

Favourable Trends to Support Hospitality Cycle; ADD

Est. Vs. Actual for Q2FY25: Revenue – **BEAT** ; EBITDA Margins – **BEAT**; PAT – **BEAT**
Changes in Estimates post Q2FY25:

FY25E/FY26E: Revenue: 0.0%/0.0%; EBITDA Abs.: 0.0%/0.0%; PAT: 0.0%/0.0%

Recommendation Rationale:

- The standalone domestic business reported a growth of 15.9% YoY. Standalone ARR (Average Room Rate) increased to Rs 14,321 (+10.4% YoY), with occupancy reaching 78%, an improvement of 210bps YoY. This resulted in standalone revenue growth of 15.9% YoY, driven by these factors.
- In comparison, the USA and UK reported revenue growth of 25% and 6% YoY, respectively, with the US achieving EBITDA breakeven and the UK showing 32% EBITDA margins. Ginger reported strong revenue growth of 30%, with 33% EBITDA margins for Q2FY25.

Sector Outlook: Positive

Company Outlook & Guidance: We believe the hospitality cycle has more momentum, likely to be driven by a relatively constrained supply of rooms and an increase in Foreign Tourist Arrivals (FTAs), which remain below pre-COVID levels (10.56 Mn in 2019 vs. 9.24 Mn in FY24). The increase in FTAs is expected to positively impact ARRs. Additionally, the steady rise of the Indian middle class and their increased spending power is projected to contribute an additional Rs 5,200 Cr annually to the hospitality market.

Current Valuation: PE 35x for FY27E earnings (Earlier Valuation: PE 45x)

Current TP: Rs 800/share (Earlier TP: Rs 670/share)

Recommendation: BUY

Financial Performance: Indian Hotels (IHTL) reported strong results above expectations, with consolidated revenue/EBITDA growth of 27.4%/64.8% YoY, exceeding our projections. In Q2FY25, this growth was driven by pent-up demand that had been impacted by elections and extreme heatwaves; however, additional wedding dates during the last quarter contributed positively to revenue.

The standalone domestic business reported a growth of 15.9% YoY. Standalone ARR (Average Room Rate) increased to Rs 14,321 (+10.4% YoY), with occupancy reaching 78%, an improvement of 210 bps YoY. This resulted in standalone revenue growth of 15.9% YoY, influenced by these factors. In comparison, the USA and UK reported revenue growth of 25% and 6% YoY, respectively, with the US achieving EBITDA breakeven and the UK showing 32% EBITDA margins. Ginger reported strong revenue growth of 30%, with 33% EBITDA margins for Q2FY25.

The company's consolidated margins improved to 27.5%, up 269 bps YoY (above expectations), driven by better cost control and operational leverage during the quarter. Adjusted PAT, after accounting for exceptional items (Rs 307 Cr), stood at Rs 295 Cr, up 64.8%, fueled by revenue growth and strong operating leverage. We anticipate that the upcoming festive season and additional wedding dates will further boost occupancies in H2FY25E. The temporary factors that impacted growth in the last quarter have shown significant improvement.

Key Financials (Consolidated)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance %
Net Sales	1,826	17.8	27.4	1729	5.6
EBITDA	501	11.6	41.3	450	11.4
EBITDA Margin	27.5%	-154	269	26.0%	-
Net Profit	583	124.0	225.2	270	115.8
EPS (Rs)	4.1	124.0	225.2	1.9	115.8

Source: Company, Axis Securities Research

(CMP as of 7th November 2024)

CMP (Rs)	688
Upside /Downside (%)	16%
High/Low (Rs)	720/394
Market cap (Cr)	97,350
Avg. daily vol. (6m)Shrs.	60,00,000
No. of shares (Cr)	142.0

Shareholding (%)

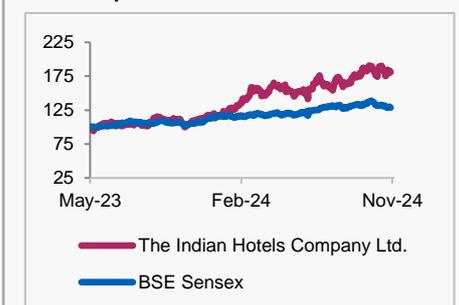
	Mar-24	Jun-24	Sep-24
Promoter	38.1	38.1	38.1
FIIIs	24.5	27.2	27.4
MFs / UTI	15.9	13.7	13.9
Others	21.5	21.0	20.6

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	6,769	8,041	9,071
EBITDA	2,156	2,556	2,945
Net Profit	1,330	1,700	2,040
EPS (Rs.)	9.3	12.0	14.4
PER (x)	61.9	48.3	40.2
EV/EBITDA (x)	38.7	32.0	27.2
P/BV (x)	8.7	7.4	6.3
ROE (%)	14.1	15.3	15.6

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	0.0%	0.0%
EBITDA	0.0%	0.0%
PAT	0.0%	0.0%

Relative performance


Source: ACE Equity

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Outlook

We believe the hospitality cycle has more momentum, likely to be driven by a relatively constrained supply of rooms and an increase in Foreign Tourist Arrivals (FTAs), which remain below pre-COVID levels (10.56 Mn in 2019 vs. 9.24 Mn in FY24). The increase in FTAs is expected to positively impact ARR. Additionally, the steady rise of the Indian middle class and their increased spending power is projected to contribute an additional Rs 5,200 Cr annually to the hospitality market.

Key Risks to Our Estimates and TP

- The economic slowdown in India may impact the demand for the travel Industry.
- An increase in supply could impact the realizations of the company.
- Negative operating leverage is a big hurdle to sustaining EBITDA margins.

Change in Estimates (Rs Cr)

	New		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	8,041	9,071	8,041	9,071	0.0%	0.0%
EBITDA	2,556	2,945	2,556	2,945	0.0%	0.0%
PAT	1,700	2,040	1,700	2,040	0.0%	0.0%

Source: Company, Axis Securities Research

Results Review

Particulars (Rs Cr)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)
Net Sales	1,433	1,964	1,905	1,550	1,826	27.4	17.8
Growth (YoY%)	16.3%	16.5%	17.2%	5.7%	27.4%		
Total Expenditure	1,078	1,231	1,245	1,101	1,325	22.9	20.3
Raw Material	112	153	140	114	174	54.9	52.2
% of sales	7.8%	7.8%	7.3%	7.4%	9.5%		
Gross margins (%)	92.2%	92.2%	92.7%	92.6%	90.5%	-169	-216
Employee Expenses	441	469	467	461	523	18.6	13.5
% of sales	30.7%	23.9%	24.5%	29.7%	28.6%		
Other Expenses	526	610	638	526	628	19.6	19.5
% of sales	36.7%	31.0%	33.5%	33.9%	34.4%		
EBITDA	355	732	660	449	501	41.3	11.6
EBITDAM (%)	24.8%	37.3%	34.6%	29.0%	27.5%	269	-154
Interest	59	53	52	50	52		
Depreciation	111	114	120	117	125	12.3	6.8
Other Income	48	40	46	46	64		
PBT	232	605	535	328	696	199.3	111.8
Tax	72	167	142	94	122		
Tax (%)	31.1%	27.6%	26.5%	28.7%	17.6%		
Reported PAT	160	438	393	234	573	257.8	144.9
Associate Profit	19	39	45	26	10		
PAT after EoI	179	477	439	260	583	225.2	124.0

Source: Company, Axis Securities Research

Segment Breakup

Particulars (Rs Cr)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Occupancy %	75.9	76.8	79.1	76.0	78.0
ARR (Rs)	12,972	18,111	17,556	12,906	14,321
RevPAR (Rs)	9,840	13,909	13,887	9,809	11,170
Room Revenue	400	575	600	413	488
F & B Revenue	315	457	471	304	371
Management fee	87			108	111
Other Revenue	147	290	312	107	104

Source: Company, Axis Securities Research

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Net Sales	6,769	8,041	9,071	10,178
Growth (%)	16.5%	18.8%	12.8%	12.2%
Total Expenditure	4,612	5,485	6,125	6,843
Raw Material Consumed	521	643	726	814
Gross margins (%)	92.3%	92.0%	92.0%	92.0%
Employee Expenses	1,806	2,204	2,430	2,700
% of sales	26.7%	27.4%	26.8%	26.5%
Other Expenses	2,286	2,639	2,969	3,329
% of sales	33.8%	32.8%	32.7%	32.7%
EBIDTA	2,156	2,556	2,945	3,335
EBITDAM (%)	31.9%	31.8%	32.5%	32.8%
Depreciation	454	460	478	495
% of GB	3.6%	3.5%	3.5%	3.5%
EBIT	1,702	2,096	2,467	2,840
EBITM (%)	25.1%	26.1%	27.2%	27.9%
Interest	220	188	142	97
Other Income	183	193	210	213
Share of P/L of Associates	129	136	149	150
PBT	1,794	2,237	2,684	3,105
Tax Rate (%)	23.7%	24.0%	24.0%	24.0%
Tax	464	537	644	745
Reported PAT	1,330	1,700	2,040	2,360

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Share Capital	142	142	142	142
Reserves & Surplus	9,314	10,950	12,924	15,219
Net Worth	9,457	11,092	13,066	15,361
Total Loan funds	2,736	2,206	1,676	1,146
Deferred Tax Liability	144	144	144	144
Long Term Provisions	98	98	98	98
Other Long Term Liability	16	16	16	16
Capital Employed	14,855	16,256	17,929	19,940
Gross Block	12,647	13,147	13,647	14,147
Less: Depreciation	3,311	3,771	4,249	4,744
Net Block	9,336	9,376	9,398	9,403
Investments	724	724	724	724
Sundry Debtors	476	617	696	781
Cash & Bank Bal	1,485	2,422	3,701	5,235
Loans & Advances	9	9	9	9
Inventory	116	176	199	223
Other Current Assets	257	322	363	407
Total Current Assets	1,998	2,264	2,462	2,678
CurrLiab&Prov	3,068	4,270	5,691	7,379
Net Current Assets	1,070	2,006	3,229	4,700
Total Assets	14,856	16,256	17,930	19,941

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
PBT	1,794	2,237	2,684	3,105
Add: Depreciation	454	460	478	495
Add: Interest	220	188	142	97
Cash flow from operations	2,468	2,885	3,304	3,698
Change in working capital	256	128	144	226
Taxes	464	537	644	745
Net cash from operations	1,748	2,220	2,516	2,727
Capital expenditure	(871)	(500)	(500)	(500)
Net cash from investing	(837)	(500)	(500)	(500)
Increase/Decrease in debt	(403)	(530)	(530)	(530)
Dividends	(65)	(65)	(65)	(65)
Proceedings from equity	0	(0)	0	0
Interest	(220)	(188)	(142)	(97)
Others	209	(0)	(0)	0
Net cash from financing	(479)	(783)	(737)	(692)
Net Inc./ (Dec.) in Cash	432	937	1,278	1,534
Opening cash balance	1,053	1,485	2,422	3,701
Closing cash balance	1,485	2,422	3,701	5,235

Source: Company, Axis Securities Research

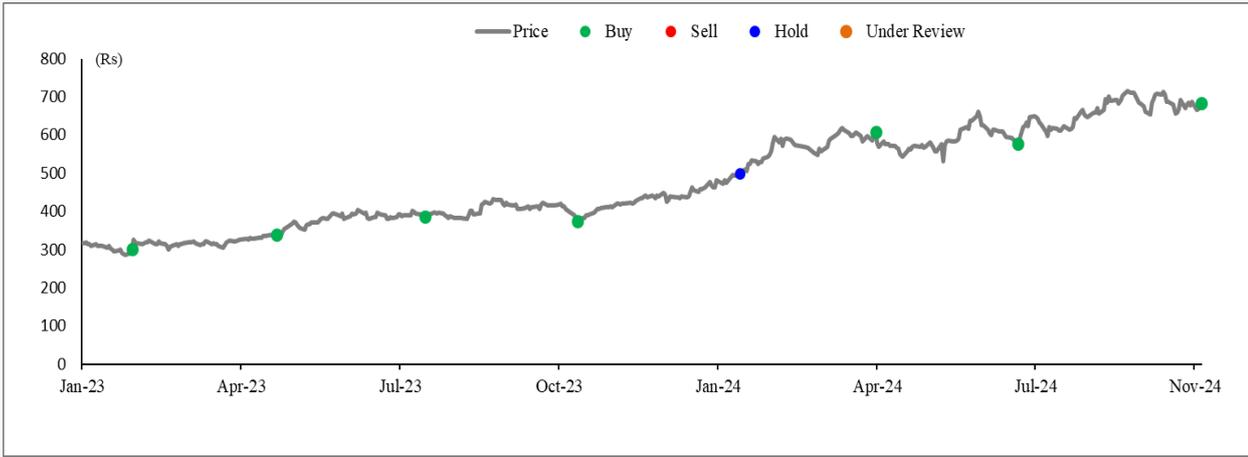
Ratio Analysis

(%)

Y/E March	FY24	FY25E	FY26E	FY27E
Sales growth	16.5	18.8	12.8	12.2
OPM	31.9	31.8	32.5	32.8
Oper. profit growth	19.5	18.5	15.2	13.2
COGS / Net sales	7.7	8.0	8.0	8.0
Overheads/Net sales	60.4	60.2	59.5	59.2
Depreciation / G. block	3.6	3.5	3.5	3.5
Effective interest rate	23.7	24.0	24.0	24.0
Net kg.cap / Net sales	0.2	0.2	0.2	0.2
Net sales / Gr block (x)	0.5	0.6	0.7	0.7
RoCE	17.7	21.5	25.2	29.0
Debt/equity (x)	0.3	0.2	0.1	0.1
Effective tax rate	23.7	24.0	24.0	24.0
RoE	14.1	15.3	15.6	15.4
Payout ratio (Div/NP)	45.7	45.8	45.8	45.8
EPS (Rs.)	9.3	12.0	14.4	16.6
EPS Growth	26.3	27.9	20.0	15.7
CEPS (Rs.)	12.5	15.2	17.7	20.1
DPS (Rs.)	0.5	0.5	0.5	0.5

Source: Company, Axis Securities Research

Indian Hotels Price Chart and Recommendation History



Date	Reco	TP	Research
06-Sep-22	BUY	360	Initiating Coverage
14-Nov-22	BUY	360	Result Update
01-Feb-23	BUY	370	Result Update
02-May-23	BUY	385	Result Update
28-Jul-23	BUY	450	Result Update
30-Oct-23	BUY	415	Result Update
05-Feb-24	HOLD	525	Result Update
25-Apr-24	BUY	672	Result Update
22-Jul-24	BUY	670	Result Update
08-Nov-24	BUY	800	Result Update

Source: Axis Securities

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