**25**	**2,668**	**1,517**	**172**	**4,357**	**100.0**

Source: HDFC sec Inst Research, Company

List of properties of IHCL in Standalone Entity

Sr No	Hotel Name	City	Brand	No of Rooms
1	Taj Mahal Palace, Mumbai	Mumbai	Taj	543
2	Taj Lands End, Mumbai	Mumbai	Taj	493
3	Taj Wellington Mews, Mumbai	Mumbai	Taj	78
4	Taj Palace, New Delhi	Delhi	Taj	403
5	The Taj Mahal Hotel, New Delhi	Delhi	Taj	292
6	Vivanta by Taj - Aurangabad, Maharashtra	Aurangabad	Vivanta by Taj	63
7	Vivanta by Taj - Yeshwantpur, Bangalore	Bangalore	Vivanta by Taj	327
8	Vivanta by Taj - Whitefield, Bangalore	Bangalore	Vivanta by Taj	199
9	Vivanta by Taj - Fort Aguada, Goa	Goa	Vivanta by Taj	143
10	Vivanta by Taj - Holiday Village, Goa	Goa	Vivanta by Taj	142
11	Taj Exotica, Goa	Goa	Taj	140
12	Taj Exotica Resort and Spa, Andamans	Andamans	Taj	50
13	Taj West End, Bangalore	Bangalore	Taj	117
14	The Gateway Hotel - Residency Road, Bangalore	Bangalore	The Gateway Hotel	98
15	The Gateway Hotel - Beach Road , Calicut	Calicut	The Gateway Hotel	74
16	Vivanta by Taj - Connemara, Chennai	Chennai	Vivanta by Taj	150
17	Vivanta by Taj - Dwarka, New Delhi	Delhi	Vivanta by Taj	250
18	Vivanta by Taj - Guwahati	Guwahati	Vivanta by Taj	150
19	Usha Kiran Palace, Gwalior	Gwalior	Taj	40
20	Taj Falaknuma Palace, Hyderabad	Hyderabad	Taj	60
21	Jai Mahal Palace, Jaipur	Jaipur	Taj	100
22	Vivanta by Taj - Hari Mahal, Jodhpur	Jodhpur	Vivanta by Taj	93
23	Taj Bengal, Kolkata	Kolkata	Taj	229
24	Hotel Savoy, Ooty	Ooty	Taj	40
25	Taj Lake Palace, Udaipur	Udaipur	Taj	83
				4,357

Source: HDFC sec Inst Research, Company

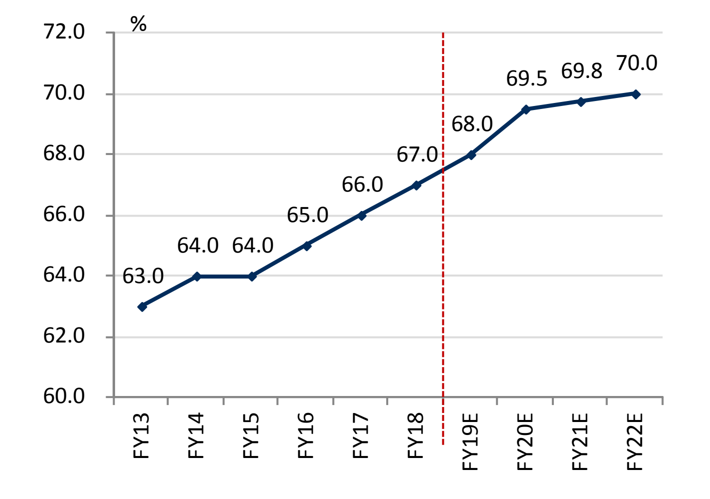
We estimate IHCL's occupancy to improve from 67% in FY18 to 70% by FY22 as it positions itself to address diverse consumer segments and price points across high growth segments

IHCL: Key growth drivers

Demand supply gap to drive ARR uptick

- IHCL's occupancy has been witnessing consistent improvement over FY13-18 from 63% to 67%. We estimate IHCL's standalone occupancy to improve from 67% in FY18 to 70% in FY22E. This would be primarily due to rising income and aspiration levels, multiple short-break as well as week-end travels and demand outpacing supply.

IHCL Occupancy %



Source: HDFC sec Inst Research, Company

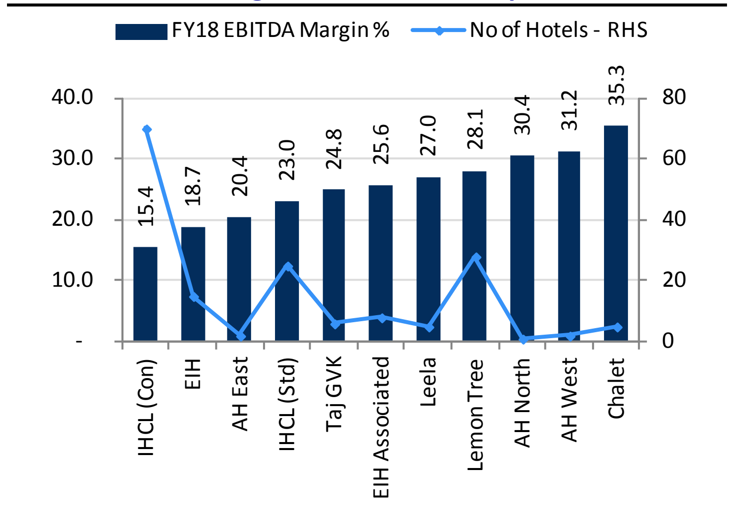
- We thus estimate the standalone revenue's to grow at 7.8% CAGR over FY18-22E (viz. similar to 7.8% over FY15-18). Possibility of higher growth led by ARR uptick is not ruled out and remains a potential upside.

EBITDA margin set to expand

- IHCL's standalone EBITDA margin after plummeting to lows of 17.7% in FY15 has recovered to 23% in FY18. This is owing to better costs management especially in Power and Fuel.

- IHCL's standalone margin though better than EIH is lower than Chalet (JW Mariott, Renaissance etc). This is despite Chalet hotels being managed by third parties. Better EBITDA margin for Chalet seems to be owing to its limited number of hotels (5) in business destinations only (Mumbai, Bengaluru and Hyderabad) vs. IHCL's broad spectrum of properties across business and leisure destinations.

FY18 EBITDA margins of IHCL and its peers



Source: HDFC sec Inst Research, Companies

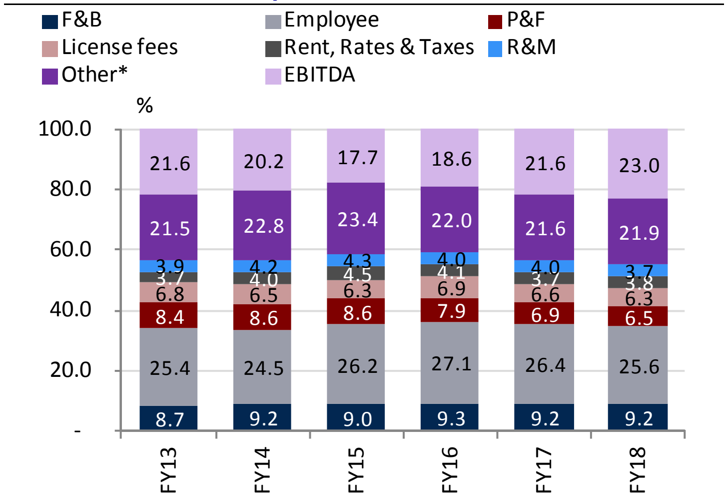
IHCL management aspire to achieve EBITDA margin of 25% led by revenue growth and costs management

We remain conservative and estimate an EBITDA margin of 21% in FY22. Ongoing renovation including that of Taj Mansingh, increase in lease rentals and historically weak financial performance of subsidiaries are key reasons for our conservative estimate.

- We foresee scope for further reduction in costs especially in Employee costs. IHCL intends to optimize overheads across multiple legal entities by simplifying structure, combining support functions as well as capitalize on scale to lower costs.

- IHCL management intends to improve its Consolidated EBITDA and net margin by 8-10% over FY19-22. We believe this is possible though are conservative in our assumptions. We estimate consolidated EBITDA margin of 21% in FY22 vs. 17% in FY18.

IHCL standalone expenses trend



Source: HDFC sec Inst Research, Company

Aspiration 2022 – Margin Expansion

Particulars	Margin Improvement
Revenue	
RevPAR Growth	
Other Operating Income	**3-4%**
Management Fee Income	
Incremental Income from New Inventory	
Costs	
Operational Payroll	
Procurements (Raw Materials, Stores & Supplies)	
Corporate Overheads	**3-5%**
Admin and General Expenses	
Fuel, Power & Light	
Asset Contract Costs	
EBITDA Margin Improvement	**8.0%**
Depreciation	1.0%
Interest	1.0%
PAT Margin Improvement	**10.0%**

Source: Company, HDFC sec Inst Research

Improvement in subsidiaries financial performance would be a major driving factor in achieving the management 'Aspirations 2022'

Snapshot of domestic subsidiaries financial performance

Rs Mn	FY16	FY17	FY18
Revenue			
- Roots	1,416	1,546	1,842
- Benares	502	496	474
- Piem	3,388	3,474	3,521
- United	360	384	403
Total	**5,666**	**5,901**	**6,241**
EBITDA			
- Roots	221	155	139
- Benares	148	138	113
- Piem	521	339	276
- United	62	40	23
Total	**953**	**673**	**551**
Margin %			
- Roots	15.6	10.0	7.6
- Benares	29.5	27.9	23.8
- Piem	15.4	9.8	7.8
- United	17.3	10.4	5.8
Overall	**16.8**	**11.4**	**8.8**

Source: Company, HDFC sec Inst Research

Snapshot of international subsidiaries financial performance

In Mn	FY16	FY17	FY18
Revenue			
- St James*	32.8	35.7	32.8
- United Overseas**	58.9	97.8	90.4
EBITDA			
- St James	3.3	4.4	2.4
- United Overseas	(8.7)	(14.3)	(12.7)
Margin %			
- St James	10.2	12.2	7.3
- United Overseas	(14.8)	(14.7)	(14.0)

Source: Company, HDFC sec Inst Research* in GBP ** in USD, in FY16 United Overseas numbers are only for six months

Taj Mansingh Delhi with 192 rooms accounts for 4.4% of IHCL's standalone inventory. However, revenue and EBITDA contribution we belive to higher at around ~7-8%

IHCL has successfully won the bid to retain Mansingh at revenue share of 32.5% of gross revenue vs. erstwhile payout of ~17%. This would lead to an EBITDA hit of Rs 300-400mn (4-5% of IHCL EBITDA)

Taj Mansingh, Delhi: Winners Curse

- IHCL has retained the lease of its iconic 292 rooms Taj Mansingh, Delhi in an aggressive bidding with ITC for another 33 years in recently concluded auction in Sep-18. The earlier 33 years lease expired in 2011 and since then there were temporary lease extensions. IHCL since 2011 was paying ~17% revenue share (vs. 11% earlier) to NDMC or ~Rs 4cr per month.
- For the auctions, NDMC had set the reserve price at 17.25% of gross revenue s.t. minimum monthly charge of Rs 3cr per month.
- **IHCL will now pay 32.5% of gross revenue including GST as lease rentals. IHCL's lease rentals will increase from Rs 4cr to ~Rs 7cr i.e. incremental Rs 36cr p.a. (4.8% of FY18 EBITDA).**
- At property level, we estimate IHCL's revenue of ~Rs 175cr (292 rooms * Rs 20k rev/room/day * 75% occupancy) and EBITDA of ~Rs 60-65cr (@ 35-37% margin). <u>This would now decline to Rs 30-35cr (17-20% margin) with increase in lease rentals.</u>
- The deal is financially negative however sentimentally positive as overhang recedes for IHCL.
- Loss of Mansingh would have amounted to loss of market share, revenue, EBITDA and thus pricing power/network effect besides one-time loss of fixed assets.
- IHCL recently bid for 192-rooms Connaught hotel on Shahid Bhagat Singh road in Delhi at revenue share of 31.5% of gross revenue.
- **Two key takeaways from IHCL's recent win are (A) aggressive bidding or (B) confidence in occupancies and the ARR hike to offset the increase in revenue share in foreseeable future. We hope its option B.**

Turnaround of subsidiary Roots Corporation 'Ginger'

- IHCL though has large inventory in the budget segment Ginger brand, it has been a laggard. Despite being present in the fastest growing segment for more than decade it has been making losses.
- Targeted as the budget business traveler it missed expansion targets, deferred listing plans and has witnessed competitive pressures from new generation, web-based hotel aggregators such as Oyo Rooms, Fab Hotels, Treebo Hotels, Airbnb etc.
- IHCL will reposition Ginger in the mid-scale segment, and have a small meeting venue, a banquet hall and one restaurant within each premise. The changeover to mid-scale segment will be pivotal to Ginger given that it has developed an image of a low-cost brand starting with room rates of Rs 999 before moving onto the current range of Rs 2,500-3,000. Entering the mid-scale category will push rates further north.
- But entering the mid-scale category won't be easy for Ginger, given the large number of already well-established rival brands in this segment viz. Lemon Tree, Novotel, Fairfield by Marriott, Radisson Blu, Premier Inn, Ibis, Days Inn etc.
- IHCL has already worked with leading brand consultant to refresh and reinvigorate the brand. The brand will take on a new avatar to address the needs and aspirations of the new and younger customer segments.
- **Re-positioning of Ginger is strategically positive and key to the improvement in the subsidiaries financial performance.**

With exception of 'Ginger' majority of the IHCL's subsidiaries are on self-sustaining mode

Development approach for growth

- IHCL intends to follow an asset light strategy as highlighted in below table unless the location for the hotel offers an excellent opportunity with high ROIs.
- IHCL has been an industry leader with 14k+ room keys in domestic market before the acquisition of Starwood Hotels by Mariott globally which now has 20k+ rooms in India. IHCL aspires to regain the number 1 position but expand majorly through management contracts.
- This is strategically positive as it is asset-light besides improving ROE and ROCEs. Considering IHCL's brand strength, expertise and experience in hospitality industry; we believe it should be able to accelerate its growth trajectory through hotels under management.

Development approach

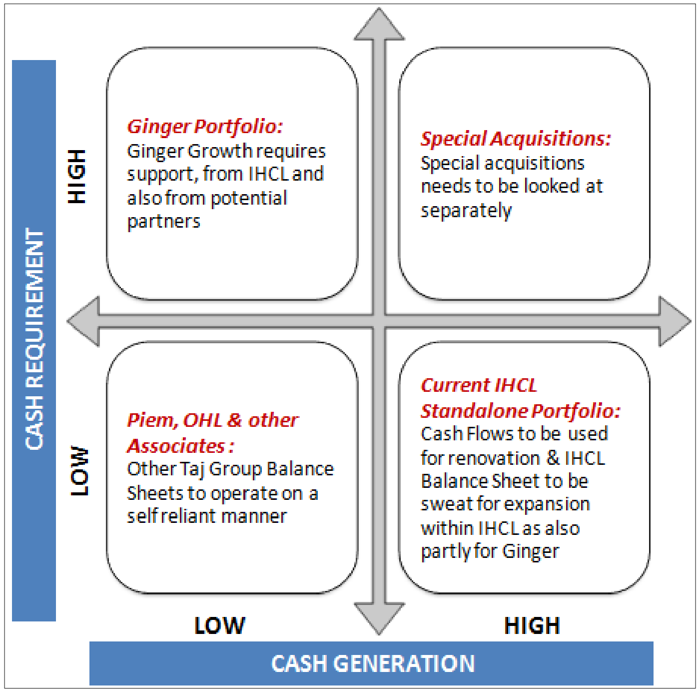
BRANDS	<----------- LOCATION ---------->		
	QUALIFYING	***GOOD***	***EXCELLENT***
TAJ	Pure Mgmt Contract	Pure Mgmt Contract	Mgmt Contract with Sliver Investment Operating Lease / Ownership
VIVANTA	Pure Mgmt Contract	Pure Mgmt Contract	Mgmt Contract with Sliver Investment Operating Lease / Ownership
GINGER	Operating Lease	Operating Lease / Ownership	Operating Lease / Ownership

Source: Company, HDFC sec Inst Research

Balance sheet strain behind

- IHCL's balance sheet strained over FY07-09 led by acquisition of International properties in USA and UK. This was followed by a longish period of domestic slowdown and global meltdown over FY09-14. But over since FY14-18, IHCL has significantly strengthened its balance sheet through rights issue and monetization of assets.
- Net debt of IHCL Consolidated has declined from Rs 46bn in FY14 to Rs 21bn in FY18.
- Further with majority of the subsidiaries on self-sustaining mode for existing operations / growth (except 'Ginger'), we believe IHCL is in comfortable position to grow its core portfolio in standalone business.

Outlook on Funding



Source: Company, HDFC sec Inst Research

IHCL sold assets worth Rs 15bn over FY15-17 and raised equity worth Rs 25bn

Key asset sales

Financial Year	Asset	Transaction Currency	Sale Proceeds ($ Mn)
FY15	Blue, Sydney	AUD	30
FY16	Tata Projects Shares	Rs	9
FY17	Taj Boston	$	125
FY17	Belmond Shares	$	68
			232

Source: Company, HDFC sec Inst Research

Equity issuance in recent past

Financial Year	No of shares (Mn)	Rs/Sh	Proceeds (Rs Bn)
FY15* (CCDs)	182	55	10.0
FY18 (Rights Issue)	200	75	15.0
			25.0

Source: Company, HDFC Sec Inst Research * CCD is Compulsorily Convertible Debentures

Non-core assets monetization to further delevarge the balance sheet and make capital available for future growth

Non-core assets monetization to make cash available for growth

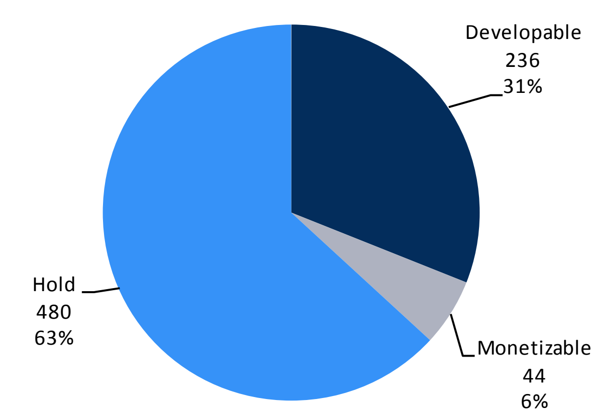
IHCL has portfolio of three major assets available for deleveraging/growth

1) Large land bank of 739 acres for unlocking value either through monetization or expansion

2) IHCL has 1mn+ square feet of unutilized FSI (free space index) for expansion at existing properties.

- 75% of the IHCL's inventory is under freehold / leasehold. IHCL is evaluating unlocking of capital through sale and lease back models and / or lease assets to special purpose vehicle.

IHCL overall India land bank (in acres)



Source: Company, HDFC sec Inst Research

IHCL's stuck investment in Searock for nearly a decade accounts for ~20% of capital employed

Owing to significantly older operations, IHCL's standalone EBIT/Capital Employed stands at a healthy 21% vs. 5% for Consolidated business

3) Besides land bank and unutilized FSIs, IHCL also has investments identified as non-core like shares in Titan (~Rs 400mn) ITDC (~Rs 2.5bn), Tata Sons (~1.1% holding), Tata Industries Limited, residential flats (more than 100 in Mumbai), loss making Hotels etc. as the key assets available for monetization.

   - IHCL already monetized part of the Titan shares worth Rs 800mn in FY18.
   - ITDC being Government Company with 87% holding, we believe it might be difficult to monetize the stake in ITDC with ease by IHCL.
   - Simplification of structure across groups remains a potential trigger to unlock value from Tata Sons shareholding. However it is difficult to comment on the timelines.

Sea Rock accounts for ~25% of IHCL's Capital Employed and depresses IHCL's ROCEs

- The erstwhile Sea Rock Hotel was located alongside the Taj Lands End Hotel of IHCL in Bandra. The hotel premises became unsafe for habitation after the serial bomb blast within the hotel premises in the year 1993.
- In 2009, IHCL bought Rock Hotel from the industrialist Suresh Nanda of Claridges Hotels & Resorts for ~Rs 6.8bn.
- The reconstruction plan was aimed at fully integrating Sea Rock with Lands End in a systematic manner. While the construction work of the basement was in progress, it was stopped in 2012 in the need of CRZ (Coastal Regulation Zone) clearance.
- MCGM submitted the approved amended plans to the Maharashtra Coastal Zone Management Authority (MCZMA) dated 21/07/2016- A 30 storey star category residential hotel. The company has recently got the approvals by the MCZMA for the construction of bridge to connect Taj Lands End and Sea Rock Hotel. Yet couples of key clearances are pending from the coastal regulatory zoning authorities etc.
- Sea Rock remains one of the topmost priorities for IHCL management. However, visibility on the construction of property remains weak. It would also entail a significant capital investment by IHCL.

IHCL (FY18): EBITDA, EBIT and Capital employed for Standalone and Subsidiaries

Entities	Capital Employed (Rs bn)	EBITDA (Rs bn)	EBIT (Rs bn)	EBITDA/CE (%)	EBIT/CE (%)	Mix %		
						Capital Employed	EBITDA	EBIT
Standalone	21.0	5.8	4.3	27.8	20.6	32%	93%	133%
Subsidiaries	30.8	0.4	(1.1)	1.3	(3.5)	48%	7%	-33%
Sea rock	13.0	-	-	-	-	20%	-	-
Consolidated	**64.8**	**6.3**	**3.2**	**9.6**	**5.0**	**100%**	**100%**	**100%**

Source: Company, HDFC sec Inst Research

We value IHCL at 21x Sep-20E EV/EVITDA owing to its leadership share in luxury segment, strengthening balance sheet and, likely improvement in margin trajectory / financials

Valuation summary

- We value IHCL at 20x Sep-20E EV/EBITDA (in-line with historical average). We value IHCL at 33% discount to Lemon Tree owing to latter's strong growth trajectory.

IHCL valuation snapshot

	Sep-20E
EBITDA (Rs Mn)	9,441
Target multiple (x)	20
Enterprise Value (Rs Mn)	188,820
(-) Net Debt (Rs Mn)	13,639
Equity Value (Rs Mn)	**175,181**
O/s shares (Mn)	1,189
Value per share (Rs)	**147**
Add: Value of IHCL stake in TajGVK/Oriental	3
Value per share (Rs)	**150**
CMP (Rs)	120
Upside/Downside (%)	**25.2**

Source: Company, HDFC sec Inst Research

Implied Value of TajGVK Holding for IHCL

O/s shares (Mn)	62.7
TP (Rs)	219
Implied Mcap (Rs Mn)	13,710
IHCL Ltd holding (%)	25.5%
Implied TajGVK value for IHCL (Rs Mn)	3,496
O/s shares (Mn)	1,189
Implied TajGVK per share value for IHCL (Rs Mn)	**3**

Source: Company, HDFC sec Inst Research

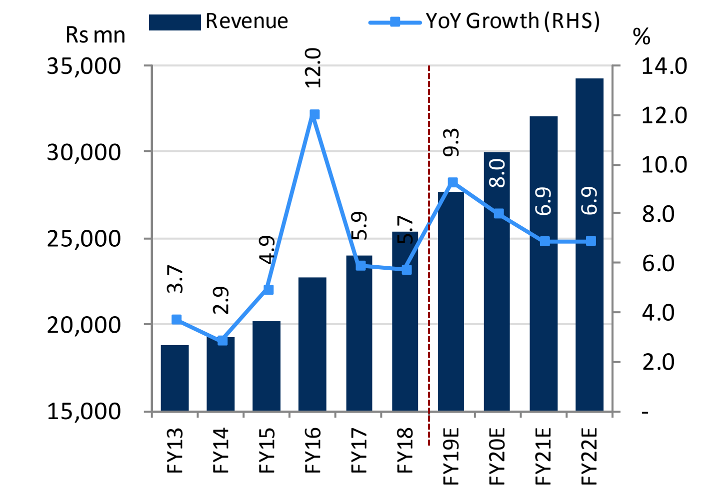
Standalone: Key financial and operating performance indicators

	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E	CAGR FY15-18	CAGR FY18-22E
No of Rooms*	4,069	4,044	4,067	4,453	4,301	4,175	4,258	4,198	4,282	4,367	0.9%	1.1%
Occupancy	63.0	64.0	64.0	65.0	66.0	67.0	68.0	69.5	69.8	70.0	1.5%	1.1%
ARR	9,504	9,360	9,562	9,308	10,213	10,722	11,419	12,161	12,769	13,408	3.9%	5.7%
Revenue split (Rs Mn)												
Room income	8,893	8,843	9,083	9,833	10,582	10,947	12,069	12,949	13,919	14,960	6.4%	8.1%
F&B, Banqueting	7,324	7,742	8,134	9,182	9,422	10,278	11,203	12,211	12,944	13,721	8.1%	7.5%
Other Operating Income	2,542	2,710	3,026	3,664	4,012	4,165	4,473	4,806	5,167	5,559	11.2%	7.5%
Total	**18,759**	**19,295**	**20,244**	**22,679**	**24,016**	**25,390**	**27,745**	**29,967**	**32,030**	**34,240**	**7.8%**	**7.8%**
EBITDA	**4,044**	**3,895**	**3,587**	**4,223**	**5,197**	**5,840**	**6,798**	**7,692**	**8,549**	**9,491**	**17.6%**	**12.9%**
EBITDA %	**21.6**	**20.2**	**17.7**	**18.6**	**21.6**	**23.0**	**24.5**	**25.7**	**26.7**	**27.7**		
Growth %												
Room income	0.7	(0.6)	2.7	8.3	7.6	3.5	10.3	7.3	7.5	7.5		
F&B, Banqueting	7.1	5.7	5.1	12.9	2.6	9.1	9.0	9.0	6.0	6.0		
Other Operating Income	5.3	6.6	11.7	21.1	9.5	3.8	7.4	7.5	7.5	7.6		
Total Revenue	**3.7**	**2.9**	**4.9**	**12.0**	**5.9**	**5.7**	**9.3**	**8.0**	**6.9**	**6.9**		
EBITDA	**(0.4)**	**(3.7)**	**(7.9)**	**17.7**	**23.1**	**12.4**	**16.4**	**13.2**	**11.1**	**11.0**		
Revenue Mix (%)												
Room income	47.4	45.8	44.9	43.4	44.1	43.1	43.5	43.2	43.5	43.7		
F&B, Banqueting	39.0	40.1	40.2	40.5	39.2	40.5	40.4	40.7	40.4	40.1		
Other Operating Income	13.6	14.0	14.9	16.2	16.7	16.4	16.1	16.0	16.1	16.2		
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**		
Other Operating Income Split (Rs Mn)												
Shop rentals	262	289	307	299	305	317	323	330	336	343	1.1%	2.0%
Membership fees	526	539	591	710	952	857	900	945	992	1,042	13.2%	5.0%
Management and operating fees	1,165	1,255	1,377	1,490	1,588	1,655	1,820	2,002	2,202	2,423	6.3%	10.0%
Other Operating Income	589	627	751	1,166	1,168	1,336	1,429	1,529	1,636	1,751	21.2%	7.0%
Total	**2,542**	**2,711**	**3,026**	**3,664**	**4,012**	**4,165**	**4,473**	**4,806**	**5,167**	**5,559**	**11.2%**	**7.5%**

Source: Company, HDFC sec Inst Research

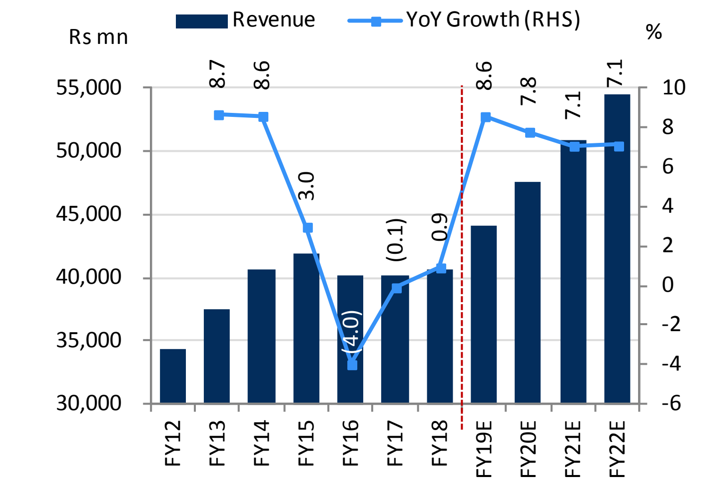
Standalone EBITDA grew by a healthy 17% CAGR over FY15-18 and we estimate it to grow at 14% CAGR over FY18-21E

Standalone Revenue & YoY Growth



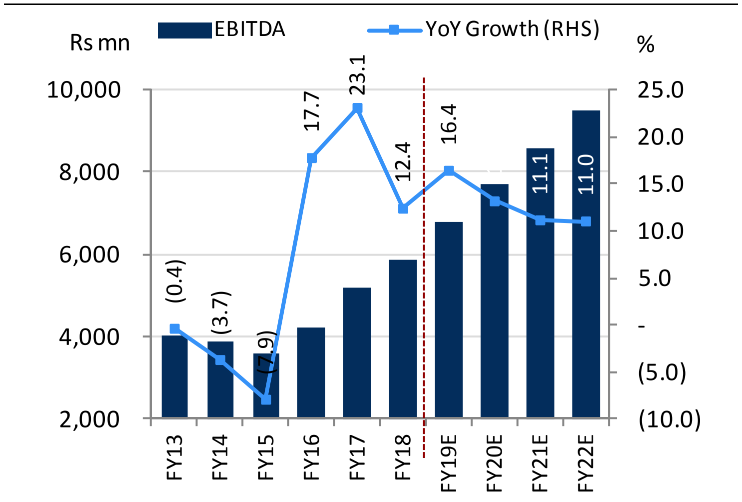
Source: Company, HDFC sec Inst Research

Consolidated Revenue & YoY Growth



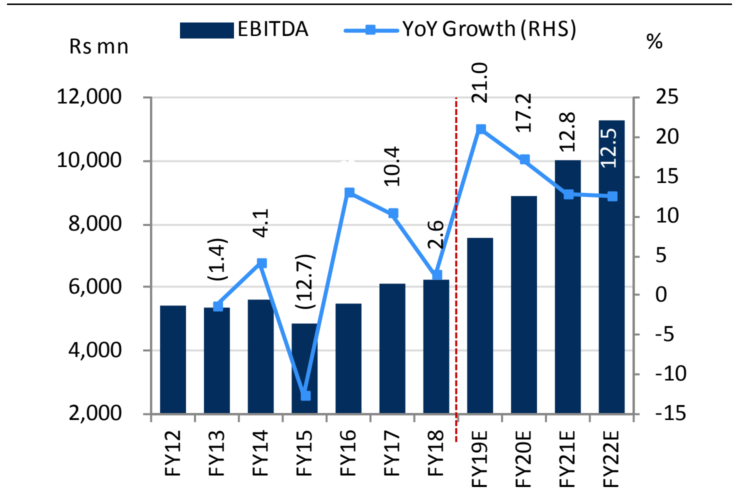
Source: Company, HDFC sec Inst Research

Standalone EBITDA & YoY Growth



Source: Company, HDFC sec Inst Research

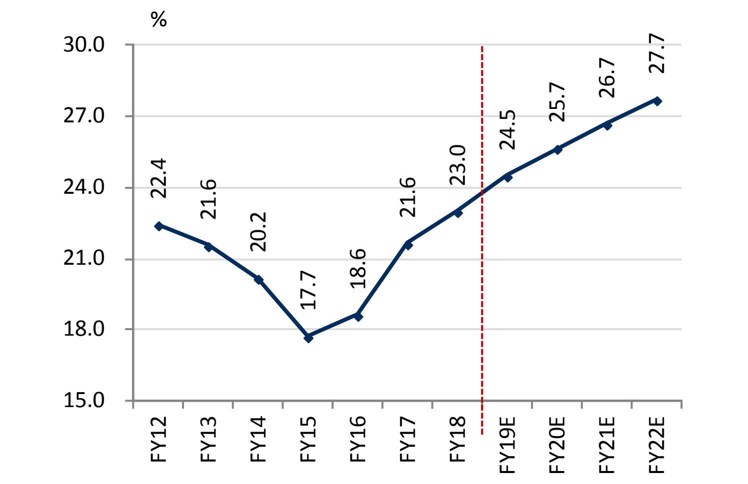
Consolidated EBITDA & YoY Growth



Source: Company, HDFC sec Inst Research

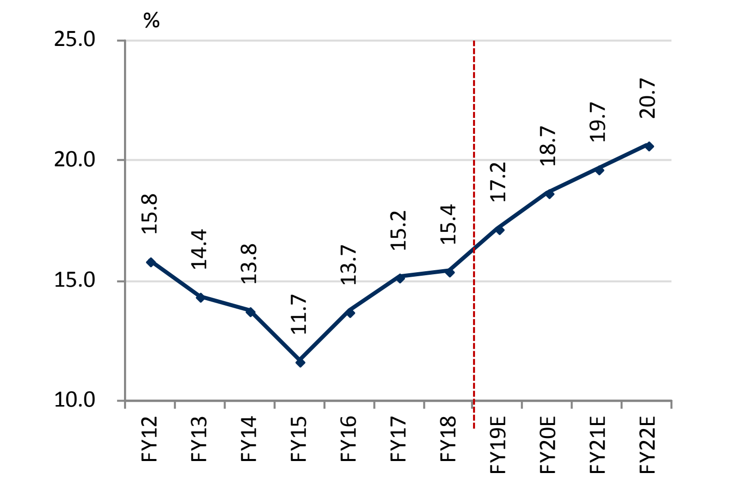
Led by high focus of new management on profitability led growth, we estimate EBITDA margin to show healthy improvement (21% Consolidated by FY22E) though lower than management guidance of 25%

Standalone EBITDA Margin (%)



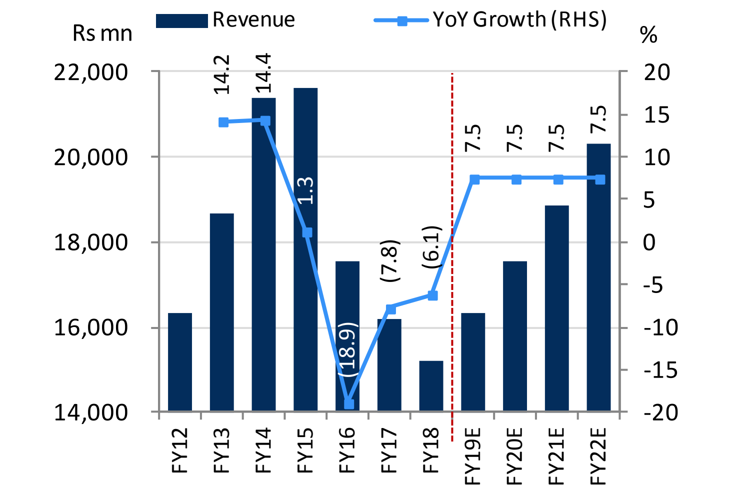
Source: Company, HDFC sec Inst Research

Consolidated EBITDA Margin (%)



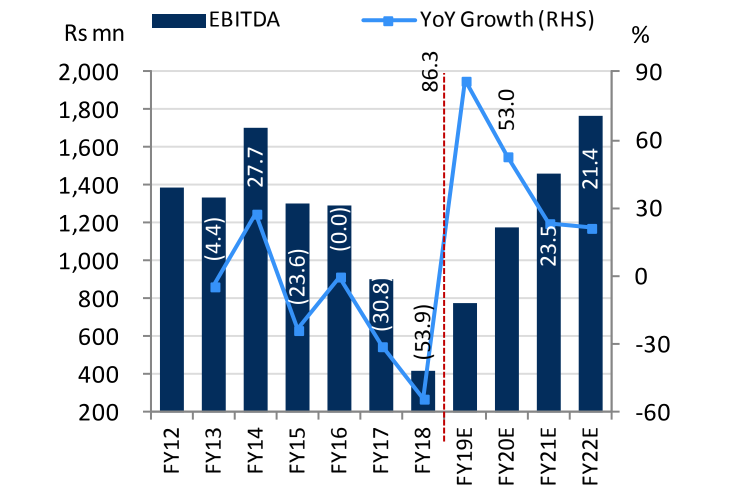
Source: Company, HDFC sec Inst Research

Subsidiaries Revenue & YoY Growth



Source: Company, HDFC sec Inst Research

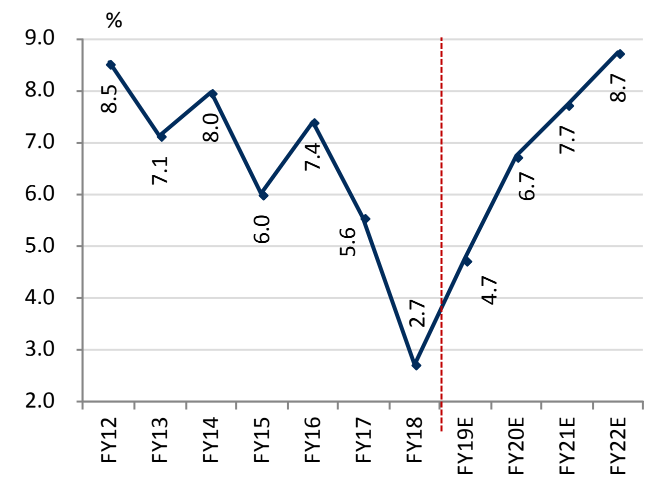
Subsidiaries EBITDA & YoY Growth



Source: Company, HDFC sec Inst Research

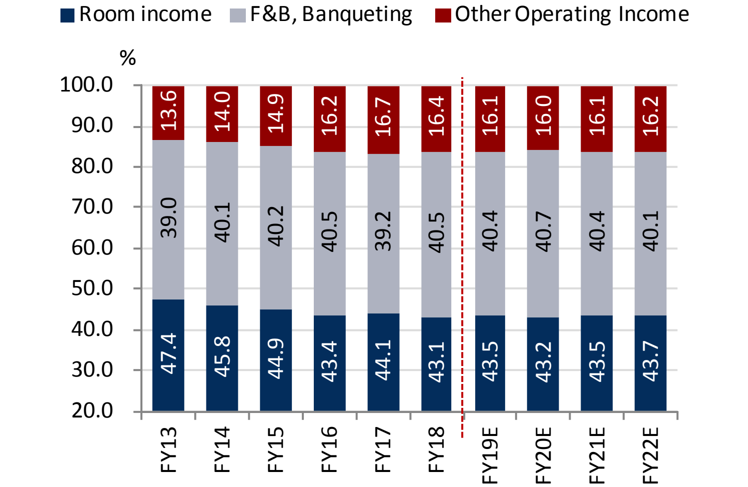
IHCL has witnessed margin decline across subsidiaries viz. Roots Corporation, Piem, Benares, United Hotels etc

Subsidiaries EBITDA Margin (%)



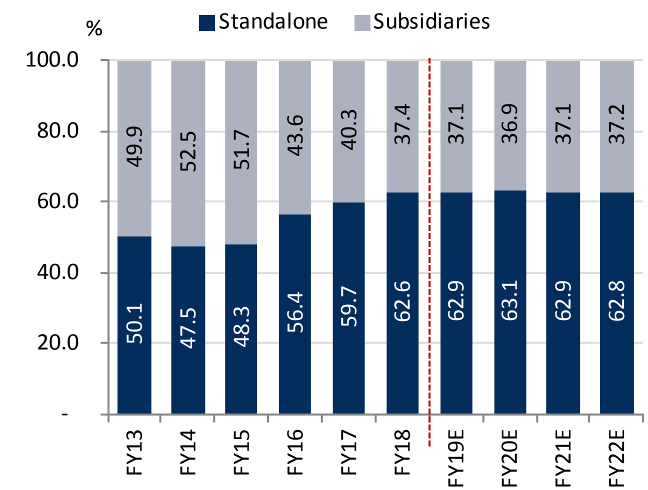
Source: Company, HDFC sec Inst Research

Standalone Revenue Mix (%)



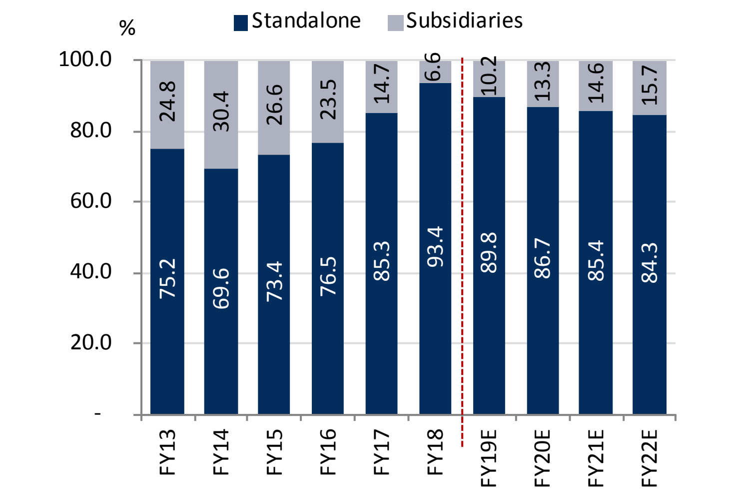
Source: Company, HDFC sec Inst Research

Revenue Mix (%)



Source: Company, HDFC sec Inst Research

EBITDA Mix (%)



Source: Company, HDFC sec Inst Research

Income Statement (Consolidated)

Year ending March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Revenues	**40,206**	**40,587**	**44,081**	**47,528**	**50,908**
Growth (%)	***(0.1)***	***0.9***	***8.6***	***7.8***	***7.1***
Material Expenses	3,640	3,764	3,951	4,212	4,457
Employee Expenses	13,647	13,466	14,288	15,067	15,945
Other Operating Expenses	16,824	17,101	18,272	19,376	20,498
Total Operating Costs	34,110	34,332	36,510	38,654	40,900
EBITDA	**6,096**	**6,255**	**7,570**	**8,874**	**10,008**
EBITDA Margin (%)	***15.2***	***15.4***	***17.2***	***18.7***	***19.7***
EBITDA Growth (%)	***10.4***	***2.6***	***21.0***	***17.2***	***12.8***
Depreciation	2,994	3,012	3,117	3,227	3,339
EBIT	**3,103**	**3,243**	**4,453**	**5,647**	**6,669**
Other Income (Including EO Items)	442	1,290	815	655	625
Interest	3,238	2,690	2,189	1,913	1,500
PBT	**306**	**1,843**	**3,080**	**4,389**	**5,794**
Tax (Incl Deferred)	1,137	1,211	1,394	1,725	2,097
Minority Interest	200	376	389	396	393
RPAT	**(632)**	**1,009**	**2,075**	**3,060**	**4,089**
EO (Loss) / Profit (Net Of Tax)	(108)	673	-	-	-
APAT	**(524)**	**336**	**2,075**	**3,060**	**4,089**
APAT Growth (%)	***(64.7)***	***(164.0)***	***518.0***	***47.5***	***33.6***
Adjusted EPS (Rs)	**(0.5)**	**0.3**	**1.7**	**2.6**	**3.4**
EPS Growth (%)	***(64.7)***	***(153.3)***	***518.0***	***47.5***	***33.6***

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

As at March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
SOURCES OF FUNDS					
Equity Capital	990	1,189	1,189	1,189	1,189
R&S	24,190	40,622	42,696	45,756	49,845
Total Equity	**25,180**	**41,811**	**43,886**	**46,946**	**51,034**
Minority Interests	7,380	7,774	7,753	7,736	7,722
STL	5,930	982	3,456	2,219	2,838
LTL	31,467	25,828	25,828	25,828	25,828
Borrowings	**37,397**	**26,810**	**29,284**	**28,047**	**28,665**
Other Non CL	3,933	4,399	4,848	5,227	5,598
TOTAL SOURCES OF FUNDS	**73,890**	**80,793**	**85,770**	**87,955**	**93,020**
APPLICATION OF FUNDS					
Net Fixed Assets	60,380	63,596	63,979	64,252	64,413
Other Non CA	16,700	17,954	18,454	18,954	19,454
Total Non CA	**77,080**	**81,550**	**82,433**	**83,206**	**83,867**
C&CE	2,810	6,009	10,293	12,248	17,187
CA	6,450	6,187	6,569	7,083	7,587
CL	12,450	12,952	13,525	14,583	15,620
Net CA	**(6,000)**	**(6,765)**	**(6,956)**	**(7,500)**	**(8,033)**
TOTAL APPLICATION OF FUNDS	**73,890**	**80,793**	**85,770**	**87,955**	**93,020**

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

Year ending March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Reported PBT	505	2,219	3,469	4,785	6,186
Non-operating & EO Items	108	(673)	-	-	-
Interest Expenses	3,238	2,690	2,189	1,913	1,500
Depreciation	2,994	3,012	3,117	3,227	3,339
Working Capital Change	(1,174)	765	190	544	533
Tax Paid	(1,137)	(1,211)	(1,394)	(1,725)	(2,097)
OPERATING CASH FLOW (a)	**4,533**	**6,803**	**7,571**	**8,744**	**9,462**
Capex	(2,858)	(6,228)	(3,500)	(3,500)	(3,500)
Free Cash Flow (FCF)	**1,676**	**575**	**4,071**	**5,244**	**5,962**
Investments	12,453	633	624	906	1,250
Non-operating Income	(108)	673	-	-	-
INVESTING CASH FLOW (b)	**9,488**	**(4,922)**	**(2,876)**	**(2,594)**	**(2,250)**
Debt Issuance/(Repaid)	(11,157)	(10,587)	2,474	(1,237)	618
Interest Expenses	(3,238)	(2,690)	(2,189)	(1,913)	(1,500)
FCFE	**(4,908)**	**(18,200)**	**(2,591)**	**(5,745)**	**(3,132)**
Share Capital Issuance	-	15,000	-	-	-
Dividend	(347)	(405)	(696)	(1,044)	(1,391)
FINANCING CASH FLOW (c)	**(14,742)**	**1,317**	**(410)**	**(4,194)**	**(2,273)**
NET CASH FLOW (a+b+c)	**(721)**	**3,198**	**4,284**	**1,956**	**4,938**
Closing Cash & Equivalents	2,810	6,009	10,293	12,248	17,187

Source: Company, HDFC sec Inst Research

Key Ratios

	FY17	FY18	FY19E	FY20E	FY21E
PROFITABILITY (%)					
GPM	90.9	90.7	91.0	91.1	91.2
EBITDA Margin	15.2	15.4	17.2	18.7	19.7
APAT Margin	(1.3)	0.8	4.7	6.4	8.0
RoE	(2.1)	1.0	4.8	6.7	8.3
RoIC (or Core RoCE)	4.1	3.7	4.6	5.5	6.1
RoCE	2.5	1.4	2.9	3.9	4.7
EFFICIENCY					
Tax Rate (%)	371.9	65.7	45.3	39.3	36.2
Fixed Asset Turnover (x)	0.6	0.7	0.7	0.7	0.8
Current Assets (days)	*59*	*56*	*57*	*56*	*56*
Payables (days)	*113*	*117*	*117*	*116*	*116*
Cash Conversion Cycle (days)	-54	-61	-60	-60	-60
Net Debt/EBITDA (x)	5.7	3.3	2.5	1.8	1.1
Net D/E (x)	1.4	0.5	0.4	0.3	0.2
Interest Coverage (x)	1.0	1.2	2.0	3.0	4.4
PER SHARE DATA (Rs)					
EPS	(0.5)	0.3	1.7	2.6	3.4
CEPS	1.7	0.5	3.4	4.4	5.0
Dividend	0.3	0.4	0.5	0.8	1.0
Book Value	25.4	35.2	36.9	39.5	42.9
VALUATION					
P/E (x)	(234.2)	439.3	71.1	48.2	36.1
P/BV (x)	4.9	3.5	3.4	3.1	2.9
EV/EBITDA (x)	29.9	26.9	22.0	18.4	15.9
EV/Revenues (x)	4.5	4.1	3.8	3.4	3.1
OCF/EV (%)	2.5	4.0	4.5	5.4	6.0
FCF/EV (%)	0.9	0.3	2.4	3.2	3.8
FCFE/Mkt Cap (%)	(3.3)	(12.3)	(1.8)	(3.9)	(2.1)
Dividend Yield (%)	0.2	0.3	0.4	0.6	0.8

Source: Company, HDFC sec Inst Research

Lemon Tree

BUY

INDUSTRY	HOTELS
CMP *(as on 08 Oct 2018)*	Rs 68
Target Price	Rs 86
Nifty	10,348
Sensex	34,474

KEY STOCK DATA	
Bloomberg	LEMONTRE IN
No. of Shares (mn)	792
MCap (Rs bn) / ($ mn)	54/730
6m avg traded value (Rs mn)	190

STOCK PERFORMANCE (%)

52 Week high / low — **Rs 91/57**

	3M	6M	12M
Absolute (%)	(6.4)	(4.8)	-
Relative (%)	(2.3)	(6.8)	-

SHAREHOLDING PATTERN (%)	
Promoters	35.3
FIs & Local MFs	15.3
FPIs	4.1
Public & Others	45.3

Source : BSE

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Best amongst the pack

Lemon Tree (LTHL) is a leading mid-market (2-star to 4-star) hotel chain. It has emerged as dominant player with ~8% market share (FY17) in last decade. Market share is set to expand to ~10.4% by FY21.

We like LTHL owing to its superior execution reflected in industry's leading growth, occupancies (76%) and lower capex and operating costs. LTHL's owned rooms will grow by 50% from 3,277 as of FY18 to 4,802 by FY21E. Geographic diversion and improving mix of keys (90% of incremental inventory is 4-star vs. current 29%) in demand dense higher ARR markets to drive strong growth. Robust growth in rooms under management (4x over FY16-18, to double over FY18-21E) is strategically positive and will drive up ROCEs.

Led by above factors, LTHL's EBITDA is set to triple over FY18-22 from Rs 1.4bn to Rs 4bn. Initiate BUY with TP of Rs 86, 30x Sep-20E EV/EBITDA.

Key risk includes, LTHL's rich valuation which leaves limited margin of safety in the event of increased competition or lower ARR growth. Valuation would look more expensive on proportionate ownership basis (~75%). 38% of operational 3,277 keys and 75% of upcoming 1,525 keys are in subsidiaries, where LTHL holds ~58% stake.

- **Superior operating performance:** With less than 15 years of operation, LTHL is already a leading mid-market player (category creator) with ~8% market share as of FY17. LTHL is one of the fastest growing companies with 42% room CAGR over FY05-18. With strong pipeline, LTHL's market share will expand to 10.5% by FY21E. Room inventory to grow at 19% CAGR.
- **Strong pipeline-equivalent to existing portfolio:** LTHL's owned room inventory will expand by 50% with addition of 1,525 keys. 90% of the incremental keys are in the premium segment in demand dense high ARR markets (Mumbai, Udaipur, and Pune). This is equivalent to 1.5x rooms in revenue potential and 2x in EBITDA (i.e. near doubling of keys).
- **Healthy ARR growth:** Persistent and widening demand-supply gap in mid-market segment coupled with LTHL's industry leading occupancies is expected to drive healthy ARR growth. Mgmt estimate double digit in line with FY18 growth of 13%. We remain conservative and have estimated high single digit growth. Improving customer mix may further improve the ARR.
- **Management contracts**: With a modest start of 100 rooms under management contract in FY13, LTHL now has ~1,600 rooms and will end FY21E with ~3,400 rooms under management. Mgmt targets to double the rooms under MC every two years. This minimizes the ownership and occupancy risk, improves pricing power through network effect, help absorb the corporate costs and thus drive up ROCEs.

Consolidated Financial Summary

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	4,121	4,843	5,779	7,113	8,367
EBITDA	1,165	1,361	1,830	2,398	3,095
APAT	-62	140	395	425	842
Diluted EPS (Rs)	(0.1)	0.2	0.5	0.5	1.1
P/E (x)	(861.6)	381.9	135.5	125.9	63.5
EV / EBITDA (x)	52.3	46.5	35.9	28.1	22.3
RoE (%)	(0.8)	1.7	4.7	4.9	9.0

Source: Company, HDFC sec Inst Research

LTHL is a leading player in the mid-market segment with ~8% market share in room keys

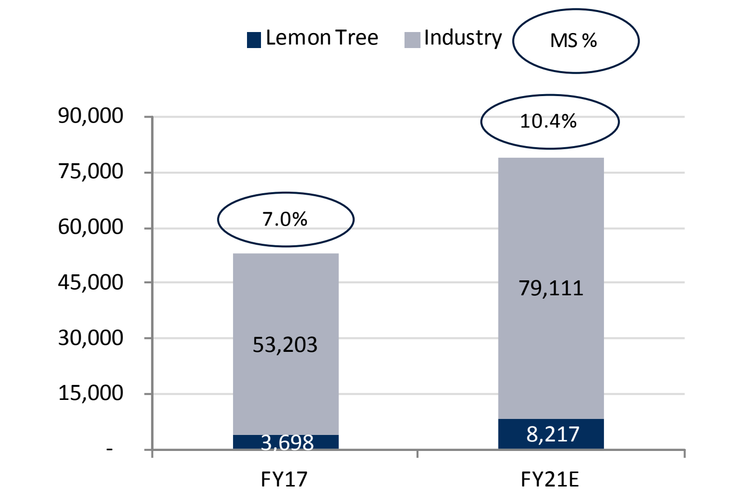
Market share to expand to ~10.4% by FY21 as it opens the India's largest hotel in the busiest location of Mumbai

LTHL is leader in mid-price segment in terms of owned rooms

- **LTHL enjoys ~8% market share in mid-market segment:** LTHL currently operate about 4,887 rooms (3,277 owned and 1,610 in management contracts) in India as of 30th June, 2018, with ~8% share of the mid-market (2-star to 4-star) which is about ~53k rooms. Mid-market is ~40% of the ~125k branded rooms.

- **….Market share to expand to >10% by FY21:** LTHL's market share is expected to expand to ~10% by FY21 end as it commences the largest hotel in India with 577 rooms in the busiest location of Mumbai.

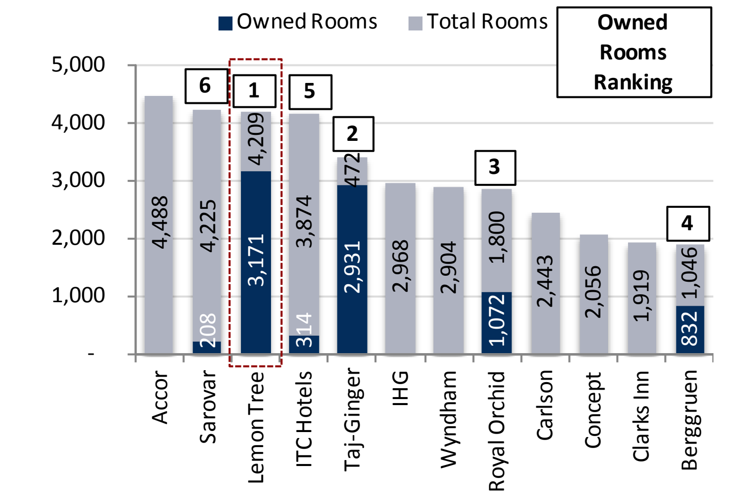
LTHL vs. Industry: No of keys and market share



Source: Company, RHP, HDFC sec Inst Research MS is market share

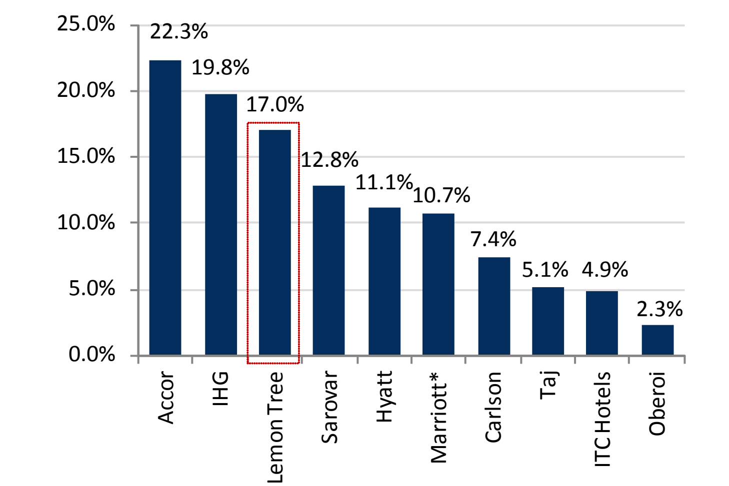
- **LTHL is the largest chain in the mid-price segment….** Lemon Tree is the largest hotel chain in mid-priced hotel sector in India on the basis of controlling interest in owned and leased rooms. It is also number 3 in terms of total rooms.

LTHL leads in owned rooms in mid-market segment (FY17)



Source: Company, RHP, HDFC sec Inst Research *Accor has minority stake in hotels with inventory aggregating 4,168 rooms; Accor's proportionate share of room's ownership is 1,642 rooms. Since it is a minority stake, it is not ranked in category of Owned Rooms

Leading hotel chains room CAGR over FY13-17

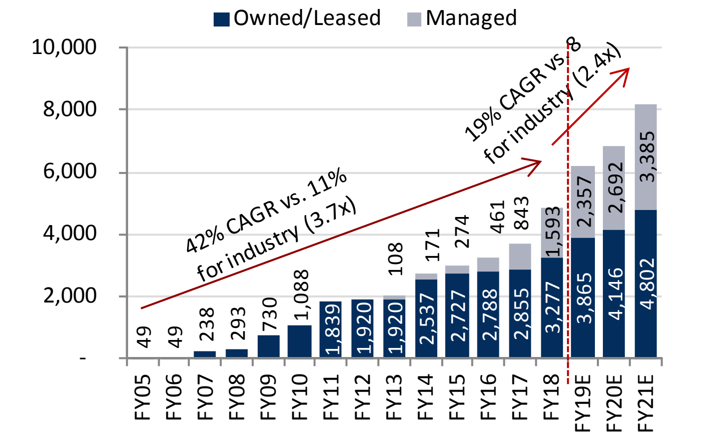


Source: Company, RHP, HDFC sec Inst Research

Supply of rooms in India's hotel industry was an inverted pyramid (primarily at the top-end)

Mid-priced hotel sector expected to have higher demand-supply gap resulting in higher growth in occupancy

LTHL's growth has been far ahead of the industry

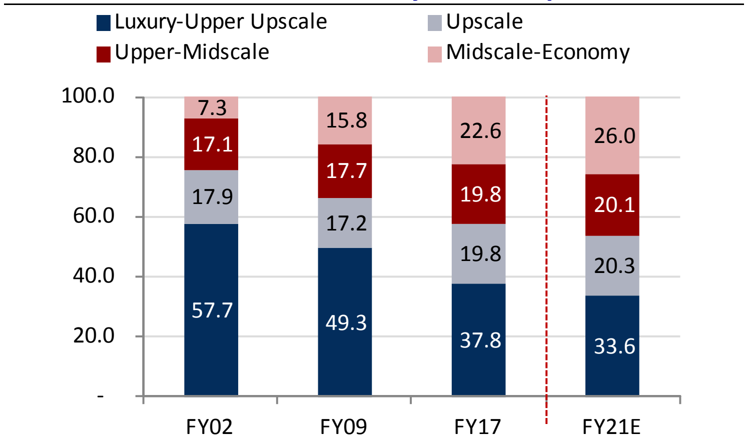


Source: Company, RHP, HDFC sec Inst Research

LTHL foresaw the opportunity in mid-price segments:

When LTHL commenced operations, room inventory supply was primarily at the top end. LTHL has been a kind of a category creator especially in the Midscale-economy segment. It's key focus on the evolving needs of middle class Indians, offering them a high-quality value-for-money experience has been the driving factor.

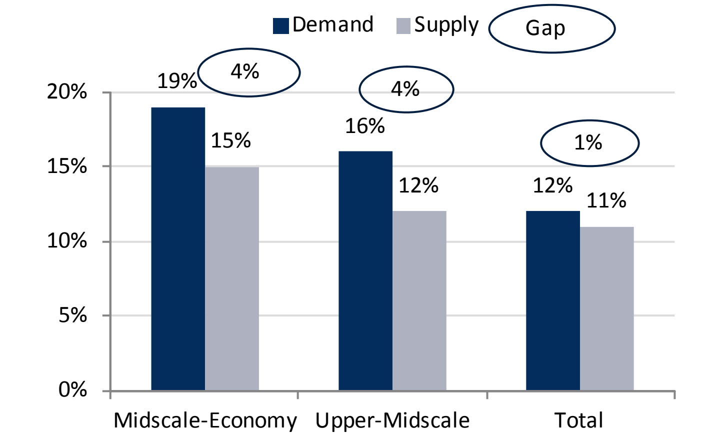
India's hotel room mix: mostly at the top-end



Source: Company, RHP, HDFC sec Inst Research

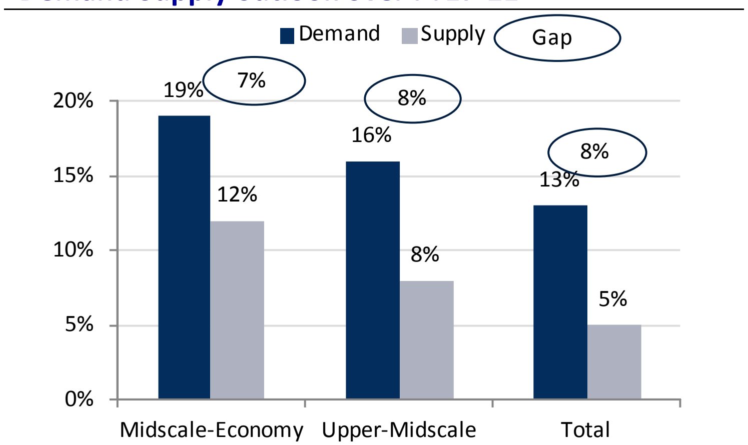
Higher demand-supply gap likely in Mid-priced hotels

Demand Supply trend over FY12-17



Source: Company, RHP, HDFC sec Inst Research

Demand Supply outlook over FY17-21



Source: Company, RHP, HDFC sec Inst Research

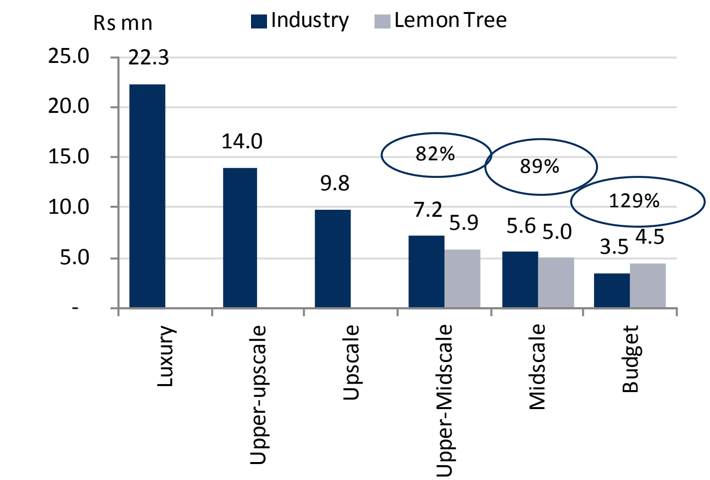
82% of LTHL's customer are domestic customers and majorily below 40 years of age

LTHL's average development costs per room is ~10-15% lower than industry average

Best in class execution: Key strength

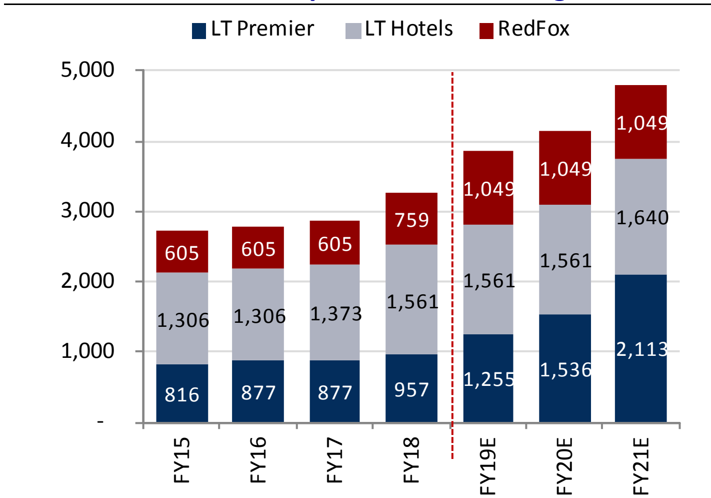
- Lemon Tree's superior execution through standardized operations for high level of services, focus on service differentiation, value for money pricing leads to higher occupancies (RevPAR), costs and capital efficiencies.
- **Three Brands to address the customer segments:** LTHL based on understanding of Indian consumers has created three hotel brands to address the evolving nature of the middle-class Indian guest's needs. Compared to other consumption themes, the middle-class Indian consumer is rapidly evolving especially the millennials with expanding disposable income and this category is highly aspirational and actually reflects a very large percentage of LTHL customers viz. 82%.
- **LTHL's key brands are:**
  - **'Lemon Tree Premiere'** is upper-midscale hotel and comparable to a 3/4-star.
  - **'Lemon Tree Hotels'** is mid-scale (3-star) hotel.
  - **'Red Fox'** is economy brand which is targeted at the price conscious customer and is comparable to a 2-star hotel.
- Lemon Tree's average development cost per room is lower than industry average except in budget segment. However, budget segment being highly fragmented space, LTHL's cost per room is higher as it ensures a slightly more premium look, feel and much more product coherence then existing players.

Average development costs per room



Source: HVS (India – 2016 Hotel Development Cost Survey)

LTHL's owned room's portfolio across segments



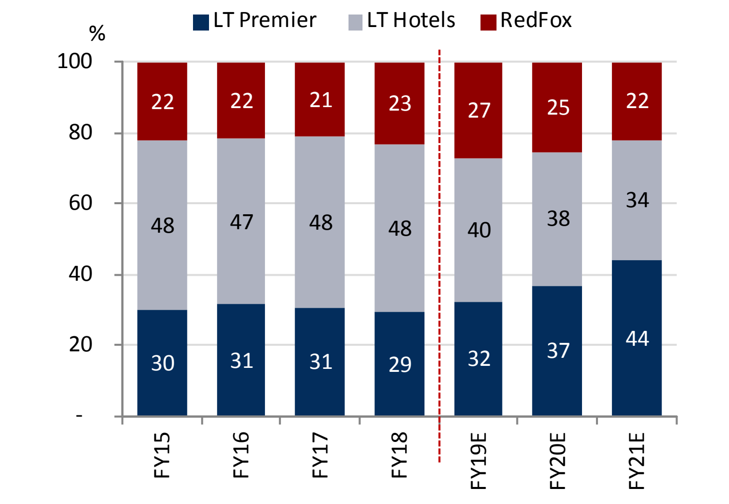
Source: Company, HDFC sec Inst Research

LTHL's inventory expansion in the ' Premier' category in the demand dense regions of Mumbai, Udaipur and Pune to be the key growth driver

LTHL's new inventory of 1,525 rooms is equivalent to 2,300 (1.5x) rooms in revenue and ~3,000 (2.0x) rooms in EBITDA potential

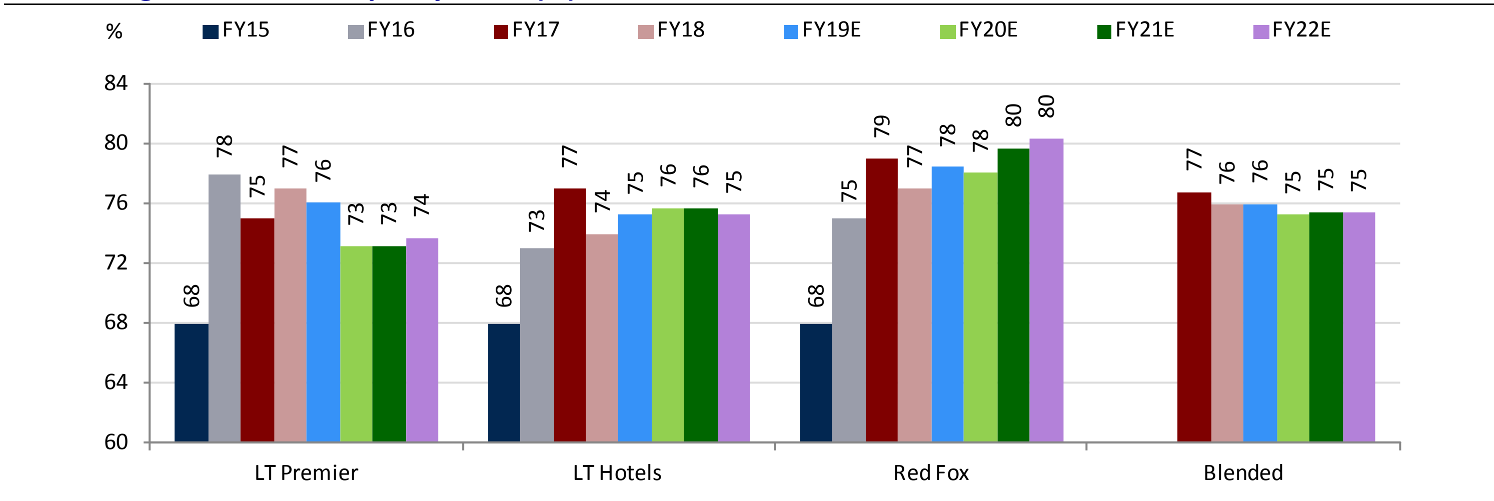
LTHL's focus on service differentiation, domestic customers and value for money offering has enabled it to enjoy industry leading occupancies. Persistent demand-supply mismatch may further improve the occupancies.

LTHL's owned room's mix to shift to 'LT Premier'



Source: Company, HDFC sec Inst Research

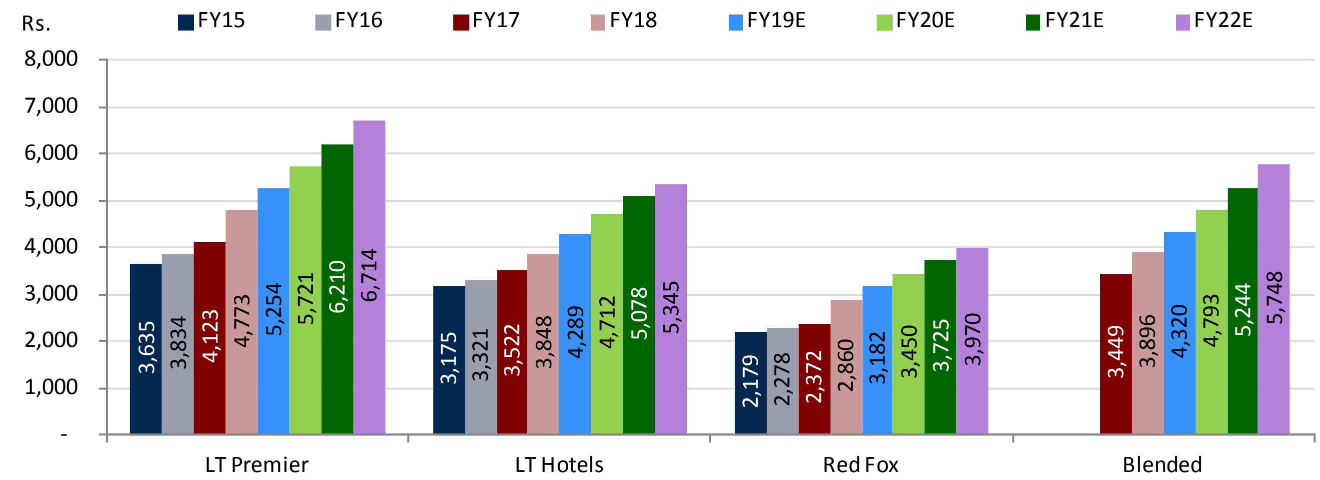
LTHL's segment-wise Occupancy trend (%)



Source: Company, HDFC sec Inst Research

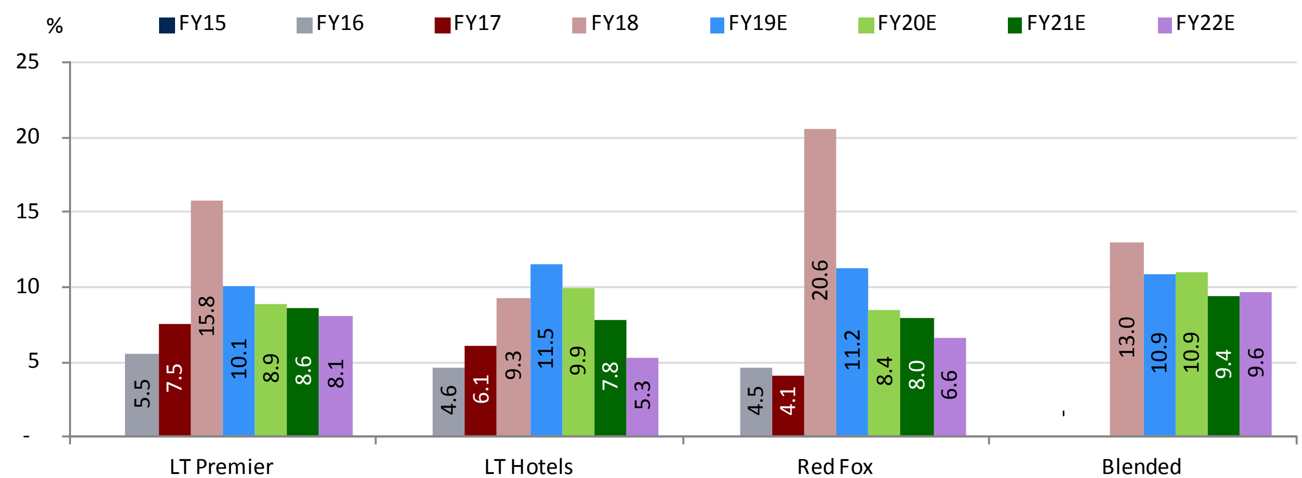
LTHL's (a) industry leading occupancies and thus commensurate occupancy premium (b) persistent demand-supply mismatch (c) improving room mix with higher contribution from Premier category and (d) from demand dense regions to drive healthy ARR growth

LTHL's segment-wise ARR (Rs)



Source: Company, HDFC sec Inst Research

ARR Growth YoY (%)



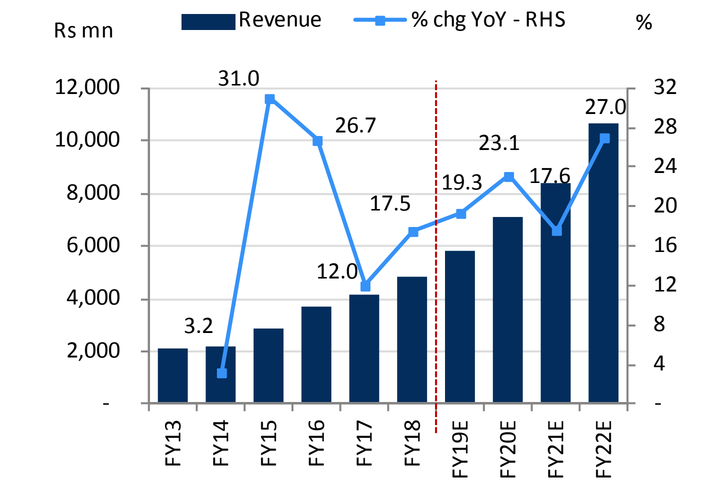
Source: Company, HDFC sec Inst Research

LTHL's revenue to grow at a healthy 22% CAGR and EBITDA at 32% (viz. triple) over FY18-22E

EBITDA margin to expand from 28% to 39% over FY18-22E owing to ARR led growth and higher contribution from hotels under management contracts

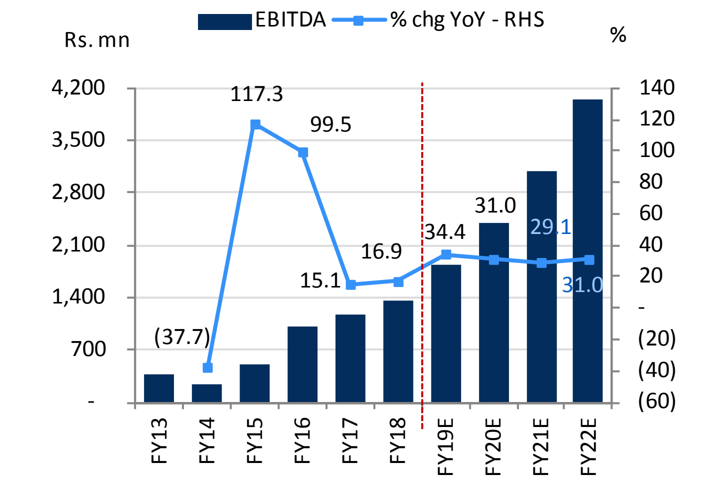
In FY19, we estimate EBITDA margin of 32.8% vs. mgmt guidance of 33-35%

Revenue trend



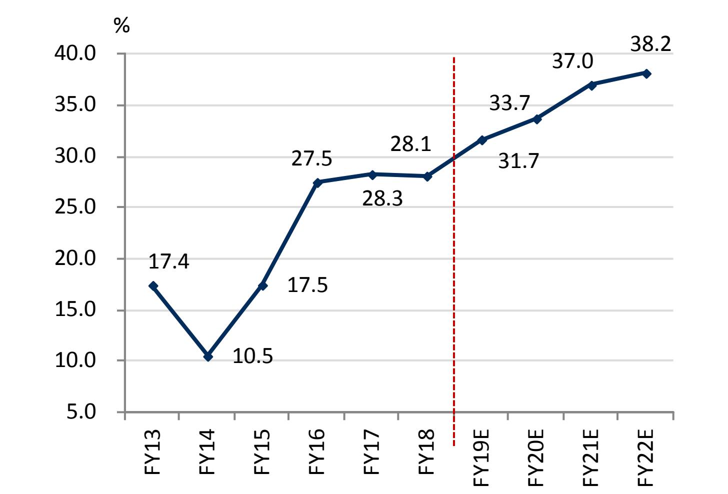
Source: Company, HDFC sec Inst Research

EBITDA trend



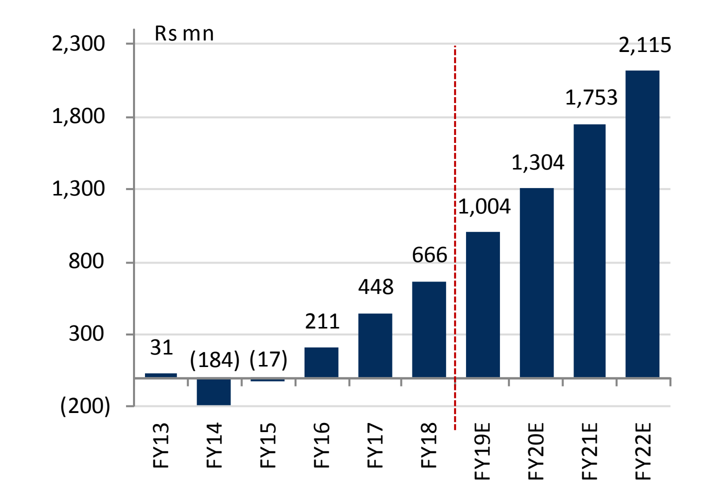
Source: Company, HDFC sec Inst Research

EBITDA Margin %



Source: Company, HDFC sec Inst Research

Cash Profit (PAT + Depreciation) (Rs. million)



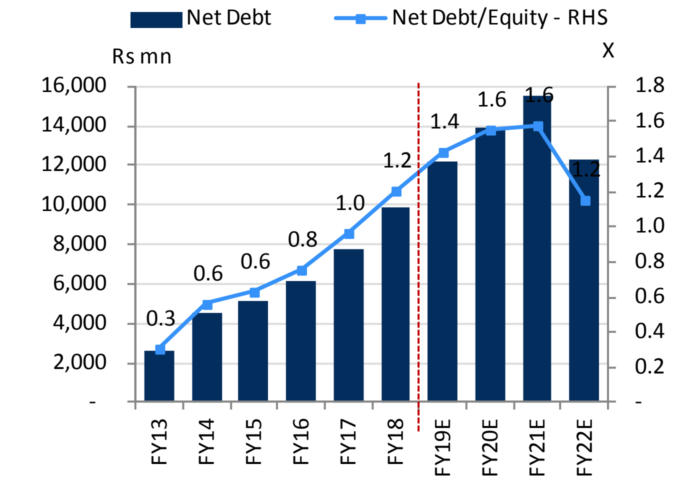
Source: Company, HDFC sec Inst Research

Leverage to remain under control. We estimate the net debt to peak at Rs 15bn by end FY21 as LTHL commences its Mumbai hotel.

Management estimate debt to peak by end of FY19 at Rs 14bn and to repay the same over next 4-5 years

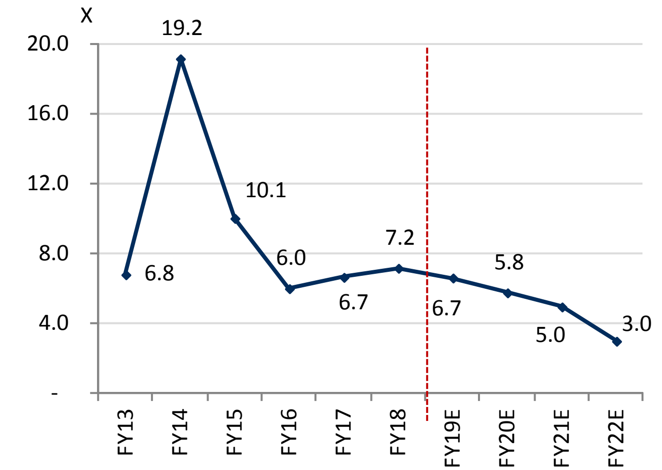
We appreciate LTHL's superior execution, however we remain conservative owing to (a) inherent cyclicality of the Hotel industry (b) execution risk such as delays in approval, cost overruns etc as a signficant driver of LTHL's EBITDA growth is driven by upcoming properties

Net Debt and Net Debt to Equity



Source: Company, HDFC sec Inst Research

Net Debt/EBITDA



Source: Company, HDFC sec Inst Research

Key assumptions

Consolidated	FY17	FY18	FY19E	FY20E	FY21E	FY22E
No of Rooms	2,855	3,277	3,865	3,865	4,225	4,896
ADR (Rs)	3,449	3,896	4,320	4,793	5,244	5,748
% chg YoY		***13.0***	***10.9***	***10.9***	***9.4***	***9.6***
Occupancy (%)	76.8%	75.4%	76.0%	75.3%	75.5%	75.4%
Revenue from operations	**4,121**	**4,843**	**5,779**	**7,113**	**8,367**	**10,625**
% chg YoY	***12.0***	***17.5***	***19.3***	***23.1***	***17.6***	***27.0***
Operating Cost	2,956	3,481	3,949	4,716	5,272	6,571
EBITDA	**1,165**	**1,361**	**1,830**	**2,398**	**3,095**	**4,054**
EBITDA margin %	***28.3***	***28.1***	***31.7***	***33.7***	***37.0***	***38.2***
% chg YoY	***15.1***	***16.9***	***34.4***	***31.0***	***29.1***	***31.0***
PBT	(3)	187	615	649	1,286	1,334
Tax	48	38	218	224	444	460
PAT	**(62)**	**146**	**398**	**425**	**842**	**874**
Cash Profit	**459**	**676**	**1,006**	**1,304**	**1,753**	**2,115**
Existing properties						
No of Rooms	2,855	3,277	3,277	3,277	3,277	3,277
ADR (Rs)	3,449	3,896	4,314	4,740	5,113	5,420
% chg YoY		***13.0***	***10.7***	***9.9***	***7.9***	***6.0***
Occupancy (%)	76.8%	75.9%	77.4%	77.9%	78.2%	78.3%
Revenue from operations	**4,121**	**4,843**	**5,617**	**6,271**	**6,817**	**7,287**
% chg YoY	***12.0***	***17.5***	***16.0***	***11.6***	***8.7***	***6.9***
Operating Cost	2,956	3,481	3,822	4,109	4,376	4,674
EBITDA	**1,165**	**1,361**	**1,795**	**2,163**	**2,441**	**2,613**
EBITDA margin %	*28.3*	*28.1*	*32.0*	*34.5*	*35.8*	*35.9*
% chg YoY	***15.1***	***16.9***	***31.9***	***20.5***	***12.9***	***7.1***
New properties						
No of Rooms			588	588	948	1,619
ADR (Rs)			4,507	5,177	5,816	6,496
% chg YoY				***14.9***	***12.4***	***11.7***
Occupancy (%)			47.0%	60.5%	65.6%	69.6%
Revenue from operations			**162**	**842**	**1,550**	**3,338**
% chg YoY			***-***	***418.9***	***84.1***	***115.4***
Operating Cost			128	607	896	1,898
EBITDA			**35**	**235**	**654**	**1,441**
EBITDA margin %			*21.4*	*27.9*	*42.2*	*43.2*
% chg YoY			***-***	***576.5***	***178.0***	***120.3***

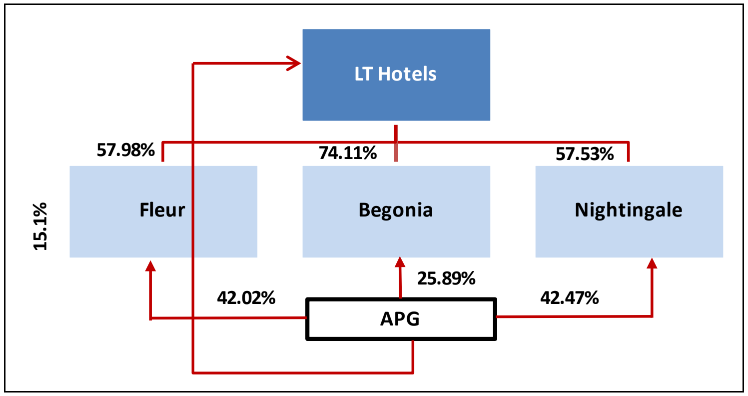
Source: Company, HDFC sec Inst Research

Effective ownership of LTHL in properties portfolio is ~77%

However revenue and EBITDA share would be lower owing to existing as well as majority of the incremental 'LT Premier' properties in higher ARR destination will be part of subsidiary Fleur where LTHL's holding is 58%

Corporate Structure

- Lemon Tree has four major subsidiaries. Three of these (Fleur, Begonia and Nightingale) are asset owing with APG viz. world's third largest Dutch based Pension fund. APG also holds 15% in Lemon Tree directly. APG invested in Lemon Tree and Fleur in 2012 and in Begonia in 2015.



Source: Company, HDFC sec Inst Research

Entity-wise Owned/leased keys ownership

	LT Standalone	Fleur	Begonia	Nightingale	Consolidated
Ownership (A)	100.0%	58.0%	74.1%	57.5%	
Operational Keys (Owned hotels)					
- LT Premier	330	627	-	-	957
- LT Hotels	830	476	65	190	1,561
- Red Fox	605	154	-	-	759
Sub total	**1,765**	**1,257**	**65**	**190**	**3,277**
Upcoming Keys					
- LT Premier	298	1,057	-	-	1,355
- LT Hotels	79	-	-	-	79
- Red Fox	-	91	-	-	91
Sub total	**377**	**1,148**	**-**	**-**	**1,525**
Consolidated Keys					
- LT Premier	628	1,684	-	-	2,312
- LT Hotels	909	476	65	190	1,640
- Red Fox	605	245	-	-	850
Sub total	**2,142**	**2,405**	**65**	**190**	**4,802**
Consolidated Keys (Mix %)					
- LT Premier	27.2	72.8	-	-	100.0
- LT Hotels	55.4	29.0	4.0	11.6	100.0
- Red Fox	71.2	28.8	-	-	100.0
Total (B)	**44.6**	**50.1**	**1.4**	**4.0**	**100.0**
LT Effective Holding (%) (A * B)	**44.6**	**29.0**	**1.0**	**2.3**	**76.9**

Source: Company, HDFC sec Inst Research

Hyderabad, Delhi-NCR and Bengaluru accounts for 70% of LTHL's existing room key;

Revenue and EBITDA contribution is expected to be higher

Any major disruption or increase in competitive intensity in these markets is a risk

LTHL's owned/leased properties: City-wise number of hotels and rooms

City	Hotel Count				Room Count				Room Mix** (%)			
	Premier	LTH	Red Fox	Total	Premier	LTH	Red Fox	Total	Premier	LTH	Red Fox	Total
Operational												
Hyderabad	1	2	1	4	267	274	121	662	8.1	8.3	3.7	20.1
New Delhi (NCR)	1	-	2	3	280	-	301	581	8.5	-	9.2	17.7
Gurugram (NCR)	3	2	1	6	222	153	154	529	6.8	4.7	4.7	16.1
Bengaluru	1	2	-	3	188	305	-	493	5.7	9.3	-	15.0
Jaipur	-	-	1	1	-	-	183	183	-	-	5.6	5.6
Pune	-	1	-	1	-	124	-	124	-	3.8	-	3.8
Chennai	-	1	-	1	-	108	-	108	-	3.3	-	3.3
Aurangabad	-	1	-	1	-	102	-	102	-	3.1	-	3.1
Indore	-	1	-	1	-	100	-	100	-	3.0	-	3.0
Ahmedabad	-	1	-	1	-	99	-	99	-	3.0	-	3.0
Goa	-	2	-	2	-	99	-	99	-	3.0	-	3.0
Chandigarh	-	1	-	1	-	81	-	81	-	2.5	-	2.5
Ghaziabad (NCR)	-	1	-	1	-	55	-	55	-	1.7	-	1.7
Bandhavgarh	-	1	-	1	-	33	-	33	-	1.0	-	1.0
Alleppey (Kerala)*	-	1	-	1	-	38	-	38	-	1.2	-	1.2
Sub Total	**6**	**17**	**5**	**28**	**957**	**1,571**	**759**	**3,287**	**29.1**	**47.8**	**23.1**	**100.0**
Upcoming												
Mumbai	2	-	-	2	875	-	-	875				
Pune	1	-	-	1	199	-	-	199				
Kolkata	1	-	-	1	142	-	-	142				
Udaipur	1	-	-	1	139	-	-	139				
Dehradun	-	-	1	1	-	-	91	91				
Shimla	-	1	-	1	-	69	-	69				
Sub Total	**5**	**1**	**1**	**7**	**1,355**	**69**	**91**	**1,515**				
Total	**11**	**18**	**6**	**35**	**2,312**	**1,640**	**850**	**4,802**				

Source: Company, HDFC sec Inst Research * Alleppey includes 10 new rooms expected to be opened in Oct-20; **Room mix is on existing inventory

Led by LTHL's strong brand presence in the mid-market segment, high growth tajectory we value it at 30x Sep20E EV/EBITDA with TP of Rs 86

Valuation snapshot

- Led by LTHL's strong brand presence in the mid-market segment, high growth tajectory (revenue to grow by 2.2x and EBITDA 3x over FY18-22E), superior execution, management quality and governance; we value it at 30x Sep20E EV/EBITDA (50% premium to Indian Hotels). Our TP for LTHL is Rs 86.
- LTHL's effective ownership in the portfolio of keys will be ~77%. However since the majority of expansion in the 'LT Premier' hotels is in the premium destinations of Mumbai, Udaipur etc would reside in subsidiary 'Fleur' which would contribute a significant portion of incremental growth.
- Thus, LT's effective share in revenue/EBITDA would be less than 77% (closer to 65-70%). However since, LT would also earn management fees (3-5%) from this hotels towards brand, sales and marketing etc; we are assuming the proportionate ownership at 75%. On proportionate ownership basis our TP for Lemon Tree would be Rs 65.

	Sep-20E Consolidated	Sep-20E Proportionate Ownership basis (75%)
EBITDA (Rs Mn)	2,746	2,060
Multiple (x)	30	30
Enterprise Value (Rs Mn)	82,390	61,792
(-) Net debt (Rs Mn)	14,705	11,029
Equity Value (Rs Mn)	67,685	50,764
O/s shares (Mn)	786	786
Value per share (Rs)	**86**	**65**
CMP (Rs)	68	68
Upside/Downside (%)	27%	-5%

Income Statement (Consolidated)

Year ending March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Revenues	**4,121**	**4,843**	**5,779**	**7,113**	**8,367**
Growth (%)	***12.0***	***17.5***	***19.3***	***23.1***	***17.6***
Material Expenses	353	436	498	595	693
Employee Expenses	969	1,096	1,261	1,550	1,739
Other Operating Expenses	1,634	1,950	2,190	2,571	2,841
Total Operating Costs	2,956	3,481	3,949	4,716	5,272
EBITDA	**1,165**	**1,361**	**1,830**	**2,398**	**3,095**
EBITDA Margin (%)	***28.3***	***28.1***	***31.7***	***33.7***	***37.0***
EBITDA Growth (%)	***15.1***	***16.9***	***34.4***	***31.0***	***29.1***
Depreciation	510	526	609	879	910
EBIT	**655**	**835**	**1,221**	**1,519**	**2,185**
Other Income (Including EO Items)	82	82	100	60	42
Interest	740	736	709	930	940
PBT	**(3)**	**181**	**612**	**649**	**1,286**
Tax (Incl Deferred)	48	38	218	224	444
Minority Interest	10	4	(0)	-	-
RPAT	**(62)**	**140**	**395**	**425**	**842**
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-
APAT	**(62)**	**140**	**395**	**425**	**842**
APAT Growth (%)	***(80.2)***	***(327.1)***	***181.8***	***7.6***	***98.3***
Adjusted EPS (Rs)	**(0.1)**	**0.2**	**0.5**	**0.5**	**1.1**
EPS Growth (%)	***(80.3)***	***(325.6)***	***181.8***	***7.6***	***98.3***

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

As at March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	7,812	7,864	7,864	7,864	7,864
Reserves	274	284	682	1,107	1,950
Total Shareholders' Funds	**8,086**	**8,148**	**8,546**	**8,971**	**9,814**
Non-controlling interests	4,284	4,286	4,286	4,286	4,286
Long Term Debt	6,907	9,313	13,038	14,994	16,494
Short Term Debt	1,131	839	923	1,015	1,116
Total Debt	**8,038**	**10,152**	**13,961**	**16,009**	**17,610**
Other Noncurrent liabilities	294	344	396	455	524
TOTAL SOURCES OF FUNDS	**20,701**	**22,931**	**27,189**	**29,722**	**32,233**
APPLICATION OF FUNDS					
Net Block	17,585	20,133	24,431	26,599	28,997
Other Noncurrent assets	3,696	3,067	2,025	2,068	2,113
Non Current Assets	**21,281**	**23,200**	**26,456**	**28,667**	**31,110**
Trade Receivables	314	525	484	637	786
Other Current Assets	282	526	288	336	405
Current Assets	**597**	**1,052**	**773**	**973**	**1,190**
Trade Payables	604	811	892	982	1,080
Other Current Liabilities	812	839	923	1,016	1,117
Current Liabilities	**1,416**	**1,651**	**1,816**	**1,997**	**2,197**
Net current Assets	**(819)**	**(599)**	**(1,043)**	**(1,025)**	**(1,007)**
Cash & Equivalents	239	330	1,776	2,079	2,130
TOTAL APPLICATION OF FUNDS	**20,701**	**22,931**	**27,189**	**29,722**	**32,233**

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

Year ending March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Reported PBT	(3)	181	612	649	1,286
Non-operating & EO Items	(82)	(82)	(100)	(60)	(42)
Interest Expenses	740	736	709	930	940
Depreciation	510	526	609	879	910
Working Capital Change	227	(221)	444	(19)	(18)
Tax Paid	(48)	(38)	(218)	(224)	(444)
OPERATING CASH FLOW (a)	**1,344**	**1,103**	**2,056**	**2,155**	**2,633**
Capex	(3,214)	(3,074)	(4,907)	(3,047)	(3,308)
Free Cash Flow	**(1,870)**	**(1,971)**	**(2,851)**	**(892)**	**(675)**
Investments & Others	804	679	1,094	16	23
Non-operating & EO Items	82	82	100	60	42
INVESTING CASH FLOW (b)	**(2,328)**	**(2,312)**	**(3,713)**	**(2,971)**	**(3,243)**
Debt Issuance/(Repaid)	1,724	2,114	3,809	2,048	1,601
Interest Expenses	(740)	(736)	(709)	(930)	(940)
FCFE	**(1,344)**	**(934)**	**(613)**	**(1,852)**	**(2,583)**
Share Capital Issuance	44	(78)	3	-	(0)
Dividend	-	-	-	-	-
FINANCING CASH FLOW (c)	**1,028**	**1,300**	**3,103**	**1,118**	**661**
NET CASH FLOW (a+b+c)	**44**	**91**	**1,447**	**303**	**50**
Closing Cash	**239**	**330**	**1,776**	**2,079**	**2,130**

Source: Company, HDFC sec Inst Research

Key Ratios

	FY17	FY18	FY19E	FY20E	FY21E
PROFITABILITY (%)					
GPM	28.3	28.1	31.7	33.7	37.0
EBITDA Margin	15.9	17.2	21.1	21.3	26.1
APAT Margin	(1.5)	2.9	6.8	6.0	10.1
RoE	(0.8)	1.7	4.7	4.9	9.0
RoIC (or Core RoCE)	3.3	3.1	3.3	3.7	5.0
RoCE	3.3	3.0	3.1	3.5	4.6
EFFICIENCY					
Tax Rate (%)	(1,455)	20.8	35.6	34.5	34.5
Asset Turnover (x)	0.2	0.2	0.2	0.3	0.3
Debtors (days)	27.9	39.6	30.6	32.7	34.3
Payables (days)	53.5	61.1	56.4	50.4	47.1
Cash Conversion Cycle (days)	(72.6)	(45.1)	(65.9)	(52.6)	(43.9)
Debt/EBITDA (x)	6.7	7.2	6.7	5.8	5.0
Net D/E	1.0	1.2	1.4	1.6	1.6
Interest Coverage	1.1	0.9	0.6	0.6	0.4
PER SHARE DATA (Rs)					
EPS	(0.1)	0.2	0.5	0.5	1.1
CEPS	0.6	0.8	1.3	1.7	2.2
Dividend					
Book Value	10.4	10.4	10.9	11.4	12.5
VALUATION					
P/E (x)	(861.6)	381.9	135.5	125.9	63.5
P/BV (x)	6.6	6.6	6.3	6.0	5.4
EV/EBITDA (x)	52.3	46.5	35.9	28.1	22.3
EV/Revenues (x)	2.2	1.7	3.1	3.2	3.8
OCF/EV (%)	(3.1)	(3.1)	(4.3)	(1.3)	(1.0)
FCF/EV (%)	(2.5)	(1.7)	(1.1)	(3.5)	(4.8)
FCFE/Mkt Cap (%)	15.2	13.5	12.2	10.5	9.8
Dividend Yield (%)	-	-	-	-	-

Source: Company, HDFC sec Inst Research

EIH

NOT RATED

INDUSTRY	HOTELS
CMP *(as on 08 Oct 2018)*	**Rs 141**
Fair Value	**Rs 156**
Nifty	10,348
Sensex	34,474

KEY STOCK DATA	
Bloomberg	EIH IN
No. of Shares (mn)	572
MCap (Rs bn) / ($ mn)	82/1,111
6m avg traded value (Rs mn)	58

STOCK PERFORMANCE (%)			
52 Week high / low			**Rs 232/132**
	3M	6M	12M
Absolute (%)	(10.8)	(12.3)	5.7
Relative (%)	(6.7)	(14.3)	(2.6)

SHAREHOLDING PATTERN (%)	
Promoters	35.3
FIs & Local MFs	15.3
FPIs	4.1
Public & Others	45.3

Source : BSE

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Luxury Play

EIH Ltd is a leading player in the ultra-premium (The Oberoi) and premium segment (The Trident) after Indian Hotels. EIH strong brand and healthy balance sheet are key positives. Re-opening of 220-room 'The Oberoi, Delhi' in Jan-18 after two years is key earning trigger in near term. This is in addition to industry led tailwind of demand outpacing supply driving superior ARR growth. We value EIH at par with Indian Hotels at 20x Sep-20E EV/EBITDA with fair value of Rs 156.

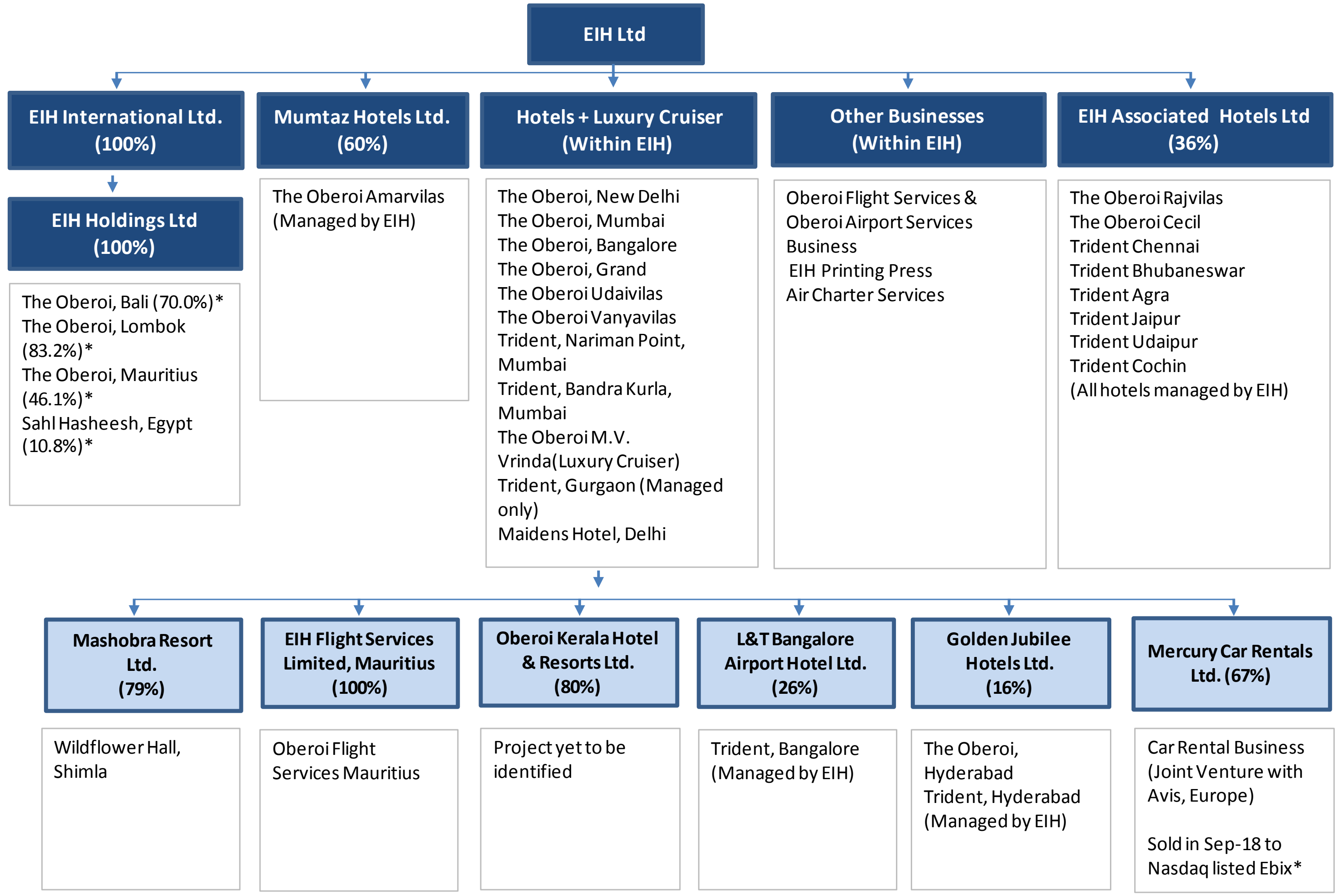
- **'Oberoi New Delhi', near term growth trigger:** EIH's prime property in Lutyens, 'Oberoi New Delhi', with 220 keys reopened in Jan-18. We estimate the company to have spent ~Rs 3.5-4bn in re-building the hotel. This is on the basis of peak CWIP of Rs 4.9bn as of Sep-17 vs. Rs 1.3bn in Mar-18 (~Rs 16mn/key).
- The property re-opening should help improve profitability. We believe that it could add Rs 1.5-2bn to revenues and Rs 0.7-1bn to EBITDA.
- **Unexciting expansion, DNA changing!:** Historically, Oberoi and Taj were the torch-bearer in the India's luxury segment. However, EIH's expansion domestically (and overall) has been soft. EIH's total number of keys including under management are ~1/3 of Indian Hotels (excluding budget brand 'Ginger').
- EIH has traditionally believed in owning assets which is capital intensive. However it is warming up to the asset-light strategy. Its luxury residence in Marrakech (Morocco) is a management contract and so is Sukhvilas (Chandigarh). Even the upcoming expansions at Khajuraho MP, Bengaluru are under management.
- **Investment in EIH Associated:** EIH Associated is a JV between EIH (36.8% stake) and Raheja Group (36.8%). EIH Associated has eight properties with ~867 keys. These hotels are managed by EIH only. <u>We value EIH's ~37% holding in EIH Associated at Rs 6/sh for EIH.</u>
- **RIL saves the takeover dread from ITC:** By early FY09, ITC had acquired a 14.98% stake in EIH. This prompted EIH to look for investors to defend any takeover attempts. In FY10, Analjit Singh's (Max India founder) private companies picked up ~4% stake in EIH. But, in Aug'10 Reliance Industries (through subsidiary) acquired 14.2% interest in EIH for ~Rs 72bn valuation, which was followed by Mr. Singh reducing his stake. RIL now owns an 18.5% stake in EIH through its subsidiary.
- **Valuations and view**: Historically, EIH has traded at marginal premium valuations to IHCL owing to its lower net debt/EBITDA and asset ownership. However, we ascribe EIH EV/EBITDA multiple similar to IHCL. This is owing to IHCL's wide foot-print, presence across segments (2-star to 5-star), well laid-out growth and margin expansion strategy and potential balance sheet strengthening through sale of non-core assets.

Consolidated Financial Summary

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	15,268	15,984	18,474	19,675	20,954
EBITDA	2,611	2,989	3,510	3,984	4,505
APAT	1,413	1,792	1,609	1,983	2,426
Diluted EPS (Rs)	2.5	3.1	2.8	3.5	4.2
P/E (x)	59.5	46.9	52.3	42.4	34.7
EV / EBITDA (x)	32.9	29.1	24.6	21.5	18.6
RoE (%)	5.1	6.3	5.5	6.5	7.5

Source: Company, HDFC sec Inst Research

Corporate Structure



Ebix is a a leading supplier of on-demand software and e-commerce services

Mumbai accounts for 2/3rd of the standalone keys

EIH's property portfolio

Property	No of Rooms	Year of opening
Hotels owned and operated by EIH Limited		
Trident, Nariman Point, Mumbai	555	1973
Trident, Bandra Kurla, Mumbai	436	2009
The Oberoi, Mumbai	333	1986
The Oberoi, New Delhi	220	1965
The Oberoi Grand, Kolkata	209	1938
The Oberoi, Bengaluru	158	1992
The Oberoi Udaivilās, Udaipur	82	2002
The Oberoi Vanyavilās, Ranthambhore	25	2001
Sub Total	**2,018**	
Hotels in which EIH Limited has ownership interest directly or through Subsidiary and managed directly or through a Subsidiary		
The Oberoi Amarvilās, Agra (part of Mumtaz Hotels Limited where EIH holds 60%)	102	2001
Wildflower Hall, Shimla (part of Mashora Resort Limited where EIH holds 78.8%)	85	2001
International Hotels		
The Oberoi, Bali, Indonesia	74	1978
The Oberoi, Lombok, Indonesia	50	1997
The Oberoi, Mauritius	163	2000
The Oberoi, Sahl Hasheesh, Egypt	102	2001
The Oberoi, Al Zohra, Ajman, UAE	89	2017
Sub Total	**665**	
Hotels managed by EIH Limited or a Subsidiary		
The Oberoi, Gurgaon	202	2011
The Oberoi, Dubai	252	2013
The Oberoi Zahra, Nile Cruiser	27	2007
Trident, Gurgaon	136	2004
The Oberoi Sukhvilās, Near Chandigarh	60	2016
Sub Total	**677**	

Source: Company, HDFC sec Inst Research

Property	No of Rooms	Year of opening
EIH Associated (EIH holds 36.8% in the company)		
The Oberoi Rajvilās, Jaipur	68	1997
The Oberoi Cecil, Shimla	75	1997
Trident, Chennai	167	1988
Trident, Agra	137	1993
Trident, Jaipur	132	1997
Trident, Udaipur	141	1998
Trident, Cochin	85	1999
Trident, Bhubaneswar	62	1986
Sub Total	**867**	
Grand Total	**4,227**	

Source: Company, Google, HDFC sec Inst Research

Upcoming Projects

International Brand	Location	Status	Ownership
The Oberoi, Marrakech	Morocco	Opening likely in 3QFY19	MC
The Oberoi, Casablanca	Morocco	Under construction but temporary on hold as the master plan of the development is undergoing a review by the Government of Morocco	MC
The Oberoi, Doha	Qatar	Opening likely in 3QFY20	MC
The Oberoi, luxury service apartments, Lusail	Qatar	Opening likely in 3QFY21	
The Oberoi, Luxury wildlife resort	Kenya	Opening likely in 3QFY20	
The Oberoi, Koh Samui	Thailand	Opening likely in 3QFY21	MC
The Trident, Koh Samui	Thailand	Opening likely in 3QFY21	MC
The Oberoi, Kathmandu	Nepal	Opening likely in 3QFY22	MC
Domestic			
The Oberoi, Rajgarh Palace, Khajuraho	Madhya Pradesh	Opening likely in 1QFY21	
The Oberoi Wildlife Resort Bandhavgarh	Madhya Pradesh	Opening likely in 3QFY21	MC
The Oberoi	Bengaluru	Pending approval of new guidelines from Bengaluru Development Authorities	
The Oberoi	Goa		

Source: Company, HDFC sec Inst Research

We value EIH at 20x Sep-20E EV/EBITDA; marginally lower than its historical average

Valuation Snapshot of EIH Limited

Sep-20E EBITDA	**4,245**
Target multiple	20
Enterprise Value (Rs Mn)	**84,892**
Net Debt (Rs Mn)	612
Equity Value (Rs Mn)	**85,505**
O/s shares (Mn)	572
Value per share (Rs)	**150**
Add: Value of EIH stake in EIHA	6
Value per share (Rs)	**156**
CMP (Rs)	142
Upside/Downside (%)	10%

Source: HDFC sec Inst Research

Implied value of stake in EIH

EIH Associated	
O/s shares (Mn)	30.5
TP (Rs)	309
Implied Mcap (Rs Mn)	9,400
EIH Ltd holding (%)	36.8%
Implied EIHA value for EIH (Rs Mn)	**3,459**
O/s shares (Mn)	572
Implied EIHA value per share for EIH (Rs)	**6**

Source: HDFC sec Inst Research

Income Statement (Consolidated)

Year ending March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Revenues	**15,268**	**15,984**	**18,474**	**19,675**	**20,954**
Growth (%)	***(8.0)***	***4.7***	***15.6***	***6.5***	***6.5***
Consumption of Provisions, Wines & Others	2,226	2,254	2,586	2,705	2,829
Employee Benefits Expense	4,307	4,611	5,173	5,411	5,658
Other Expenses	6,125	6,130	7,205	7,575	7,962
Total Operating Costs	12,657	12,995	14,964	15,691	16,449
EBITDA	**2,611**	**2,989**	**3,510**	**3,984**	**4,505**
EBITDA Margin (%)	***17.1***	***18.7***	***19.0***	***20.3***	***21.5***
EBITDA Growth (%)	***(24.2)***	***14.5***	***17.4***	***13.5***	***13.1***
Depreciation	1,281	1,173	1,343	1,352	1,368
EBIT	1,329	1,816	2,167	2,632	3,137
Interest Costs	179	231	293	235	117
Other Income	896	1,060	647	689	733
PBT before Exceptional items	2,047	2,645	2,521	3,086	3,754
Exceptional Items	(382)	-	-	-	-
Share of profit from associates and JV	118	169	194	223	256
PBT	**1,783**	**2,813**	**2,715**	**3,308**	**4,010**
Tax	600	855	923	1,125	1,363
RPAT	1,183	1,958	1,792	2,184	2,647
APAT	**1,413**	**1,792**	**1,609**	**1,983**	**2,426**
APAT Growth (%)	*(12.4)*	*26.8*	*(10.2)*	*23.2*	*22.3*
Adj EPS (Rs)	2.5	3.1	2.8	3.5	4.2
EPS Growth (%)	***(12.4)***	***26.8***	***(10.2)***	***23.2***	***22.3***

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

As at March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	1,143	1,143	1,143	1,143	1,143
Reserves	26,663	27,685	28,787	30,144	31,825
Total Shareholders' Funds	**27,807**	**28,828**	**29,930**	**31,287**	**32,968**
Non-controlling interests	558	701	786	880	986
Long Term Debt	2,142	2,933	2,493	2,119	1,801
Short Term Debt	1,456	2,096	1,920	1,779	1,665
Total Debt	**3,598**	**5,028**	**4,413**	**3,897**	**3,466**
Other Noncurrent liabilities	2,225	2,509	2,553	2,608	2,672
TOTAL SOURCES OF FUNDS	**34,187**	**37,067**	**37,682**	**38,671**	**40,092**
APPLICATION OF FUNDS					
Net Block	24,135	26,953	27,405	27,907	27,757
Other Noncurrent assets	7,396	7,962	8,326	8,499	8,711
Non Current Assets	**31,531**	**34,915**	**35,730**	**36,406**	**36,468**
Trade Receivables	1,811	2,238	2,350	2,467	2,591
Other Current Assets	1,757	1,327	1,393	1,463	1,536
Current Assets	**3,568**	**3,565**	**3,743**	**3,930**	**4,127**
Trade Payables	1,718	1,926	2,023	2,124	2,230
Other Current Liabilities	987	1,749	1,836	1,928	2,024
Current Liabilities	**2,705**	**3,675**	**3,859**	**4,052**	**4,254**
Net current Assets	**862**	**(110)**	**(116)**	**(122)**	**(128)**
Cash & Equivalents	1,794	2,262	2,068	2,388	3,751
TOTAL APPLICATION OF FUNDS	**34,187**	**37,067**	**37,682**	**38,671**	**40,092**

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

Year ending March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Reported PBT	1,783	2,813	2,715	3,308	4,010
Non-operating & EO Items	382	-	-	-	-
Interest Expenses	179	231	293	235	117
Depreciation	1,281	1,173	1,343	1,352	1,368
Working Capital Change	(359)	973	6	6	6
Tax Paid	(600)	(855)	(923)	(1,125)	(1,363)
OPERATING CASH FLOW (a)	**2,665**	**4,335**	**3,433**	**3,777**	**4,137**
Capex	(1,961)	(3,991)	(1,795)	(1,854)	(1,219)
Free Cash Flow	***705***	***344***	***1,638***	***1,922***	***2,919***
Investments & Others	53	(138)	(235)	(25)	(42)
Non-operating & EO Items	(382)	-	-	-	-
INVESTING CASH FLOW (b)	**(2,290)**	**(4,129)**	**(2,031)**	**(1,879)**	**(1,261)**
Debt Issuance/(Repaid)	411	1,431	(615)	(516)	(431)
Interest Expenses	(179)	(231)	(293)	(235)	(117)
FCFE	***(2,058)***	***(2,930)***	***(2,938)***	***(2,630)***	***(1,809)***
Share Capital Issuance	-	-	-	-	-
Dividend	(495)	(937)	(689)	(827)	(965)
FINANCING CASH FLOW (c)	**(263)**	**263**	**(1,597)**	**(1,578)**	**(1,513)**
NET CASH FLOW (a+b+c)	**113**	**469**	**(195)**	**320**	**1,364**
Closing Cash	**1,794**	**2,262**	**2,068**	**2,388**	**3,751**

Source: Company, HDFC sec Inst Research

Key Ratios

	FY17	FY18	FY19E	FY20E	FY21E
PROFITABILITY (%)					
GPM	85.4	85.9	86.0	86.3	86.5
EBITDA Margin	17.1	18.7	19.0	20.3	21.5
APAT Margin	9.3	11.2	8.7	10.1	11.6
RoE	5.1	6.3	5.5	6.5	7.5
RoIC (or Core RoCE)	2.6	3.5	3.8	4.6	5.3
RoCE	2.6	3.5	3.8	4.6	5.3
EFFICIENCY					
Tax Rate (%)	33.7	30.4	34.0	34.0	34.0
Asset Turnover (x)	0.6	0.6	0.7	0.7	0.8
Debtors (days)	43.3	51.1	46.4	45.8	45.1
Payables (days)	41.1	44.0	40.0	39.4	38.8
Cash Conversion Cycle (days)	20.6	(2.5)	(2.3)	(2.3)	(2.2)
Debt/EBITDA (x)	0.7	0.9	0.7	0.4	(0.1)
Net D/E	0.1	0.1	0.1	0.0	(0.0)
Interest Coverage	0.1	0.1	0.1	0.1	0.0
PER SHARE DATA (Rs)					
EPS	2.5	3.1	2.8	3.5	4.2
CEPS	4.7	5.2	5.2	5.8	6.6
Dividend	0.9	0.9	1.0	1.2	1.4
Book Value	48.6	50.4	52.4	54.7	57.7
VALUATION					
P/E (x)	57.4	45.3	50.4	40.9	33.5
P/BV (x)	2.9	2.8	2.7	2.6	2.5
EV/EBITDA (x)	31.8	28.1	23.8	20.8	18.0
EV/Revenues (x)	3.2	5.2	4.1	4.6	5.1
OCF/EV (%)	0.8	0.4	2.0	2.3	3.6
FCF/EV (%)	(2.5)	(3.6)	(3.6)	(3.2)	(2.2)
FCFE/Mkt Cap (%)	5.4	5.3	4.5	4.2	3.9
Dividend Yield (%)	0.6	0.6	0.7	0.8	1.0

Source: Company, HDFC sec Inst Research

EIH Associated

NOT RATED

INDUSTRY	HOTELS
CMP *(as on 08 Oct 2018)*	**Rs 307**
Fair Value	**Rs 313**
Nifty	10,348
Sensex	34,474
KEY STOCK DATA	
Bloomberg	OAH IN
No. of Shares (mn)	30
MCap (Rs bn) / ($ mn)	9/127
6m avg traded value (Rs mn)	17

STOCK PERFORMANCE (%)			
52 Week high / low			**Rs 692/296**
	3M	6M	12M
Absolute (%)	(26.7)	(39.0)	(15.0)
Relative (%)	(22.6)	(41.0)	(23.2)

SHAREHOLDING PATTERN (%)	
Promoters	75.0
FIs & Local MFs	0.0
FPIs	14.2
Public & Others	10.8

Source : BSE

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Good, but lacks trigger

EIH Associated (EIHA) is a JV between EIH (36.8% stake) and Raheja Group (36.8%). EIH Associated has eight properties with ~867 keys. We like EIHA owing to its relatively cheaper valuation, clean structure and debt-free balance sheet. However in absence of growth triggers either from expansion or through management contracts, we expect EIHA to remain cash cow and benefit from industry tailwinds. Further, Jaipur property renovation in the upcoming year (estimate FY20/21E) and partial renovation of Udaipur property in 1HFY19 is likely to drag performance.

We value EIH Associated at 11x EV/EBITDA viz. 21x implied PE (50% discount to IHCL/EIH and 67% to Lemon Tree) gives us a fair value of Rs 313. *Note: EIH Associated is the only listed hotel company with no subsidiaries, associates or Joint Venture.*

- **Portfolio of eight super-luxury and luxury properties:** EIH Associated has decent presence with eight properties and 867 keys in non-metro markets. EIH has two Super luxury properties under 'Oberoi' Brand at Jaipur and Shimla. It also has six luxury properties under 'Trident' Brand at leisure destinations of Agra, Jaipur, Udaipur and business hotels at Chennai, Cochin and Bhubaneswar.
- **Financial Performance:** EIHA's financial performance has been modest with FY16-18 revenue CAGR of 3.7%, EBITDA -3.7% and PAT -1.5%. Over FY18-21E, we estimate revenue, EBITDA and earnings CAGR of 3%, 7.2% and 8% respectively led by industry tailwinds of improving occupancy and higher ARR.
- **Jaipur renovation may drag performance:** EIHA had announced in May-17 (early FY18) for renovation of Jaipur property in FY19. However in Mar18, company deferred the renovation due to business conditions. Trident Jaipur accounts for ~15% (132 keys) of total 867 keys. We have assumed the renovation of Trident Jaipur partially in FY20/21E with additional capex of ~Rs 1bn. EIH has also undertaken partial renovation of Trident Udaipur between Apr-Oct18.
- **Mega M&A adds six properties in 2005-06:** In Apr-05 under scheme of arrangement, Indus Hotels Corporation Limited, a 50% JV between EIH and the R. Raheja Group, merged with EIH Associated. This was to achieve a balanced portfolio of business and leisure properties by creating a entity focused on the five star segments.
- Upon merger, the four hotels of Indus under 'Trident' located in Agra, Jaipur, Udaipur and Cochin was transferred to EIHA. Effective Apr-06, The Oberoi Cecil, Shimla and the Trident Bhubaneswar were transferred from EIH to EIHA. Post the merger, both EIH and Raheja group owns equally 36.8% in EIH Associated. Eventually EIHA got listed in 2008.

Consolidated Financial Summary

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	2,633	2,635	2,715	2,651	2,876
EBITDA	729	674	741	745	831
APAT	420	377	420	434	477
Diluted EPS (Rs)	13.8	12.4	13.8	14.2	15.7
P/E (x)	22.7	25.3	22.7	22.0	20.0
EV / EBITDA (x)	12.7	13.5	11.9	11.9	10.5
RoE (%)	16.0	12.9	13.3	12.7	13.0

Source: Company, HDFC sec Inst Research

We value EIHA at 11x Sep-20E EBITDA in line with its historical average

Hotels owned and operated by EIH Associated Limited

The Oberoi Rajvilās, Jaipur	68
The Oberoi Cecil, Shimla	75
Trident, Chennai	167
Trident, Agra	137
Trident, Jaipur	132
Trident, Udaipur	141
Trident, Cochin	85
Trident, Bhubaneswar	62
Sub Total	**867**

Source: Company, HDFC sec Inst Research

Valuation Snapshot

	Sep-20E
EBITDA (Rs Mn)	788
Target multiple (x)	11
Enterprise Value (Rs Mn)	8,669
(-) Net Debt (Rs Mn)	(731)
Equity Value (Rs Mn)	**9,400**
O/s shares (Mn)	30
Value per share (Rs)	**307**
CMP (Rs)	313
Upside/Downside (%)	**(2.0)**

Source: HDFC sec Inst Research

Income Statement

Year ending March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Revenues	**2,633**	**2,635**	**2,715**	**2,651**	**2,876**
Growth (%)	***7.4***	***0.1***	***3.0***	***(2.3)***	***8.5***
Consumption of Provisions, Wines & Others	211	212	209	209	233
Employee Benefits Expense	530	553	557	530	561
Other Expenses	1,163	1,196	1,208	1,166	1,251
Total Operating Costs	1,904	1,961	1,974	1,906	2,045
EBITDA	**729**	**674**	**741**	**745**	**831**
EBITDA Margin (%)	***27.7***	***25.6***	***27.3***	***28.1***	***28.9***
EBITDA Growth (%)	***0.3***	***(7.5)***	***9.9***	***0.5***	***11.6***
Depreciation	142	141	144	156	168
EBIT	587	534	598	589	663
Interest Costs	19	4	-	-	-
Other Income	81	57	45	73	66
PBT	649	587	642	663	730
Tax (Incl Deferred)	222	209	222	229	252
APAT	**420**	**377**	**420**	**434**	**477**
APAT Growth (%)	***8.7***	***(10.1)***	***11.3***	***3.2***	***10.1***
Adjusted EPS (Rs)	**13.8**	**12.4**	**13.8**	**14.2**	**15.7**
EPS Growth (%)	***8.7***	***(10.1)***	***11.3***	***3.2***	***10.1***

Source: Company, HDFC sec Inst Research

Balance Sheet

As at March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	305	305	305	305	305
Reserves	2,506	2,718	2,991	3,240	3,496
Total Shareholders Funds	**2,810**	**3,023**	**3,295**	**3,545**	**3,801**
Long Term Debt	7	12	9	10	10
Short Term Debt	-	-	-	-	-
Total Debt	**7**	**12**	**9**	**10**	**10**
Other Non current liabilities	224	312	327	343	359
TOTAL SOURCES OF FUNDS	**3,041**	**3,346**	**3,631**	**3,897**	**4,170**
APPLICATION OF FUNDS					
Net Block	2,505	2,460	2,534	2,878	2,960
Other Non current assets	215	374	272	268	302
Non Current Assets	**2,719**	**2,833**	**2,806**	**3,146**	**3,262**
Trade Receivables	232	285	280	266	288
Other Current Assets	219	190	217	212	226
Current Assets	**451**	**475**	**497**	**478**	**514**
Trade Payables	277	317	292	286	317
Other Current Liabilities	135	93	114	103	109
Current Liabilities	**412**	**410**	**406**	**389**	**426**
Net current Assets	**38**	**65**	**91**	**89**	**88**
Cash & Equivalents	284	448	735	662	820
TOTAL APPLICATION OF FUNDS	**3,041**	**3,346**	**3,631**	**3,897**	**4,170**

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

Year ending March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Reported PBT	649	587	642	663	730
Non-operating & EO Items	-	-	-	-	-
Interest Expenses	19	4	-	-	-
Depreciation	142	141	144	156	168
Working Capital Change	64	(27)	(26)	2	1
Tax Paid	(222)	(209)	(222)	(229)	(252)
OPERATING CASH FLOW (a)	**653**	**496**	**539**	**592**	**646**
Capex	(81)	(96)	(218)	(500)	(250)
Free Cash Flow	***572***	***400***	***321***	***92***	***396***
Investments & Others	206	(71)	117	20	(17)
Non-operating & EO Items	-	-	-	-	-
INVESTING CASH FLOW (b)	**125**	**(167)**	**(101)**	**(480)**	**(267)**
Debt Issuance/(Repaid)	(345)	5	(2)	1	(1)
Interest Expenses	(19)	(4)	-	-	-
FCFE	***(239)***	***(166)***	***(104)***	***(479)***	***(267)***
Share Capital Issuance	-	(0)	(1)	(1)	(1)
Dividend	(165)	(165)	(147)	(184)	(221)
FINANCING CASH FLOW (c)	**(529)**	**(165)**	**(151)**	**(184)**	**(222)**
NET CASH FLOW (a+b+c)	**248**	**164**	**287**	**(72)**	**157**
Closing Cash	**283**	**447**	**734**	**662**	**819**

Source: Company, HDFC sec Inst Research

Key Ratios

	FY17	FY18	FY19E	FY20E	FY21E
PROFITABILITY (%)					
GPM	92.0	92.0	92.3	92.1	91.9
EBITDA Margin	27.7	25.6	27.3	28.1	28.9
EBIT Margin	22.3	20.2	22.0	22.2	23.1
APAT Margin	15.9	14.3	15.5	16.4	16.6
RoE	16.0	12.9	13.3	12.7	13.0
Core ROCE	13.7	12.2	13.5	12.6	13.2
RoCE	13.0	10.8	11.2	10.3	10.8
EFFICIENCY					
Tax Rate (%)	34.1	35.6	34.5	34.5	34.5
Asset Turnover (x)	1.1	1.1	1.1	0.9	1.0
Debtors (days)	32.2	39.5	37.6	36.7	36.5
Payables (days)	38.4	43.9	39.3	39.4	40.3
Cash Conversion Cycle (days)	5.3	9.0	12.2	12.2	11.2
Debt/EBITDA (x)	(0.4)	(0.6)	(1.0)	(0.9)	(1.0)
Net D/E	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Interest Coverage	0.0	0.0	-	-	-
PER SHARE DATA (Rs)					
EPS	13.8	12.4	13.8	14.2	15.7
CEPS	18.4	17.0	18.5	19.3	21.2
Dividend	4.5	4.5	4.0	5.0	6.0
Book Value	92.2	99.2	108.2	116.3	124.7
VALUATION					
P/E (x)	22.7	25.3	22.7	22.0	20.0
P/BV (x)	3.4	3.2	2.9	2.7	2.5
EV/EBITDA (x)	12.7	13.5	11.9	11.9	10.5
EV/Revenues (x)	7.0	5.4	6.1	6.7	7.4
OCF/EV (%)	6.2	4.4	3.6	1.0	4.5
FCF/EV (%)	(2.5)	(1.7)	(1.1)	(5.0)	(2.8)
FCFE/Mkt Cap (%)	3.5	3.5	3.2	3.4	3.0
Dividend Yield (%)	1.4	1.4	1.3	1.6	1.9

Source: Company, HDFC sec Inst Research

Taj GVK

NOT RATED

INDUSTRY	**HOTELS**
CMP *(as on 08 Oct 2018)*	**Rs 159**
Fair Value	**Rs 205**
Nifty	10,348
Sensex	34,474

KEY STOCK DATA	
Bloomberg	TAJG IN
No. of Shares (mn)	63
MCap (Rs bn) / ($ mn)	10/135
6m avg traded value (Rs mn)	49

STOCK PERFORMANCE (%)

52 Week high / low			**Rs 264/149**
	3M	6M	12M
Absolute (%)	(27.8)	(7.7)	(12.5)
Relative (%)	(23.7)	(9.7)	(20.7)

SHAREHOLDING PATTERN (%)	
Promoters	75.0
FIs & Local MFs	10.1
FPIs	1.3
Public & Others	13.6

Source : BSE

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Play on Hyderabad market

Taj GVK Hotels and Resort is a JV between GVK group individuals (49.5% holding) and Indian Hotels (25.5%). Taj GVK is prima facie a play on the Hyderabad market with four properties out of six (66% of room inventory). Industry tailwinds and growth from Taj Santacruz, Mumbai (279 rooms) opened in 4QFY16 are key triggers. Renovation of 200 rooms at Taj Krishna and Deccan in Hyderabad over FY19-20 may drag performance in near term.

We value TajGVK at 11x EV/EBITDA for Standalone business and Taj Santacruz at 15x EV/EBITDA for its 49.5% proportionate share. Our fair price for Taj GVK is Rs 205.

- **Hyderabad key market with 66% of keys:** Taj GVK standalone operations has six properties viz. four in Hyderabad (66% of hotels and keys) and one each in Chennai and Chandigarh. Taj GVK's dependence on Hyderabad market is thus high viz. on demand from Pharma, Biotech and IT sector. Near term demand outlook looks positive.
- **Occupancies showed a sharp improvement in FY18:** Taj GVK's ARR was broadly flat in FY18 at Rs 5,264; while occupancy improved from 57% to 63%. Overall revenues thus grew by 9% YoY in FY18. However, phased renovation of 150-rooms at Taj Krishna and 50-rooms at Taj Deccan over FY19-20 to marginally drag performance. But, Taj GVK should be able to off-set this through ARR growth.
- **Financial Performance:** Taj GVK's revenue and EBITDA grew by 5/14% CAGR over FY15-18. We estimate the revenue/EBITDA and PAT to grow by 6/10/18% CAGR over FY18-21E led by further improvement in occupancies and ARR growth.
- **Geographic concentration risk diversified:** Geographic concentration and political instability during FY08-15 that lead to eventual division of AP state into AP and Telangana were key concerns for Taj GVK. Moreover, three properties Taj Krishna, Taj Deccan, and Taj Banjara are within close vicinity of each other. Taj GVK reduced the same by opening new property of Chennai in FY12 and Mumbai in FY16.
- **Taj Santacruz, the near term growth trigger:** Taj GVK opened its Santacruz property of 279 rooms in Jan-16. Taj Santacruz property is in a JV company Greenwoods where Taj GVK own 49.5% and balance by GVK group. Taj GVK contributed equity of Rs 1.1bn in FY12.
- Just in the second year of operations in FY18, the property registered healthy revenue of Rs 1.23bn (+24% YoY) and EBITDA of Rs 484mn (+39% YoY). As the property stabilizes and occupancies rise, we expect the performance to improve further. Ascribing 15x EV/EBITDA to property, we foresee Taj Santacruz contributing ~40% to our Taj GVK's fair value of Rs 205.

Consolidated Financial Summary

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	2,645	2,883	2,922	3,102	3,450
EBITDA	579	716	730	807	940
APAT	102	212	195	253	348
Diluted EPS (Rs)	1.6	3.4	3.1	4.0	5.6
P/E (x)	98.1	47.3	51.3	39.7	28.8
EV / EBITDA (x)	21.7	17.0	16.5	14.7	12.3
RoE (%)	2.8	5.7	5.0	6.2	8.1

Source: Company, HDFC sec Inst Research

Portfolio of properties

Taj Krishna, Hyderabad	260
Vivanta by Taj - Begumpet, Hyderabad	181
Taj Banjara - Hyderabad	122
Taj Deccan, Hyderabad	151
Taj Club House, Chennai	220
Taj Chandigarh, Chandigarh	149
Sub Total	**1,083**
Taj Santacruz	279
Total	**1,362**

Source: Company, HDFC sec Inst Research

Taj Santacruz Financial Snapshot

	FY17	FY18	FY19E	FY20E	FY21E
Revenue	**992**	**1,227**	**1,379**	**1,527**	**1,649**
Opex	644	743	780	819	860
EBITDA	**348**	**484**	**598**	**708**	**789**
Margin %	**35.1**	**39.5**	**43.4**	**46.4**	**47.8**
Depreciation	256	257	263	270	276
Finance cost	273	259	216	165	108
PBT	**(181)**	**(32)**	**119**	**273**	**404**
Ky assumptions					
No of rooms	279	279	279	279	279
Occupancy %	70%	75%	78%	80%	80%
TRevPAR (Rs)	13,910	16,069	17,355	18,743	20,242

Source: Company, HDFC sec Inst Research

Valuation Snapshot: Taj Santacruz

	Sep-20E
EBITDA (Rs Mn)	748
Multiple (x)	15
EV (Rs Mn)	11,226
Net Debt (Rs Mn)	1,140
Equity Value (Rs Mn)	10,086
Taj GVK Holding (%)	49%
Taj GVK Equity share (Rs Mn)	4,942

Source: HDFC sec Inst Research

Valuation Snapshot: Taj GVK

	Sep-20E
EBITDA (Rs Mn)	873
Multiple (x)	11
EV (Rs Mn)	9,606
Net Debt (Rs Mn)	1,712
Equity Value (Rs Mn)	7,894
Share in Taj GVK (Rs Mn)	4,942
Total Equity Value (Rs Mn)	**12,836**
No of O/s shares (Mn)	63
Value Per Share (Rs)	**205**
CMP (Rs)	**163**
Upside/(Downside) %	25.6%

Source: HDFC sec Inst Research

Income Statement (Standalone)

Year ending March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Revenues	**2,645**	**2,883**	**2,922**	**3,102**	**3,450**
Growth (%)	***(2.0)***	***9.0***	***1.4***	***6.2***	***11.2***
Consumption of Provisions, Wines & Others	310	316	336	349	379
Employee Benefits Expense	606	625	628	659	716
Other Expenses	1,150	1,225	1,227	1,287	1,414
Total Operating Costs	**2,066**	**2,166**	**2,191**	**2,296**	**2,510**
EBITDA	**579**	**716**	**730**	**807**	**940**
EBITDA Margin (%)	***21.9***	***24.8***	***25.0***	***26.0***	***27.3***
EBITDA Growth (%)	***(7.8)***	***23.7***	***2.0***	***10.4***	***16.6***
Depreciation	181	173	233	236	238
EBIT	**398**	**544**	**497**	**570**	**702**
Interest Costs	291	250	233	223	205
Other Income	53	26	34	38	33
PBT	**186**	**320**	**297**	**385**	**530**
Tax (Incl Deferred)	83	110	102	132	182
RPAT	**102**	**212**	**195**	**253**	**348**
APAT Growth (%)	***24.6***	***107.3***	***(7.8)***	***29.4***	***37.7***
Adjusted EPS (Rs)	**1.6**	**3.4**	**3.1**	**4.0**	**5.6**
EPS Growth (%)	***24.6***	***107.3***	***(7.8)***	***29.4***	***37.7***

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

As at March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	125	125	125	125	125
Reserves	3,499	3,682	3,832	4,024	4,312
Total Shareholders Funds	**3,625**	**3,807**	**3,957**	**4,150**	**4,438**
Long Term Debt	2,272	1,967	1,868	1,775	1,686
Short Term Debt	277	308	323	339	356
Total Debt	**2,550**	**2,274**	**2,191**	**2,114**	**2,042**
Other Non current liabilities	605	647	665	684	703
TOTAL SOURCES OF FUNDS	**6,779**	**6,728**	**6,813**	**6,947**	**7,183**
APPLICATION OF FUNDS					
Net Block	5,171	5,080	5,060	5,112	5,145
Other Non current assets	1,767	1,810	1,828	1,845	1,855
Non Current Assets	**6,938**	**6,891**	**6,889**	**6,957**	**7,000**
Trade Receivables	114	193	156	169	201
Other Current Assets	288	244	263	293	309
Current Assets	**402**	**437**	**419**	**462**	**511**
Trade Payables	480	624	526	598	678
Other Current Liabilities	121	128	131	127	129
Current Liabilities	**602**	**752**	**658**	**725**	**807**
Net current Assets	**(199)**	**(315)**	**(238)**	**(263)**	**(296)**
Cash & Equivalents	41	153	163	253	479
TOTAL APPLICATION OF FUNDS	**6,779**	**6,728**	**6,813**	**6,947**	**7,183**

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

Year ending March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Reported PBT	186	320	297	385	530
Non-operating & EO Items	(26)	-	-	-	-
Interest Expenses	291	250	233	223	205
Depreciation	181	173	233	236	238
Working Capital Change	13	116	(77)	24	33
Tax Paid	(83)	(110)	(102)	(132)	(182)
OPERATING CASH FLOW (a)	**562**	**748**	**585**	**736**	**824**
Capex	(108)	(82)	(213)	(288)	(270)
Free Cash Flow	454	666	372	448	554
Investments & Others	18	(1)	0	2	9
Non-operating & EO Items	26	-	-	-	-
INVESTING CASH FLOW (b)	**(64)**	**(84)**	**(213)**	**(286)**	**(261)**
Debt Issuance/(Repaid)	(153)	(275)	(83)	(77)	(72)
Interest Expenses	(291)	(250)	(233)	(223)	(205)
FCFE	(507)	(609)	(529)	(586)	(538)
Share Capital Issuance	-	-	-	-	-
Dividend	(32)	(28)	(45)	(60)	(60)
FINANCING CASH FLOW (c)	**(475)**	**(553)**	**(362)**	**(361)**	**(337)**
NET CASH FLOW (a+b+c)	**23**	**112**	**11**	**89**	**226**
Closing Cash	**41**	**153**	**163**	**253**	**479**

Source: Company, HDFC sec Inst Research

Key Ratios

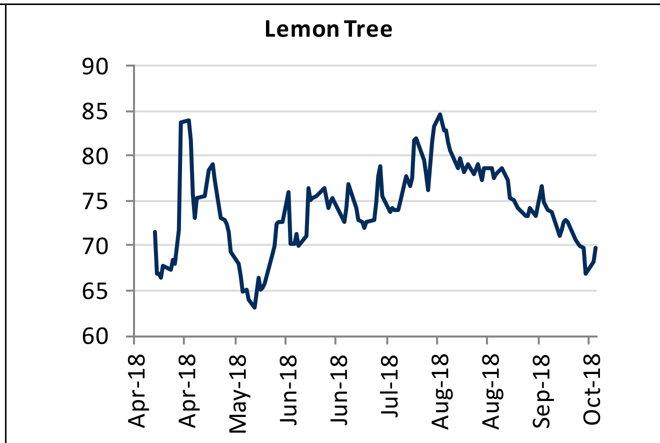
	FY17	FY18	FY19E	FY20E	FY21E
PROFITABILITY (%)					
GPM	88.3	89.0	88.5	88.8	89.0
EBITDA Margin	21.9	24.8	25.0	26.0	27.3
APAT Margin	15.0	18.9	17.0	18.4	20.4
RoE	3.9	7.4	6.7	8.2	10.1
RoIC (or Core RoCE)	2.8	5.7	5.0	6.2	8.1
RoCE	4.5	7.3	6.7	7.5	8.9
EFFICIENCY					
Tax Rate (%)	44.3	34.4	34.3	34.3	34.3
Asset Turnover (x)	0.5	0.6	0.6	0.6	0.7
Debtors (days)	15.7	24.5	19.5	19.9	21.3
Payables (days)	66.3	79.1	65.7	70.4	71.7
Cash Conversion Cycle (days)	(27.5)	(39.9)	(29.8)	(30.9)	(31.3)
Debt/EBITDA (x)	4.3	3.0	2.8	2.3	1.7
Net D/E	0.7	0.6	0.5	0.4	0.4
Interest Coverage	0.7	0.5	0.5	0.4	0.3
PER SHARE DATA (Rs)					
EPS	1.6	3.4	3.1	4.0	5.6
CEPS	4.5	6.1	6.8	7.8	9.3
Dividend	0.4	0.6	0.6	0.8	0.8
Book Value	57.8	60.7	63.1	66.2	70.8
VALUATION					
P/E (x)	98.1	47.3	51.3	39.7	28.8
P/BV (x)	2.8	2.6	2.5	2.4	2.3
EV/EBITDA (x)	21.7	17.0	16.5	14.7	12.3
EV/Revenues (x)	4.5	6.2	4.9	6.2	7.1
OCF/EV (%)	3.6	5.5	3.1	3.8	4.8
FCF/EV (%)	(5.1)	(6.1)	(5.3)	(5.8)	(5.4)
FCFE/Mkt Cap (%)	4.7	4.2	4.1	3.8	3.4
Dividend Yield (%)	0.3	0.4	0.4	0.5	0.5

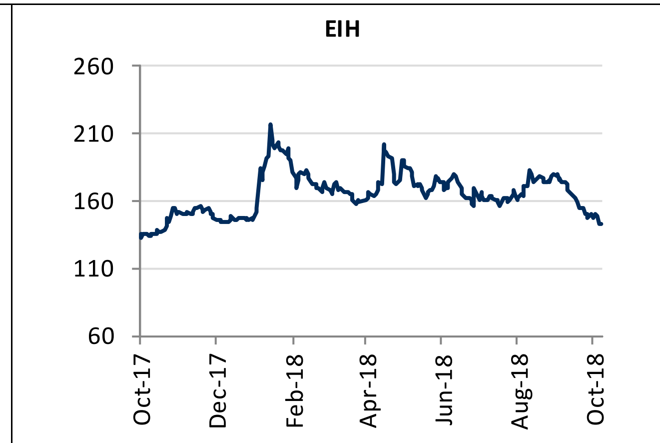
Source: Company, HDFC sec Inst Research

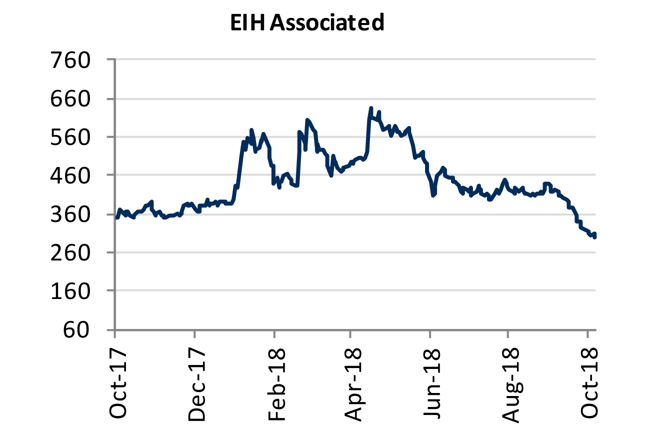
Glossary

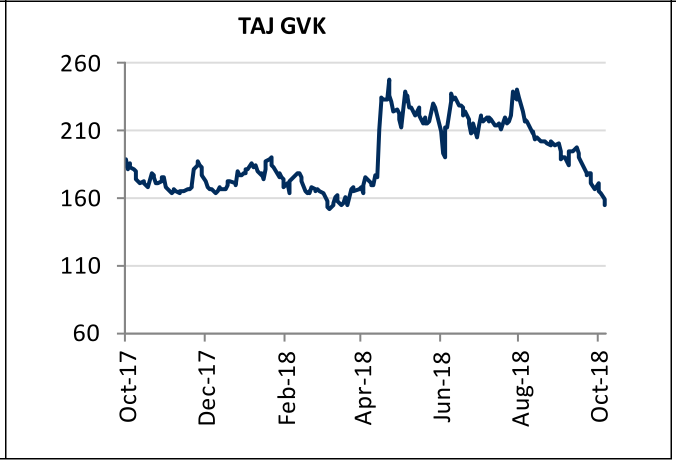
- ARR(s) Average Room Rate (s)
- MICE Meetings, Incentives, Conferences, Events
- F&B Food and Beverages
- RevPAR Revenue per available room per day
- TRevPAR Total Revenue per available room per day
- OR Occupancy Rate

1yr Price Movement









Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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