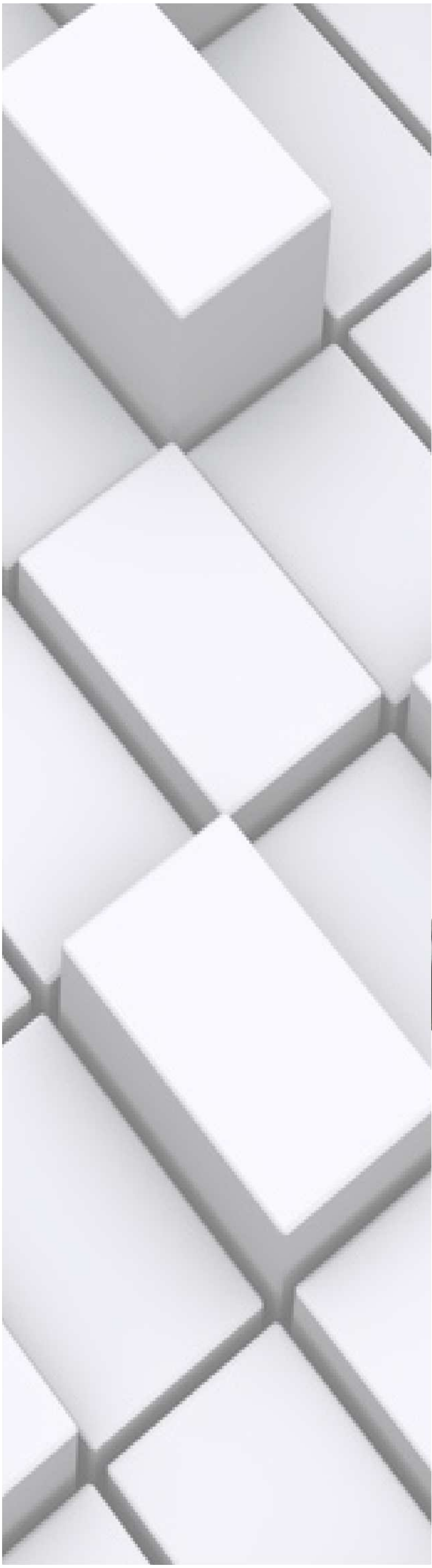


ICICI direct.com Research
It's Advice, Not Adventure

January 18, 2018

Direct Instinct

Key risks to investing in I-direct Instinct

- It is a quick pitch note, which captures the essence of an idea in brief

- Instinct idea may be based on management interaction or some immediate triggers that may have a positive impact on the future of the company

- Target price is based on forward estimates, which will be published along with Detailed Coverage Report or Nano Nivesh report as the case may be

- The intent is to capture price action by coming out with a gist, which may or may not be an interim report between management interaction and publication of the final report

- The fair value of I-direct Instinct stocks is subject to expected growth potential in the future. Though due diligence has been done to a fair extent, the actualisation of growth still has a degree of uncertainty attached to it. Customers are advised to allocate a small proportion of their investible income to these stocks and diversify well

January 18, 2018

Oriental Hotels (ORIHOT)

₹ 55

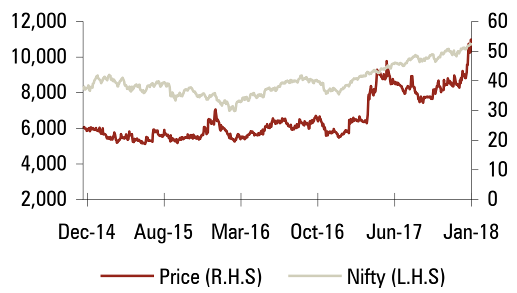
Rating Matrix

Rating	:	Buy
Target	:	₹ 85-90
Target Period	:	12 months
Potential Upside	:	55-64%

Stock Data

Particular	Amount
Market Capitalization (₹ crore)	986.0
Total Debt (FY17) (₹ crore)	322.3
Cash (FY17) (₹ crore)	13.5
EV (₹ crore)	1,294.8
52 week H/L (₹)	57/22
Equity capital (₹ crore)	17.9
Face value (₹)	1.0

Price Movement



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Room for further upside!!!

We had come out with an I-direct Instinct on Oriental Hotels in March, 2017. We reiterate that our upside thesis was based on a cyclical upturn in the hotel industry and rise in spending by domestic travellers. Moreover, we note that despite the recent run-up, the company is available at attractive valuations of ₹ 1.2 crore/room (below industry average of ₹ 2.5-3.0 crore/room).

Triggers

Hotel industry on verge of turnaround

The hotel industry has seen some green shoots mainly led by a decline in room supply & increase in demand. Proposed supply of rooms has significantly reduced from 1,14,446 in FY08 to 47,067 in FY17 (source: HVS). This is further validated by the fact that demand growth (6.2% YoY) outpaced supply growth (3.1% YoY) in FY17. Overall occupancy has also improved 3% YoY to 64% while the average room rate (ARR) improved 1.7% YoY in FY17. Further, in the next three to four years we expect the sector to see a better growth trajectory mainly led by rise in spending by domestic travellers & improved tourism measures by the government.

Set to witness margin expansion

Oriental Hotel has 1060 rooms and a major presence in the south. It is expected to be a key beneficiary of a demand revival. Further, re-branding of Gateway and Vivanta brands to Taj brand are expected to lead to an improvement in ARR. The company has maintained average EBITDA margin of over 14% in FY13-17. In good market condition, it has the potential to go above 35% (as seen in FY08). Assuming 75% occupancy and EBITDA margin of 30% in FY20E, the company may post EBITDA of ₹ 145 crore (i.e. 44% CAGR in next three years). In addition, the company could register PAT of ₹ 70 crore (implying a P/E of 14.0x) in FY20E.

Valuation & Outlook

We believe that an improvement in occupancy and margins would result in healthy cashflow generation. This could be used to pare down debt or increase dividend payout or for expansion. Further, strong promoter background (Tata group holding 33.6% stake) would provide a huge advantage in terms of operations and expansion. In addition, the stock is trading at an EV/room of ₹ 1.2 crore/room (below industry average of ₹ 2.5-3.0 crore/room). Given this, we revise our target price of ₹ 85-90/share (i.e. EV/room of ₹ 1.7-1.8 crore/room).

Exhibit 1: Financial Performance

(Year-end March)	FY13	FY14	FY15	FY16	FY17
P&L					
Revenues (₹ crore)	344.7	355.5	366.6	310.8	334.8
EBITDA (₹ crore)	62.7	36.9	59.1	26.4	48.8
Net Profit (₹ crore)	15.6	(22.6)	1.6	(12.3)	5.0
Balance Sheet					
Equity (₹ crore)	17.9	17.9	17.9	17.9	17.9
Net worth (₹ crore)	397.9	373.2	337.7	419.6	412.3
Debt (₹ crore)	312.7	347.3	348.2	317.4	322.3
Ratios					
RoNW (%)	3.9	(6.1)	0.5	(2.9)	1.2
RoCE (%)	6.6	0.7	4.4	0.5	4.0
ROIC (%)	8.2	0.9	5.3	0.7	6.1
Asset turnover (x)	0.5	0.5	0.5	0.4	0.5
Earnings per share (₹)	0.9	(1.3)	0.1	(0.7)	0.3
Dividend per share (₹)	0.6	0.6	0.4	0.2	-
EV/EBITDA (x)	20.6	35.1	21.9	49.1	26.5

Source: Capital Line, ICICIdirect.com Research

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Strong Buy: >15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: >10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

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