Sharekhan by BNP PARIBAS

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Stock Update

Result Update

Indian Hotels Company Ltd

Strong Q2; H2 looks buoyant

Consumer Discretionary	Sharekhan code: INDHOTEL

Reco/View: Buy	↔	CMP: Rs. 684	Price Target: Rs. 805	↑

↑ 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		↔	

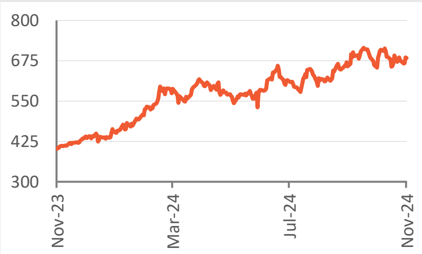
Company details

Market cap:	Rs. 97,306 cr
52-week high/low:	Rs. 721 / 400
NSE volume: (No of shares)	36.6 lakh
BSE code:	500850
NSE code:	INDHOTEL
Free float: (No of shares)	88.1 cr

Shareholding (%)

Promoters	38.1
FII	28.2
DII	18.8
Others	14.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.7	10.2	20.8	70.3
Relative to Sensex	6.5	10.1	12.6	47.8

Sharekhan Research, Bloomberg

Summary

- Indian Hotels Company Ltd's (IHCL's) Q2FY2025 performance on like-for-like (LFL) basis was strong despite a lean season with hotel business revenues growing by 16% y-o-y and EBIDTA growing by 30% y-o-y. Consolidated (including Taj SATS) revenues/EBIDTA grew by 27%/41% y-o-y, respectively.
- Despite a high base, revenues (excluding Taj SATS) will grow by over 10% in H2; October 2024 revenues grew by 16.5% y-o-y. Robust wedding season and FTAs will drive growth in November-December 2024.
- Gross cash stood at Rs. 2,460 crore in H1FY2025; Cash flow conversion improved to 67% in H1FY2025 versus 56% in H1FY2024. IHCL focuses on prudent capital allocation strategy to drive growth.
- We maintain a Buy rating with a revised PT of Rs. 805. Stock currently trades at 31x/26x/21x its FY25E/26E/27E EV/EBIDTA, respectively.

IHCL's Q2FY2025 performance is strictly not comparable with previous periods due to consolidation of Taj SATS for the period of two months.

IHCL's Q2FY2025 numbers were strong despite lean business period with room demand staying ahead of room supply. On a comparable basis, the hotel business revenues grew by 16% y-o-y to Rs. 1,722 crore and operating EBIDTA grew by 30% y-o-y to Rs. 462 crore (EBIDTA margins expanded by 310 bps y-o-y to 27.8%). This was led by a 16% y-o-y growth in room revenues and food & beverages (F&B) revenues. Same-store-RevPar for each brand has grown in double-digits. Revenues from management fees stood at Rs. 100 core. Strong expansion in EBIDTA margins is attributable to high yields from the F&B business and cost saving initiatives (including power and store & supplies). On a consolidated basis (including Taj SATS), revenues grew by 27% y-o-y to Rs. 1,826 crore, EBIDTA margins improved by 270 bps y-o-y to 27.5% and adjusted PAT grew by 2.0x y-o-y to Rs. 327 crore. TajSATS' revenue contribution stood at Rs. 168 crore with EBIDTA of Rs. 41 crore (operating EBIDTA margin of 23.6%) and PBT at Rs. 35 crore.

Key positives

- IHCL's domestic RevPar for all brands grew in double-digit in the range of 10-12%.
- New businesses' revenues grew by 47% y-o-y, Ginger grew by 56%.
- Hotel business' operating EBIDTA margins improved by 310 bps y-o-y.
- The Pierre in New York has seen strong improvement in the performance in Q2.

Key negatives

- IHCL's Goa properties saw a 1% y-o-y dip in RevPar in Q2.

Management Commentary

- Hospitality sector upcycle continued in Q2 with room demand growing by 7% ahead of room supply, which grew by just 2%. The hotels business excluding G-20 summit business in the base quarter would have grown by 19% in Q2FY25.
- Upcoming wedding season (4.8 million weddings estimated in India with 30% higher wedding nights) and increase in FTAs (to reach pre-covid level by FY2025-end) will drive strong room demand in H2. Company has witnessed 16.5% growth in October 2024 and expects November-December 2024 to be strong, with drivers in place.
- Management eyes revenue growth of over 10% in H2FY2025 (excluding Taj SATS). It has maintained its guidance of double-digit revenue growth on like-for-like basis despite weak Q1FY2025. Consolidation of Taj SATS will lead to strong double-digit growth in H2.
- New businesses (including Ginger, Q-min and Amma) are expected to grow by over 30%+. Ginger at Mumbai airport registered revenues of Rs. 44 crore and EBIDTA margins of 55% with occupancy of over 85% and ARR of over Rs. 6,500 in Q2. The hotel is expected to post strong performance in H2.
- On the international front, US – New York performance was strong and is expected to maintain the momentum in H2, ST Francisco was challenging, London registered flat performance like last year, Cape Town continues to grow while Maldives and Sri Lanka remained soft.
- IHCL has entered into a contract with Claridges Hotels Pvt. Ltd to license the brands for India & Nepal. Starting April 1, 2025 IHCL will manage 'The Claridges' New Delhi as part of this arrangement.
- IHCL is expected to do a lot of progress on Sea Rock hotels, Mumbai in 100 days.
- Gross cash as on H1FY2025 stood at Rs. 2,460 crore (improved by Rs. 138 crore in six months). Cash flow conversion in H1FY2025 stood at 67% versus 56% in H1FY2024.
- The company did capital expenditure of Rs. 344 crore in H1 and expects to do another Rs. 350-450 crore of capex in H2. It has maintained its guidance of capex to be ~4-5% of revenues in the medium to long run.

Revision in earnings estimates – We have increased our earnings estimates for FY2025 and FY2026 to factor in the consolidation of Taj SATS. We have introduced FY2027 earnings estimates through this note.

Our Call

VView – Retain Buy with a revised PT of Rs. 805: In line with management guidance, IHCL registered strong recovery in Q2 with hotel business revenues growing in double digits on back of room demand staying ahead of room supply. With multiple drivers in place, the management is confident of maintaining momentum in H2. Further, it has confidence of seeing good growth in the medium term on back of favourable demand environment while new businesses are expected to grow in upwards of 25-30%. EBITDA margins will consistently improve in the coming years. The stock trades at 31x/26x/21x its FY2025E/26E/27E EV/EBIDTA, respectively. We maintain a Buy on the stock with a revised price target of Rs. 805.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue	5,810	6,769	7,919	9,266	10,517
EBITDA margin (%)	31.1	31.9	33.4	34.6	35.6
Adjusted PAT	968	1,202	1,591	2,035	2,472
Adjusted EPS (Rs.)	7.4	9.3	11.9	15.1	18.3
P/E (x)	92.6	73.2	57.6	45.2	37.4
P/B (x)	11.2	9.6	8.4	7.1	6.1
EV/EBIDTA (x)	48.0	38.5	31.2	25.7	21.4
RoNW (%)	11.9	12.8	14.6	16.1	16.6
RoCE (%)	13.0	14.8	17.1	19.4	20.7

Source: Company; Sharekhan estimates