

Indian Hotels Co Ltd

₹ 67

Wah Taj!

Buy



Oct 05, 2012

Company Background

Indian Hotels Company Ltd (IHCL) jointly with its subsidiaries is known as Taj Hotels Resorts & Palaces, is one of Asia's largest & finest hotel company. It got incorporated in 1902, by the founder of the Tata group, Mr. Jamshedji N. Tata, and it opened its first hotel "The Taj Mahal Palace & Tower" in Mumbai. It has 93 hotels in 55 locations across India with an additional 16 international hotels in the Maldives, Malaysia, Australia, UK, USA, Bhutan, Sri Lanka, Africa and the Middle East. IHCL operates its portfolio of hotels under 4 clear and well defined brands, namely Taj Luxury Hotels, Vivanta by Taj, the Gateway hotel and Ginger hotels, each addressing opportunities at varying price points and providing to guests well defined and consistent products, services and experiences.

Key Highlights

- ➔ IHCL came up with total 27 hotels and 3042 rooms in last five years, both in its domestic and international portfolio. It came up with 7 hotels and 971 rooms in FY12. There are 18 hotels & 2040 rooms in pipeline in FY13 and 20 hotels and 2573 rooms in FY14.
- ➔ The company is planning to double its hotels under its brand named 'Vivanta' by Taj' to 50 from the current 23 hotels in the next 4 years. It is also going to add another 22 hotels under the brand named "Gateway" and new 55 hotels under "Ginger" in next four years.
- ➔ The company is on verge of improving its Cash flows by focusing on interest expenses, employee costs, total debt and cash balances. It has strong Avg cash EPS of ₹ 3.49 for last 5 years & is poised to achieve the historical level by giving a next 5-year average of ~ ₹ 5.46 per share.
- ➔ The gradual rise in occupancy rates, hotel tariffs and average room rates (ARRs) is likely to drive the topline growth and also increase the margins. The company expects the occupancy rates to reach ~78% with improved domestic tourism and weak rupee. The marginal hikes in hotel tariff would benefit the ARR and turnover of IHCL in coming years.
- ➔ The company is expected to outperform in the Luxury segment space due to strong entry barriers of escalating land prices, high establishing costs

Key Financials

Year Ended 31 st	Mar 10	Mar 11	Mar 12
Revenue (₹ mn)	15,908.4	17,436.1	18,647.2
Rev. growth (%)	(6.95)	9.60	6.95
EBITDA (₹ mn)	4,978.6	4,902.4	4,558.1
Net profit (₹ mn)	1,531.0	1,412.5	1,453.5
Shares outstanding (mn)	723.5	759.5	759.5
EPS (INR)	2.1	1.9	1.9
EPS growth (%)	(34.59)	(12.11)	2.90
Networth	26928.5	32284.1	33603.6
RONW (%)	4.3	4.5	4.7
ROCE (%)	2.5	2.5	2.6

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Info Codes

Reuters	: IHTL.BO
Bloomberg	: IH@IN
NSE	: INDHOTEL
BSE	: 500850

Market Data

52 Wk Range (₹)	: 106 / 52
Shares in Issue (mn)	: 759.4
Mkt. Cap (₹ bn)	: 53.85
BSE 2 Wk Avg Vol	: 272000

Share Holding Pattern (%)

Promoters	: 37.53
DII's	: 22.11
FII's	: 12.50
Others	: 27.86

Investment Theme

Taj Group has planned its growth strategy in each of the segments over the next few years with its distinct brands 'Taj' in the Luxury segment, 'Vivanta by Taj' in the Upper Upscale segment and 'The Gateway Hotel' in the Upscale segment. The latest brand 'Vivanta by Taj' launched in 2010, has performed extremely well to establish market leadership across key locations. The customer feedback has been encouraging. Research indicates that the brand has performed higher than its competitive set and the distinct brand elements of the Vivanta are strongly endorsed. These early success signs of Vivanta by Taj and of The Gateway Hotels indicate that the multiple brand strategy followed by the Company to ride the growth wave in the Indian hospitality industry and to retain its domestic leadership, is working well.

Maharaja of Hospitality

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Total Sales + Excise	14732.9	16735.0	13.59	18087.3	8.08
Other Income	1148.6	647.8	(43.60)	559.9	(13.57)
Change in Stocks	0.0	0.0	-	0.0	-
Raw Material Con.	0.0	0.0	-	1528.7	-
Employee Exp.	3595.6	4164.8	15.83	4713.8	13.18
Indirect Taxes	0.0	0.0	-	0.0	-
Other Exp.	7334.2	8368.9	14.11	7846.6	(6.24)
Operating Exp.	10929.8	12533.7	14.67	14089.1	12.41
Operating Profit	3803.1	4201.3	10.47	3998.2	(4.83)
Total Interest	1754.7	1588.3	(9.48)	1119.9	(29.49)
Gross Profit	3197.0	3260.8	2.00	3438.2	5.44
Net Dep.	1041.4	1084.6	4.15	1139.0	5.02
Total Taxation	624.6	763.7	22.27	845.7	10.74
Net Profit/Loss	1531.0	1412.5	(7.74)	1453.5	2.90

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 09	Mar 10	Mar 11	Mar 12
SOURCES OF FUNDS	48,141.0	53,438.7	55,675.8	55,303.2
Equity Share capital	723.4	723.5	759.5	759.5
Share Application Money	0.0	0.0	1,243.7	1,243.7
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	29,752.9	26,209.7	30,285.9	31,674.9
Secured Loans	15,980.2	17,527.7	14,640.1	9,711.8
Unsecured Loans	1,684.5	8,977.8	8,746.6	11,913.3
USES OF FUNDS	48,141.0	53,438.7	55,675.8	55,303.2
Gross Block	23,622.3	24,083.2	26,051.8	28,348.4
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	7,768.3	8,470.6	8,794.4	9,919.1
Net Block	15,854.0	15,612.6	17,257.4	18,429.3
Capital Work in Progress	2,151.0	3,701.2	3,371.5	2,254.3
Investments	20,268.8	24,456.3	30,267.8	36,221.9
Current Assets	16,502.8	22,531.6	18,225.5	16,734.3
Less : Current Liabilities	6,642.9	12,867.7	13,448.9	18,336.6
Total Net Current Assets	9,859.9	9,663.9	4,776.6	(1,602.3)
Misc. Expenses not written	7.3	4.7	2.5	0.0
NOTE				
Bk Val Unquoted Investments	19,350.0	32,131.2	23,207.3	35,336.1
Mkt Val. Quoted Investments	6,070.7	4,376.4	9,639.1	2,654.8
Contingent Liabilities	7,871.2	8,272.9	7,989.2	10,342.0
Dividend (%)	120	100	100	100

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 11	Dec 11	Mar 12	Jun 12
Net Sales	3,575.60	5,214.80	5,601.50	3,964.70
Cost Of Sales	3,188.60	3,806.80	4,009.60	3,304.30
Operating Profit	387.00	1,408.00	1,591.90	660.40
Recurring Income	176.50	85.90	99.00	74.50
Adjusted PBDIT	563.50	1,493.90	1,690.90	734.90
Financial Expenses	247.20	303.50	295.30	298.90
Depreciation	279.20	266.10	318.90	309.50
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	37.10	924.30	1,076.70	126.50
Tax Charges	51.70	271.40	413.50	22.00
Adjusted PAT	(14.60)	652.90	663.20	104.50
Non Recurring Items	95.80	(148.10)	(11.10)	(64.20)
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	81.20	504.80	652.10	40.30

52 Week Index Relative Percentage Appreciation



IHCL vs SENSEX

Points to Ponder

According to the STR Global Construction Pipeline Report, the Asia Pacific hotel development pipeline comprises over 1,600 hotels and over 3.6 lakh rooms. India reported the largest expected room growth (+35 percent) if all 60,845 rooms in its total active pipeline are commissioned as per schedule. Among the Chain Scale segments, the Upper Upscale segment accounted for the largest portion of rooms in the total active pipeline with 26%, followed by the Upscale segment at 23% and the Luxury segment at 19%.

Risks Associated

IHCL heavily depends on India's operations on foreign tourist arrivals, Foreign exchange earnings and visa on travels, etc, which makes it inclined to domestic economy. Moreover, its operations & earnings are essentially concentrated in key cities, mainly metro cities. IHCL has a portfolio of foreign currency debt, in respect of which it faces exposure to fluctuations in currency as well as interest rate risks. Luxury hotels contribute a significant proportion of the total revenue and earnings of the Company. This segment is affected by the international events and travel behavior and suffers from high operating leverage. Adverse development affecting these hotels or the cities in which they operate could have a materially adverse effect on IHCL. The success of Taj Group will be dependent upon its ability to compete in areas such as room rates, quality of accommodation, brand recognition, service level, and convenience of location and to a lesser extent, the quality and scope of other amenities, including food and beverage facilities.

In a Nutshell

The Taj, a symbol of Indian hospitality was incorporated by the founder of Tata Group, Mr. Jamsetji N. Tata. IHCL and its subsidiaries are known as the Taj Hotels Resorts & Palaces. Today it has expanded into the largest hotel chain in India and is regarded as the finest in Asia. The company has hotels at almost all the prime locations across India as well as in global markets. IHCL operate in the luxury, premium, mid-market and value segments of the market. HCL runs hotels under many brands such as Taj, VIVANTA, Gateway & Ginger hotels. With more than 12,000 rooms it is the largest player in India. It owns and operates 76 hotels, 7 palaces, 6 private islands and 12 resorts and spas, spanning 52 destinations in 12 countries across 5 continents and employs over 13000 people. It also owns private jets and yachts. The company's hotels offer resorts and palaces, safaris, suites, swimming pools, fitness centers, spa, business facilities, and conference services. It has diversified presence in the hospitality sector ranging from palaces to yachts to private jets & islands and offers a wide variety of services to its customers. It has significant capex with a new hotel being opened almost every third week. It is also restructuring its existing portfolio of hotel by restoring and rebranding some of its hotels. The company has posted good ARR and Occupancy rates across all the sectors in global as well as domestic markets. It also plans to reduce its debt equity ratio which would be a good advantage in the highly leveraged business segment. With the Indian hospitality sector as well as world economy reviving, we expect bright future for the industry and since IHCL has consistently enjoyed premium valuations compared to its peers we believe it would be the key beneficiary of the improvement business environment. Thus we recommend to invest in the stock with long term horizon.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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