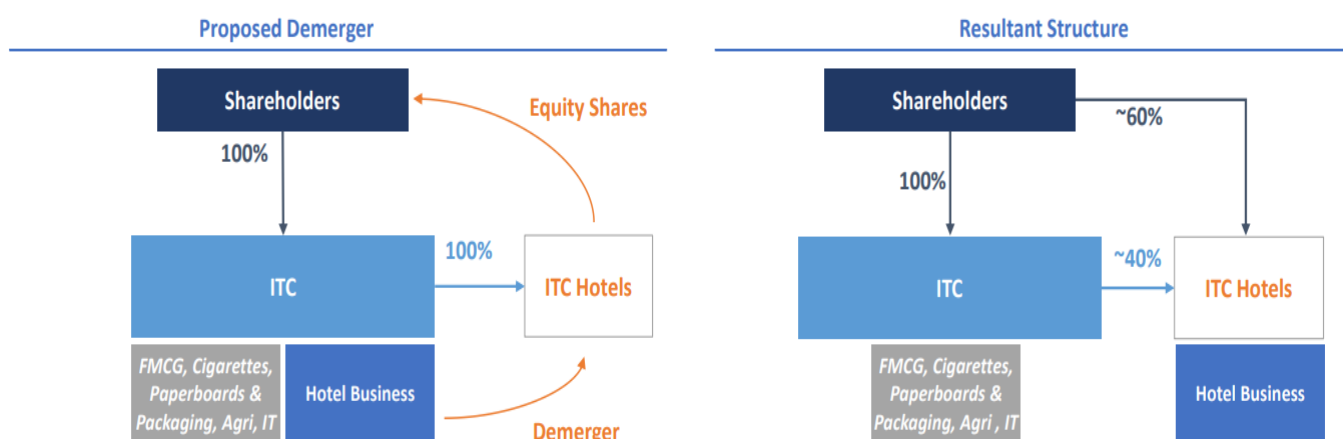


Special Situation Report Demerger – ITC Hotels Ltd

The board of directors of ITC Ltd had approved demerger of its hotels business on 14th August, 2023 based on which retail investors can take benefit of the opportunity. Below are the demerger details:

- **Demerger ratio:** 1:10 (1 share of ITC Hotels for every 10 shares of ITC Ltd)
- **Record date:** 06th January, 2025
- **No. of outstanding shares in ITC Hotels post demerger:** 2,08,11,71,039.

Shareholding Structure:



Source: ITC Ltd

Financials of ITC Hotels:

Particulars (Rs cr)	FY23	FY24	1HFY25
Revenue	2,689	3,103	1,450
EBITDA	852	1,066	460
EBITDA Margin (%)	31.7	34.4	31.7
EBIT	557	765	304
EBIT Margin (%)	20.7	24.7	21.0

Source: ITC Hotels presentation, SSL Research

Valuation Matrix & Computation of Fair Value of ITC Hotels Ltd:

Assumed FY25E EV/EBITDA (x) ¹	20.0	25.0	26.0	28.0	30.0
Implied Mkt Cap. of ITC Hotels (Rs cr)	23,551.8	29,439.7	30,617.3	32,972.5	35,327.7
Implied Fair Value of ITC Hotels (Rs)	113.2	141.5	147.1	158.4	169.7
Implied FY25E P/E (x) ²	43.1	53.9	56.1	60.4	64.7
Value of ITC Ltd's 40% stake in ITC Hotels (Rs cr)	9,392.8	11,741.0	12,210.6	13,149.9	14,089.2
ITC Hotels value for ITC Ltd shareholders post applying holding company discount of 20% (Rs cr)	7,514.2	9,392.8	9,768.5	10,519.9	11,271.3
CMP of ITC Ltd ³	478.6	478.6	478.6	478.6	478.6
Adjusted share price of ITC Ltd post demerger (Rs)	472.6	471.1	470.8	470.2	469.6

Notes:

1. Taking average EV/EBITDA multiple of 25.0x of its industry peers Indian Hotels and EIH Ltd.
2. We expect ITC Hotels to generate PAT of ~Rs 546 cr in FY25E given the negligible debt on books and assuming a tax rate of ~28%.
3. Closing price of 27th Dec.

Our view: ITC Hotels is one of the largest hotel companies with 140 hotels and ~13,000 operating keys as of Oct'24. The company targets to grow its portfolio to 200+ hotels and 18,000+ keys by 2030. Around 35% of the hotel portfolio is owned by ITC Hotels and the balance is managed (including franchise model). The ARR and RevPAR of its owned hotels has grown 20%/18% YoY respectively in FY24 with occupancy level of 69%. The return ratios are healthy with RoCE of ~20%. It has a net cash surplus with negligible debt on books, thus providing healthy growth opportunity going ahead.

Given the attractive growth potential for domestic tourism industry and strong company financials, ITC Hotels has a long runway to capture the growth opportunities in the tourism industry. Investors can participate in the growth story of ITC's hotel business by purchasing a minimum of 10 ITC shares on or before 03rd January, 2025. The average EV/EBITDA multiple of its industry peers (Indian Hotels & EIH Ltd) is 25.0x. Assuming that ITC Hotels will list at an EV/EBITDA multiple of 20.0x-30.0x, the share price of ITC Hotels Ltd is expected to list in the range of Rs 113 to Rs 170 per share (as per the computation in the above table).

For ITC Ltd shareholders, post demerger and listing of the ITC Hotels Ltd, there will be no material value addition as the price of ITC Ltd will get adjusted taking into account the holding company discount as shown above. Post listing of the ITC Hotels Ltd, investors will get an opportunity to participate directly in the growth story of ITC's hotel business. Looking at the robust key addition pipeline for ITC Hotels and strong industry tailwinds, we believe ITC Hotels Ltd has potential to outperform ITC Ltd over a medium to long term period. In the short term, there is a possibility that few shareholders (especially ETFs) may have to forcefully exit ITC Hotels Ltd and this can create pressure on the stock price. We believe, any short term pressure on the stock price of ITC Hotels Ltd will be a good opportunity for retail/HNI shareholders to accumulate quality business in their long term portfolio. Meanwhile, post demerger, investors can also continue to hold shares of ITC Ltd for long term given its diversified FMCG portfolio and steady growth in its core businesses (Cigarette & FMCG). Also, the demerger of its asset heavy hotels business will result in improved return ratios and cash flows. We believe, post demerger, ITC Ltd's medium term fair value to be Rs 525-550.

SBICAP Securities Limited

(CIN): U65999MH2005PLC155485 | Research Analyst Registration No INH000000602

SEBI Registration No.: Stock Broker: INZ000200032 | CDSL: IN-DP-314-2017 | NSDL: IN-DP-NSDL-369-2014 | Research Analyst: INH000000602

IRDA/RW/IR2/2015/081 | IRDA/RW/IR1/2016/041 | IRDA: CA0103

Registered & Corporate Office: Marathon Futurex, A Wing, 12th Floor, N. M. Joshi Marg, Lower Parel, Mumbai-400013.

For any information contact us:

022-6854 5555

E-mail: helpdesk@sbicapsec.com | Web: www.sbisecurities.in

DISCLOSURES & DISCLAIMERS:

Analyst Certification: The views expressed in this research report ("Report") accurately reflect the personal views of the research analysts ("Analysts") employed by SBICAP Securities Limited (SSL) about any and all of the subject issuer(s) or company(ies) or securities. This report has been prepared based upon information available to the public and sources, believed to be reliable. I/We also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

The Analysts engaged in preparation of this Report or his/her relative:-

- (a) do not have any financial interests in the subject company mentioned in this Report; (b) do not own 1% or more of the equity securities of the subject company mentioned in the report as of the last day of the month preceding the publication of the research report; (c) do not have any material conflict of interest at the time of publication of the Report.

The Analysts engaged in preparation of this Report:-

- (a) have not received any compensation from the subject company in the past twelve months; (b) have not managed or co-managed public offering of securities for the subject company in the past twelve months; (c) have not received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) has not received any compensation or other benefits from the subject company or third party in connection with the Report; (f) has not served as an officer, director or employee of the subject company; (g) is not engaged in market making activity for the subject company.

Name	Qualification	Designation
Sudeep Shah	MMS-Finance	DVP- Technical & Derivative Research
Sunny Agrawal	B.E, MBA (Finance)	DVP - Fundamental Research
Rajesh Gupta	PGDBM (Finance), MA (Bus. Eco)	AVP - Fundamental Research
Monica Chauhan	C.A.	Research Analyst - Equity Fundamentals
Harsh Vasa	CA	Research Analyst - Equity Fundamentals
Sumeet Shah	B.E., CFA	Research Analyst - Equity Fundamentals
Sweta Padhi	MBA (Finance)	Research Analyst - Equity Fundamentals
Uday Chandgothia	B.Tech (Mech), MBA (Finance)	Research Associate - Equity Fundamentals
Gautam Updhyaya	MBA (Finance)	Research Analyst - Equity Derivatives
Vinayak Gangule	BE (IT)	Research Analyst - Equity Technicals
Ashwin Ramani	B.Com	Research Analyst- Equity Technicals
Ghanshyam Gupta	MBA (Finance)	Research Analyst- Currency Derivative
Sagar Peswani	B.Tech (ECE)	Research Associate - Equity Technicals
Kalpesh Mangade	B.Com	MIS Analyst - Retail Research

For other Disclosures please visit: https://bit.ly/R_disclaimer02

Sudeep Shah

Sudeep Shah

DVP – Technical & Derivative Research

Sunny Agrawal

Sunny Agrawal

DVP – Fundamental Research