Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Company Update

Indian Hotels Company Ltd

Best play with consistent growth

Consumer Discretionary		Sharekhan code: INDHOTEL		
Reco/View: Buy	↔	CMP: **Rs. 583**	Price Target: **Rs. 679**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

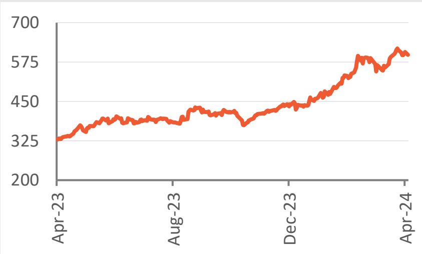
Company details

Market cap:	Rs. 83,050 cr
52-week high/low:	Rs. 622 / 326
NSE volume: (No of shares)	32.2 lakh
BSE code:	500850
NSE code:	INDHOTEL
Free float: (No of shares)	88.1 cr

Shareholding (%)

Promoters	38.1
FII	24.1
DII	22.3
Others	15.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.1	25.1	43.1	81.8
Relative to Sensex	2.8	22.7	29.7	57.6

Sharekhan Research, Bloomberg

Summary

- We retain a Buy on Indian Hotels Company (IHCL) with a revised PT of Rs. 679. The stock trades at 27x and 22x its FY25E and FY26E EV/EBIDTA.
- FY24 is expected to be another strong year for IHCL with high room demand and ARRs driving double-digit earnings growth. Momentum to continue in FY25 with multiple drivers in place.
- Company is focusing on strategies that will drive IHCL's next phase of growth including launch of new brands and exploring opportunities in the emerging segments.
- Along with focused strategies, IHCL is planning to open 25 new hotels every year (vs. earlier target of 15-20 hotels per annum).

The Indian hospitality industry is on the cusp of a long-term structural growth story with room demand expected to stay ahead of room supply led by rising demand from domestic travellers, emergence of new tourism segments and India becoming one of the better names in global tourism along with strong support from the government in the form of improved infrastructure and favourable policies. Indian Hotels Company Ltd (IHCL) remains a best play in the structural growth story, with the implementation of strong growth strategies, strengthening balance sheet and improving its business model with efficient capital allocation plans. We expect FY2024 to be another strong year after a sturdy FY2023 with high-teens revenue growth and EBIDTA margins standing at ~32% driven by double-digit RevPAR growth. Consistent growth in domestic air travel and high demand from domestic tourism will lead to double-digit room demand growth ahead of room supply. This will help IHCL to post another year of strong performance in FY2025 with revenues and PAT expected to grow by 16% and 26% y-o-y, respectively.

- **ARRs to grow by 10-15% in FY2025:** IHCL's average room rentals (ARRs) are expected to grow by 10-12% in FY2025 with macro tailwinds remaining strong. Room demand is expected exceed room supply as foreign tourist arrivals (FTAs) are yet to reach pre-pandemic levels and sustenance of strong domestic demand with 50% of room demand coming from transients (non-negotiable bookings). Further, India has witnessed significant overall air travel growth in the past few months, driven by strong domestic demand (both for leisure and corporate travel) and gradual recovery in FTA. Airline passenger movement and room demand largely move hand-in-hand. Thus, with rising airline passenger movement, room demand is also expected to see an uptick.
- **Identified levers to drive next phase of growth:** The management has stated that the company is ready to announce strategies that will drive IHCL's next phase of growth, which include introduction of new brands and harnessing existing partnerships to explore more opportunities in the emerging tourism segments such as wildlife, adventure and wellness tourism. Along with a focus on other strategies to drive growth, IHCL continued its focus on portfolio expansion in FY2024, with the signing of 52 hotels and opening of 20 hotels during the year. Further, the company currently has over 90 hotels in the pipeline. The company's management has indicated that supply additions from IHCL is set to accelerate to 25 openings per year going ahead (versus 15-20 hotel openings in past 2-3 years).
- **Revenue growth momentum to sustain in Q4FY2024; margins to remain stable:** IHCL's revenues are expected to be higher by 15% y-o-y to Rs. 1,876 crore in Q4FY2024, aided by strong leisure travel, growing business travel and robust demand for MICE and weddings. We expect 17% y-o-y rise in room revenue, 16% y-o-y rise in the F&B revenue and 18% y-o-y rise in management fees during Q4FY2024. EBIDTA margin is expected to improve by ~60 bps y-o-y to 33.5% led by strong revenue growth and better operating efficiencies. In line with EBITDA growth of ~17% y-o-y and higher other income, PAT is expected to grow by ~24% y-o-y to Rs. 376 crore.

Our Call

View – Retain Buy with a revised PT of Rs. 679: IHCL has charted a strong growth plan to be achieved by FY2025-26 with a strong improvement in cash flows and strengthening balance sheet with a focus on becoming debt-free. EBITDA margins will consistently improve in coming years. With strong room inventory, IHCL is the best pick to capture strong growth momentum in domestic tourism in the coming years. The stock trades at 33x/27x/22x its FY2024E/25E/26E EV/EBIDTA. We maintain a Buy recommendation on the stock with a revised price target of Rs. 679.

Key Risks

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

Valuation (Consolidated) Rs cr

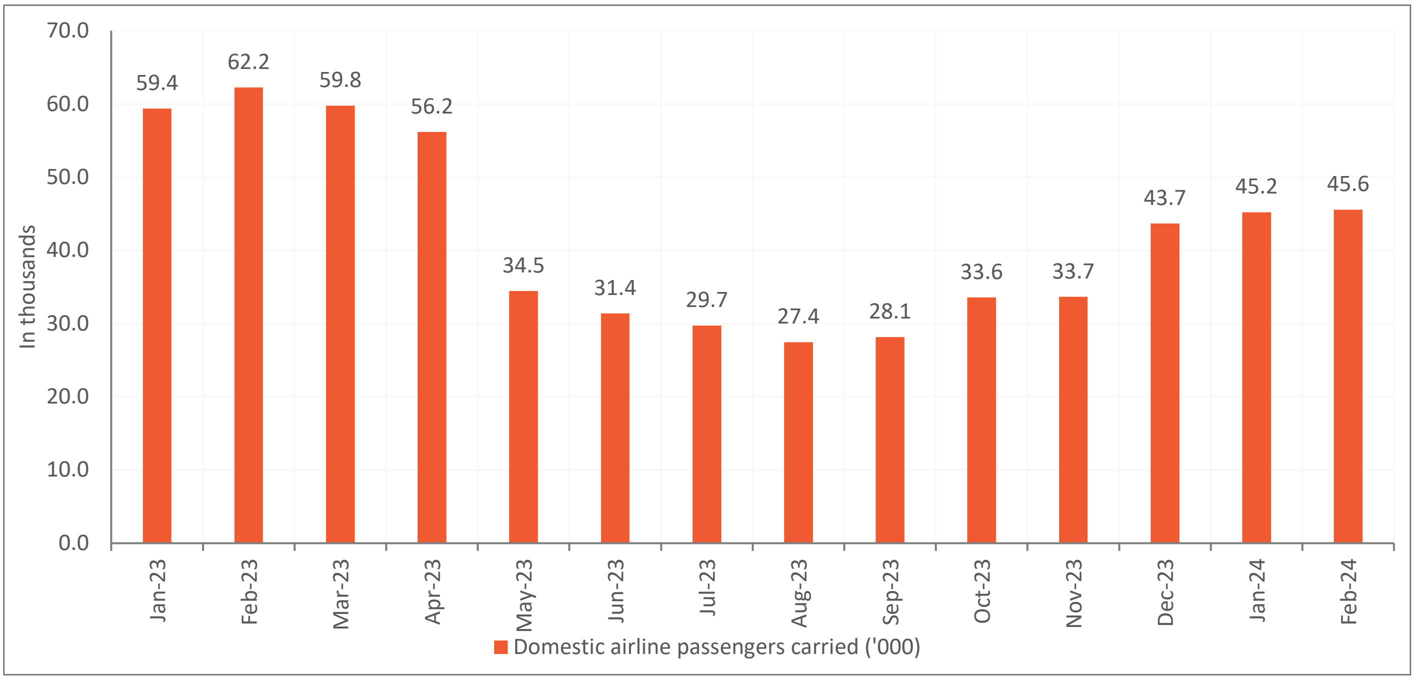
Particulars	FY23	FY24E	FY25E	FY26E
Revenue	5,810	6,856	7,953	9,185
EBITDA margin (%)	31.1	31.7	32.6	33.9
Adjusted PAT	968	1,237	1,565	1,970
Adjusted EPS (Rs.)	7.4	8.9	11.2	14.0
P/E (x)	79.0	65.7	52.1	41.5
P/B (x)	9.6	8.5	7.4	6.4
EV/EBITDA (x)	41.3	32.8	27.3	22.3
RoNW (%)	11.9	13.5	15.0	16.3
RoCE (%)	13.0	15.9	18.3	20.6

Source: Company; Sharekhan estimates

Robust room demand likely to sustain

The country has witnessed significant overall air travel growth in the past few months, driven by strong domestic demand (both for leisure and corporate travel) and gradual recovery in FTA. This is evident from the fact that number of passengers travelling domestically has seen a rising trend for the past six months and this trend is expected to continue going forward. Domestic airline passengers carried has increased by 1.7x over the past six months to 45.6k passengers in February 2024.

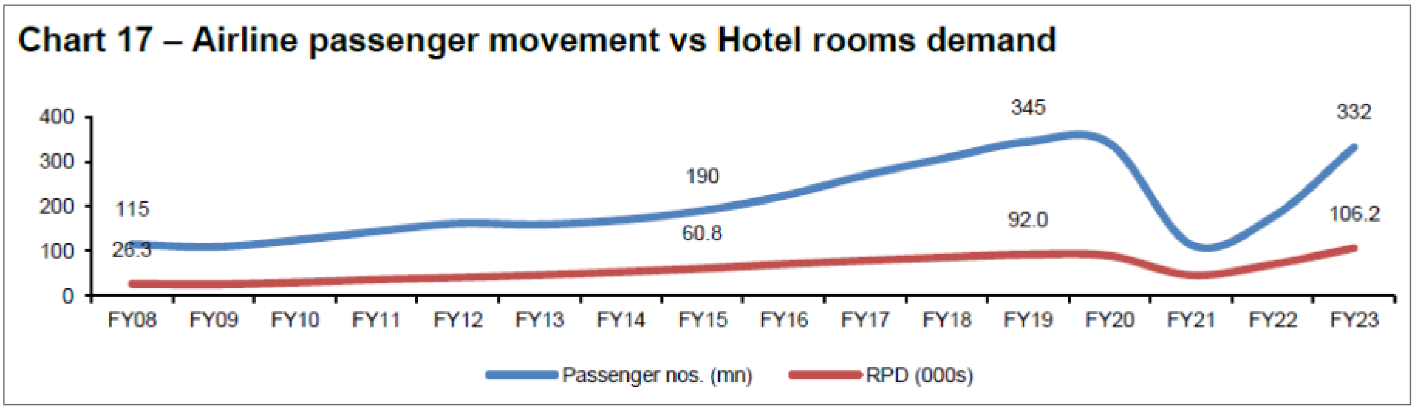
Continued rise in airline passenger traffic



Source: Industry reports, Sharekhan Research

According to industry reports, airline passenger movement and room demand largely move hand in hand. Thus, with rising airline passenger movement, room demand is also expected to see an uptick.

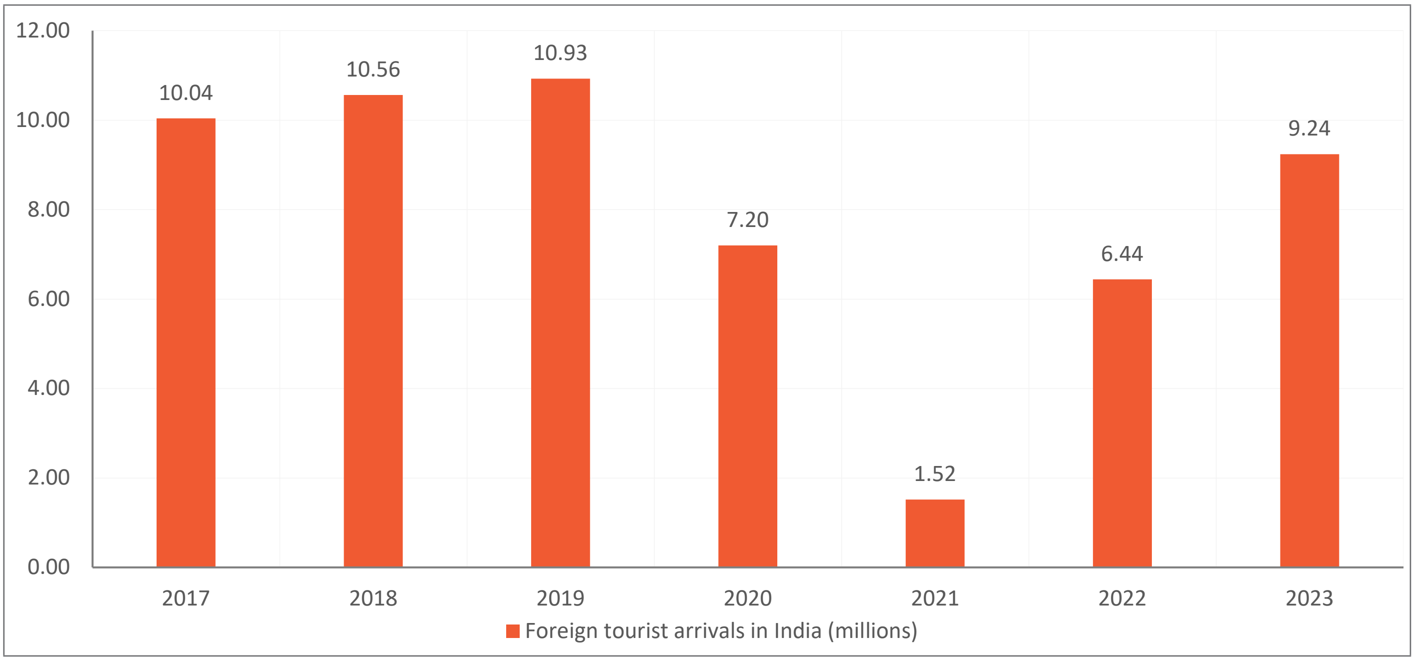
Strong relation between air passenger movement and room demand



Source: Industry reports

Further, FTA is yet to recover to pre-COVID levels. After the COVID-19 disruption, FTA stood at 6.4 million in 2022 (59% of 2019 levels) and 9.2 million in 2023 (85% of 2019 levels). This signifies a huge opportunity for rise in demand with an increase in foreign travel.

Sharp recovery in FTA post the pandemic



Source: Industry reports, Sharekhan Research

Revenue growth momentum to sustain in Q4FY2024; margins to slightly improve

Revenues are expected to be higher by 15% y-o-y to Rs. 1,876 crore in Q4FY2024, aided by strong leisure travel, growing business travel and robust demand for MICE and weddings. We expect 17% y-o-y rise in room revenue, 16% y-o-y rise in the F&B revenue and 18% y-o-y growth in the management fees in Q4FY2024. EBIDTA margin is expected to improve by ~60 bps y-o-y to 33.5% led by strong revenue growth and better operating efficiencies. In line with EBITDA growth of ~17% y-o-y and higher other income, PAT is expected to grow by ~24% y-o-y to Rs. 376 crore.

Identified levers for fuelling the next phase of growth with continued focus on supply addition

IHCL's management has stated that the company is ready to announce strategies that will drive IHCL's next phase of growth, which include the introduction of new brands and harnessing existing partnerships. The management indicated that there is strong demand for emerging formats in the experiential leisure travel space, providing opportunities to come up with new brands in the upscale, upper upscale and luxury segments Thus, IHCL is planning to announce new brands in this space to tap these segments. Further, emerging airports and trending travel interests such as - wildlife, wellness and adventure provide huge demand opportunities. IHCL aims to benefit from these opportunities by entering into multi-hotel projects with its existing partnerships.

Along with the focus on other strategies to drive growth, IHCL continued its focus on portfolio expansion in FY2024, with the signing of 52 hotels (Q1 – 11, Q2 – 6, Q3 -11, Q4 – 24) and opening of 20 hotels (Q1 – 5, Q2 – 3, Q3 – 8, Q4 – 4) during the year. Further, the company currently has over 90 hotels in the pipeline. The management said that supply additions from IHCL is set to accelerate to 25 openings per year going ahead (versus 15-20 hotel openings in past 2-3 years).

IHCL's recent openings

Month	Name of the property	Location	Brand	Keys
Mar-24	Vivanta, Chitwan	Bharatpur, Nepal	Vivanta	45
Mar-24	Whispering, Pines	Bhimtal, Uttarakhand	amã Stays & Trails	100
Mar-24	Scenic Munnar	Munnar, Kerala	SeleQtions	55
Feb-24	Ginger, Ahmedabad	Ahmedabad, Gujarat	Ginger	102
Feb-24	Aguada Villas	Candolim, Goa	amã Stays & Trails	9
Feb-24	Ekante, Bliss	Tirupati, Andhra Pradesh	SeleQtions	113

Source: Company; Sharekhan Research

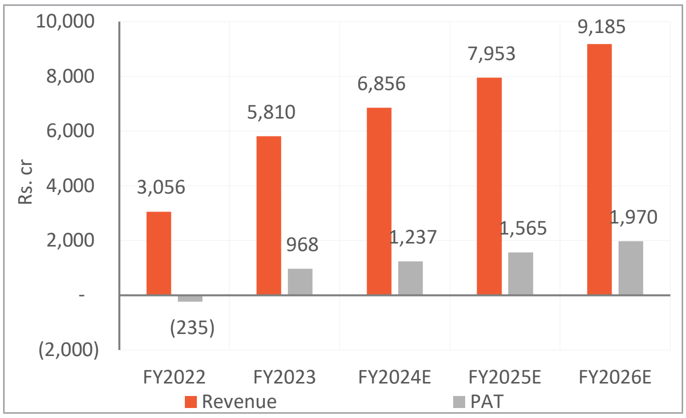
IHCL's recent signings

Month	Location	Brand	Keys
Apr-24	Diamond Harbour Road, Kolkata	SeleQtions	130
Apr-24	Kollam, Kerala	Taj	205
Mar-24	Indore, Madhya Pradesh	Taj	350
Mar-24	Surat, Gujarat	SeleQtions	175
Mar-24	Ujjain, Madhya Pradesh	Vivanta	130
Feb-24	Haridwar, Uttarakhand	Vivanta	125
09-Feb	Manohar International Airport, Goa	Ginger	300
06-Feb	Dibrugarh, Assam	Ginger	77
22-Jan	Ayodhya, Uttar Pradesh	SeleQtions	150

Source: Company; Sharekhan Research

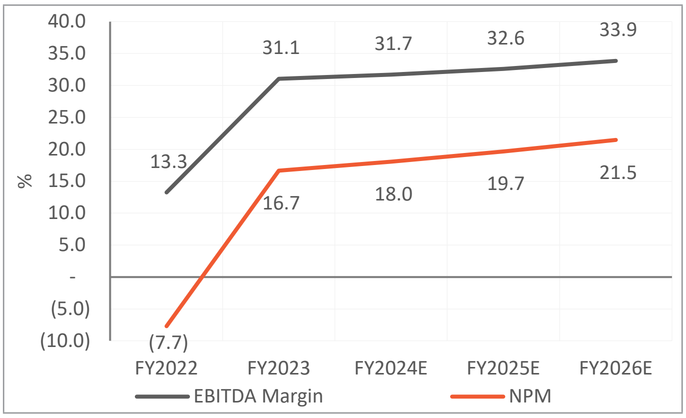
Financials in charts

Revenue and profits to grow in coming years



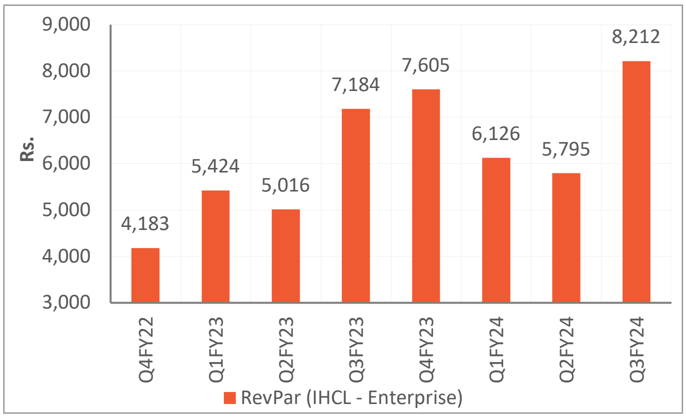
Source: Company, Sharekhan Research

Margins to move North



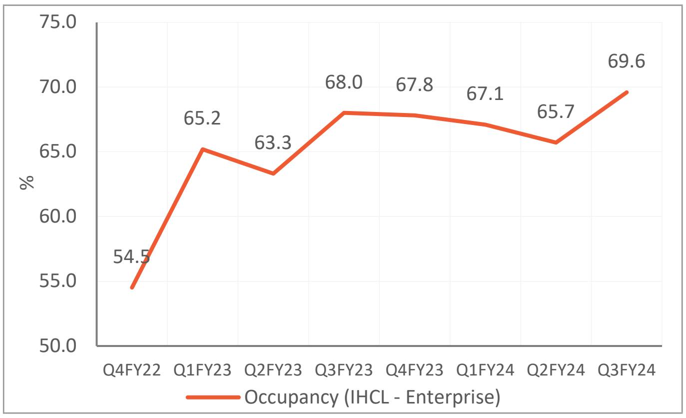
Source: Company, Sharekhan Research

Quarterly trend in RevPAR



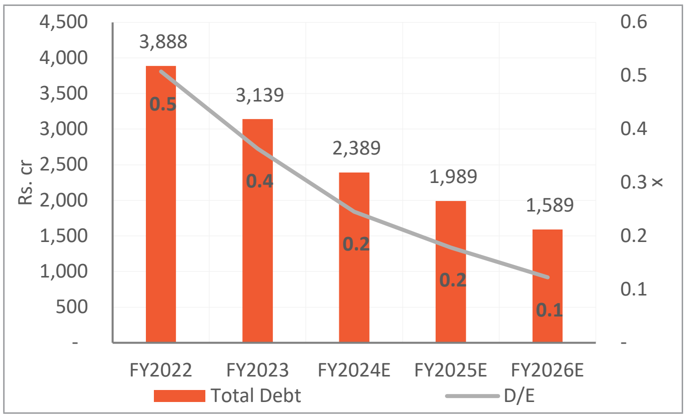
Source: Company, Sharekhan Research

Trend in occupancy ratio



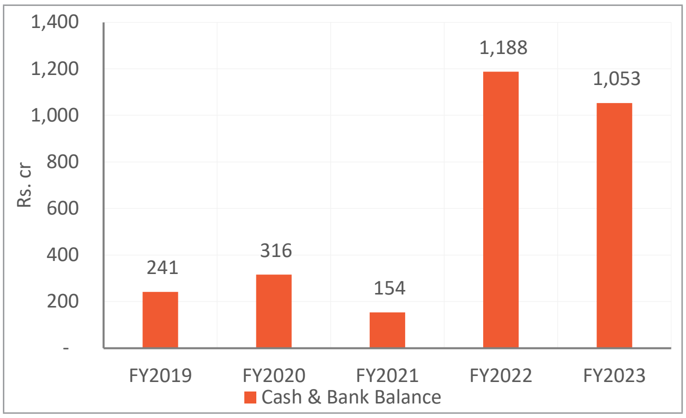
Source: Company, Sharekhan Research

Company to reduce debt



Source: Company, Sharekhan Research

Cash and bank balance stays adequate



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Hotel industry to benefit from demand supply gap

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

■ Company Outlook – Strong growth over FY2023-26

With room demand expected to exceed supply, domestic performance is expected to be strong in the coming years. This along with expected recovery in international properties and higher contribution from new ventures, will aid the revenues and PAT to grow at a CAGR of 17% and 27% over FY2023-26E. Cost-saving initiatives undertaken in FY2021 will help operating profit improve in coming years. We expect IHCL's EBIDTA margins to touch ~34% in FY2026. An asset-light model will help in high free cash generation. Return ratios are expected to improve with RoE/RoCE expected to rise to 16%/21% in FY2026 from 12%/13% in FY2023.

■ Valuation – Retain Buy with a revised PT of Rs. 679

IHCL has charted a strong growth plan to be achieved by FY2025-26 with a strong improvement in cash flows and strengthening balance sheet with a focus on becoming debt-free. EBITDA margins will consistently improve in coming years. With strong room inventory, IHCL is the best pick to capture strong growth momentum in domestic tourism in the coming years. The stock trades at 33x/27x/22x its FY2024E/25E/26E EV/EBIDTA. We maintain a Buy recommendation on the stock with a revised price target of Rs. 679.

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Lemon tree Hotels	78.1	61.7	43.7	24.9	21.1	17.2	10.0	11.4	13.1
Chalet Hotels	93.9	81.3	53.6	35.9	27.9	22.3	5.5	10.2	13.0
Indian Hotels Company	79.0	65.7	52.1	41.3	32.8	27.3	13.0	15.9	18.3

Source: Company, Sharekhan estimates

About company

IHCL and its subsidiaries bring together a group of brands and businesses that offer a fusion of warm Indian hospitality and world-class service. These include Taj, the iconic brand for the most discerning travellers; SeleQtions, a named collection of hotels; Vivanta, sophisticated upscale hotels; and Ginger, which is revolutionising the lean luxe segment. Incorporated by the founder of the Tata Group, Jamsetji Tata, the Company opened its first hotel - The Taj Mahal Palace, in Bombay in 1903. IHCL currently has a portfolio of 274 hotels including 82 under development globally across 4 continents, 11 countries and in over 100 locations.

Investment theme

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

Key Risks

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

Additional Data

Key management personnel

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

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Asset Management Co.	3.83
2	Axis AMC	3.00
3	Nippon Life India Asset Management Company	2.98
4	Vanguard Group Inc	2.33
5	BlackRock Inc	2.26
6	Jhunjhunwala Rekha Rakesh	2.11
7	HDFC Life Insurance Co	1.49
8	Canara Robeco AMC	1.25
9	SBI Funds Management	1.22
10	ICICI Prudential Life Insurance Co	1.07

Source: Bloomberg (old data)

Understanding the Sharekhan 3R Matrix

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

Source: Sharekhan Research

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