

Indian Hotels (INDHOT)

₹ 120

Fund raising to dilute return ratios...

The Indian Hotels (IHCL) board has approved the rights issue of equity shares to existing shareholders of the company for an amount not exceeding ₹ 1500 crore. The same is expected to be used to partly repay debt, fund expansion of Sea Rock Hotel (as per media sources) and other capex requirements. Since the company has not specified the share of funds to be utilised towards debt repayment and capex, we assume the same at 50:50 ratio for debt repayment and capex. Accordingly, we expect EPS dilution of 10.0% and 6.3% for FY18E and FY19E, respectively. Also, we expect the return ratios to come down by 110 bps and 170 bps, respectively.

Expect recovery in domestic demand with rebound in economy...

For FY17, demand growth (6.2% YoY) has outpaced supply growth (3.1% YoY). Further, the overall occupancy has improved 3.0% YoY to 64.0% while average room rate (ARR) has improved 1.7% YoY. All major cities have witnessed an increase in supply in the range of 1-5%. Going forward, we expect occupancy levels to improve further due to slowing down of capacity additions coupled with a rise in spending by domestic travellers. In addition, with improved tourism measures by the government, we expect the sector to see a better growth trajectory and healthy pricing in the next three to four years.

Turnaround of international subsidiaries - another key area

Subsidiaries currently contribute over ~40% of total revenue (FY17) whereas their contribution in EBITDA was 13% due to low operating margins (i.e. at 5.6% against standalone margin of 21.8% in FY17). We believe the turnaround of subsidiaries in the US and UK remains a key attribute to improve the overall performance of the company.

Revise EPS, return ratios downwards; downgrade to HOLD from BUY

Although from a long term perspective the company's domestic segment is expected to gain traction (led by higher occupancy, limited capacity addition and rise in spending by domestic travellers), we believe the subdued performance of international subsidiaries continues to remain an overhang. Further, the recent announcement of right issue is expected to lead to dilution of equity and return ratios in the medium term. The financials are expected to improve only after the benefits of capex kick in. Hence, we downgrade the stock from BUY to **HOLD**. Given this, we assign a target price of ₹ 130/share (i.e. valuing at EV/room of ₹ 2.1 crore/room).

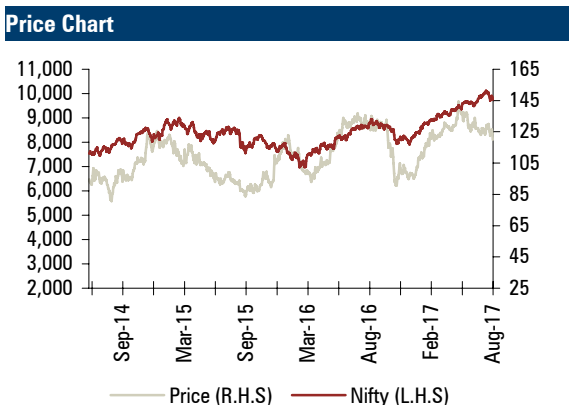
Rating matrix	
Rating	: Hold
Target	: ₹ 130
Target Period	: 12 months
Potential Upside	: 8%

What's Changed?	
Target	Changed from ₹145 to ₹130
EPS FY18E	Changed from ₹ 1.0 to ₹ 0.9
EPS FY19E	Changed from ₹ 1.6 to ₹ 1.5
Rating	Changed from Buy to Hold

Key Financials (Consolidated)				
	FY16	FY17	FY18E	FY19E
Net Sales	4023.0	4010.3	4086.9	4209.5
EBITDA	552.2	609.6	695.1	736.7
Net Profit*	-231.1	-63.2	107.5	168.4
EPS	-2.9	-0.6	0.9	1.5

Valuation summary				
	FY16	FY17	FY18E	FY19E
PE (x)	NA	NA	127.2	81.2
Target PE (x)	NA	NA	137.8	88.0
EV to EBITDA (x)	31.1	27.1	21.8	20.6
Price to book (x)	3.8	4.7	3.4	3.3
RoNW (%)	-9.0	-2.5	2.7	4.1
RoCE (%)	3.7	4.8	5.7	6.0

Stock data	
Particular	Amount
Market Cap	₹ 13672 crore
Debt (FY17)	₹ 3165 crore
Cash (FY17)	₹ 332 crore
EV	₹ 16505 crore
52 week H/L	146/89
Equity capital	₹ 98.9 crore
Face value	₹ 1



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Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Total operating Income	4,023.0	4,010.3	4,086.9	4,209.5	
Growth (%)	-4.0	-0.3	1.9	3.0	
Raw Material Expenses	367	364	381	400	
Employee Expenses	1423	1365	1376	1389	
Power & Fuel Exp	323	197	0	0	
Other Exp	1358	1475	1635	1684	
Total Operating Exp	3,470.9	3,400.6	3,391.8	3,472.8	
EBITDA	552.2	609.6	695.1	736.7	
Growth (%)	-1.3	10.4	14.0	6.0	
Depreciation	284.8	299.4	298.8	321.7	
Interest	375.6	323.8	249.4	200.4	
Other Income	99.8	54.9	52.3	57.6	
PBT	-8.5	41.4	199.2	272.1	
Others/Minority Int	89.1	65.9	18.3	55.9	
Total Tax	90.6	113.7	119.0	127.9	
PAT	-231.1	-63.2	107.5	168.4	
Growth (%)	LP	NA	NA	56.7	
EPS (₹)	-2.9	-0.6	0.9	1.5	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Equity Capital	98.9	98.9	113.9	113.9	
Preference Capital	-	-	-	-	
Reserve and Surplus	2,481.3	2,412.6	3,937.9	4,039.0	
Total Shareholders funds	2,580.3	2,511.5	4,051.8	4,153.0	
Total Debt	3,841.9	3,164.9	2,164.9	1,964.9	
Deferred Tax Liability	256.2	317.3	317.3	317.3	
Minority Interest / Others	742.9	737.8	749.1	764.9	
Total Liabilities	7,421.3	6,731.5	7,283.0	7,200.0	
Gross Block	9,144.2	8,515.5	9,388.1	9,888.1	
Less: Acc Depreciation	2,956.3	3,255.6	3,554.4	3,876.1	
Net Block	6,188.0	5,259.8	5,833.7	6,012.1	
Capital WIP	290.0	222.7	50.0	50.0	
Total Fixed Assets	6,478.0	5,482.5	5,883.7	6,062.1	
Net Intangible Assets	0.0	0.0	0.0	0.0	
Investments	758.7	545.1	545.1	545.1	
Goodwill on consolidation	1,159.6	1,163.4	1,163.4	1,163.4	
Inventory	80.2	80.4	83.0	85.3	
Debtors	242.0	272.1	277.7	286.0	
Loans and Advances	365.2	362.2	291.7	297.6	
Cash	182.6	240.9	600.1	390.9	
Other current assets	378.6	390.8	426.6	415.3	
Total Current Assets	1,248.6	1,346.4	1,679.2	1,475.1	
Creditors	2,192.8	1,685.7	1,717.6	1,769.1	
Provisions	201.3	211.0	188.9	194.6	
Total Current Liabilities	2,394.1	1,896.7	1,906.6	1,963.8	
Net Current Assets	-1,145.5	-550.3	-227.4	-488.6	
Others Assets	-0.1	-0.1	0.0	0.0	
Application of Funds	7,421.3	6,731.5	7,283.0	7,200.0	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Profit after Tax	-231.1	-63.2	107.5	168.4	
Add: Depreciation	284.8	299.4	298.8	321.7	
(Inc)/dec in Current Assets	122.5	-39.5	26.4	-5.2	
Inc/(dec) in CL and Provisions	354.9	-497.4	9.9	57.2	
CF from operating activities	531.1	-300.7	442.5	542.0	
(Inc)/dec in Investments	375.7	79.8	0.0	0.0	
(Inc)/dec in Fixed Assets	-636.3	696.1	-527.3	-500.0	
Others	-386.5	265.7	11.2	15.9	
CF from investing activities	-647.1	1,041.6	-516.1	-484.1	
Issue/(Buy back) of Equity	18.1	0.0	15.0	0.0	
Inc/(dec) in loan funds	-789.2	-677.0	-1,000.0	-200.0	
Dividend paid & dividend tax	-35.0	-46.7	-67.2	-67.2	
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0	
Others	600.9	41.2	1,485.0	0.0	
CF from financing activities	-205.1	-682.5	432.8	-267.2	
Net Cash flow	-321.1	58.4	359.2	-209.3	
Opening Cash	503.7	182.6	240.9	600.1	
Closing Cash	182.6	240.9	600.1	390.9	

Source: Company, ICICIdirect.com Research

Key ratios					
(Year-end March)	FY16	FY17	FY18E	FY19E	
Per share data (₹)					
EPS	-2.9	-0.6	0.9	1.5	
Cash EPS	0.7	2.4	3.6	4.3	
BV	31.9	25.4	35.6	36.5	
DPS	0.4	0.4	0.5	0.5	
Cash Per Share	0.7	2.4	3.6	4.3	
Operating Ratios (%)					
EBITDA Margin	13.7	15.2	17.0	17.5	
PBT / Total Operating income	-2.3	0.8	5.3	6.5	
PAT Margin	-5.7	-1.6	2.6	4.0	
Inventory days	8.3	7.3	7.3	7.3	
Debtor days	22.0	24.8	24.8	24.8	
Creditor days	198.9	153.4	153.4	153.4	
Return Ratios (%)					
RoE	-9.0	-2.5	2.7	4.1	
RoCE	3.7	4.8	5.7	6.0	
RoIC	3.9	5.0	5.9	6.1	
Valuation Ratios (x)					
P/E	NA	NA	127.2	81.2	
EV / EBITDA	31.1	27.1	21.8	20.6	
EV / Net Sales	4.3	4.1	3.7	3.6	
Market Cap / Sales	3.4	3.4	3.3	3.2	
Price to Book Value	3.8	4.7	3.4	3.3	
Solvency Ratios					
Debt/EBITDA	7.0	5.2	3.1	2.7	
Debt / Equity	1.5	1.3	0.5	0.5	
Current Ratio	0.5	0.7	0.9	0.8	
Quick Ratio	0.4	0.6	0.6	0.6	

Source: Company, ICICIdirect.com Research

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