INDIAN HOTELS CO

COMPANY UPDATE

KEY DATA

Rating	REDUCE
Sector relative	Neutral
Price (INR)	754
12 month price target (INR)	574
52 Week High/Low	761/412
Market cap (INR bn/USD bn)	1,073/12.7
Free float (%)	0.0
Avg. daily value traded (INR mn)	2,675.9

SHAREHOLDING PATTERN

	Sep-24	Jun-24	Mar-24
Promoter	38.12%	38.12%	38.12%
FII	27.44%	27.19%	24.47%
DII	18.79%	18.43%	20.79%
Pledge	0%	0%	0%

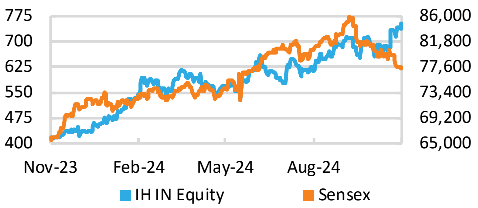
FINANCIALS (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Revenue	67,688	83,283	96,516	1,06,482
EBITDA	21,571	26,877	32,028	35,866
Adjusted profit	12,591	17,121	20,902	23,648
Diluted EPS (INR)	8.8	12.0	14.7	16.6
EPS growth (%)	25.3	36.0	22.1	13.1
RoAE (%)	14.4	16.8	17.6	17.2
P/E (x)	85.1	62.6	51.3	45.3
EV/EBITDA (x)	40.9	32.4	26.7	23.3
Dividend yield (%)	0	0	0	0

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY25E	FY26E	FY25E	FY26E
Revenue	83,283	96,516	0.0	0.0
EBITDA	26,877	32,028	0.0	0.0
Adjusted profit	17,121	20,902	0.0	0.0
Diluted EPS (INR)	12.0	14.7	0.0	0.0

PRICE PERFORMANCE



Takeaways from Capital Market Day—2024

IHCL in its 2024 Capital Market Day laid out its plan to double its portfolio by 2030. We reckon this may involve accelerated leasing and possibly a few M&As. Notably, the guidance excludes ~980 keys (including 400 key SeaRock) in its guidance, which may accelerate growth further, albeit being a little back ended.

While we appreciate IHCL's positive outlook, we currently lack sufficient justification to revise estimates for revenue, profit margins, or valuation multiples (which is a function of stronger earnings or elongating cycle). The stock is trading at 33x FY26 and 29x FY27 EV/EBITDA, which we consider expensive given the earnings visibility; maintain 'REDUCE' with an unchanged TP of INR574.

Vision 2030: Accelerating pace of asset-light expansion

IHCL in its Vision 2030 has laid down its plan to double its current portfolio of 350 hotels (including pipeline) to 700 (including pipeline) with even the operational portfolio to double from 242 to 500. This growth shall be led by both the traditional portfolio, viz. Taj, SeleQtions and Vivanta) growing at a stable pace of 15 signings and openings per annum and the new accelerated portfolio of Gateway, Ginger and Tree of Life growing at 50-plus signings and openings yearly. Consolidated revenue is likely to grow at 11% CAGR to INR150bn in FY30 from the current INR79bn (assuming TajSATS consolidation in FY24 itself) led by an asset-light portfolio's growth and improvement in share from the current 60% to 75%.

Its current expansion plans in next five years entail outflow of INR50bn-plus, which we believe is equally split between renovation and new builds. It does not include the Bandstand (SeaRock and Shiroda project) property, Lakshadweep, Aguada and Shiroda property as plans for these properties are yet to be finalised. Back of the envelope calculation suggests these 980 keys may need another INR23–25bn capex.

Growth in its base business shall be driven by organic expansion and an 8% annual increase in ARR, consistent with historical trends.

Management forecasts a significant improvement in RoCE from current 15% to 20% by FY30. This shall be led by higher contributions from asset-light businesses and monetisation of previously stalled assets (e.g. SeaRock). Moreover, IHCL has laid out its capital allocation strategy and aims to keep 20–25% of free cash flow reserved for fresh capex and renovations, ~12–15% for dividends, ~15–20% for future greenfield investment and balance for new opportunities including inorganic acquisitions, if any. It wants to retain its net cash positive stance and further bolster its war chest.

Key positives: The Bandstand (Sea Rock) property, Shiroda and Aguada property, which were stuck for so long, have received clearances and approvals to go ahead.

Key negatives: No margin guidance, which in turn implies higher leasing projects on the horizon that may be margin dilutive but RoCE accretive. Moreover, management's ambition to seed a few foreign markets even at the cost of diluting margins may be another reason.

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Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Total operating income	67,688	83,283	96,516	1,06,482
Gross profit	62,479	76,875	89,089	98,289
Employee costs	18,052	21,654	25,094	27,685
Other expenses	22,856	28,344	31,967	34,737
EBITDA	21,571	26,877	32,028	35,866
Depreciation	4,543	4,933	5,279	5,668
Less: Interest expense	2,202	2,086	2,209	2,348
Add: Other income	1,829	2,027	2,237	2,474
Profit before tax	17,942	23,468	28,611	32,349
Prov for tax	4,639	5,471	6,694	7,581
Less: Other adj	0	0	0	0
Reported profit	12,591	17,121	20,902	23,648
Less: Excp.item (net)	0	0	0	0
Adjusted profit	12,591	17,121	20,902	23,648
Diluted shares o/s	1,423	1,423	1,423	1,423
Adjusted diluted EPS	8.8	12.0	14.7	16.6
DPS (INR)	0	0	0	0
Tax rate (%)	25.9	23.3	23.4	23.4

Balance Sheet (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Share capital	1,423	1,423	1,423	1,423
Reserves	93,143	1,08,129	1,26,185	1,46,274
Shareholders funds	94,567	1,09,553	1,27,608	1,47,698
Minority interest	6,721	7,596	8,611	9,731
Borrowings	2,605	2,138	2,138	2,138
Trade payables	5,194	8,023	8,848	9,784
Other liabs & prov	12,864	15,176	17,159	18,684
Total liabilities	1,47,334	1,69,654	1,93,281	2,18,816
Net block	61,397	65,203	68,764	72,941
Intangible assets	12,258	12,228	12,134	12,035
Capital WIP	2,310	2,310	2,310	2,310
Total fixed assets	75,965	79,740	83,208	87,286
Non current inv	15,371	15,371	15,371	15,371
Cash/cash equivalent	14,855	27,611	43,178	60,372
Sundry debtors	4,765	6,845	7,933	8,752
Loans & advances	1,047	1,047	1,047	1,047
Other assets	10,018	14,433	18,684	22,873
Total assets	1,47,334	1,69,654	1,93,281	2,18,816

Important Ratios (%)

Year to March	FY24A	FY25E	FY26E	FY27E
Emp. exp. (S)-(% YoY)	19.8	19.3	18.9	18.5
EBITDA margin (%)	31.9	32.3	33.2	33.7
Net profit margin (%)	18.6	20.6	21.7	22.2
Revenue growth (% YoY)	16.5	23.0	15.9	10.3
EBITDA growth (% YoY)	19.5	24.6	19.2	12.0
Adj. profit growth (%)	25.6	36.0	22.1	13.1

Free Cash Flow (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Reported profit	12,591	17,121	20,902	23,648
Add: Depreciation	4,543	4,933	5,279	5,668
Interest (net of tax)	1,633	1,600	1,692	1,798
Others	0	0	0	0
Less: Changes in WC	0	0	0	0
Operating cash flow	15,677	29,125	34,567	38,695
Less: Capex	(6,797)	(8,000)	(8,000)	(9,000)
Free cash flow	8,880	21,125	26,567	29,695

Assumptions (%)

Year to March	FY24A	FY25E	FY26E	FY27E
GDP (YoY %)	6.9	6.0	6.2	6.2
Repo rate (%)	6.5	6.0	5.0	5.0
USD/INR (average)	83.0	84.0	84.0	84.0
Power (S) - (% YoY)	4.7	4.3	4.0	3.7
EBITDA margin - Sub (%)	18.8	20.8	22.8	24.3
Rooms managed (#)	13,625.0	16,451.0	19,729.0	22,693.0
Capex (INR mn)	(6,797.2)	(8,000.0)	(8,000.0)	(9,000.0)
Debt repaid (INR mn)	10,115.8	467.4	0	0

Key Ratios

Year to March	FY24A	FY25E	FY26E	FY27E
RoE (%)	14.4	16.8	17.6	17.2
RoCE (%)	18.6	21.5	22.5	21.9
Inventory days	76	76	74	80
Receivable days	20	25	24	27
Payable days	318	364	345	397
Working cap (% sales)	(3.0)	(0.8)	1.9	4.1
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(0.1)	(0.2)	(0.3)	(0.4)
Interest coverage (x)	7.7	10.5	12.1	12.9

Valuation Metrics

Year to March	FY24A	FY25E	FY26E	FY27E
Diluted P/E (x)	85.1	62.6	51.3	45.3
Price/BV (x)	11.3	9.8	8.4	7.3
EV/EBITDA (x)	40.9	32.4	26.7	23.3
Dividend yield (%)	0	0	0	0

Valuation Drivers

Year to March	FY24A	FY25E	FY26E	FY27E
EPS growth (%)	25.3	36.0	22.1	13.1
RoE (%)	14.4	16.8	17.6	17.2
EBITDA growth (%)	19.5	24.6	19.2	12.0
Payout ratio (%)	0	0	0	0

Source: Company and Nuvama estimates

Analyst meet: Key takeaways

Industry outlook

- The industry is not experiencing any of the headwinds that the consumer sector is currently going through.
- Demand shall outpace supply; double-digit growth is realistic while FTAs shall soon breach the pre-covid levels.
- Long-term structural drivers are intact leading to a healthy outlook.
- Q3 has been the strongest quarter for the industry and halfway through Q2FY25 nothing on the ground suggests otherwise.
- The all-India branded inventory shall grow at 6.6%, but growth in key core markets shall be quite slower at ~3–4% due to limited availability of land. Total 70–75% of domestic revenue of IHCL's consolidated revenue comes from these key core markets.

Current scenario

- The company is well-positioned with a war chest for any opportunities, organic or inorganic.
- The SeaRock property has achieved a significant milestone with the recent receipt of the Intimation of Disapproval (IOD). CC, MoEF and CRZ approvals still pending.
- The company recently finished the Bhoomi Poojan for the Shiroda property, which was stuck for 30 years, with approvals still awaited for the same. Similar is the case for the Aguada Plateau.
- The company is finalising designs for the Goa Mopa airport project.

Vision 2030

- Elevating the company's vision from being 'Most iconic and profitable hospitality company in South Asia' to 'Most valued, responsible and profitable hospitality ecosystem in South Asia'.
- Total 350 hotels today to go to 700 hotels (both figures including pipeline hotels) and the operational portfolio to grow from 232 to 500 hotels by 2030.
- The traditional portfolio (Taj, SeleQtions, and Vivanta) is projected to grow steadily, with 15 hotel signings and openings annually. The accelerated growth brands (Gateway, Ginger, and Tree of Life) are aiming for more rapid expansion, targeting 50 signings and openings per year.
- Ama itself to have 700-plus outlets by 2030.
- The RoCE profile shall improve from 15% to 20% with the asset-light approach that the company is expanding through
- Revenue should grow at 11% CAGR from INR79bn (adding TajSATS in FY24 revenue) in FY24 to INR150bn by FY30.
- Traditional business growth shall be driven by RevPAR growth, asset management initiatives and expansions.

- New business—Ginger, Qmin, Ama and Tree of Life. This segment shall continue with its CAGR of 30% with its not like-for-like growth strategy.

- The company expects the momentum of 8% per annum growth in ARRs—its historical growth—to continue. It is seeing this in the first six months of FY25 too. The nominal ARRs denominated in USD for India are still lower than the peaks it achieved in FY08.

- Management fee business should double and cross INR10bn in revenue driven by addition of new units at a pace of 12–15% yearly, higher than historical average of 7–8% on the back of the current pipeline that the company has.

- Chambers has grown at 15–18% and that momentum is continuing. Chambers business shall grow and cross revenue contribution of INR2.5bn-plus in the next few years driven by newer Chamber additions in the portfolio and aspirations of the people to improve to be in these clubs.

- To achieve an attractive internal rate of return (IRR) on new greenfield projects, the company is pencilling in high-single digit ARR growth.

- The repositioned and renovated properties are growing strong: i) Taj Mahal New Delhi property reopened in 2023 is likely to post revenue growth of 14% CAGR and EBITDA growth of 26%. ii) Taj Usha Kiran Palace, Gwalior, reopened in 2024 is likely to post revenue CAGR of 20% and EBITDA CAGR of 36% in FY20–25E for both properties.

- The capital-light portfolio of the company has grown from 44% of the total inventory in FY17 to 60% in FY24 and is likely to grow to 75% by FY30.

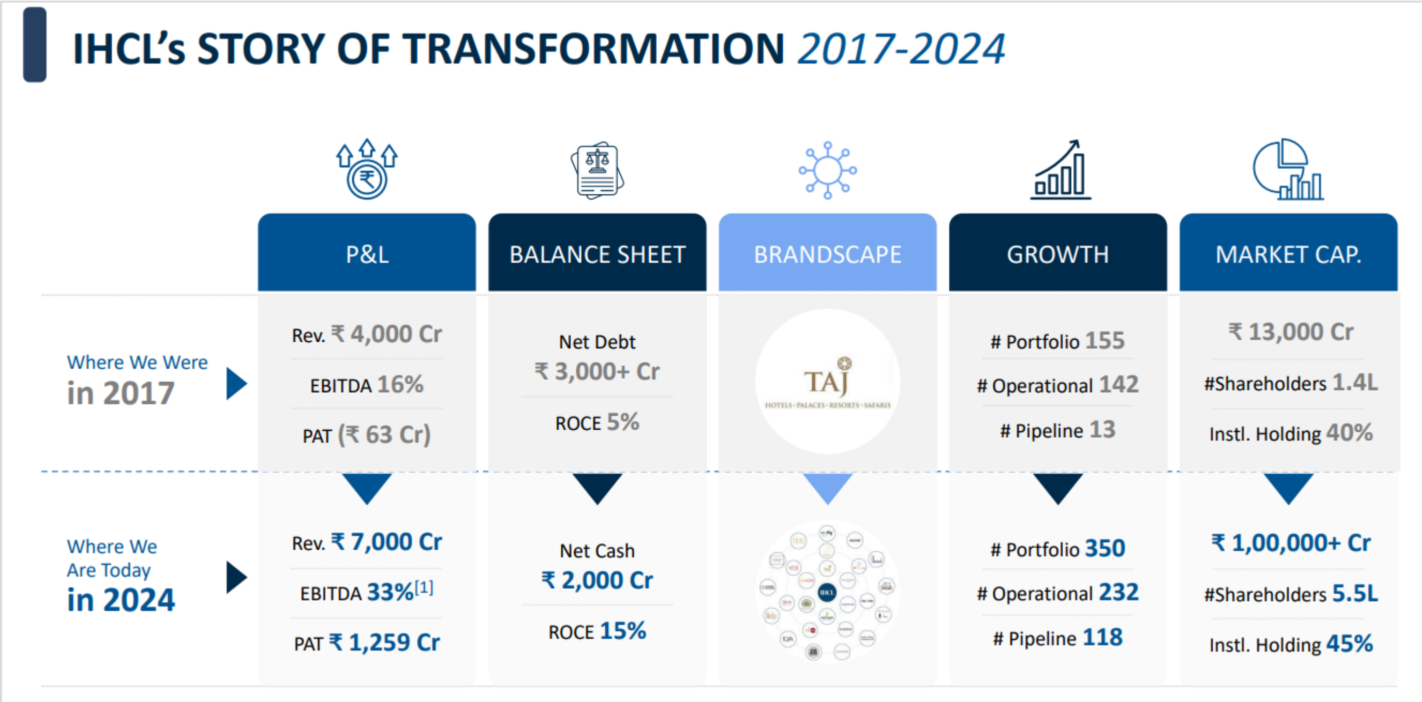
- **TajSATS business:** Adding newer kitchens in Noida and also expanding in Delhi. Airline business growing at double digits shall further fuel growth here. Airline business catering is ~90% of TajSATS business, balance 10% is institutional catering. It has created a subsidiary under TajSATS for institutional business. The TajSATS business too should double by FY30.

- EBITDA margins for the business shall have a positive bias from current levels but no specific guidance here.

- **Cashflow:** EBITDA to FCF before capex shall be 70–75%, difference on account of tax; 20–25% of cashflows shall go in ongoing renovations, new builds and digital capex; dividends-at 12–15%; future greenfield at 15–20%; and 10–20% cash accrual for new projects and inorganic opportunities.

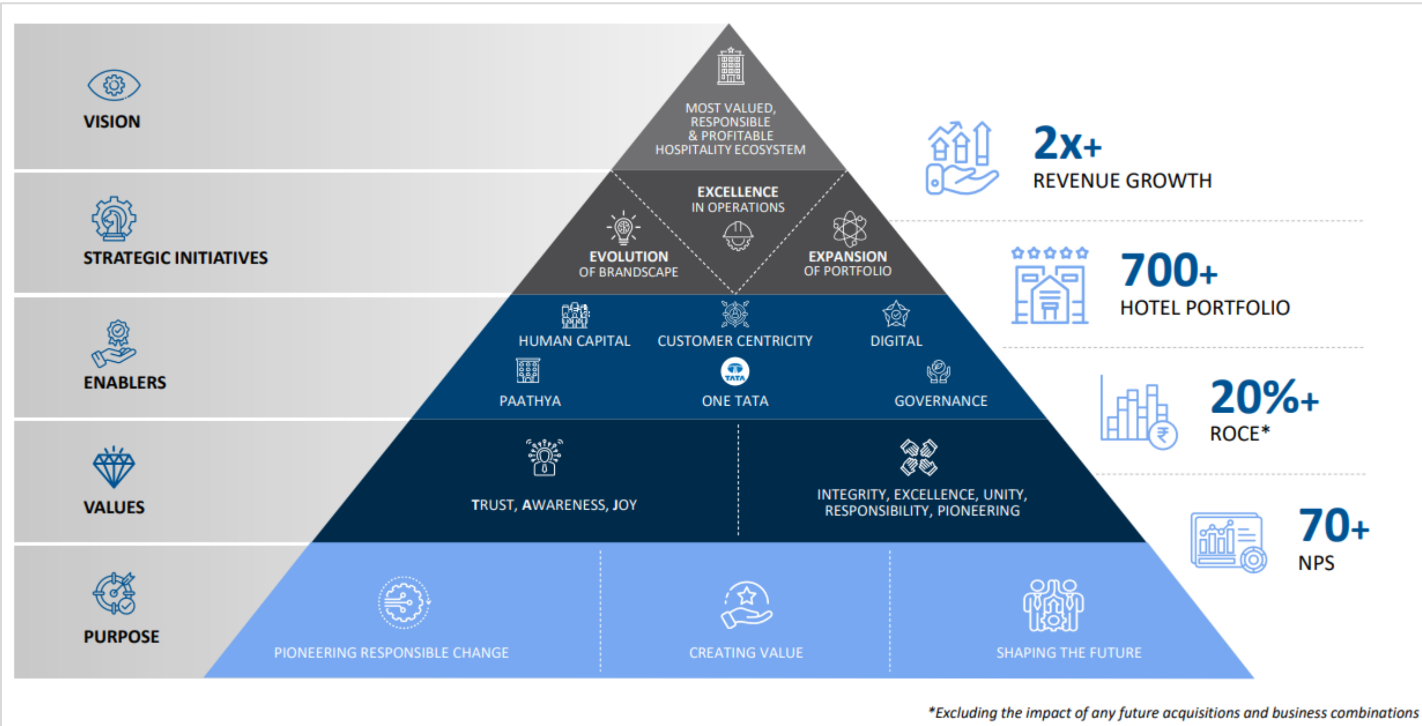
- Visible capex at INR50bn for the next five years, which is crystallised. This number is excluding the Bandstand, Aguada and Shiroda project, which we expect to involve additional INR23–25bn deployment.

Exhibit 1: IHCL's transformation journey



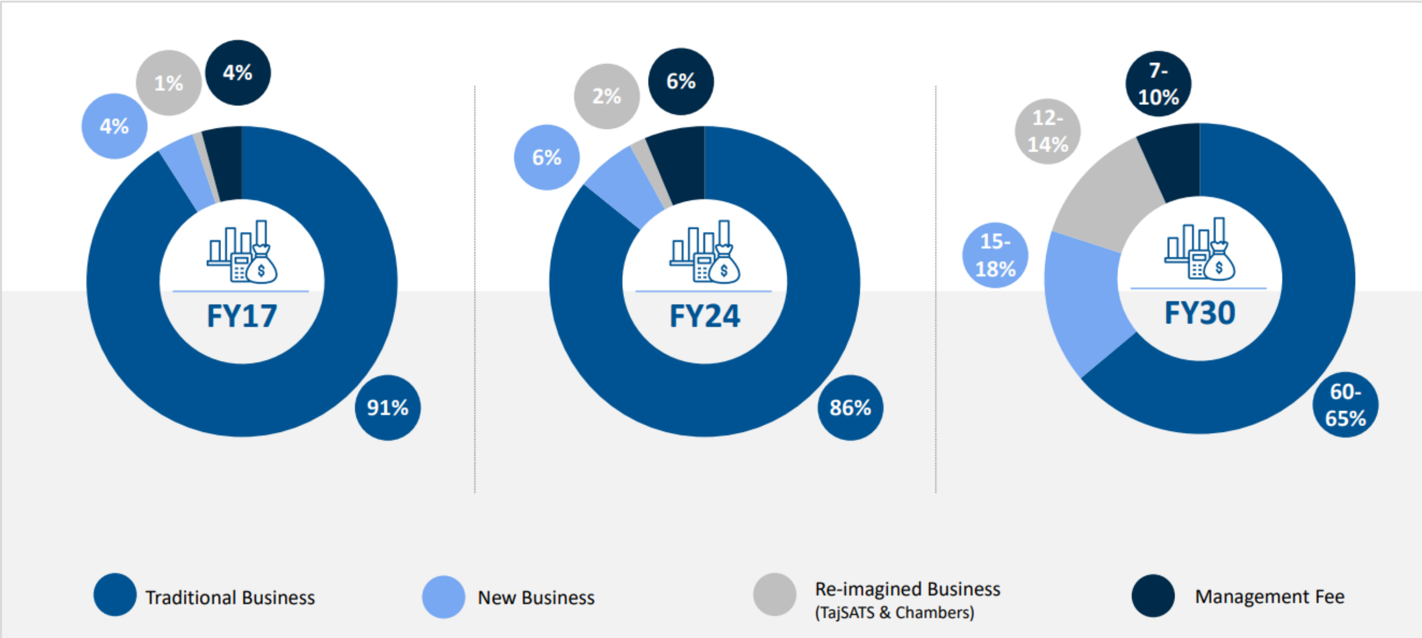
Source: Company

Exhibit 2: Accelerate 2030 strategy



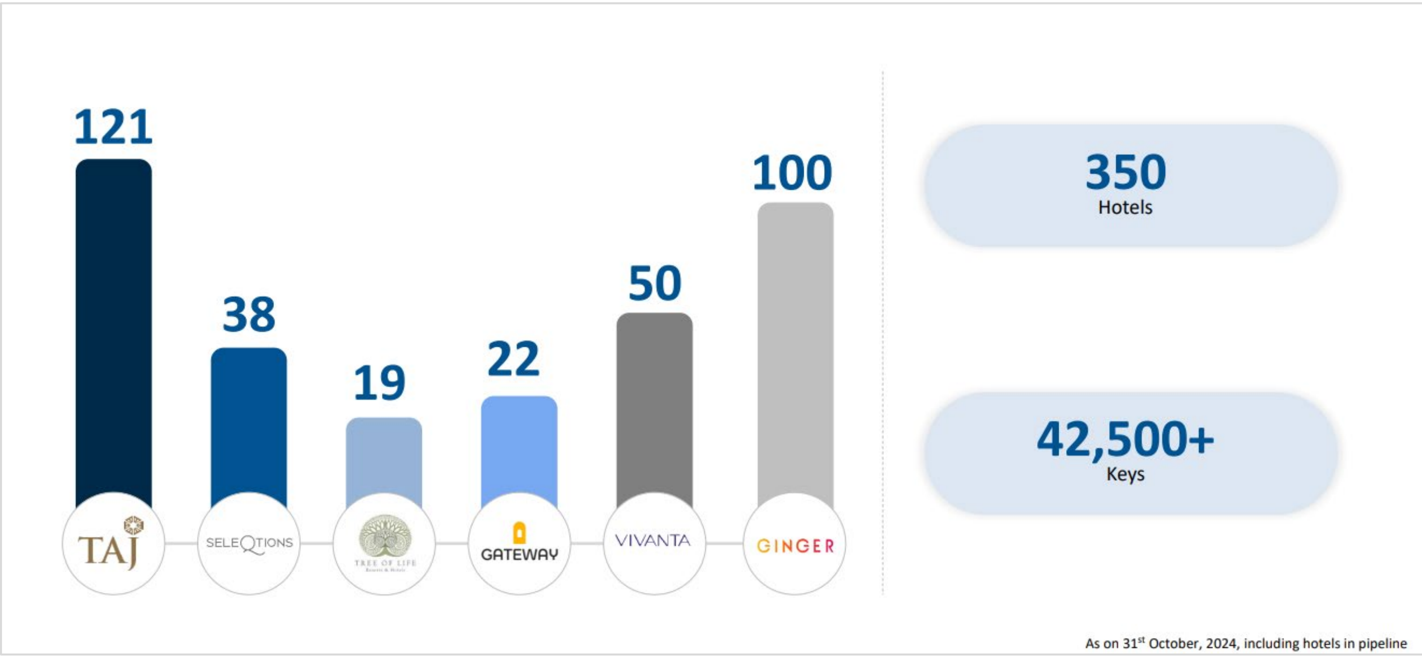
Source: Company

Exhibit 3: Diversification of top line to continue



Source: Company

Exhibit 4: IHCL's current portfolio



Source: Company

Exhibit 5: Realigns and redefines focus on brands to cater to all consumer classes…

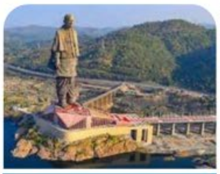
LEADERSHIP IN THE INDIAN SUBCONTINENT ACROSS ALL SEGMENTS					
BRANDS	KEY MARKETS*	TIER 2 / 3 CITIES	DRIVABLE DESTINATIONS	DISTRICT HEADQUARTERS	LEISURE LOCATIONS
TAJ	✓				✓
SELEQTIONS	✓	✓	✓		✓
VIVANTA	✓	✓			
GATEWAY	✓	✓	✓		✓
GINGER	✓	✓		✓	
TREE OF LIFE	✓	✓	✓		✓

Source: Company

Exhibit 6: Current ongoing projects








Bandstand (Sea Rock) 400 Keys	Lakshadweep Suheli - 70 Keys Kadmat - 110 Keys	Shiroda 300 Keys	Aguada Plateau 110 Keys	Ekta Nagar 275 Keys	Goa MOPA 300 Keys
TAJ	TAJ	TAJ	GATEWAY	VIVANTA GINGER	GINGER
FSI crystallized & received IOD approval; Other approvals applied for	Plans submitted for approvals	Bhoomi Poojan done; Approvals awaited	Supplemental lease deed signed with Govt. of Goa, & approvals applied for	Construction Work in Progress; Completion in 2025	Designs being finalized; Likely Completion in 2027

Source: Company

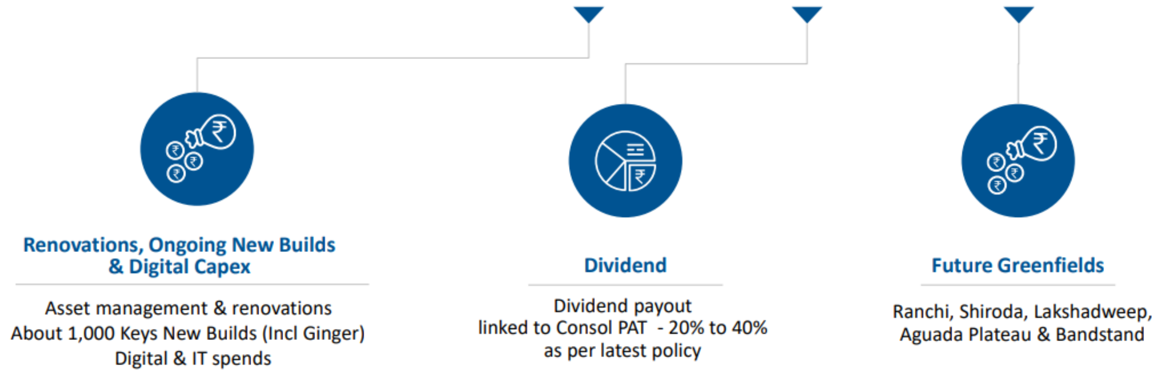
Exhibit 7: Target to double operational portfolio across brands....

BRANDS	PORTFOLIO INCL. PIPELINE		OPERATIONAL HOTELS		
	Oct-24	Mar-30	Oct-24	Mar-30	
Steady Growth Brands (Taj, SeleQtions, Vivanta)	209	300	137	225	15 Signings p.a 15 Openings p.a
Accelerated Growth Brands (Gateway, Ginger, Tree of Life)	141	400	95	275	50 Signings p.a 30 Openings p.a
TOTAL	**350**	**700**	**232**	**500**	

Source: Company

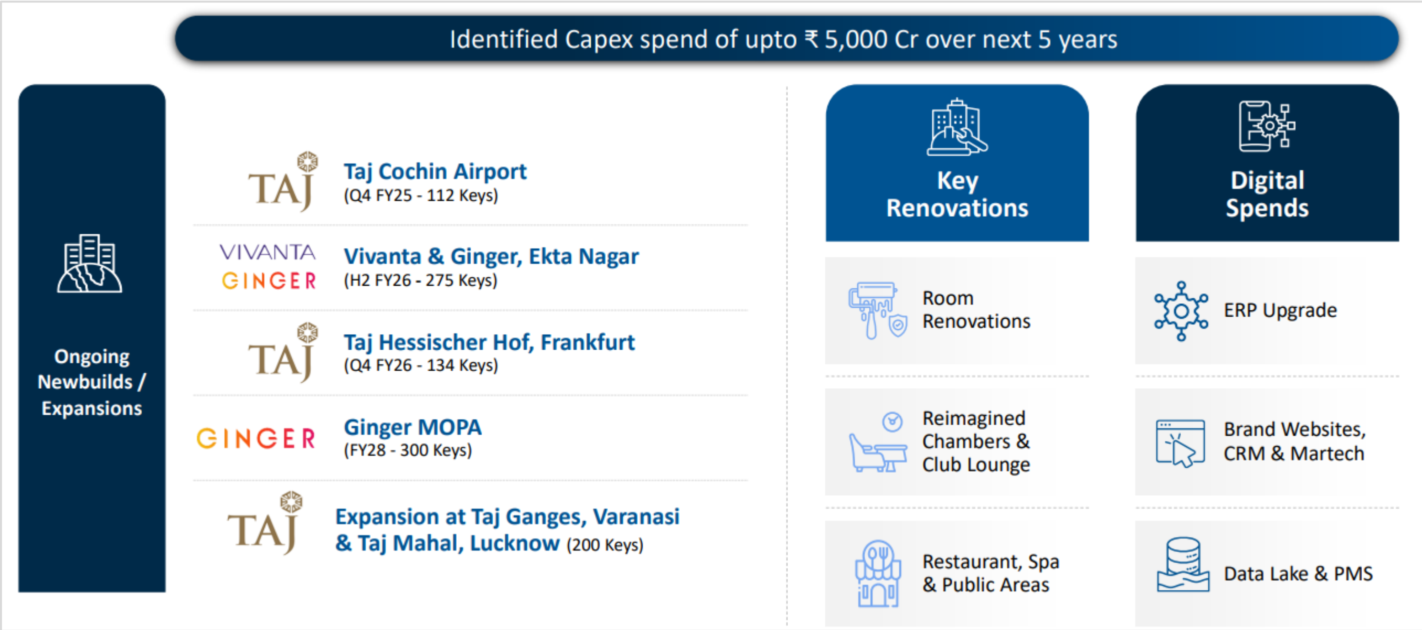
Exhibit 8: Planned capital allocation policy

IHCL CONSOLIDATED	EBITDA	Free Cash flow before Capex	Renovations, Ongoing New Builds & Digital Capex	Dividend	Future Greenfields	Cash accrual for New Projects, Inorganic Opportunities & Strategic Reserve
% OF EBITDA	100%	70 - 75%	20% - 25%	12% - 15%	15% - 20%	**10% – 20%**



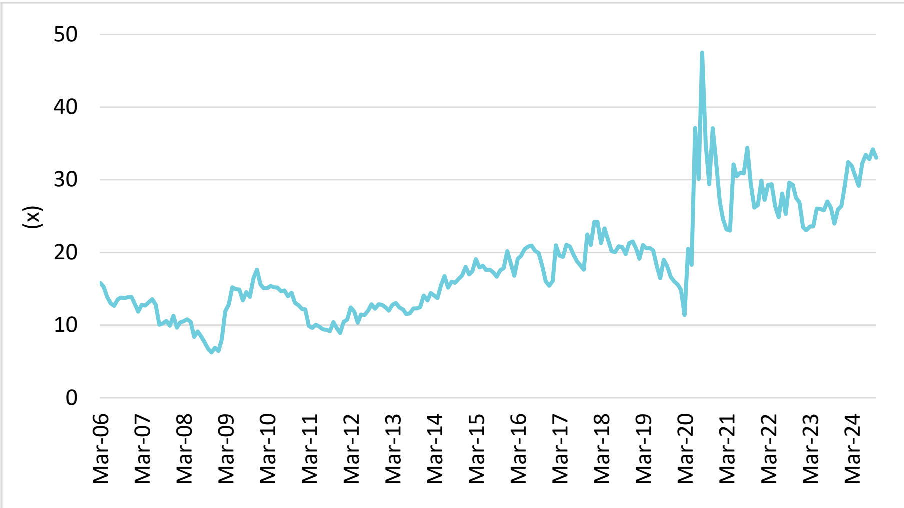
Source: Company

Exhibit 9: Planned capex spends for next five years...



Source: Company

Exhibit 10: IHCL historical one year forward multiple



Source: Bloomberg, Nuvama Research

Exhibit 11: IHCL valuation–Sum of the parts

	Label	Criteria	Factor	Ownership/ Shares Held	Value (Rs m)	TTM Sep'26 Valuation (Rs m)	Per share value
Owned Asset	A	18 x EBITDA	EBITDA		18,042	3,24,758	228
Managed Asset	B	22 x EBITDA	EBITDA		5,320	1,17,037	82
New Businesses	C	20 x EBITDA	EBITDA		2,341	46,818	33
Piem Hotels	D	18 x EBITDA	EBITDA	58.7%	2,602	27,481	19
Benares Hotels	E	30% discount to (Debt+Market value of investments)		51.7%	11,875	4,296	3
Oriental Hotels	F	Market Value		35.7%	32,041	11,429	8
TajGVK Hotels & Resort	G	Market Value		25.5%	20,165	5,146	4
TajSATS	H	18 x EBITDA	EBITDA	51.0%	3,064	28,131	20
Roots Corporation	I	20 x EBITDA	EV	100.0%	2,246	44,928	32
St James Court	J	16 x EBITDA	EBITDA	76.9%	1,391	17,106	12
Other International Subs	K	Book Value				28,182	20
US subs cash loss	L	OCF			(160)	(1,217)	(0.9)
Tata Sons stake	M	30% discount to (NW+Market value of investments)		1.1%	1,09,32,937	1,21,734	86
EV (Rs. m)	N=Sum (A:M)					7,75,829	
Net Debt (Rs. m)	O					(40,529)	-28
Valuation of Equity (Rs. m)	P=N-O					8,16,358	
Number of Shares Outstanding (m)	Q					1,423	
Fair Value	R=P/Q					574	
CMP	S					753	
Upside	T=R/S-1					-23.8%	

Source: Company, Nuvama Research

Company Description

IHCL, incorporated in 1902, is among India's largest hotel operators with a presence in the luxury, business and leisure hotel segments. The company manages ~18,000 rooms (~150 properties) across India and international locations. It entered the budget hotel segment with Ginger in 2004 and also has a presence in adventure tourism with wildlife lodges. In international markets, IHCL is present via operations in Maldives, the US, South Africa, the Middle East, UK and Malaysia. International operations contribute ~30% to group sales (~15% of inventory).

Investment Theme

The hotel sector merrily sprang towards a faster-than expected full recovery in FY23 and a record Q1FY24 driven by: i) sustained domestic leisure travel demand, reviving domestic corporate and a strong wedding season in H1FY23; and ii) potential full recovery for the international business and leisure travel in H2FY23. IHCL has stronger immediate triggers — leisure demand, wedding season and a buoyant Mumbai market.

Key Risks

Any earlier-than-expected resurrection in the industry or sale of noncore assets to pare debt may prompt a relook at our view/assumptions.

Additional Data

Management

CEO	Puneet Chhatwal
CFO	Ankur Dalwani
COO	
Other	
Auditor	BSR & Co.

Holdings – Top 10*

	% Holding		% Holding
HDFC AMC	3.50	Republic of Sin	1.52
Blackrock	2.56	Canara Robeco A	1.37
Nippon	2.49	Franklin Resour	1.27
Axis AMC	2.45	HDFC Life	1.24
Vanguard	2.36	SBI Pension Fun	0.84

**Latest public data*

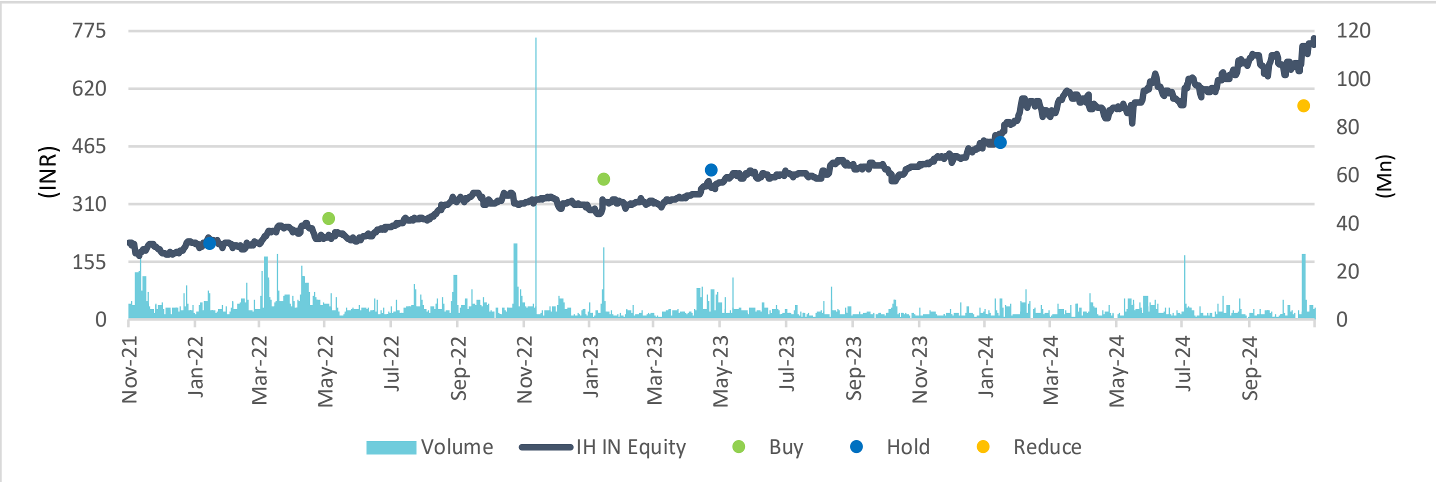
Recent Company Research

Date	Title	Price	Reco
08-Nov-24	In-line performance; valuation rich; *Result Update*	684	Reduce
20-Jul-24	Soft performance; guidance unchanged; *Result Update*	578	Hold
24-Apr-24	Stable showing; stepping up capex; *Result Update*	608	Hold

Recent Sector Research

Date	Name of Co./Sector	Title
18-Nov-24	LEMON TREE HOTEL	Lemon Tree Hotel (LEMONTRE IN, INR 122, ; *Result Update*
19-Aug-24	Leisure & Hotels	A pit-stop quarter; *Sector Update*
09-Aug-24	LEMON TREE HOTEL	Renovations and Aurika hurt margins; *Result Update*

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	225
Hold	<15% and >-5%	65
Reduce	<-5%	25

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