Initiating Coverage

EIH Limited

14 January 2021

Reuters: EIHO.BO; Bloomberg: EIH:IN

Reduced pandemic impact, cyclical upswing, strong brand and locational advantage to drive growth

We initiate coverage on EIH Ltd with a Buy rating and a target price (TP) of Rs116 based on 16x FY23E EV/EBITDA. The strong impact of Covid 19 outbreak led to a sharp decline in the company's stock price by 63% from Rs149 in January 2020 to Rs55 in May 2020. While the stock price has increased to Rs97 now, in our view, it does not fully incorporate the strong growth in earnings post the pandemic.

On an overall sectoral basis, our optimism is driven by strong pricing power and better occupancies in branded hotels due to the expected closure of 10-20% of the branded room supply in the wake of the pandemic, as per hotel experts. Further, expectation of sustained cost reduction of 10-20% will help grow earnings since the hotel sector has high operating leverage.

Our sectoral optimism is further supported by key strengths of EIH Ltd which include the following: (1) Better locations and strong brand have ensured healthy occupancy levels (2) An experienced promoter has helped in acquiring properties at good locations (3) A strong balance sheet with negligible net debt to equity ratio at 0.11x in FY20 has helped alleviate stress caused due to the Covid 19 impact. We expect net debt to equity of 0.19x in FY21 (4) Expected strong growth in operating cash flow and FCF yield.

We have valued EIH Ltd at 16x FY23 EV/EBITDA and arrived at a TP of Rs116, which implies an upside of 19% from the current market price (CMP). In our valuation, we have not included some of the forthcoming hotels due to lack of data from the company. Currently, the company has 4,572 rooms, which are expected to increase to 4,824 rooms in FY23E.

Pandemic impact expected to reduce room supply by 10-20% as per experts; will help improve pricing power which will drive ARR and occupancy in existing hotels: Post pandemic, industry experts have opined that the demand-supply scenario will become more favaorable for the survivors since ~10-20% of the branded room supply in India is expected to be removed due to the impact of the pandemic. Further, pre-pandemic demand-supply ratio had already turned favorable, which had led to continued improvement in pricing power. This favorable demand-supply ratio will get accentuated due to the reduction in number of branded rooms. The changing supply-demand mix led to an increase in the overall occupancy level from 57% in FY13 to 68% in FY18 and is expected to rise further. EIH Ltd had an average ARR of Rs12,200 in FY19 and Rs11,970 in FY20 (pre pandemic), relative to average industry ARR of Rs10,656 for five star deluxe category in CY2019 (*Source: 2019 Indian Hospitality Trends & Opportunities, Hotelivate)* due to: (1) The good locations of its properties (2) Strong brands like "Oberoi" and "Trident".

Strategy focused on luxury, super luxury range; beneficiary of strong experience of promoter, strong brand and advantageous locations: EIH Ltd is primarily focused on luxury and super luxury hotels with brands like "Oberoi" and "Trident". The company's brand equity has been built over the past 61 years in India and has been extremely judicious and conservative in expansion. Consequently, it has built a relatively small but marquee properties across India with strong locational advantage. As per its expansion plans, the company plans to add only 252 rooms in 2 hotels across India and abroad by FY23E. Further, the company plans to build 6 hotels which have not been included in our valuations due to lack of data.

EBDITA margin to expand to 24.5% in FY23E - driven by revenue growth, sustained cost reduction: With gradual but steady normalization of the economy, we expect strong revenue growth (from Rs5.4bn in FY21E to Rs19.3bn in FY23E), driven by the anticipated normalization of demand from MICE and corporates FY22 onwards, which has been muted due to the impact of the pandemic. The strong revenue growth is expected to be supported by robust revpar growth due to the closure of some hotels, as mentioned above. With the cyclical upturn in the industry, the company is expected to benefit from more favorable industry dynamics.

This is supported by the anticipated sustained cost reduction, which is expected to drive EBITDA from Rs(2.5)bn in FY21E to Rs4.7bn in FY23E. This would imply EBITDA margin expansion to 24.5% by FY23E vs. EBITDA margin of 18.2% in FY20. We expect the cost reduction to be driven by (1) Reduction in employee cost due to reduction in employee/room ratio (2) Sustained reduction in heat, light and power costs.

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Revenues	18,108	15,963	5,361	15,532	19,307
YoY (%)	*13.3*	*(11.8)*	*(66.4)*	*189.7*	*24.3*
EBITDA	4,059	2,903	(2,459)	4,094	4,735
EBITDA Margin (%)	*22.4*	*18.2*	*(45.9)*	*26.4*	*24.5*
PAT	1,367	1,653	(3,633)	1,603	2,325
YoY (%)	*(23.6)*	*20.9*	*(319.8)*	*144.1*	*45.0*
Adjusted PAT	1,315	1,488	(3,597)	1,587	2,301
YoY (%)	*(26.6)*	*13.1*	*(341.7)*	*144.1*	*45.0*
EPS (Rs)	2.3	2.6	(5.8)	2.5	3.7
RoE (%)	*4.4*	*4.7*	*(11.5)*	*4.9*	*6.8*
EV/EBITDA (x)	14.8	20.6	(27.4)	16.4	13.5
P/E (x)	42.13	37.24	NA	38.21	26.35

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Hotel

CMP: Rs97

Target Price: Rs116

Upside: 19%

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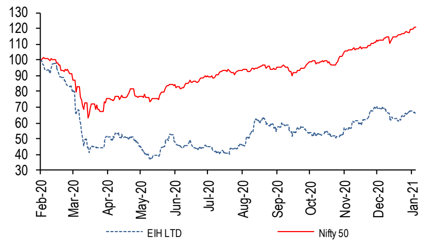
Key Data

Current Shares O/S (man)	571.6
Mkt Cap (Rsbn/US$mn)	55.3/755.6
52 Wk H / L (Rs)	150/54
Daily Vol. (3M NSE Avg.)	978,993

Share holding (%)	2QFY21	1QFY21	4QFY20
Promoters	35.3	35.3	35.3
Public	64.8	64.8	64.8
Others	-	-	-

One Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
EIH Limited	(3.7)	51.0	(31.9)
Nifty Index	7.8	34.8	18.1

Source: Bloomberg

Strong balance sheet; even post pandemic: Pre-pandemic, EIH Ltd had a net debt to equity ratio of 0.11x as on FY20. Despite the strong impact of Covid 19, post the QIP in FY21, we expect the net debt to equity ratio of 0.19x. The gross outstanding debt in FY20 was Rs4.8bn compared to Rs5.5bn in FY19. We expect gross debt to increase to Rs7.7bn in FY21 before trending down to Rs6.97bn in FY22E. Our assumptions include the company's stated expansion plans and the capex required for the same. Further, we expect the interest coverage ratio to improve from (5.2x) in FY21E to 5.6x in FY23E.

Strong growth in operating cash flow to support capex: We expect strong growth in operating cash flow from Rs(347)mn in FY21E to Rs3.5bn in FY23E. We expect the FCFF to improve from of Rs(2.1bn) in FY21E to Rs1.08bn in FY23E.

We assign Buy rating to EIH with a TP of Rs116: Our TP of Rs116 is based on 16x FY23E EV/EBITDA. Our valuation is driven by the cyclical upswing in the hotel sector with an improvement in ARR and occupancies, which will be further accentuated by the reduction in avaliability of branded rooms due to the pandemic and sustained cost reduction. Higher revenue, together with a relatively muted increase in costs and high operational leverage are expected to lead to strong growth in EBITDA. Our optimism is further underpinned by a strong balance sheet despite the impact of the pandemic and attractive FCFF yield.

Investment summary

We initate coverage on EIH Ltd with a Buy rating. Consistent and steady improvement in the operating environment post the pandemic is expected to lead to normalization of business and social environment, driving occupancies and ARR. Despite the strong adverse impact of the pandemic, the company has maintained a strong balance sheet. Normalization will drive earnings growth, which is expected to result in strong cash flows. Our expectation of strong revpar growth is supported by advantageous location of its properties, strong brand equity (which has been built over many decades) and a loyal clientele. Earnings growth will be driven by the expected cost reduction apart from revenue growth due to the reasons mentioned above.

The stock declined sharply by 63% from Rs149 in January 2020 to Rs55 in May 2020 due to the impact of the pandemic. Though the stock price has increased by 76% from it's lows, in our view, it does not fully capture the expected growth in future earnings.

Our optimism on the stock is driven by the following factors:

Gradual but sustained reduction of Covid impact will drive revpar growth: The hotel industry is showing signs of revival with an increase in travellers on staycation, vacation or workation. While the regulatory constraints for business have been reduced, experts have stated that corporate travel is still negligible and MICE is not active due to the strict norms on social distancing. However, we expect the regulatory constraints to be be eased gradually, which is expected to drive ocuupancies and ARR. Approximately 47% of EIH Ltd guests are corporates and 24% are from the MICE segment.

EBITDA margin expansion from 18% in FY20 to 25% FY23, driven by revenue growth and cost reduction: We expect strong EBITDA margin expansion over FY20-23E, to be driven by: (1) Strong growth in revenue albeit from a low base (due to the impact of the pandemic). (2) Cost reduction. We expect revpar to grow to pre-Covid level by FY23E due to the expected normalization of economic environment, which will lead to increased corporate travel (47% of guests) and MICE (24% of guests), which have been absent since the Covid outbreak. Cost reduction is expected to be driven primarily by: (a) rationalization of employee cost (b) better control on heat, light and power costs.

Net profit growth driven by strong EBITDA growth and interest cost reduction: EIH Ltd is expected to post a net profit of Rs2,301mn in FY23E, growing at a CAGR of 15.6% between FY20 and FY23, driven by rise in occupancy and ARR and by commensurate growth in F&B. This combined wih cost rationalization is expected to support earnings growth. Interest costs are expected to decline from Rs821mn in FY21E to Rs488mn in FY23E. The net profit margin is expected to improve from 9.3% in FY20 to 11.9% in FY23E.

Strategy focused on luxury and super luxury segments; beneficiary of experienced promoter, locational advantage of hotels and strong brand: EIH Ltd is primarily focused on luxury and super luxury hotels through it's two well recognized brands of Oberoi and Trident. EIH Ltd benefits from an experienced promoter with 61 years of experience in India, which has led to a loyal clientele. EIH Ltd has consciously focused on the higher end of the spectrum in well located hotels across India.

Strong balance sheet has supported the company in the stressed environment: Pre-pandemic, the company had a net debt to equity ratio of 0.11x in FY20. Despite the severe impact of the pandemic on operations of the hotels, post QIP, the company is expected to maintain net debt to equity ratio of 0.19x in FY21, which is expected to decline to 0.17x in FY22. Gross debt outstanding in FY20 was Rs4.8bn, which is expected to increase to Rs7.7bn in FY21E and decline in FY22E to Rs6.9bn and Rs4bn in FY23E despite the company's expansion plans. We note that the interest coverage ratio was 2.6x in FY20. This is expected to be (5.2x) in FY21 and will increase sharply to 5.6x in FY23E.

Strong operating cash flow to fund capex for expansion: We expect strong growth in operating cash flow from (Rs347mn) in FY21E to Rs3.5bn in FY23E, which is expected to support capex. The company is expected to incur total capital expenditure of ~Rs5,772mn on three upcoming hotels and maintenance capex.

Attractive valuation given the strong anticipated growth: Our TP of Rs116 is based on 16x FY23E EV/EBITDA. Higher revenue, together with a relatively muted increase in costs and high operational leverage are expected to lead to strong growth in EBITDA. We derive comfort from a strong balance sheet despite the adverse impact of the pandemic, strong operating cash flows to fund expansion and improving FCFF yield. Our valuation is further supported by the expected reduction in availability of number of branded rooms due to the pandemic, which will improve the demand-supply ratio and lead to increased occupancy and stronger pricing power.

Valuation

We have valued EIH Ltd based on 16x FY23E EV/EBITDA to arrive at a TP of Rs116. Historically, the stock has traded in the range of 16x-23x one-year forward EV/EBITDA in the past 3 years. Post the pandemic, the forced closure of hotels and the consequent losses led to the stock trading below the replacement cost on EV/room basis. With the gradual improvement in occupancies, the stock price has recovered but currently it still trades at 14x FY23E EV/EBITDA due to lingering concerns about the pace of normalization of the economy.

The stock is currently trading at 14x FY23 EV/EBITDA. The stock price currently continues to reflect pessimism due to the impact of Covid 19 and is not reflecting the improvement in the environment in the past 3 months due to gradual opening up of the economy and the increasing occupancy/F&B by domestic travelers. In our model, we have assumed near normalization of the economy FY22 onwards. We expect the hospitality industry to bounce back on the back of pent-up demand and revenge travel from FY22.

Our optimism on EIH Ltd is driven by expectation of normalization of demand, cyclical upturn in the sector (driven by favorable demand-supply scenario due to closure of some hotels), recent JV with Mandarin Oriental Hotels and improving fundamentals.

Exhibit 1: Valuation summary

	Value (Rsmn)
EV Based on 16x EV/EBITDA on FY23E	Rs. 75,761
Less: Net Debt as on FY23E	Rs. 2,403
Less: Minority Inerest as on FY23E	Rs. 1,030
Total	**Rs. 72,329**
Number of Shares O/S (mn)	**625**
Target price per share	**Rs. 116**

Source: Nirmal Bang Institutional Equities Research

The hotels not included in our valuation due to lack of data include:

Particulars	**Expected year of operation**	**Owned/Managed**	**Business /Leisure**	**Luxury/Value for Money**	**Status**
The Oberoi Rajgarh Palace, Rajgarh	2024E	Owned	Leisure	Luxury	Under Construction/Suspended Due to COVID
The Oberoi Goa	2025E	Owned	Leisure	Luxury	Awaiting Environmental Approvals
The Oberoi Hebbal Lake, Bangalore	2025E	Owned	Business	Luxury	Pending Approvals
The Oberoi & Trident, Kon Tan Island, Thailand	2024E	Owned	Business	Luxury	Awaiting Environmental Approvals
The Oberoi Wildlife Resort, Bardia, Nepal	2025E	Managed	Leisure	Luxury	Planning
The Oberoi Kathmandu, Nepal	2025E	Managed	Leisure	Luxury	Planning

Source: Company, Nirmal Bang Institutional Equities Research

Other factors justifying the valuation

1) Revenue is expected to post a 6.5% CAGR over FY20-FY23E, supported by revival in revpar and room addition.

2) Operating expenses are expected to grow at 3.7% CAGR during FY20-FY23E, leading to the EBITDA growing at a CAGR of 17.7% over FY20-FY23E.

3) The company intends to continue maintaining a low-cost structure to help achieve EBITDA margin of 24.5% in FY23E (an increase from 18.2% in FY20).

4) Well positioned brand equity, strategic partnership with Mandarin Oriental Hotels, ability to hold on to ARR even during lockdown and well planned capex plans place EIH Ltd in a sweet spot to reap the benefits of an upcycle in the hospitality industry.

5) Balance sheet remains comfortable with net debt to equity ratio of 0.21x as of 2QFY21.

6) Strong cash flows post normalization.

Key assumptions

If history is an indicator:

We note that the ARR has declined in FY21 due to the adverse impact of Covid 19 with the hotels being closed from April'20 to June'20. The Covid impact was felt in March'20 too due to which the YoY growth in ARR in FY20 was -1.9%. In the previous upcycle, the ARR had witnessed a five-year CAGR of 20% over FY03-FY08 - 21% in the Five-Star Deluxe category and 20% in the Five Star category. The average ARR (overall) increased from Rs3,269 in FY03 to Rs7,989 in FY08.

Exhibit 2: Historical ARR

ARR (Rs)	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Overall average	3,467	3,269	3,569	4,299	5,444	7,071	7,989
Growth (%)	-	*(6)*	*9*	*20*	*27*	*30*	*13*
Five-Star Deluxe	4,668	4,335	4,686	5,606	7,168	9,778	11,200
Growth (%)	-	*(7)*	*8*	*20*	*28*	*36*	*15*
Five-Star	3,277	3,114	3,372	3,897	4,985	6,506	7,652
Growth (%)	-	*(5)*	*8*	*16*	*28*	*31*	*18*

Source: Nirmal Bang Institutional Equities Research, Hotelivate

While our ARR estimate for FY22 is marginally below FY20, assuming normalization from FY22, we have assumed an increase of only 7% in FY23. Our confidence about growth in ARR is supported by improvement in the supply-demand ratio of rooms given that the experts expect reduction in branded room supply by 20% due to bankruptcy etc.

The key details of our revenue assumptions for each hotel are given in the table below. The details given include ARR and occupancy. The F&B and other sales have been based on percentage of room rental.

Exhibit 3: Revenue assumptions

Revenue	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Room Revenues:							
Owned Hotels - Domestic:							
Occupancy (%)	***71.4***	***70.1***	***69.6***	***68.0***	***35.0***	***60.0***	***68.0***
Growth (%)	*-21bps*	*-136bps*	*-48bps*	*-159bps*	*-3300bps*	*2500bps*	*800bps*
ARR (Rs)	**10,695**	**11,246**	**12,200**	**11,970**	**8,379**	**11,312**	**12,103**
Growth (%)	*4.8*	*5.2*	*8.5*	*(1.9)*	*(30.0)*	*35.0*	*7.0*
RevPar (Rs)	**7,639**	**7,880**	**8,490**	**8,133**	**2,933**	**7,353**	**8,230**
Growth (%)	*4.5*	*3.2*	*7.7*	*(4.2)*	*(63.9)*	*150.7*	*11.9*
Total number of rooms - Owned Domestic	**2,041**	**2,041**	**2,041**	**2,041**	**2,041**	**2,041**	**2,293**
Growth (%)	-	-	-	-	-	-	*12.3*
Owned Domestic Room Revenues - Calculated (Rs in millions)	**5,691**	**5,870**	**6,325**	**6,059**	**2,185**	**5,477**	**6,888**
Growth (%)	*4.5*	*3.2*	*7.7*	*(4.2)*	*(63.9)*	*150.7*	*25.8*
Managed Hotels - Domestic and International:							
-							
Occupancy (%) - Assumed on basis of quarterly trends	***69.4***	***68.1***	***67.6***	***66.0***	***34.0***	***58.3***	***66.0***
Growth (%)	*-21bps*	*-136bps*	*-48bps*	*-159bps*	*-3202bps*	*2428bps*	*777bps*
Managed Rooms Occupancy as a % of Owned Occupancy	*97.2*	*97.1*	*97.1*	*97.1*	*97.1*	*97.1*	*97.1*
ARR - Calculated (Rs)	**1,250**	**1,323**	**2,228**	**2,109**	**1,676**	**2,262**	**2,421**
Growth (%)	*(49.2)*	*5.9*	*68.4*	*(5.3)*	*(20.6)*	*35.0*	*7.0*
Managed Rooms ARR as a % of owned ARR	*11.7*	*11.8*	*18.3*	*17.6*	*20.0*	*20.0*	*20.0*
Growth (%)	*1145bps*	*8bps*	*650bps*	*-64bps*	*238bps*	*0bps*	*0bps*
RevPar - Calculated (Rs)	**868**	**901**	**1,506**	**1,392**	**570**	**1,318**	**1,598**
Growth (%)	*(49.3)*	*3.8*	*67.2*	*(7.6)*	*(59.1)*	*131.4*	*21.3*

Revenue	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Total number of rooms - Managed Domestic and International	**2,462**	**2,462**	**2,462**	**2,531**	**2,531**	**2,531**	**2,531**
Growth (%)	-	-	-	*2.8*	-	-	-
Owned Domestic Room Revenues - Calculated (Rs in millions)	**5,691**	**5,870**	**6,325**	**6,059**	**2,185**	**5,477**	**6,888**
Growth (%)	*4.5*	*3.2*	*7.7*	*(4.2)*	*(63.9)*	*150.7*	*25.8*
Revenues from Domestic and International Rooms - Calculated (Rs in millions)	**780**	**809**	**1,353**	**1,286**	**526**	**1,218**	**1,477**
Growth (%)	*(49.3)*	*3.8*	*67.2*	*(5.0)*	*(59.1)*	*131.4*	*21.3*
Total Rooms Revenues (Rs in millions)	**6,471**	**6,680**	**7,678**	**7,345**	**2,711**	**6,695**	**8,365**
Growth (%)	*(7.3)*	*3.2*	*14.9*	*(4.3)*	*(63.1)*	*147.0*	*24.9*
Food and Beverages Revenues							
-							
F&B as a % of Room Revenues	*95.5*	*100.9*	*97.6*	*84.5*	*50.0*	*98.0*	*100.0*
F&B as a % of Total Revenues Revenues	*40.4*	*42.2*	*41.4*	*38.9*	*25.3*	*42.2*	*43.3*
Total Food and Beverages Revenues (Rs in millions)	**6,182**	**6,740**	**7,490**	**6,203**	**1,355**	**6,561**	**8,365**
Growth (%)	*(9.7)*	*9.0*	*11.1*	*(17.2)*	*(78.2)*	*384.1*	*27.5*
Other Services:							
-							
Other Services as a % of Total Revenues Revenues	*13.1*	*13.0*	*13.7*	*12.4*	*18.4*	*12.1*	*11.2*
Total Revenues from Other Services (Rs in millions)	**2,006**	**2,081**	**2,484**	**1,975**	**988**	**1,876**	**2,158**
Growth (%)	*(7.6)*	*3.7*	*19.4*	*(20.5)*	*(50.0)*	*90.0*	*15.0*
Sale of Printed Materials:							
-							
Sale of Printed Materials as a % of Total Revenues Revenues	*4.1*	*3.1*	*2.5*	*2.8*	*5.7*	*2.6*	*2.2*
Total Revenues from Sale of Printed Materials (Rs in millions)	**627**	**488**	**456**	**439**	**307**	**400**	**420**
Growth (%)	*3.9*	*(22.2)*	*(6.5)*	*(3.7)*	*(30.0)*	*30.0*	*5.0*

Source: Company,Nirmal Bang Institutional Equities Research

Exhibit 4: Expenses assumptions

Expenses	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Consumption of Provisions, Wines and others:							
-							
Opening Stock (Rs in millions)	219	210	232	299	293	75	262
Add: Purchases (Rs in millions)	2,217	2,276	2,512	1,989	447	2,231	2,928
Less: Closing Stock (Rs in millions)	(210)	(232)	(299)	(293)	(75)	(262)	(35)
Consumption (Rs in millions)	**2,226**	**2,254**	**2,445**	**1,994**	**666**	**2,043**	**3,155**
Purchases as a % of F&B Revenues	*35.9*	*33.8*	*33.5*	*32.1*	*33.0*	*34.0*	*35.0*
Closing Inventory as a % of F&B Revenues	*3.4*	*3.4*	*4.0*	*4.7*	*5.5*	*4.0*	*4.0*
Consumption as a % of F&B Revenues	*36.0*	*33.4*	*32.6*	*32.1*	*49.1*	*31.1*	*37.7*
Consumption as a % of Total Revenues	*14.6*	*14.1*	*13.5*	*12.5*	*12.4*	*13.2*	*16.3*
Employee Benefit Expenses:							
-							
Employee Benefit Expenses (Rs in millions)	**4,307**	**4,611**	**4,807**	**4,692**	**3,350**	**3,693**	**4,564**
Growth (%)	*(1.1)*	*7.0*	*4.3*	*(2.4)*	*(28.6)*	*10.3*	*23.6*
Total Number of Employees	5,489	6,029	5,671	5,146	4,082	4,286	5,045
Growth (%)	*NA*	*9.8*	*(5.9)*	*(9.3)*	*(20.7)*	*5.0*	*17.7*
Number of Owned Rooms	2,041	2,041	2,041	2,041	2,041	2,041	2,293
Employee per Room	2.7	3.0	2.8	2.5	2.0	2.1	2.2
Remuneration per employee (Rs in millions)	7,84,657	7,64,730	8,47,634	9,11,811	8,20,630	8,61,662	9,04,745
Growth (%)	*NA*	*(2.5)*	*10.8*	*7.6*	*(10.0)*	*5.0*	*5.0*
Power and Fuel:							
-							
Power and Fuel Expense (Rs in millions)	**1,134**	**1,124**	**1,247**	**1,159**	**754**	**942**	**1,111**
Growth (%)	*(11.9)*	*(0.9)*	*10.9*	*(7.0)*	*(35.0)*	*25.0*	*18.0*
Number of Owned Rooms	2,041	2,041	2,041	2,041	2,041	2,041	2,293
Cost per Room (Rs)	5,55,399	5,50,671	6,10,740	5,68,099	3,69,264	4,61,580	4,84,659
Growth (%)	*(11.9)*	*(0.9)*	*10.9*	*(7.0)*	*(35.0)*	*25.0*	*5.0*
Power and Fuel as a % of Revenues	*7.4*	*7.0*	*6.9*	*7.3*	*14.1*	*6.1*	*5.8*
-							
Rent:							
-							
Rent Expense (Rs in millions)	**418**	**415**	**465**	**385**	**308**	**385**	**454**
Growth (%)	*4.0*	*(0.6)*	*11.9*	*(17.2)*	*(20.0)*	*25.0*	*18.0*
Number of Owned Rooms	2,041	2,041	2,041	2,041	2,041	2,041	2,293
Cost per Room (Rs)	2,04,566	2,03,430	2,27,683	1,88,462	1,50,769	1,88,462	1,97,885
Growth (%)	*4.0*	*(0.6)*	*11.9*	*(17.2)*	*(20.0)*	*25.0*	*5.0*
Rent as a % of Revenues	*2.7*	*2.6*	*2.6*	*2.4*	*5.7*	*2.5*	*2.4*
Repairs & Maintenance:							
Building:							

Expenses	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Building Repairs & Maintenance Expense (Rs in millions)	**199**	**212**	**264**	**297**	**238**	**261**	**274**
Growth (%)	*(9.3)*	*6.6*	*24.9*	*12.4*	*(20.0)*	*10.0*	*5.0*
Number of Owned Rooms	2,041	2,041	2,041	2,041	2,041	2,041	2,041
Cost per Room (Rs)	97,266	2,03,430	2,27,683	1,88,462	1,50,769	1,88,462	1,97,885
Growth (%)	*(9.3)*	*109.1*	*11.9*	*(17.2)*	*(20.0)*	*25.0*	*5.0*
Building Repairs and Maintenance as a % of Room and F&B Revenues	*1.6*	*2.6*	*2.6*	*2.4*	*5.7*	*2.5*	*2.4*
Plant and Machinery							
Plant and Machinery Repairs & Maintenance Expense (Rs in millions)	**553**	**517**	**522**	**534**	**263**	**460**	**521**
Growth (%)	*(6.3)*	*(6.4)*	*0.8*	*2.3*	*(50.8)*	*74.9*	*13.2*
Number of Owned Rooms	2,041	2,041	2,041	2,041	2,041	2,041	2,041
Cost per Room (Rs)	2,70,946	2,53,537	2,27,683	1,88,462	1,50,769	1,88,462	1,97,885
Growth (%)	*(6.3)*	*(6.4)*	*(10.2)*	*(17.2)*	*(20.0)*	*25.0*	*5.0*
Plant and Machinery Repairs and Maintenance as a % of Other Revenues	*21.0*	*20.1*	*17.7*	*22.1*	*20.3*	*20.2*	*20.2*
Rates and Taxes:							
Rates and Taxes Expense (Rs in millions)	**364**	**306**	**389**	**389**	**134**	**388**	**483**
Growth (%)	*(17.0)*	*(16.1)*	*27.4*	*(0.1)*	*(65.5)*	*189.7*	*24.3*
Rates and Taxes as a % of Revenues	*2.4*	*1.9*	*2.1*	*2.4*	*2.5*	*2.5*	*2.5*
Commissions to Travel Agents and Others:							
-							
Commissions to Travel Agents and Others Expense (Rs in millions)	**387**	**438**	**514**	**498**	**173**	**402**	**502**
Growth (%)	*6.2*	*13.3*	*17.3*	*(3.1)*	*(65.2)*	*131.5*	*24.9*
Number of Owned Rooms	2,041	2,041	2,041	2,041	2,041	2,041	2,293
Commission per Room (Rs)	1,89,490	2,14,650	2,51,759	2,43,988	85,005	1,96,816	2,18,882
Growth (%)	*6.2*	*13.3*	*17.3*	*(3.1)*	*(65.2)*	*131.5*	*11.2*
Commission as a % of Room Revenues	*6.0*	*6.6*	*6.7*	*6.8*	*6.4*	*6.0*	*6.0*
Professional Charges:							
Professional Charges (Rs in millions)	**215**	**239**	**385**	**290**	**107**	**311**	**386**
Growth (%)	*(7.4)*	*11.1*	*61.3*	*(24.7)*	*(63.0)*	*189.7*	*24.3*
Professional Charges as a % of Revenues	*1.4*	*1.5*	*2.1*	*1.8*	*2.0*	*2.0*	*2.0*
Expenses on Contract for Services:							
Expenses on Contract for Services (Rs in millions)	**444**	**510**	**600**	**590**	**272**	**478**	**541**
Growth (%)	*7.5*	*14.7*	*17.8*	*(1.6)*	*(53.9)*	*75.8*	*13.2*
Expenses on Contract for Services as a % of Other Revenues	*16.9*	*19.8*	*20.4*	*24.5*	*21.0*	*21.0*	*21.0*
Royalty:							
Royalty Expense (Rs in millions)	**122**	**130**	**150**	**132**	**54**	**134**	**167**

Expenses	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Growth (%)	*(17.4)*	*6.9*	*14.9*	*(11.6)*	*(59.0)*	*147.0*	*24.9*
Royalty as a % of Room and F&B Revenues	*1.9*	*1.9*	*1.9*	*1.8*	*2.0*	*2.0*	*2.0*
Other Expenses:							
Other Expenses (Rs in millions)	**2,290**	**2,240**	**2,262**	**2,099**	**1,501**	**1,942**	**2,413**
Growth (%)	*(2.6)*	*(2.2)*	*1.0*	*(7.2)*	*(28.5)*	*29.3*	*24.3*
Other Expenses as a % of Revenues	*15.0*	*14.0*	*12.5*	*13.2*	*28.0*	*12.5*	*12.5*

Source: Company, Nirmal Bang Institutional Equities Research

Peer comparison

Comparing peers (Indian Hotels Company Ltd, Chalet and Lemon Tree) across different parameters, we note EIH's strengths as follows:

1. Focus on only upper scale and premium luxury (4 star and 5 star hotels) with a good geographical spread of hotels across leisure and business destinations.
2. Strong brands. Only IHCL has similar brand recall.
3. Strong balance sheet with the lowest net debt to equity ratio of 0.21x as of 2QFY21. The net debt to equity ratio has reduced to 0.1x as of 31st October, 2020.

Due to reasons mentioned above, the stock trades at a premium on an EV/room basis compared to IHCL and Lemon Tree. In our view, the premium is justified due to:

1. All EIH rooms as of date are in premium leisure/business categories. On relative basis, only 56% of IHCL rooms are under Taj and Vivanta brands, which are 5 star and 4 star categories. Lemon Tree is focused primarily on 2 star to 4 star categories.
2. All EIH hotels are very well located and command industry leading ARRs besides having better occupancies compared to its immediate brand competitor IHCL.
3. Both the brands 'Oberoi' and 'Trident' are very strong which has helped EIH command strong occupancy and growt its ARR.
4. All these factors indicate that earnings power for EIH is much higher than the average room's earnings power of competitors like IHCL and Lemon Tree, implying that the company should be trading at a higher EV/room multiple.

   As seen in the Exhibit 5 and Exhibit 6, EIH has higher ARR compared to IHCL, Chalet Hotels and Lemon Tree. Despite higher ARR, we note that EIH has been able to maintain its occupancy in the range of 68% and 72%, owing to good location of all its properties, ably supported by a strong brand recall.

Exhibit 5: Average Room Rentals

Particulars	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
EIH Limited	10,202	10,695	11,246	12,200	11,970	8,379	11,312	12,103
Indian Hotels	6,413	6,333	6,293	6,826	6,617	4,993	6,443	6,390
Chalet Hotels	*7,630*	*7,987*	*7,848*	*8,221*	*8,510*	*5,689*	*6,585*	*6,945*
Lemon Tree	*3,189*	*3,358*	*3,744*	*4,029*	*4,249*	*3,556*	*4,359*	*4,846*

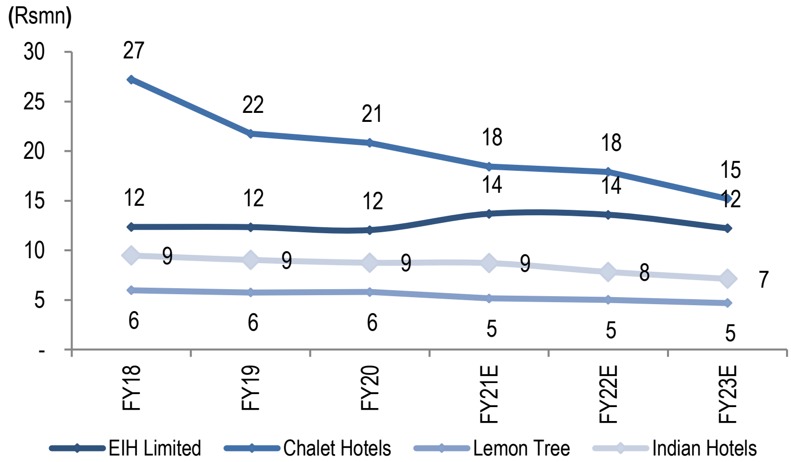
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Occupancies

Particulars	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
EIH Limited (%)	*72*	*71*	*70*	*70*	*68*	*35*	*60*	*68*
Indian Hotels (%)	*65*	*65*	*65*	*67*	*67*	*45*	*68*	*72*
Chalet Hotels (%)	*60*	*68*	*73*	*77*	*72*	*40*	*64*	*66*
Lemon Tree (%)	*75*	*76*	*76*	*77*	*72*	*45*	*65*	*75*

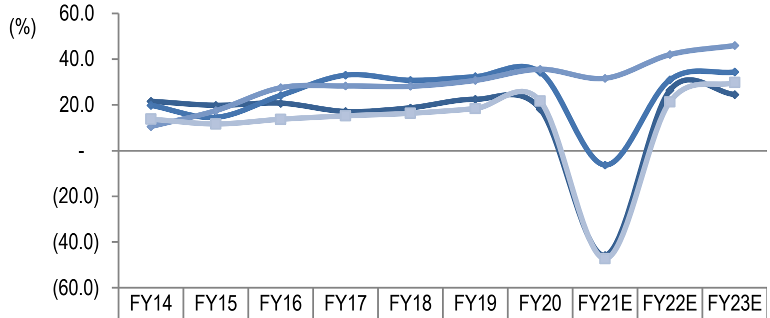
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: EV/Rooms – EIH vs Chalet Hotels vs. IHCL vs. Lemon Tree



Source: Nirmal Bang Institutional Equities Research

Exhibit 8: EBITDA margin – EIH vs. Chalet Hotels vs. IHCL vs. Lemon Tree – lower compared to its peers

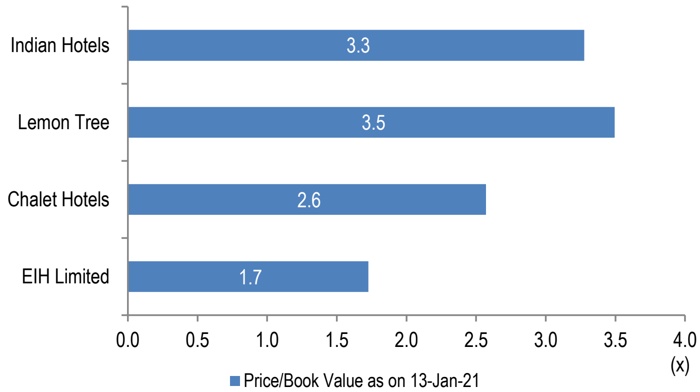


	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
EIH Limited	21.6	19.8	20.7	17.1	18.7	22.4	18.2	(45.9)	26.4	24.5
Chalet Hotels	19.8	14.5	24.2	33.0	30.8	32.3	34.3	(6.3)	31.0	34.4
Lemon Tree	10.5	17.5	27.5	28.3	28.1	30.7	35.6	31.6	42.0	46.0
Indian Hotels	13.8	11.7	13.7	15.2	16.3	18.4	21.7	(47.3)	21.3	29.8

Source: Nirmal Bang Institutional Equities Research

EIH Ltd trades at a Price/Book value of 1.7x compared to 3.3x for IHCL and 3.5x for Lemon Tree. We believe that EIH Ltd deserves a premium compared to IHCL and Lemon Tree, owing to the premium brands owned by the company. EIH Ltd has a strong foothold in the premium leisure segment whereas Chalet Hotels is focused on 5 star segments and has only an ownership model; IHCL caters to customers across 2 star to 5 star segments and Lemon Tree has a strong foothold in the mid economy segment.

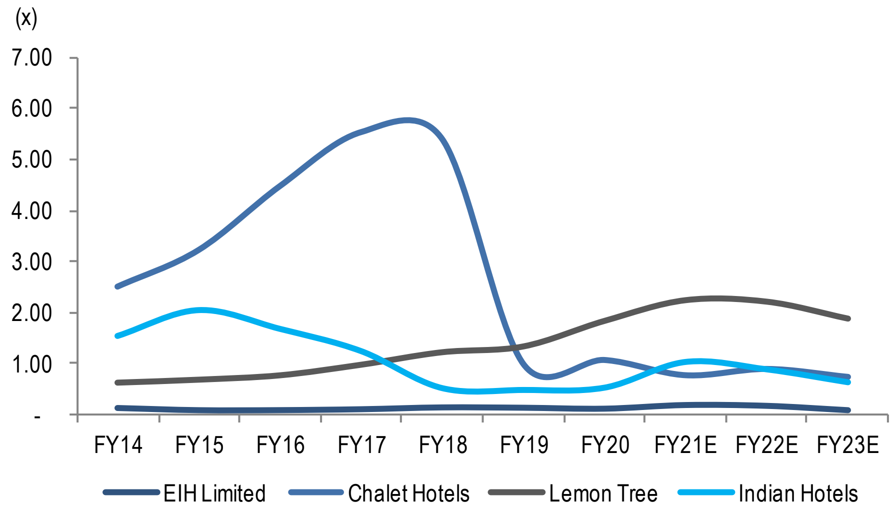
Exhibit 9: Price/Book Value – EIH vs. Chalet Hotels vs. IHCL vs. Lemon Tree



Source: Nirmal Bang Institutional Equities Research

EIH Ltd historically has been able to maintain a low net debt to equity ratio compared to its peers. The ratio for EIH Ltd has ranged between 0.07x and 0.14x over FY14-FY20. This is significantly lower compared to its peers whereby the net debt to equity ratio for IHCL has ranged between 0.48x and 2.05x and that for Lemon Tree has ranged between 0.61x and 1.84x during the same period.

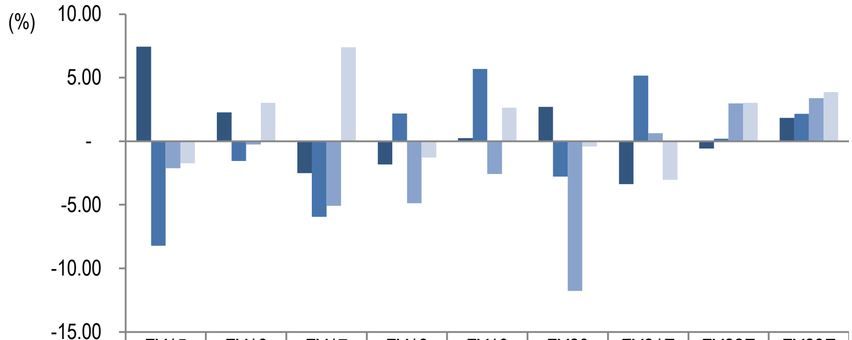
Exhibit 10: Net Debt to Equity – EIH vs. Chalet Hotels vs. IHCL vs. Lemon Tree



Source: Nirmal Bang Institutional Equities Research

Historically, EIH Ltd has been able to deliver a better FCFF yield in most years compared to Chalet Hotels and Lemon Tree.

Exhibit 11: FCFF yield – EIH vs. Chalet Hotels vs. IHCL vs. Lemon Tree



	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
EIH Limited	7.43	2.27	-2.52	-1.83	0.25	2.71	-3.38	-0.58	1.83
Chalet Hotels	-8.22	-1.56	-5.96	2.18	5.68	-2.79	5.16	0.21	2.17
Lemon Tree	-2.13	-0.25	-5.07	-4.88	-2.58	-11.77	0.63	2.98	3.39
Indian Hotels	-1.75	3.03	7.39	-1.28	2.64	-0.43	-3.04	3.03	3.86

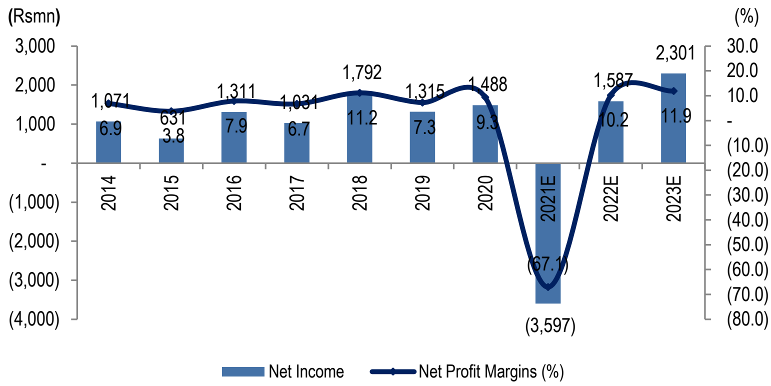
Source: Nirmal Bang Institutional Equities Research

Financials

Profit & Loss account

The company is expected to post a net loss of Rs3,597mn in FY21E. It is expected to post a net profit of Rs2,301mn in FY23E, growing at a CAGR of 15.6% between FY20 and FY23, driven by higher occupancy and ARR and commensurate growth in F&B. The net profit margin is expected to improve from 9.3% in FY20 to 11.9% in FY23E. The decline in net profit in FY19 was due to higher interest cost as a result of rise in debt. In FY20, the decline in EBITDA by 28.5% was led by a decline in revenue by 11.8% as a result of 1.9% decline in ARR and decline in occupancy by 159bps .Combined with higher finance cost caused the EBT to decline by 24% in FY20. In FY20, deferred tax credit of Rs364mn recognized helped the net profit to increase by 13.1%.

Exhibit 12: Net Profit and Net Profit Margin



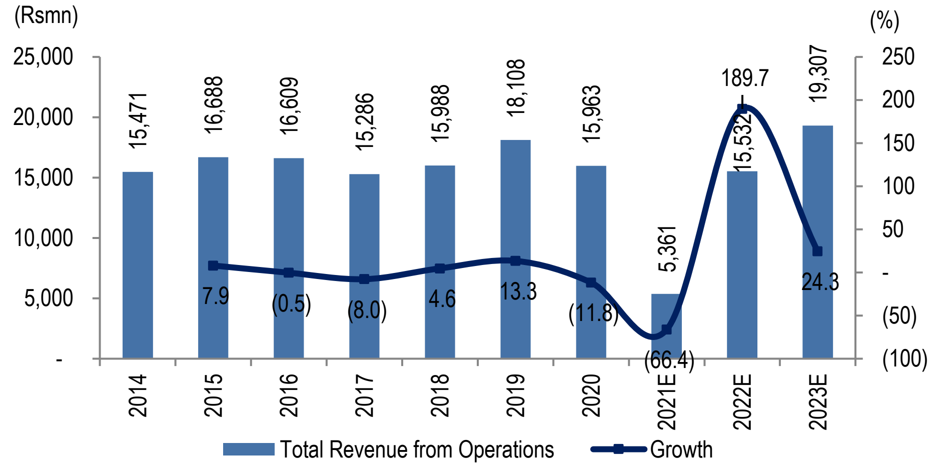
Source: Company, Nirmal Bang Institutional Equities Research

The earnings growth is driven by:

A. Robust growth in revenue

Revenue in FY20 stood at Rs15,963mn, growing at a 3-year CAGR of 1.5% between FY17 and FY20. Total revenue from operations is expected to increase to Rs19,307mn in FY23E at a 3-year CAGR of 6.5% over FY20–FY23E. Revenues from the hospitality segment is expected to post a 3-year CAGR of 7.3% over FY20–FY23E on the back of room revenue growing at a 3-year CAGR of 4.4% and F&B revenue growing at a 3-year CAGR of 10.5%. Room revenue growth will be driven by addition of 252 rooms in FY23, ARR growing at a 3-year CAGR of 0.4% over FY20–FY23E and occupancy expected to reach back to FY20 level of 68% in FY23E. The F&B to room revenue ratio declined to 84.5% in FY20 from 97.6% in FY19. It is expected to improve gradually to 100% in FY23E.

Exhibit 13: Total revenue from operations expected to grow at 3-year CAGR of 4.3% over FY20–FY23E



Source: Company, Nirmal Bang Institutional Equities Research

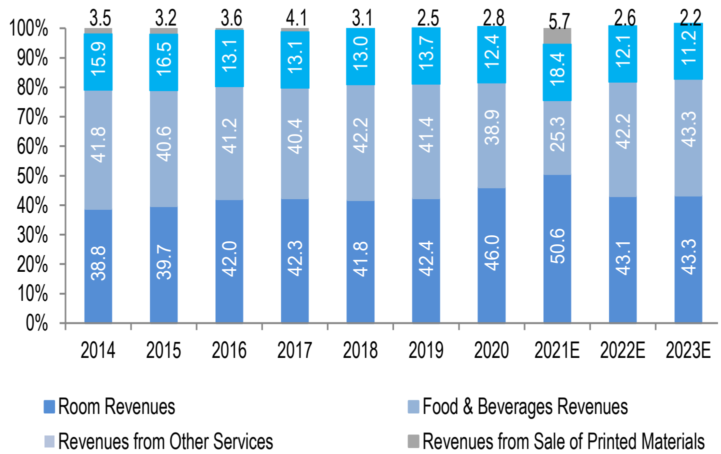
The company has its businesses spread into segments like hospitality, flight catering, car rentals, priniting press and corporate air charter. Majority of the company's revenue is derived from the hospitality segment. In FY20, the company derived ~85% of revenue from its core hospitality portfolio of room rentals and F&B sales. Revenue from other services and revenue from priniting press accounted for ~12.4% and ~2.8% of total revenue, respectively in FY20.

In FY21E, the decline in RevPar (led by a sharp drop in occupancies and ~30% decline in ARR) and the decline in F&B to room revenue ratio are expected to drag the share of hospitality revenue in total revenue to ~75.8%. With normalcy kicking in from FY22E, the share of hospitality portfolio in total revenue is expected to normalize to 85.3% in FY22E and improve further to 86.7x% in FY23E.

Exhibit 14: Summary of company's business

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Composition of Revenue



Source: Company, Nirmal Bang Institutional Equities Research

1. Room Revenues

The company currently owns 2,041 rooms and manages 2,531 rooms in luxury-upscale under the brand names of 'Oberoi' and 'Trident'. Room revenue stood at Rs7,345mn in FY20 and delivered a 3-year CAGR of 4% over FY17–FY20, primarily due to owned domestic rooms' RevPar growing at a 3-year CAGR of 2.1% (as a result of owned domestic rooms' ARR growing at 3-year CAGR of 3.8% and occupancy levels for owned domestic rooms declining from 71.4% in FY17 to 68% in FY20.

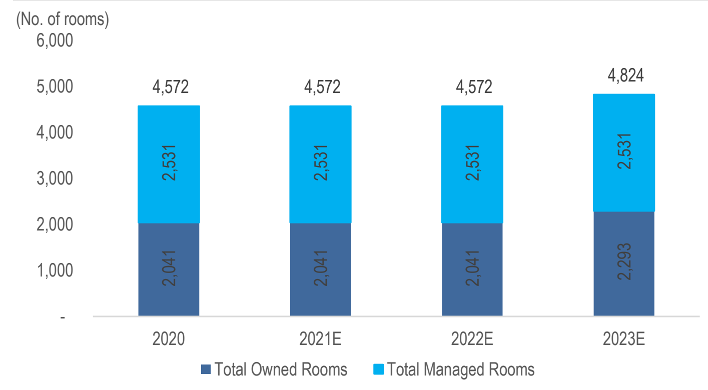
EIH Ltd has held on to its ARRs on MoM basis, especially for its leisure properties. The company has witnessed an increasing trend in ARR over the last few months - since the opening up in June 2020.As a strategy, EIH Ltd has always focused on ARR rather than on occupancy. Therefore, despite strong competitive pressures, the decline in ARR is expected to be lower than the industry. Thus, we expect the ARR to decline by 30% YoY (lower than the expected decline in industry ARR). However, we expect the owned domestic hotels occupancy to average 35% in FY21 compared to 68% in FY20.

We expect demand for leisure properies to continue to increase in CY2021 and thus expect the occupancy levels for EIH Ltd to average 60% in FY22 and revert back to normal levels in FY23. We expect occupancy to stabilize in FY22. We expect ARR to grow by 35% in FY22 and by 7% in FY23. Thus, ARR is expected to post a 3-year CAGR of 0.4% over FY20-FY23 and RevPar is expected to post a 3-year CAGR of 0.4% in FY23. We have assumed the ARR for EIH Ltd's managed properties at 20% of owned rooms' ARR.

We have assumed two leisure owned properties - The Oberoi Bandhavgarh (15 rooms) and The Oberoi, Doha Qatar (237 rooms) to become operational in FY23E. Thus, the owned room inventory is expected to increase from 2,041 in FY20 to 2,531 in FY23.

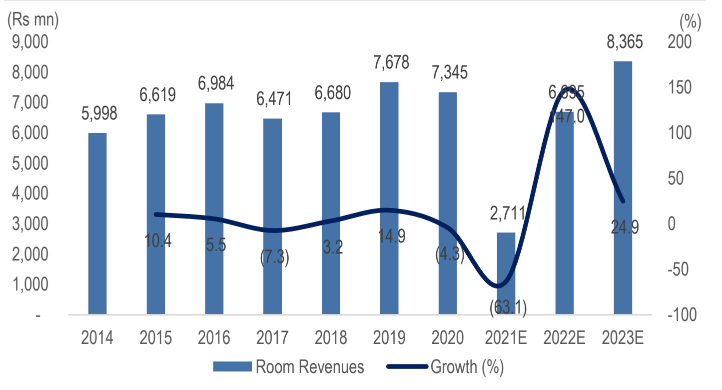
As a result, we expect FY23E revenue to be Rs7,755mn, growing at a 3-year CAGR of 1.8%.

Exhibit 16: Number of rooms



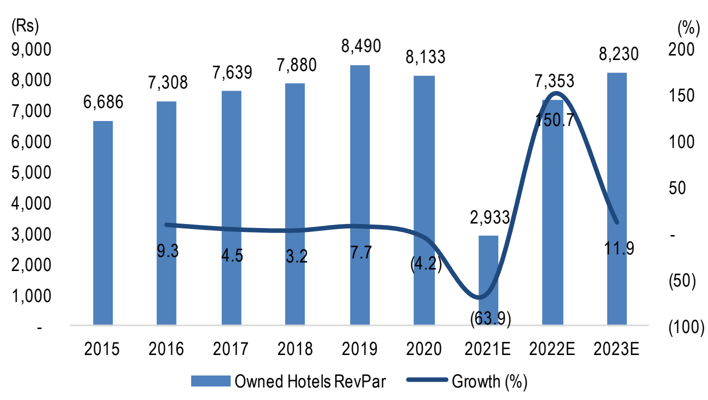
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Room revenues



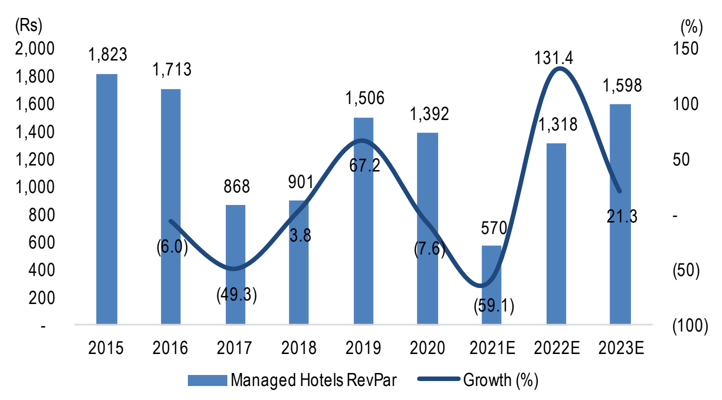
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Owned hotels RevPar



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: Managed hotels RevPar

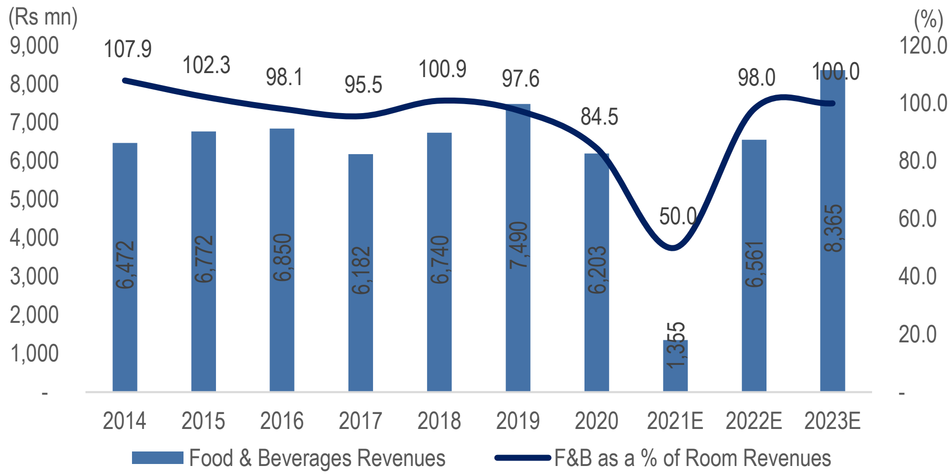


Source: Company, Nirmal Bang Institutional Equities Research

2. Revenue from Food and Beverages:

The revenue from F&B segment grew at a 5-year CAGR of 3% during FY14 to FY19. The company historically has maintained a healthy F&B to room revenue ratio, ranging between 95.5% and 107.9% up to FY19. However, in FY20, revenue from F&B declined 17% and the ratio deteriorated to 84.5%. We expect the ratio to decline further to 50% in FY21. However, with the increased customer preference for hygine and safety, we expect the company to benefit from its brand equity and expect the F&B revenue to pick up pace from FY22. We expect revenue from F&B to grow at a 3-year CAGR of 10.5% over FY20-FY23 and the F&B to room revenue ratio to improve to 100% in FY23.

Exhibit 20: F&B to room revenue ratio to improve going forward



Source: Company, Nirmal Bang Institutional Equities Research

Cost control leading to EBITDA expansion:

The EBDITA margin improved from 21.6% in FY14 to 22.4% in FY19. However, the EBITDA margin declined to 18.2% in FY20 as a result of an 11.8% decline in revenue, which was led by decline in F&B revenue and revenue from other services, which declined by 17% and 20%, respectively in FY20. The proportionate decline in operating expenses was only 7%, which led to contraction in EBITDA margin.

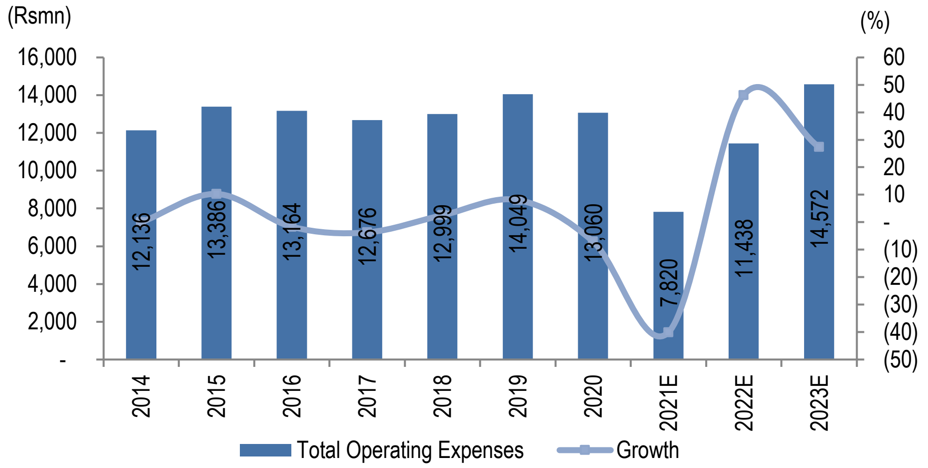
Many cost saving measures were taken up by the company during the Covid-19 pandemic. Based on our interaction with the company, we expect EIH Ltd to maintain 20% YoY drop in fixed expenses achieved in 1QFY21 (29% YoY drop in 2QFY21). Drop in variable expenses was not as much because of the increased emphasis on health, safety and audits. In 2QFY21, drop in revenue was 78% YoY while the drop in variable expenses was 71% YoY.

The Oberoi Center of Excellence has benefitted the company to a great extent. This was an initiative started last year to assimilate all finance, procurement and IT functions. These initiatives have given a lot of leeway to the company. Based on the above initiatives, EBITDA margin is expected to grow to 24.5% in FY23E.

Historically, on a per room basis, consumption of Provisions, Wines and others, Employee Benefit Expenses, Power & Fuel and Rent have grown at a 3-year CAGR of -4.1%, 2.4%, 0.2% and -3.2%, respectively over FY17 to FY20. As a result of slowdown in operations in FY21 due to the Covid pandemic, we expect the per room cost for consumption of Provisions, Wines and others, Employee Benefit Expenses, Power & Fuel and Rent to decline by 66.6%, 28.6%, 35% and 20%, respectively in FY21. The per room cost for consumption of Provisions, Wines and others, Employee Benefit Expenses, Power & Fuel and Rent is expected to grow at a 3-year CAGR of 13.9%, -3.2%, -3.6% and 3.3%, respectively over FY20-FY23. The increase in consumption expenses is due to increase in purchases, which is linked to F&B revenue.

Total operating expenses stood at Rs13,060mn in FY20, growing at a 3-year CAGR of 1% over FY17–FY20. Operating expenses are expected to grow at a 3-year CAGR of 3.7% over FY20–FY23E.

Exhibit 21: Total Operating Expenses



Source: Company, Nirmal Bang Institutional Equities Research

Breakup of operating expenses:

1. **Consumption of Provisions, Wines and others: rephrase**
   As on 31st March 2020, F&B consumed stood at Rs1,994mn, which is 32.1% of the F&B Income and 12.5% of the Total Revenues. We expect the consumption to F&B revenues ratio to rise in FY21 as the F&B revenue is expected to be at 50% of the room revenues, implying a decline of 67%. The ratio is expected to decline to 31.1% in FY22 as F&B revenues stabilise.

Particulars (Rs mn)	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Food and Beverages Revenues	6,472	6,772	6,850	6,182	6,740	7,490	6,203	1,355	6,561	8,365
Total Revenues	15,471	16,688	16,609	15,286	15,988	18,108	15,963	5,361	15,532	19,307
Opening Stock	196	242	206	219	210	232	299	293	75	262
Add: Purchases	2,117	2,181	2,358	2,217	2,276	2,512	1,989	447	2,231	2,928
	2,313	**2,423**	**2,564**	**2,436**	**2,486**	**2,744**	**2,287**	**741**	**2,305**	**3,190**
Less: Closing Stock	(242)	(209)	(219)	(210)	(232)	(299)	(293)	(75)	(262)	(34.96)
Consumption	**2,070**	**2,214**	**2,345**	**2,226**	**2,254**	**2,445**	**1,994**	**666**	**2,043**	**3,155**
Consumption as a % of F&B Revenues	*32.0*	*32.7*	*34.2*	*36.0*	*33.4*	*32.6*	*32.1*	*49.1*	*31.1*	*37.7*
Consumption as a % of Total Revenues	*13.4*	*13.3*	*14.1*	*14.6*	*14.1*	*13.5*	*12.5*	*12.4*	*13.2*	*16.3*
Purchases as a % of F&B Revenues	*32.7*	*32.2*	*34.4*	*35.9*	*33.8*	*33.5*	*32.1*	*33.0*	*34.0*	*35.0*
Closing Inventory as a % of F&B Revenues	*3.7*	*3.1*	*3.2*	*3.4*	*3.4*	*4.0*	*4.7*	*5.5*	*4.0*	*4.0*

Source: Company, Nirmal Bang Institutional Equities Research

2. **Employee benefit expenses:**
   As on 31st March 2020, the employee benefit expenses stood at Rs4,692mn and the company has ~5,146 employees. The company has an average staff of 2.52 per room. The average staff per room is expected to decline to 2.00 per room in FY21E, and the number of employees is expected to decline to ~4,082 employees considering lay-offs due to the pandemic. As demand comes back, the employee per room ratio is expected to increase back to 2.10 per room in FY22E and 2.20 per room in FY23E. The total employee benefit expenses is expected to be at Rs4,564mn in FY23E, growing at a 3 year CAGR of -0.9% over FY20–FY23E.

3. **Power & Fuel:**
   Total power & fuel cost for FY20 stood at Rs1,159mn. In FY20, the power & fuel expense per room declined by 7%. Considering the concessions granted by different state governments and lower operational inventory in FY21, we expect the expense per room to decline by 35% in FY21 and thereafter grow by 25% in FY22 and 5% in FY23. Total power & fuel expense is expected to be at Rs1,111mn in FY23E.

4. **Royalty and management fees:**
   These fees accounted for 1.80% of the revenues from Room and F&B. Going forward, we expect the ratio to continue at 2%; hence, the royalty and fees are expected to be at Rs167mn in FY23E.

EBITDA margin expected to improve from 18.2% in FY20 to 24.5% in FY23E

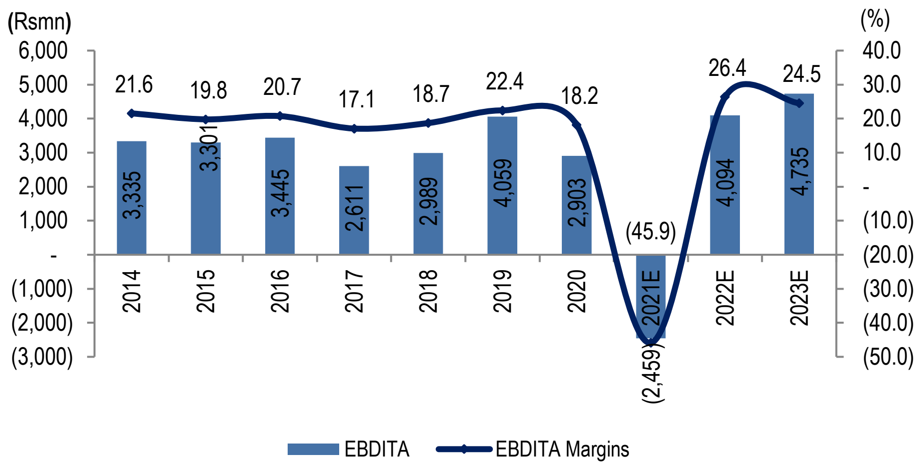
The EBDITA for the company grew from Rs2,611mn in FY17 to Rs2,903mn in FY20, posting a 3-year CAGR of 3.6% over FY17 – FY20. EBITDA margin expanded from 17.1% in FY17 to 18.2% in FY20. Consumption of Provisions, Wines and others, Rent expenses and other expenses led the cost optimization measures and declined at a 3-year CAGR of 4%, 3% and 3%, respectively over FY17–FY20. Revenue grew at a 3-year CAGR of 1.5% over FY17–FY20 and operating expense grew at a 3-year CAGR of 1.0% over FY17 – FY20.

During FY20–FY23E, revenue is expected to grow at a 3-year CAGR of 6.5% over FY20–FY23E and the operating expenses are expected to grow at a 3-year CAGR of 3.7% over FY20–FY23E. As a result of the slowdown in operations in FY21 in the wake of the Covid pandemic, we expect the per room cost for consumption of Provisions, Wines and others, Employee Benefit Expenses, Power & Fuel and Rent to decline by 66.6%, 28.6%, 35% and 20%, respectively in FY21. The per room cost for consumption of Provisions, Wines and others, Employee Benefit Expenses, Power & Fuel and Rent is expected to grow at a 3-year CAGR of 13.9%, -3.2%, -3.6% and 3.3%, respectively over FY20-FY23. The increase in consumption expenses is due to increase in purchases, which is linked to F&B revenues.

The Oberoi Center of Excellence has benefitted the company to a great extent. This was an initiative started last year to assimilate all finance, procurement and IT functions. These initiatives have given a lot of leeway to the company.

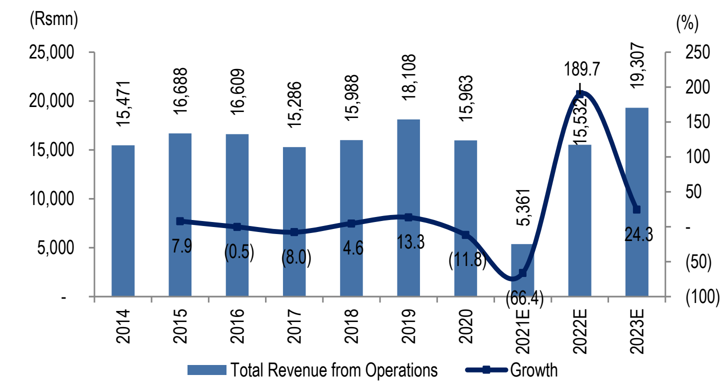
With revenues expected to grow at a 3-year CAGR of 6.5% and operating expenses expected to grow at a 3-year CAGR of 3.7%, the EBDITA is expected to grow at a 3-year CAGR of 17.7% and EBITDA margin is expected to expand to 24.5% in FY23E.

Exhibit 22: EBDITA and EBDITA margin



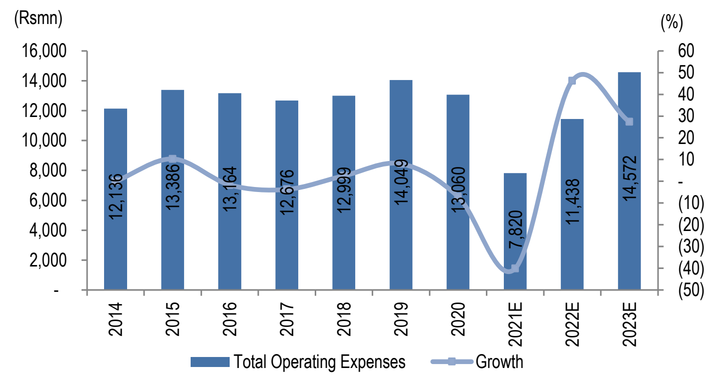
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 23: Total revenue from operations



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 24: Total operating expenses



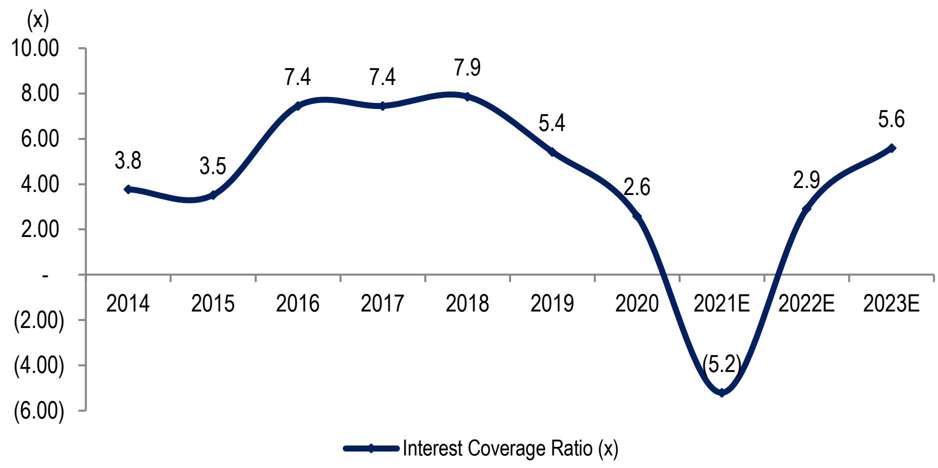
Source: Company, Nirmal Bang Institutional Equities Research

Balance sheet to strengthen further

We believe that with the improvement in the hotel sector dynamics amid the revival in demand for FY22, and the company's efforts to keep its debt under control, the balance sheet will continue to improve. The strength of the balance sheet is aided by: (1) Improving net debt-to-equity ratio (2) Improvement in interest coverage ratio. (3) The company's ability to manage its working capital effectively.

During FY19 and FY20, the rise in interest cost as a resul of rise in debt led to decline in the interest coverage ratio. The EBIT is expected to be at Rs2,725mn in FY23E, growing at a 3-year CAGR of 23.7% over FY20–FY23E. Thus, with growing revenues and dipping interest costs, the interest coverage ratio is expected to drastically improve to 5.6x in FY23E.

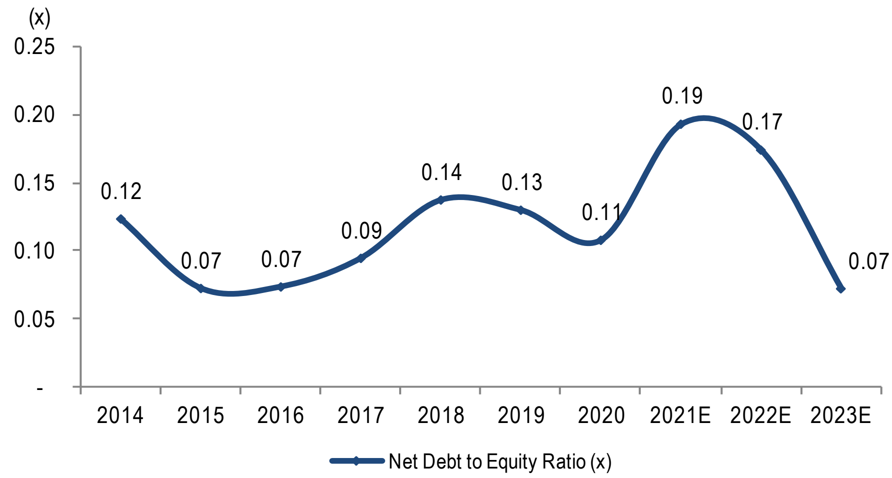
Exhibit 25: Interest coverage ratio



Source: Company, Nirmal Bang Institutional Equities Research

The company successfully completed the allotment of rights issues of 53.79mn shares at Rs65 per share amounting to Rs3,496.6mn. As per the company, the successful rights issue has helped EIH Ltd a lot in deleveraging the balance sheet. The company has historically been able to maintain its net debt to equity ratio in a range of 0.07x to 0.14x. With the decline in networth in FY21 as a result of the expected losses, the net debt to equity ratio is expected to deteriorate to 0.19x in FY21 despite the increase in equity as a result of the rights issue. With the expected gradual revival in demand, we expect the debt levels to decline in FY22 and FY23, thereby improving the net debt to equity ratio.

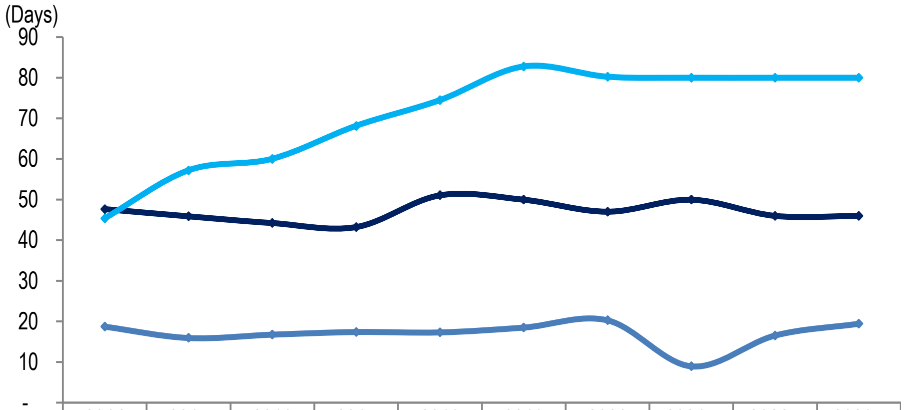
Exhibit 26: Net debt-to-equity ratio



Source: Company, Nirmal Bang Institutional Equities Research

Historically, the company has been able to maintain its receivable days in a range of 43 days to 51 days. We expect the receivable days to be at 50 days in FY21E. Receivable days are expected to improve to 46 days in FY22E and FY23E. The inventory days have been in a range of 16 days to 20 days The Inventory days in FY20 were 20 days and it is expected to be 17 days and 19 days, respectively in FY22E and FY23E.

Exhibit 27: Working capital management



	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Recievable (days)	48	46	44	43	51	50	47	50	46	46
Inventory (days)	19	16	17	17	17	19	20	9	17	19
Payable (days)	45	57	60	68	74	83	80	80	80	80

Source: Company, Nirmal Bang Institutional Equities Research

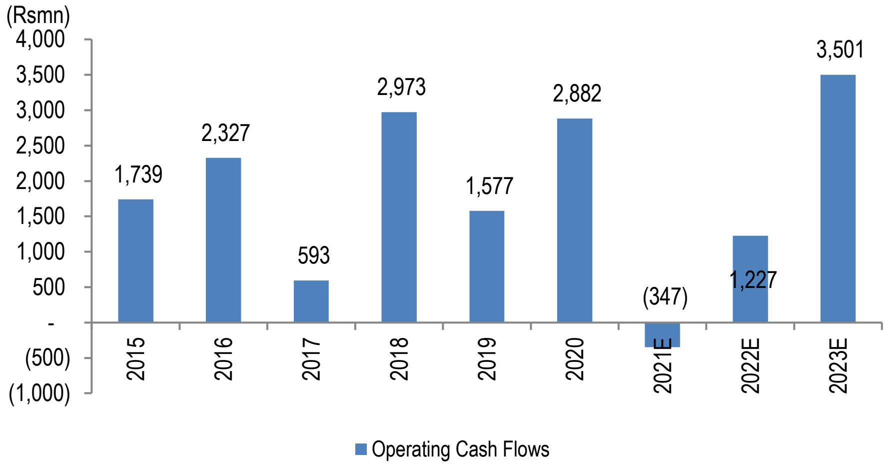
Cash flow

Cash flow from operations for EIH Ltd has been fluctuating historically. In FY17, the CFO declined to Rs593mn from Rs2,327mn in FY16 as a result of: (1) 21.3% decline in PAT in FY17. (2) Exceptional loss of Rs382mn on account of write-off of renovations at The Oberoi, New Delhi. (3) Rise in security deposits and balance with government authorities during FY17 also negatively impacted the CFO in that year.

In FY19 too, the CFO declined by 47% YoY to Rs1,577mn as a result of: (1) Decline in PAT by 26.6% YoY. (2) Increase in liability for capital assets.

For FY21E, we expect the CFO to decline to -Rs347mn as a result of the expected loss of Rs3,597mn for the year, increase in receivables and decrease in trade payables. From FY22E, the pick-up in demand and gradual increase in RevPar is expected to increase the PAT and working capital, thereby improving the CFO.

Exhibit 28: Operating cash flow

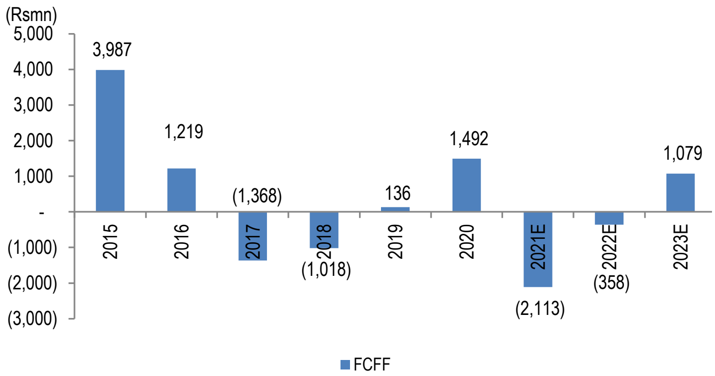


Source: Company, Nirmal Bang Institutional Equities Research

EIH generated negative free cash flow in FY17 to FY18. The low CFO in FY17 and high capex in FY18 led to negative FCFF in FY17 and FY18. The decline in CFO in FY19 caused the FCFF for FY19 to be low at Rs136mn. We expect the FCFF for FY21 to be -Rs2,113 because of negative CFO and the company's continued capex plans. With the revival of business in FY22 and FY23 and improving CFO, the FCFF for FY22 and FY23 is expected to improve.

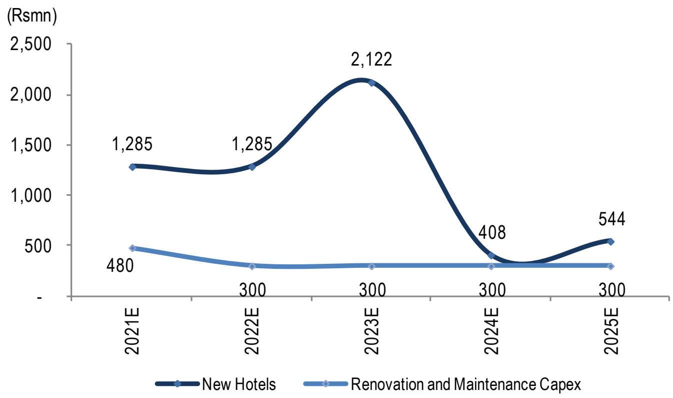
We expect The Oberoi Bandhavgarh (15 rooms) and The Oberoi, Doha Qatar (237 rooms) to become operational in FY23 and The Oberoi Kathmandu, Nepal (80 rooms) to become operational in FY25. We have assumed capex for the above rooms to be phased over 3 years in the ratio of 30%:30%:40%. We have also assumed Rs180mn as renovation capex for The Oberoi Amarvilas (102 rooms) in FY21 and have assumed Rs300mn as maintenance capex in each year.

Exhibit 29: FCFF



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 30: Capital Expenditure



Source: Company, Nirmal Bang Institutional Equities Research

Return ratios

EIH has delivered a low single-digit RoCE during FY14-FY20. Poor return ratios during this period were because of the industry going through a downcycle (excess room supply), leading to poor earnings performance.

When we take a closer look into RoE by conducting a DuPont analysis, we can effectively conclude that the negative to low single-digit RoE during FY14–FY20 was on account of low PAT margin. Historical financial leverage has been fluctuating between 1.32x and 1.42x.
While the company has been able to improve its PAT margin from 6.9% in FY14 and 3.8% in FY15 to 9.3% in FY20, the asset turnover ratio has declined from 0.42x in FY14 and 0.46x in FY15 to 0.36x in FY20. This negatively impacted the RoE which increased from 4.1% in FY14 to 4.7% in FY20.

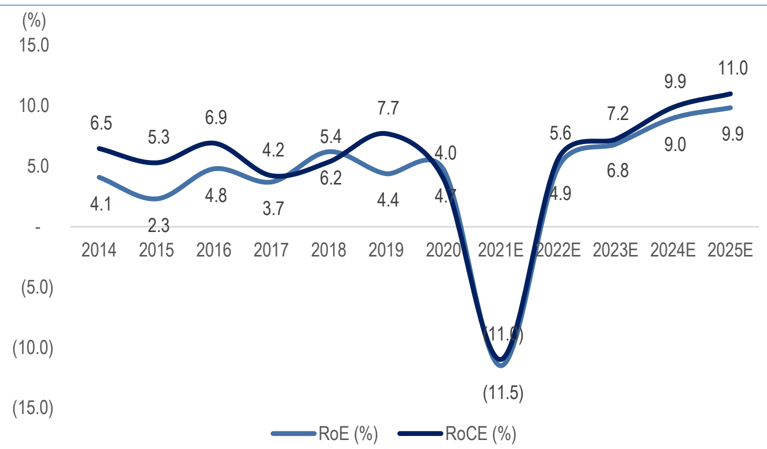
FY21 is expected to be adversely impacted as a result of Covid. We expect the RoE to decline to -11.5% in FY21 due to a decline in PAT margin to -67.1%, decline in asset turnover to 0.12x. The decline in PAT margin is due to decline in EBITDA, led by decline in revenue as a result of the lockdown.

However, we see a significant improvement in RoE and RoCE over FY20–FY23E on account of: (1) Improving PAT margin, led by cost optimization measures and declining interest costs (also reflected by lower financial leverage). (2) As the hotel industry moves towards normalcy, revenue for EIH Ltd is expected to grow at a 6.5% CAGR over FY20-FY23E. Thus, the asset turnover is expected to improve from 0.36x in FY20 to 0.48x in FY23E.

Based on our expected earnings growth, we expect RoE and RoCE at 6.8% and 7.2%, respectively, in FY23E.

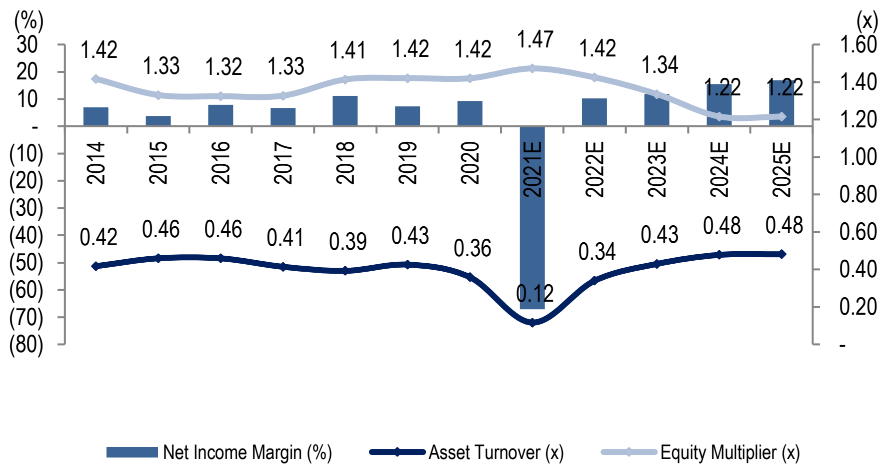
Going forward, with the improvement in the net income margins and asset turnover, we expect the RoE to improve to 9.0% and 9.9% in FY24E and FY25E, respectively. The RoCE is expected to be at 9.9% and 11.0% in FY24E and FY25E, respectively.

Exhibit 31: RoE and RoCE



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 32: DuPont analysis



Source: Company, Nirmal Bang Institutional Equities Research

EIH vs IHCL vs Chalet vs Lemon Tree:

Particulars	EIH Limited	Chalet	IHCL	Lemon Tree
Number of Rooms - owned/leased - FY20	2,041	2,554	11,720	5,054
Number of Rooms - owned/leased - FY23E	2,293	3,310	12,085	5,723
Number of Rooms - managed - FY20	2,531	-	5,861	2,814
Number of Rooms - managed - FY23E	2,531	-	9,946	4,494
F&B revenues to Room revenues ratio - FY20 (%)	84.5	67.8	81.2	24.4
Average ARR - FY20 (Rs)	11,970	8,510	6,617	4,249
Average Occupancy - FY20 (%)	68.0	71.8	66.7	72.2
Revenue CAGR FY20-FY23 (%)	4.3	1.4	4.4	13.4
EBITDA margins - FY20 (%)	18.2	34.3	21.7	35.6
EBITDA margins - FY23 (%)	24.5	34.4	29.8	46.0
Net Debt to Equity ratio - FY20 (x)	0.11	1.07	0.52	1.84
Net Debt to Equity ratio - FY23 (x)	0.07	0.74	0.63	1.89
Interest Coverage Ratio - FY20 (x)	2.6	1.5	1.7	0.9
Interest Coverage Ratio - FY23 (x)	5.6	1.7	3.1	2.2
RoE - FY20 (%)	4.7	6.6	8.1	(1.3)
RoE - FY23 (%)	6.8	5.4	16.8	16.9
RoCE - FY20 (%)	4.0	6.7	6.4	8.1
RoCE - FY23 (%)	7.2	6.3	12.5	15.6
Operating Cash Flow - FY20 (Rs mn)	2,882	2,837	4,838	2,472
Operating Cash Flow - FY23 (Rs mn)	3,501	2,655	11,135	4,718
FCFF Yield - FY20 (%)	2.71	-2.79	-0.43	-11.77
FCFF Yield - FY23 (%)	1.83	2.17	3.86	3.39

Source: Company, Nirmal Bang Institutional Equities Research

Management team profile

Mr. Prithviraj Singh Oberoi, Executive Chairman

Mr. Oberoi is the son of Late Rai Bahadur Mohan Singh Oberoi, the founder of the Oberoi Group. He graduated with a degree in Hospitality from the University Of Lausanne, Switzerland and has over 60 years of experience in the hospitality industry. Mr. Oberoi has been instrumental in pioneering the growth of the Company.

Mr. Shib Sanker Mukherji, Executive Vice Chairman

He is a member of the Institute of Chartered Accountants of India and has completed an Advanced Management Programme from Harvard University in the United States. He has an experience of nearly 40 years in the hospitality industry. He joined the Company as an Executive in March 1972.

Mr. Vikramjit Singh Oberoi, Managing Director and Chief Executive Officer

He holds a Bachelor's degree in Science from the Pepperdine University, United States and has over 25 years of experience in the hospitality industry. He joined the Board as a Non-executive Director on 15 December, 1993. He became a Whole Time Director and was designated Deputy Managing Director in July 2004. In July 2007, he was re-designated as Joint Managing Director of the Company. On 29 November, 2010, he was re-designated as Chief Operating Officer and Joint Managing Director of the Company on 24th March, 2015 he was re-designated as Managing Director as Chief Executive Officer of the Company w.e.f 01.04.2015.

Mr. Arjun Singh Oberoi, Managing Director - Development

He holds a Bachelor's degree in Science (Economics) from the University of Buckingham, United Kingdom. He has an experience of more than 22 years in the hospitality industry. He became a Whole Time Director and was designated as the Deputy Managing Director of the Company in July 2004. In July 2007, he was re-designated as a Joint Managing Director of the Company. On 29 November, 2010, he was re-designated as Chief Planning Officer and Joint Managing Director of the Company on 24th March, 2015 he was re-designated as Managing Director-Developments of the Company w.e.f. 1.4.2015.

Mr. Kallol Kundu, Chief Financial Officer

Exhibit 33: Top shareholders – EIH Limited

Name	Holding (%)
Reliance Strategic Bus Ventures	16.9%
ITC Limited	13.7%
Nippon Life India Asset Management Limited	4.1%
HDFC Asset Management Co Limited	1.5%
Life Insurance Corporation of India	1.4%
General Insurance Corporation of India	1.4%
Sundaram Asset Management Company Limited	1.4%
JPMorgan Chase & Co	1.3%

Source: www.bseindia.com

Financial statement

Exhibit 34: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	**18,108**	**15,963**	**5,361**	**15,532**	**19,307**
Growth YoY (%)	*13.3*	*(11.8)*	*(66.4)*	*189.7*	*24.3*
Operating costs	11,787	10,961	6,319	9,496	12,159
Other expenses	2,262	2,099	1,501	1,942	2,413
EBITDA	**4,059**	**2,903**	**-2,459**	**4,094**	**4,735**
EBITDA growth (%)	***35.8***	***(28.5)***	***(184.7)***	***266.5***	***15.7***
EBITDA margin (%)	***22.4***	***18.2***	***(45.9)***	***26.4***	***24.5***
Depreciation	1,326	1,465	1,818	1,894	2,010
EBIT	**2,734**	**1,438**	**-4,276**	**2,200**	**2,725**
EBIT (%)	***15.1***	***9.0***	***-79.8***	***14.2***	***14.1***
Interest expense	504	556	821	758	488
Other income	688	784	241	699	869
Exceptional Items	(731)	(5)	-	-	-
Earnings before tax	**2,186**	**1,662**	**(4,855)**	**2,142**	**3,106**
Tax- total	820	9	(1,222)	539	782
Rate of tax (%)	*37.5*	*0.5*	*25.2*	*25.2*	*25.2*
Net profit	**1,367**	**1,653**	**(3,633)**	**1,603**	**2,325**
Add: Share Of Net Profit Of Associates & Joint Ventures	123	(1)	(363)	160	232
Less: Minority Interest	(174)	(163)	400	(176)	(256)
Adjusted Net Profit	**1,315**	**1,488**	**(3,597)**	**1,587**	**2,301**
EPS (FD)	2.30	2.60	(5.75)	2.54	3.68
% growth	*(26.6)*	*13.1*	*(320.9)*	*144.1*	*45.0*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 35: Cash flow

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Adjusted Profit after tax	**1,367**	**1,653**	**(3,633)**	**1,603**	**2,325**
Depreciation	1,326	1,465	1,818	1,894	2,010
Finance costs	504	556	821	758	488
Other income	(671)	(740)	(241)	(699)	(869)
Others	(731)	(5)	-	-	-
Working capital changes	(218)	(47)	889	(2,328)	(452)
Operating cash flow	**1,577**	**2,882**	**(347)**	**1,227**	**3,501**
Capital expenditure	(1,441)	(1,389)	(1,765)	(1,585)	(2,422)
Net cash after capex	**136**	**1,492**	**(2,113)**	**(358)**	**1,079**
Cash Flow from Investments	(2,092)	699	(1,765)	(1,585)	(2,422)
Issue/(buyback of equity)	-	-	108	-	-
Proceeds/repayment of borrowings	465	(1,103)	2,582	(625)	(2,921)
Finance costs	(504)	(556)	(821)	(758)	(488)
Others	1,107	(2,153)	484	1,490	2,522
Cash flow from financing	**1,067**	**(3,812)**	**2,353**	**108**	**(887)**
Total cash generation	**553**	**(231)**	**240**	**(251)**	**193**
Opening cash balance	1,063	1,616	1,385	1,625	1,375
Closing cash & bank balance	**1,616**	**1,385**	**1,625**	**1,375**	**1,567**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 36: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Equity Share capital	1,143	1,143	1,251	1,251	1,251
Reserves and surplus	28,791	30,222	30,014	30,851	32,402
Net worth	**29,934**	**31,365**	**31,265**	**32,101**	**33,652**
Minority Interest	886	997	598	774	1,030
Loans	5,509	4,770	7,670	6,970	3,970
Provisions	251	331	251	277	342
Deferred tax liability	1,848	1,478	1,478	1,552	1,629
Other Financial Liabilities	334	2,044	2,077	2,148	2,134
Total capital employed	**38,762**	**40,985**	**43,339**	**43,823**	**42,758**
Goodwill	3,399	3,701	3,701	3,701	3,701
Property, plant and equipment	23,669	23,292	30,675	29,081	27,371
Non Current Investments	362	393	393	393	393
Investments in Associates and Joint Ventures	3,440	3,812	3,812	3,812	3,812
Deferred tax assets	99	98	98	98	98
Other non-current assets	4,870	6,950	2,569	2,569	2,569
Total non-current assets	**35,839**	**38,247**	**41,249**	**39,655**	**37,945**
Trade payables	2,300	2,078	1,252	448	692
Other current liabilities	1,216	1,265	1,265	1,265	1,265
Provisions (current)	241	192	167	185	228
Total current liabilities	**3,757**	**3,534**	**2,684**	**1,897**	**2,185**
Inventories	598	610	155	431	648
Current Investments	482	384	423	465	512
Trade receivables	2,481	2,057	734	1,957	2,433
Cash and bank balance	1,616	1,385	1,625	1,375	1,567
Other Bank Balances	794	906	906	906	906
Other current assets	709	930	930	930	930
Total current assets	**6,679**	**6,273**	**4,774**	**6,065**	**6,997**
Net current assets	**2,922**	**2,739**	**2,090**	**4,167**	**4,812**
Total capital employed	**38,762**	**40,985**	**43,339**	**43,823**	**42,758**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 37: Key ratios

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Profitability and return ratios					
EBITDA margin (%)	22.4	18.2	(45.9)	26.4	24.5
EBIT margin (%)	15.1	9.0	-79.8	14.2	14.1
Net profit margin (%)	7.3	9.3	(67.1)	10.2	11.9
RoE (%)	4.4	4.7	(11.5)	4.9	6.8
RoCE (%)	7.7	4.0	(11.0)	5.6	7.2
Working capital & liquidity ratios					
Recievable (days)	50.0	47.0	50.0	46.0	46.0
Inventory (days)	18.5	20.3	9.0	16.6	19.5
Payable (days)	82.8	80.2	80.0	80.0	80.0
Current ratio (x)	1.8	1.8	1.8	3.2	3.2
Valuation ratios					
EV/sales (x)	3.3	3.7	12.5	4.3	3.3
EV/EBITDA (x)	14.8	20.6	(27.4)	16.4	13.5
P/E (x)	42.1	37.2	NA	38.2	26.3
P/BV (x)	1.9	1.8	1.9	1.9	1.8

Source: Company, Nirmal Bang Institutional Equities Research

DISCLOSURES

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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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