

Indian Hotels (INDHOT)

WHAT'S CHANGED...

₹ 60

PRICE TARGET	Unchanged
EPS (FY13E)	₹ 0.8
EPS (FY14E)	₹ 1.9
RATING	Unchanged

Subdued performance continues...

IHCL posted a modest growth in revenues in Q1FY13 but fell short of our PAT estimates for the quarter ended Q1FY13. Company reported standalone revenues of ₹. 396.5 crore (up by 7.3% YoY) that remained more or less inline with our estimates. Operating margins for the quarter declined 30 bps YoY largely due higher fixed overhead costs related to opening of new hotel at Yashwantpur, Bangalore. While standalone PAT for the quarter declined sharply by 69% YoY due to lower treasury income (down by 45% YoY) and forex loss of ₹.6.4 crore on long term borrowings. Barring this, the operating standalone performance remained more or less inline. However, on a consolidated basis, company reported net loss of ₹.33.3 crore (v/s loss of ₹22.3 crore last year) on account of subdued environment in its overseas business.

Topline driven by new room additions, RevPar remains flat YoY

IHCL's standalone topline grew ~7.4% YoY supported by additional revenue from new room additions (in Yashwantpur) and flat RevPar. Barring few cities like North Mumbai, Kolkata, Goa, Pune and Agra, all other major cities reported marginal fall in average occupancy.

Profitability of subsidiaries remains a concern

Profitability of subsidiary companies continues to remain concern due to slowdown. The topline growth of 20% YoY on consolidated basis is mainly attributed to consolidation of Piem Hotels Ltd (A subsidiary company) and stable standalone performance.

Most negatives priced in, maintain HOLD rating

At CMP of ₹ 60, the stock trades at 8.9x FY14E EV/EBITDA and EV of ₹.0.95 crore per room. We continue to remain conservative on the earnings growth front till we see some sign of recovery in its international operations. However, we believe, the most of the negatives about low earnings visibility have already been priced in at this level. Hence, by assigning value to the asset, we maintain our target price ₹ 63 with a 'HOLD' rating (ie. at an EV of ₹.1 crore per room, discounting its premium asset valuations by 50%).

Exhibit 1: Financial Summary

₹ Crore	Q1FY13	Q1FY13E	Q1FY12	Q4FY12	YoY Gr. (%)	QoQ Gr. (%)
Net Sales	396.5	398.3	369.5	560.2	7.3	-29.2
EBITDA	66.0	72.1	68.1	159.2	-3.0	-58.5
EBITDA Margin (%)	16.7	18.1	18.4	28.4	-177 bps	-1176 bps
Depreciation	31.0	29.9	27.6	31.9	12.2	-2.9
Interest	29.9	28.7	21.1	29.5	41.5	1.2
Net Profit	4.0	21.1	20.3	65.2	-80.2	-93.8
EPS ₹	0.1	0.3	0.3	0.9	-80.2	-93.8

Source: Company, ICICIdirect.com Research

Rating matrix

Rating	: Hold
Target	: ₹ 63
Target Period	: 9-12 months
Potential Upside	: 5%

Key Financials

₹ Crore	FY11	FY12	FY13E	FY14E
Net Sales	2862.5	3432.7	3714.7	4257.0
EBITDA	452.4	545.7	537.0	729.2
Net Profit	-87.1	3.4	64.1	154.8
EPS	-1.1	0.0	0.8	1.9

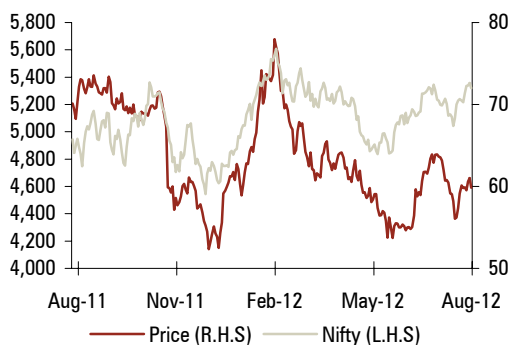
Valuation summary

	FY11	FY12P	FY13E	FY14E
PE (x)	NM	NM	74.0	30.7
Target PE (x)	NM	NM	72.9	30.2
EV to EBITDA (x)	13.9	11.3	12.0	8.9
Price to book (x)	1.5	1.5	1.7	1.6
RoNW (%)	-3.0	0.1	2.3	5.2
RoCE (%)	3.0	4.0	3.4	5.8

Stock data

Market Capitalisation	₹ 4825 crore
Debt (FY12)	₹ 3852 crore
Cash & Equ. (FY12)	₹ 173 crore
EV (FY12)	₹ 6230 crore
52 week H/L	₹ 80/50
Equity capital	₹ 80.7 crore
Face value	₹ 1.0
MF Holding (%)	23.9
FII Holding (%)	13.2

Price movement (IHCL v/s Nifty)

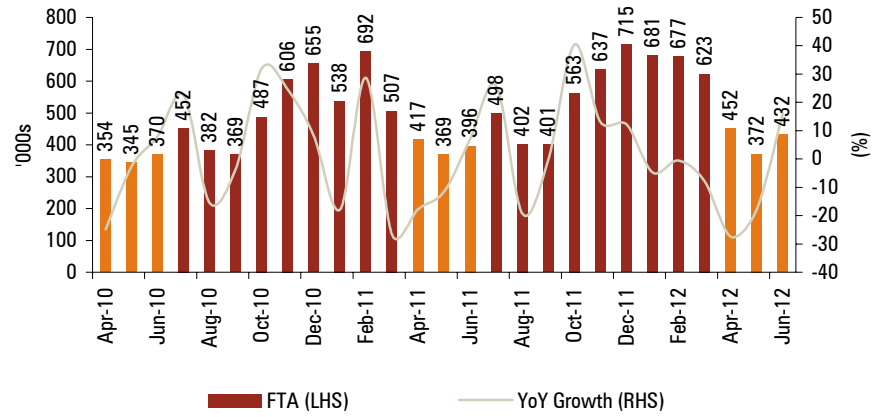


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FTA growth for the quarter ended June 2012 remained moderate at 6.2% YoY on account of lean season and low business activities

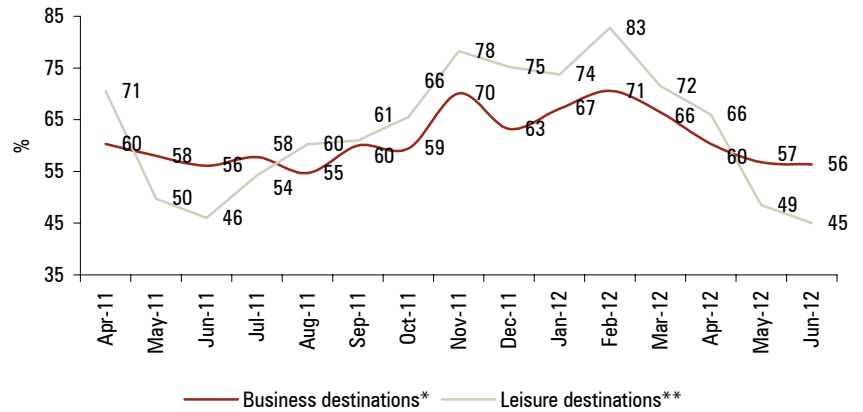
Exhibit 2: Trend in foreign tourist arrivals



Source: Company, ICICIdirect.com Research

During Q1FY13, only North Mumbai and Kolkata reported marginal improvement in average occupancy levels v/s last year. While other major cities reported downward trend

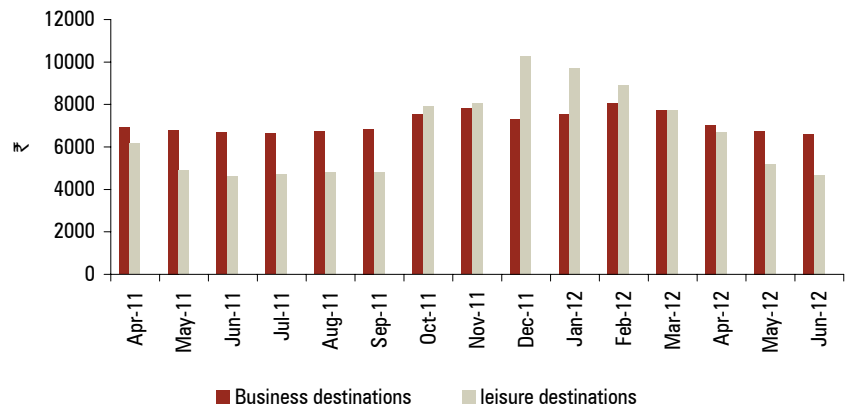
Exhibit 3: Industry occupancy trend across company's main operating regions



* covers 9 metro cities, ** Covers 4 major destinations
 Source: ICICIdirect.com Research

During Q1FY12, ARR across business destination declined marginally except North Mumbai and Chennai, that saw marginal recovery in Q1FY13. Among leisure destinations ARR improved marginally in Goa and Agra due to low base effect of last year

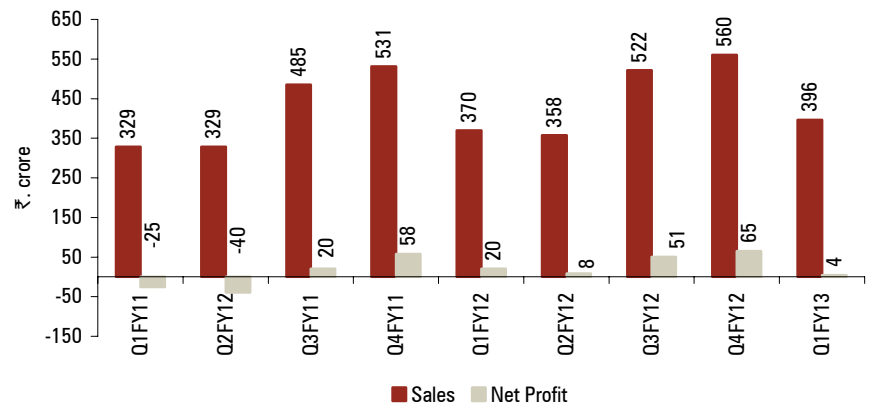
Exhibit 4: Industry ARR trends across company's main operating regions



* covers 9 metro cities, ** Covers 4 major destinations
 Source: Company, ICICIdirect.com Research

Standalone sales for Q1FY13 have grown by 7% YoY mainly due to increase in inventory. While ARR and Occupancy remained more or less flat compared to last year

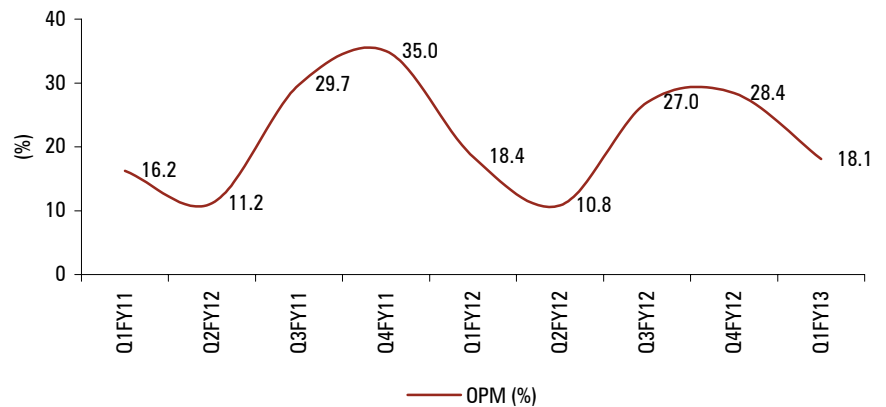
Exhibit 5: Quarterly trends in sales and net profit



Source: Company, ICICIdirect.com Research

Standalone operating margins for the quarter decreased ~30bps YoY to 18.1% on higher operating cost that were up by 9.6% YoY. The rise in operating cost is mainly attributable to the opening of the new property in Yashwantpur (Bangalore)

Exhibit 6: Trends in operating margin



Source: Company, ICICIdirect.com Research

Exhibit 7: Upcoming development in 2012/13

Hotel	Company	Rooms
Taj		
Taj Palace Marrakech, Morocco	Management Contract	161
Imperial Club by Taj, Tardeo, Mumbai	Management Contract	9
Vivanta by Taj		
Vivanta by Taj, Dwarka	IHCL	250
Vivanta by Taj, Coorg	Kaveri Resorts	62
Vivanta by Taj, Gurgaon	Management Contract	200
Gateway		
Gateway Kolkata	Management Contract	200
Gateway Raipur	Management Contract	119
Gateway Gondia	Benares Hotels Ltd	34
Gateway Hubli	Management Contract	92
Gateway OMR, Chennai	Management Contract	193
Ginger Hotels (8)	Roots Corporation Ltd	720
New Development in pipeline 2012/13	18 Hotels	2040 Rooms

Source: Company, ICICIdirect.com Research

The company is planning to add nearly 2,040 rooms in 2012/13. Of the total room additions, nearly 48% of rooms would be added under management contracts

Financial summary

Profit and loss statement

	(₹ Crore)			
(Year-end March)	FY11	FY12	FY13E	FY14E
Total operating Income	2,862.5	3,432.7	3,714.7	4,257.0
Growth (%)	13.5	19.9	8.2	14.6
Raw Material Expenses	297	363	366	410
Employee Expenses	967	1149	1245	1392
Power & Fuel Exp	196	242	295	296
Other Exp	950	1133	1271	1430
Total Operating Expenditure	2,410.1	2,887.0	3,177.7	3,527.8
EBITDA	452.4	545.7	537.0	729.2
Growth (%)	13.6	20.6	-1.6	35.8
Depreciation	228.8	254.7	284.5	288.3
Interest	251.2	193.4	207.3	232.6
Other Income	52.4	50.8	69.4	45.6
PBT	24.8	148.4	114.6	254.0
Others/Minority Int	76.8	54.5	26.6	15.4
Total Tax	93.66	121.8	37.8	83.8
PAT	-87.1	3.4	64.1	154.8
Growth (%)	NM	LP	NM	141.3
EPS (₹)	-1.1	0.04	0.8	1.9

Source: Company, ICICIdirect.com Research

Balance sheet

	(₹ Crore)			
(Year-end March)	FY11	FY12P	FY13E	FY14E
Equity Capital	76.0	75.6	80.4	80.4
Reserve and Surplus	2,570.1	2,917.5	2,636.4	2,791.2
Total Shareholders funds	2,910.4	3,117.5	2,841.2	2,996.0
Total Debt	4,245.2	3,852.5	4,152.5	4,252.5
Deferred Tax Liability	44.8	130.2	130.2	130.2
Minority Interest / Others	310.0	736.4	756.0	771.4
Total Liabilities	7,510.3	7,836.5	7,879.8	8,150.0
Gross Block	6,019.8	6,913.6	7,093.6	7,103.6
Less: Acc Depreciation	1,528.6	1,774.4	2,050.1	2,329.5
Net Block	4,491.2	5,139.2	5,043.6	4,774.2
Capital WIP	411.7	431.7	451.7	441.7
Total Fixed Assets	4,902.9	5,570.9	5,495.3	5,215.9
Net Intangible Assets	38.7	29.9	21.0	12.1
Investments	2,505.8	2,274.8	2,274.8	2,274.8
Goodwill on consolidation	325.7	489.5	489.5	489.5
Inventory	58.5	86.4	86.6	123.4
Debtors	202.0	283.8	325.7	384.9
Loans and Advances	511.3	262.3	332.0	519.4
Cash	195.1	172.6	197.1	248.5
Other current assets	0.0	89.3	96.5	107.9
Total Current Assets	966.9	894.5	1,037.9	1,384.0
Creditors	617.4	1,258.4	1,272.2	1,084.7
Provisions	749.6	167.1	168.9	144.0
Total Current Liabilities	1,367.0	1,425.6	1,441.1	1,228.7
Net Current Assets	-400.1	-531.1	-403.2	155.3
Others Assets	137.2	2.4	2.4	2.5
Application of Funds	7,510.3	7,836.5	7,879.8	8,150.0

Source: Company, ICICIdirect.com Research

Cash flow statement

	(₹ Crore)			
(Year-end March)	FY11	FY12P	FY13E	FY14E
Profit after Tax	-87.1	3.4	64.1	154.8
Add: Depreciation	228.8	254.7	284.5	288.3
(Inc)/dec in Current Assets	58.8	49.9	-118.9	-294.7
Inc/(dec) in CL and Provisions	42.5	58.6	15.5	-212.4
CF from operating activities	242.9	366.6	245.3	-64.1
(Inc)/dec in Investments	-600.4	231.0	0.0	0.0
(Inc)/dec in Fixed Assets	-366.5	-913.8	-200.0	0.0
Others	133.9	482.7	19.6	15.5
CF from investing activities	-833.0	-200.1	-180.4	15.5
Issue/(Buy back) of Equity	3.6	-0.3	4.8	0.0
Inc/(dec) in loan funds	-215.5	-392.7	300.0	100.0
Dividend paid & dividend tax	-88.3	0.0	0.0	0.0
Inc/(dec) in Sec. premium	369.2	0.0	0.0	0.0
Others	168.3	204.0	-345.2	0.0
CF from financing activities	237.3	-189.0	-40.4	100.0
Net Cash flow	-352.8	-22.5	24.5	51.4
Opening Cash	547.9	195.1	172.6	197.1
Closing Cash	195.1	172.6	197.1	248.5

Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	FY11	FY12P	FY13E	FY14E
Per share data (₹)				
EPS	-1.1	0.0	0.8	1.9
Cash EPS	1.9	3.2	4.3	5.5
BV	38.3	38.8	35.3	37.3
DPS	1.0	0.0	0.0	0.0
Cash Per Share	1.9	3.2	4.3	5.5
Operating Ratios (%)				
EBITDA Margin	15.8	15.9	14.5	17.1
PBT / Total Operating income	0.9	4.3	3.1	6.0
PAT Margin	-3.0	0.1	1.7	3.6
Inventory days	7.5	7.7	8.5	9.0
Debtor days	25.8	30.2	32.0	33.0
Creditor days	78.7	133.8	125.0	93.0
Return Ratios (%)				
RoE	-3.0	0.1	2.3	5.2
RoCE	3.0	4.0	3.4	5.8
RoIC	-9.0	0.7	2.4	4.0
Valuation Ratios (x)				
P/E	0.0	NM	74.0	30.7
EV / EBITDA	13.9	11.3	12.0	8.9
EV / Net Sales	2.2	1.8	1.7	1.5
Market Cap / Sales	1.7	1.4	1.3	1.1
Price to Book Value	1.5	1.5	1.7	1.6
Solvency Ratios				
Debt/EBITDA	9.4	7.1	7.7	5.8
Debt / Equity	1.5	1.2	1.5	1.4
Current Ratio	0.7	0.6	0.7	1.1
Quick Ratio	0.6	0.5	0.6	0.9

Source: Company, ICICIdirect.com Research

Exhibit 8: ICICIdirect.com coverage universe

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E
Hotels																			
IHCL (INDHOT)	60	63	Hold	4,744	0.0	0.8	1.9	NM	74.0	30.7	11.3	12.0	8.9	4.0	3.4	5.8	0.1	2.3	5.2
EIH (EIH)	80	90	Hold	4,687	2.2	2.3	2.8	37.8	35.9	28.9	14.2	13.2	11.0	5.8	6.7	7.8	4.7	4.7	5.5
Hotel Leela (HOTLEE)	31	28	Sell	1,171	0.5	-6.0	-4.7	64.6	NA	NA	NM	39.8	24.8	-1.4	0.2	1.6	0.9	-12.2	-10.8
Taj GVK Hotel (TAJGVK)	67	72	Hold	419	4.7	5.0	7.1	14.3	13.3	9.5	7.1	7.1	5.6	11.8	10.4	12.2	8.6	8.3	10.4
Kamat Hotel (KAMHOT)	122	128	Hold	248	-13.8	-4.6	-1.6	NA	NA	NA	19.0	11.8	10.7	3.0	6.5	7.3	-13.2	-6.3	-2.3

Source: Company, ICICIdirect.com Research

Exhibit 9: Recommendation History


Source: Company, ICICIdirect.com Research

Exhibit 10: Recent Releases

Date	Event	CMP	Target Price	Rating
1-Nov-11	Q2FY12 Result Update	70	90	BUY
30-Jan-12	Q3FY12 Result Update	65	70	HOLD
30-May-12	Q4F12 Result update	56	62	HOLD

Source: Company, ICICIdirect.com Research

Exhibit 11: Key Assumption matrix

Year	FY11	FY12	FY13E	FY14E
No of rooms	12,795	14,636	15,680	16,936
Average ARR	8019	7946	8215	8439
Average Occupancy	66%	66%	67%	69%

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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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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