



IHCL

Indian Hotels Company Limited

SHINING STAR SERIES

Indian Hotels Company Ltd.

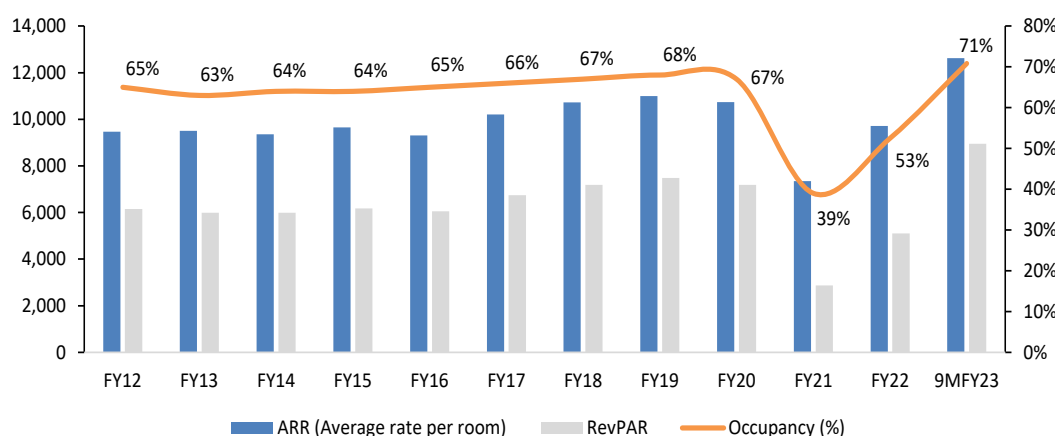
Investment Rationale

A healthy growth in RevPAR supported by favourable demand dynamics of the industry

IHCL recorded a strong recovery post-covid period, with its 9MFY23 average room rate (ARR) touching a record high of Rs. 12,629 (on a standalone basis) which comfortably exceeded the company's FY2012-FY2022 period ARR of Rs. 9,730. On the domestic enterprise level in Q3FY23, the company reported an ARR of Rs. 10,565, registering a growth of 29.6% compared to an ARR of Rs. 8,149 in Q3FY20. This was supported by robust growth (compared to Q3FY20) across all its key customer segments - Business (17.0%), Leisure (44.2%), Palaces (22.3%), and Ginger (32.1%), with Palaces commanding an ARR of Rs. 46,522 which is the highest across different segments of the business. The strong ARR coupled with a healthy occupancy rate of 68% in Q3FY23 has resulted in the company's RevPAR touching Rs. 7,184, beating the pre-covid level of Rs. 5,580. Also, it is interesting to note that the transient guest contribution to room revenue has consistently improved over the quarters (57% in Q3FY23 v/s 49% in Q3FY20) which in general benefits the hotels due to their relatively higher pay rates and better operational efficiencies. Further, expectations of a lagging trend in the hotel room supply (3.5% growth in 9MFY23 over FY2020) compared to hotel room demand (5.4% in 9MFY23 over FY2020) is set to continue in key markets going forward on the back of strong wedding business, gradual recovery in foreign travel, a healthy pick up in corporate business and special events like G20 summit and Cricket World Cup in FY2024. We believe that the favourable industry dynamics (demand growth leading supply growth) places the company in a sweet spot to raise its ARR in the future which is in stark contrast to the decade-ago trend wherein the number of branded hotels in the pipeline equaled the number of branded hotels in operation which resulted in the company having a lower control to boost its rates.

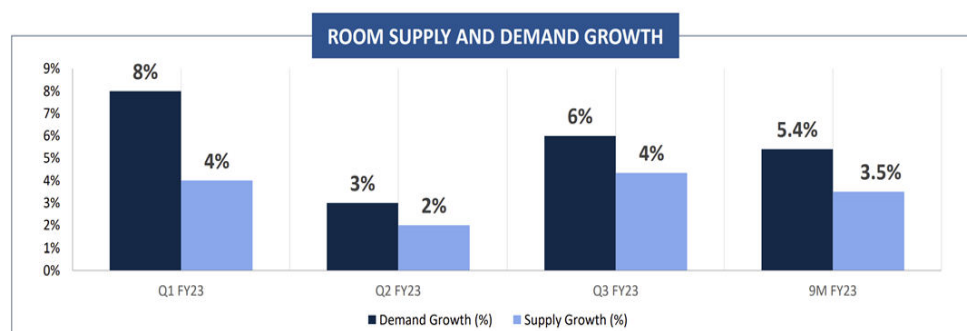
“Demand growth outpacing supply growth to boost ARR and RevPAR going forward”

IHCL's ARR, RevPAR and Occupancy Trend



Source: Company Reports, BP Equities Research

Demand Growth Versus Supply Growth



HOTEL DEMAND GREW BY
5.4%
(vs. FY20) IN 9M-FY23,
GROWTH IN ALL KEY MARKETS



ROOMS SUPPLY GREW BY
3.5%
(vs. FY20) IN 9M-FY23,
SUPPLY GROWTH TO REMAIN TEPID

Source: Company Reports, BP Equities Research

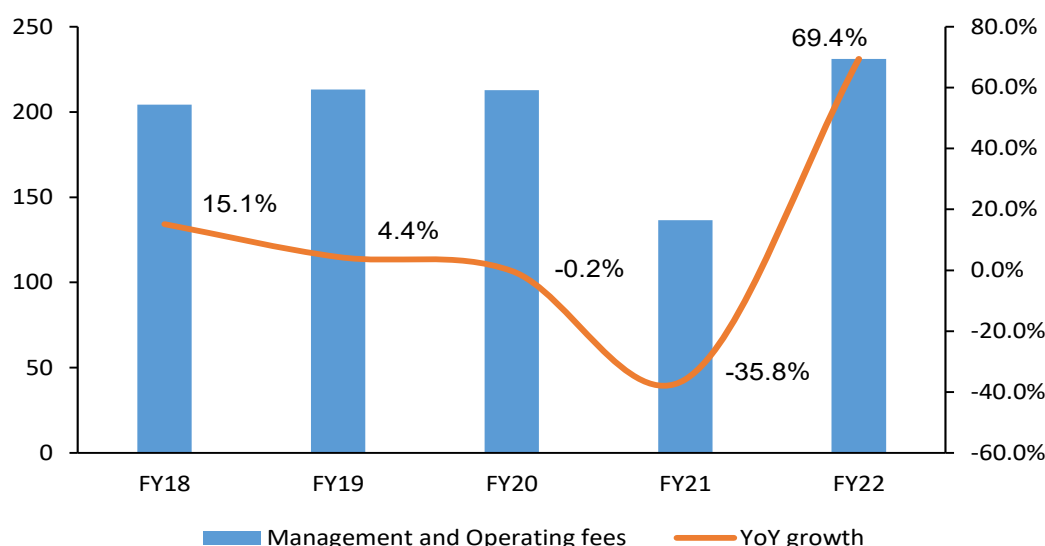
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Transition to an asset-light business model through a higher focus on management contracts

Key hotel players in the industry like IHCL, Lemon Tree Hotels, and East India Hotels (EIH) are adopting the asset-light business model by growing through management contracts. IHCL has already emphasized its ambition of increasing Owned/Leased and Managed hotels mix to 50:50 under its Ahvaan 2025 framework. Management contracts have a high flow-through of around 70% which is significant compared to an industrial flow-through of about 10% in owned/leased hotels. This bodes well with the company's target of enhancing its operational leverage along with achieving a net zero debt level going forward. With a higher focus on management contracts, the revenue side also witnessed an increasing share of the management fee income. In FY2022, the management fee income increased to Rs. 231.2 crores (8% revenue contribution compared to 5% contribution in FY2019) whereas in the 9MFY23 period, the business recorded its highest-ever management fee income at Rs. 276.0 crores. In Q3FY23, the company's managed portfolio mix was reported at 48% compared to 42% in FY2020. Another positive trigger in our view is the company's optimism about surpassing its target of achieving Rs. 400 crores management fee income by FY2026. In line with this target, about 70% of contracts in the pipeline are made through the management route (6,205 room inventory managed out of the total 8,854 room inventory) as on December 31, 2022. We believe that the company's strategy to move towards an asset-light business model is reflective of the larger global hotel industry trend wherein players try to be capital efficient and lean towards developing core competencies (effective property management, efficient reservation systems, brand building, enhanced customer engagement, etc), which eventually provides them the nimble footing to quickly respond to changing environments and market conditions.

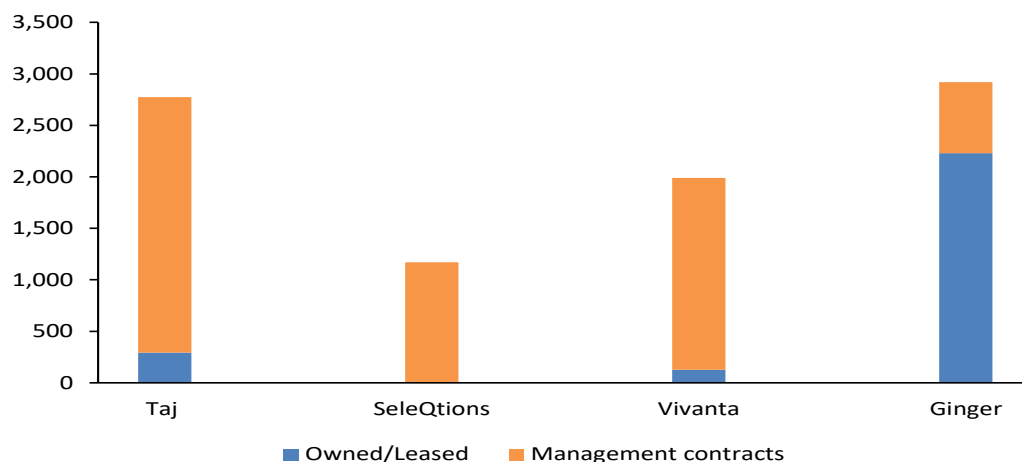
“Mitigate effects of high capex through globally-accepted management contracts model”

Management Fee Income Trend (Rs. crs.)



Source: Company Reports, BP Equities Research

Pipeline Room Mix, As on 31st December 2022



Source: Company Reports, BP Equities Research

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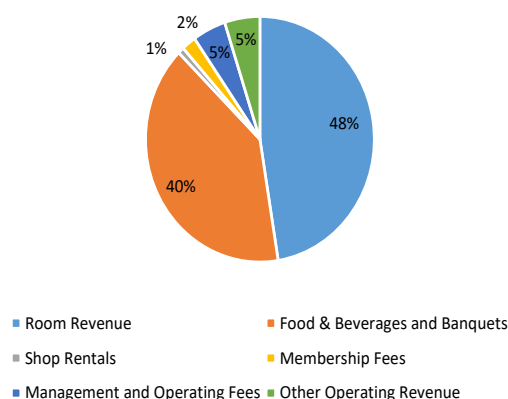
Diversification in topline by expanding alternative revenue streams

Over the FY2018-2022 period, the room revenue contribution stood at 48% of the total revenue followed by the Food & Beverages and Banquets mix at around 35%-40%. As mentioned earlier, we expect the strong growth trajectory in the room revenue and food, beverages & banquet segments to continue in FY24, driven by high momentum in the leisure and wedding business, gradual pickup in corporate business, and improved occupancy projections due to special events like G20 summit (Taj hosted 7 events till date), Cricket World Cup and IPL (Indian Premier League). Along with this, the company has outlined its strategy for diversifying the overall topline and increasing the contribution mix of other revenue segments. A higher focus on management contracts as evidenced by the room inventory pipeline of the business will raise the management fee income contribution to the total topline further. Apart from this, the company has strategically focused on its membership fees segment through its Chambers clubs by aiming to achieve 3,000+ members by FY2026 and making it a Rs. 150 crores business. The company added 150+ new members in 9MFY23, taking the total count to 2,550+ members with a total income of Rs. 71 crores. As of FY2022, the company operates eight Chambers clubs and with the addition of clubs in New York and West-end Bengaluru, the company can further widen its customer base. IHCL also launched Qmin restaurants in Q2FY21 which has since been expanded to 25+ cities. With its strategy of 'Qminization of Ginger', the company aims to add a Qmin restaurant in every Ginger hotel and expects to generate Rs.100 crores revenue on an enterprise level in the next 2-3 years. In Q3FY23, the company notified that it has already converted 9 restaurants in Ginger while the remaining 9 will be completed by end of FY2023. Other drivers of the incremental revenue include the rapid expansion of the company's Ama Stays & Trails business to 500+ properties through management contracts (18% management fee income). Presently, the company has 108 properties in 50+ locations under this segment which showcases an exponential portfolio growth from 14 properties in FY2020.

“Chambers, Ama Stays & Trails and Qmin add to the revenue growth story”

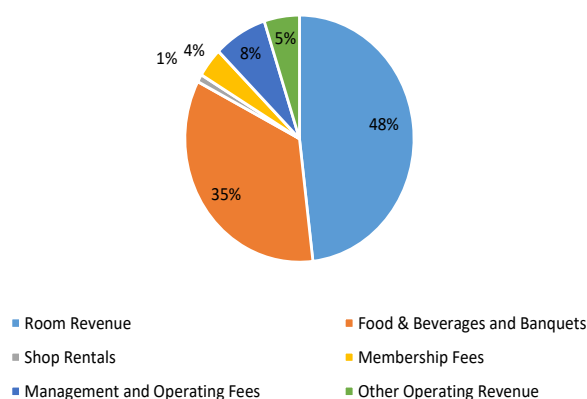
Increasing Contribution of Management Fee Income

FY2019 Revenue Mix:



Source: Company Reports, BP Equities Research

FY2022 Revenue Mix:



Source: Company Reports, BP Equities Research

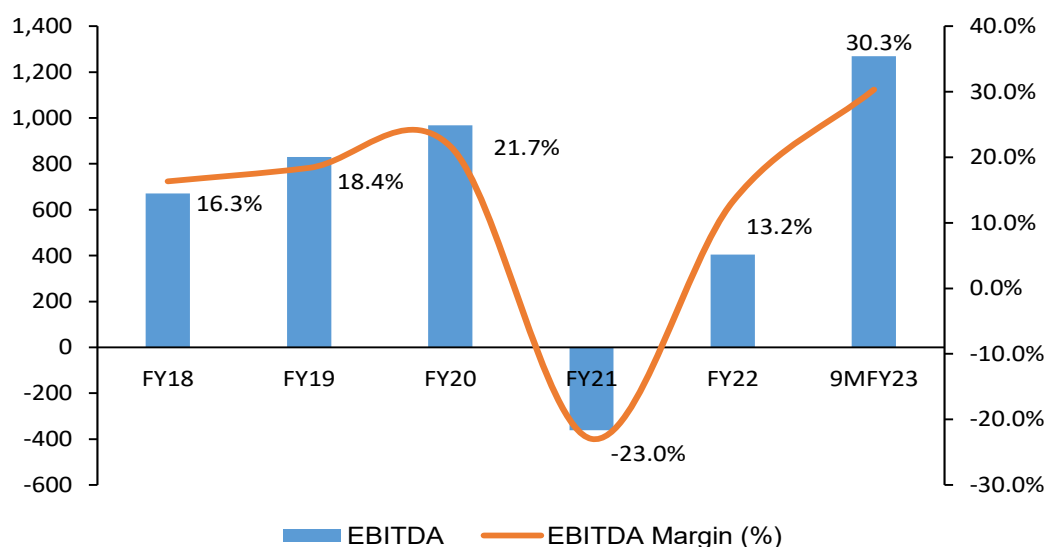
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Consistent improvement in margin profile through prudent cost optimization and scaling up high-margin businesses

Adhering to its guidance of achieving a 33% EBITDA margin by FY2026, IHCL enters new businesses wherein it expects at least a 35% EBITDA margin. The company reported its highest-ever EBITDA margin of 35.4% in Q3FY23, led by a reduction in costs (payroll costs, variable costs, and corporate overheads) through the fiscal along with healthy growth in its topline. In the second quarter of FY2023, which is seasonally its weakest, the company effectively brought down its total expenditure/ revenue ratio to 76.5% compared to 84.1% in Q2FY20. During the Covid period, the company started redeploying its employees from the existing hotels to new hotels which successfully brought down the company's staff-to-room ratio in all of its hotel brands (Taj manpower/room ratio - 2.2 in April 2020 v/s 2.0 in December 2022). Another key driver of the company's margin expansion plan includes scaling up its Ginger portfolio (125 hotel plan by FY2026) wherein the management expects to earn a 55% EBITDA margin in the coming years. The gradual diversification of IHCL towards the lean-luxe model of Ginger from primarily the luxury segment bodes well with the company's strategy of increasing its operational efficiency due to the inherently lower cost structure of the former. Additionally, this aids the company in reducing its seasonal dependency. Moreover, a higher focus on expanding its high-margin businesses like Chambers (80% flow through), Qmin, and Ama Stays & Trails also add value to the long-term prospects of the business.

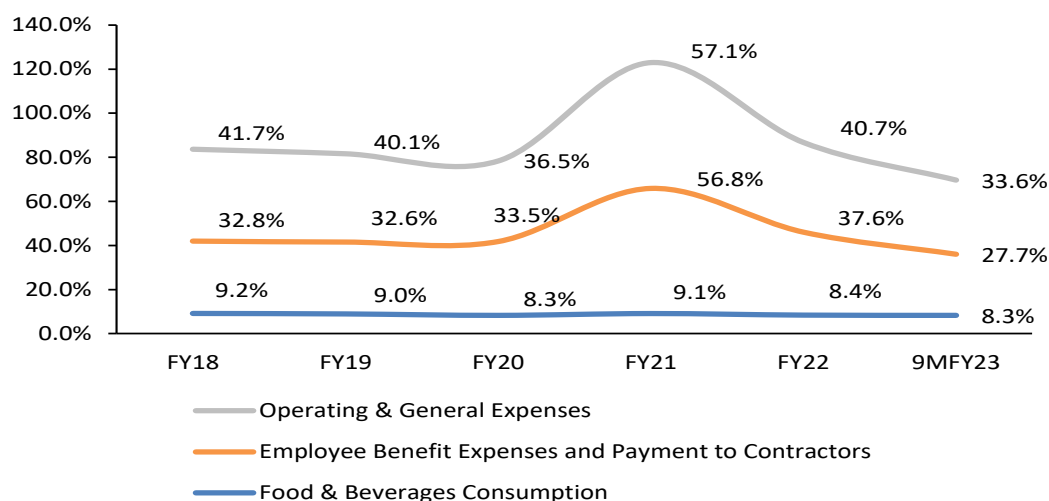
**"IHCL's margin mantra =
Scaling up Ginger portfolio +
Reducing major cost over-
heads"**

EBITDA (Rs. crs.) & EBITDA Margin Profile



Source: Company Reports, BP Equities Research

Cost Contribution to Overall Topline



Source: Company Reports, BP Equities Research

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Peers Comparison

Companies	Market Cap (Rs. crs.)	P/E (x)		EV/EBITDA (x)		ROE	
		FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
IHCL	48,172	53.0	42.9	28.3	25.3	12.1%	13.4%
Peers							
Chalet Hotels	7,634	50.6	33.8	24.6	17.1	9.3%	14.1%
EIH	10,706	34.7	32.1	22.2	20.4	9.4%	9.6%
Lemon Tree Hotels	6,678	55.8	40.0	21.8	18.1	13.0%	15.5%

Source: BP Equities Research, Bloomberg estimate

Companies	Revenue (Rs. crs.)		EBITDA Margin		PAT (Rs. crs.)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
IHCL	5,655	6,316	31.2%	31.5%	930	1,136
Peers						
Chalet Hotels	1,097	1,439	37.8%	41.6%	150	225
EIH	1,840	2,005	28.8%	28.6%	305	329
Lemon Tree Hotels	858	1,033	50.1%	50.0%	112	160

Source: BP Equities Research, Bloomberg estimate

Key Risks

- ⇒ A delay in the commissioning of the pipeline would affect the business operations of the company.
- ⇒ An oversupply of rooms in the branded hotel category hampers the business prospects of the company.
- ⇒ In Q3FY23, occupancy levels in the company's foreign destinations like the UK (85% recovery) and the USA (80% recovery) are still shy of pre-pandemic levels.

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Valuation & Outlook

IHCL is one of the oldest and most well-established players in the organized hotel room business in India. Presently, the company enjoys a strong pipeline of 73 hotels (9,467 rooms), with 40+ hotel openings expected in the next two years. The company has successfully maintained its guidance of opening 1.5 hotels/month and signing 2.5 hotels/month in a year. In 9MFY23, IHCL recorded a total of 26 hotel signings and 12 hotel openings, exceeding significantly its total of 22 hotel signings and 5 hotel openings in FY2019. Thus, with the expectation that the company executes this inventory growth trajectory in the coming period, we feel that IHCL is in a comfortable position to capture the benefits of the structural upswing that has begun in the industry. Another positive indicator for us is the Ministry of Tourism's report, in which they recorded 6.2 million FTAs (foreign tourist arrivals) during the year 2022. While this figure still lags behind the 10.9 million FTAs in 2019, comparing it to 1.5 million FTAs in 2021 shows a strong pace of recovery after the Covid-19 turmoil. For IHCL, this indicates a better mix of domestic-to-foreign travelers going ahead along with improved occupancy levels in its destinations and palaces like Goa and Rajasthan which in general command higher room rates. Further, the company is also expanding its reach to new horizons with two resorts in Lakshadweep (Taj), a 350-room plan with Vivanta and Ginger at the Statue of Unity, and also signing hotels in new international destinations like Bangladesh and Saudi Arabia. On the international portfolio front, the company recorded a robust ARR growth in Q3FY23 while the occupancy levels still lagged the pre-pandemic levels. However, in FY2024, the management expects to report performance in-line or marginally higher than the pre-pandemic period. The business has also improved its flexibility by charging a variable rate rather than a fixed rate to its corporate customers. We, thus, expect the healthy addition of rooms in the coming period along with higher growth in RevPAR and an improvement in operational efficiency to drive the business forward. **On the valuation front, we value the company based on 42x of FY25e earnings and arrive at a target price of Rs. 400 (18% upside from CMP) with a 12 months investment horizon.**

“An industry leading pipeline with multiple demand drivers”

Key Financials (Consolidated)							
YE March (Rs. crs.)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	4,512	4,463	1,575	3,056	5,655	6,316	6,863
Revenue Growth (Y-o-Y)		(1.1%)	(64.7%)	94.0%	85.0%	11.7%	8.7%
EBIDTA	830	968	(362)	405	1,764	1,990	2,244
EBIDTA Growth (Y-o-Y)		16.6%	(137.4%)	211.9%	335.9%	12.8%	12.8%
Net Profit	245	351	(694)	(222)	930	1,136	1,352
Net Profit Growth (Y-o-Y)		43.4%	(297.9%)	68.0%	518.2%	22.1%	19.0%
Diluted EPS	2.3	2.9	(5.7)	(1.9)	6.4	7.9	9.5
Diluted EPS Growth (Y-o-Y)		26.1%	(296.6%)	66.7%	436.8%	23.4%	20.5%
Key Ratios							
EBIDTA Margin (%)	18.4%	21.7%	-23.0%	13.2%	31.2%	31.5%	32.7%
NPM (%)	5.4%	7.9%	-44.1%	-7.3%	16.5%	18.0%	19.7%
RoE (%)	6.7%	8.1%	-18.0%	-4.6%	12.1%	13.4%	14.1%
Valuation Ratios							
P/E (x)	147.5x	116.9x	-59.5x	-178.5x	53.0x	42.9x	35.6x
EV/EBITDA	25.4x	12.1x	-51.6x	89.5x	28.3x	25.3x	22.4x
P/BV (x)	11.1x	11.1x	13.2x	6.8x	6.0x	5.4x	4.8x
Market Cap. / Sales (x)	10.7x	10.8x	30.6x	15.8x	8.5x	7.6x	7.0x

Source: BP Equities Research, Bloomberg Estimate

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