Initiating Coverage | 21 November 2018

Sector: Hospitality

Indian Hotels

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Indian Hotels

BSE Sensex	S&P CNX
35,200	10,600

CMP: INR135 **TP: INR163 (+21%)** **Buy**

Stock Info

Bloomberg	IH IN
Equity Shares (m)	1,189
M.Cap.(INRb)/(USDb)	160 / 2.2
52-Week Range (INR)	161 / 110
1, 6, 12 Rel. Per (%)	7/-3/16
12M Avg Val (INR M)	228
Free float (%)	60.9

Financial Snapshot (INR b)

Y/E Mar	FY18	FY19E	FY20E
Sales	41.0	44.9	49.1
EBITDA	6.7	8.4	10.5
NP	0.8	3.0	3.6
EPS (INR)	0.7	2.6	3.0
EBITDA Gr. (%)	10.0	26.0	24.5
EPS Gr. (%)	NA	288.3	19.1
RoE (%)	2.3	7.1	8.0
RoCE (%)	4.6	5.7	7.5
EV/ EBITDA (x)	27.8	21.8	17.2
P/E (x)	204.4	52.6	44.2

Shareholding pattern (%)

As On	Sep-18	Jun-18	Sep-17
Promoter	39.1	39.1	38.7
DII	27.2	40.5	40.8
FII	14.6	0.0	0.0
Others	19.1	20.4	20.6

Indian Hotels

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Sumant Kumar

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Indian Hotel Company (IHIN) is the second largest hotel chain operator in India, with presence across the pricing spectrum through its four brands – Taj, Vivanta, Seleqtions and Ginger. It manages 17,145 rooms across India and international locations. Around 85% of IHIN's room inventory is in the domestic market, while the rest is outside India. Domestic business remains the key driver, contributing around 78% of its consolidated revenue.

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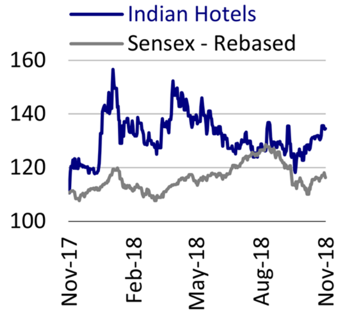
An attractive play in the upcoming industry upcycle

- **The Indian hospitality industry appears set to enter into an upcycle after nearly a decade, led by favorable demand-supply dynamics. Industry occupancy (67%) is near optimum levels, which, in turn, should provide strong pricing power to hotel players. Historical data suggests that once occupancies reach optimum levels, hotel companies usually see themselves as having passed a crucial threshold level to begin pursuing a rate-based strategy to boost yields.**
- **Against this favorable backdrop, we see IHIN – the second largest hotel operator in India – as an attractive investment candidate. Strong presence in the high-demand, high-occupancy micro markets of Mumbai, NCR, Bangalore and Goa (8-14% market share across regions) places it well to cater to rapid growth in the domestic market. IHIN also has an invaluable asset in the form of a strong brand name.**
- **IHIN appears set to benefit from operating leverage in the impending upcycle, led by its higher fixed-cost proportion and efforts to rationalize expenses. Notably, IHIN engages in management contracts, which has provided it with a platform to expand at a rapid pace via an asset-light business model. The company's focus on reinforcing its digital assets to encourage direct bookings is also commendable.**
- **We expect revenue CAGR (FY18-20) of 9% to INR49.1b and EBITDA CAGR of 25% to INR10.5b, supported by ARR growth of 7%. On a one-year forward EV/EBITDA basis, the stock has traded at a 10-year average of 21.4x (and 14-year average – taking the last upcycle into account – of 19.7x). We, thus, initiate coverage on IHIN with a Buy rating and a target price of INR163 (one-year forward EV/EBITDA multiple of 20x), implying an upside of 21%.**

Market coming up roses – dynamics getting better by the day

Fundamentals for the Indian hospitality industry are turning favorable, with demand growth (10-12%) likely to outpace supply growth (5% over FY18-23). The robust level of new inventory (room supply growth of 10.6% v/s room demand growth of 10.2% over FY08-18) was keeping hotel room rates in check (industry ARRs declined at a compounded annual rate of ~3% over FY08-18). However, with the pace of new room addition slowing down, signs that the market is finally absorbing the additional supply are now visible. As a result, occupancy inched up from 58% in FY13 to 67% in FY18. Such favorable demand-supply dynamics were last observed in the previous upcycle, when occupancy jumped from 65% to 69-72%. Historical trends, thus, indicate promising prospects in terms of both occupancy and rental revenue. Although pricing power may be lower than the previous upcycle (we expect ARR growth of 8-

Stock Performance (1-year)



-10% v/s CAGR of 22% over FY04-08) due to a change in industry dynamics (easy price discovery via digital platforms, entry of MNCs, competition from homestays, etc.), we believe franchises with strong brand names and undertaking constructive structural changes such as IHIN will be an attractive play in the next industry upcycle.

A big room at the top – domestic market providing immense opportunities

Domestic tourism is likely to grow at a rapid pace (has grown at 14% CAGR over 2001-16), given the country's increasing middle-class population, rising disposable income, growth in foreign tourist arrivals (FTAs), and the government's numerous initiatives to grow this sector. This bodes extremely well for the Indian hospitality industry in general and IHIN in particular. This is because domestic operations contribute 78%/102% of IHIN's consolidated revenue/EBITDA (as of FY18). Strong presence in the high demand, high-occupancy micro markets of Mumbai, NCR, Bangalore and Goa, places IHIN well to cater to rapid growth in the domestic market as it has 8-14% market share across regions. According to our calculations, Mumbai, NCR, Goa and Bangalore constitute ~55% of IHIN's domestic revenue and ~51% of domestic EBITDA. Thus, to be strategically positioned to capitalize on the opportunity, IHIN has increased the number of rooms in the domestic market by 2.2x to 12,067 over the past 10 years (CAGR of 6.4% to 8,877 in owned rooms and of ~15% to 3,190 in management contract rooms over FY08-18). The company, thus, stands to benefit significantly from the upcycle in the domestic hospitality industry, especially in the key micro markets, where it has significant exposure.

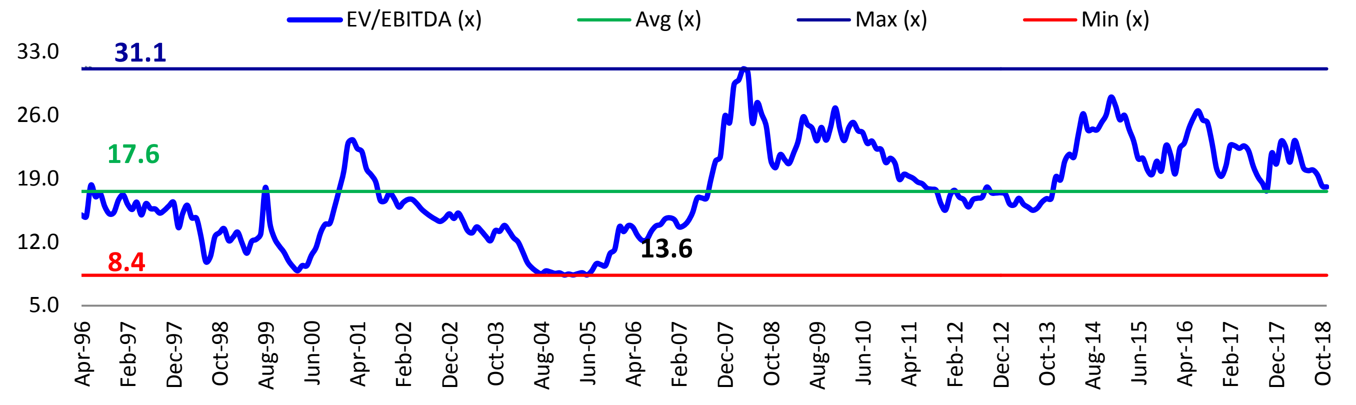
The house is set in order – more operating leverage to kick in

During the last industry upcycle (FY04-08), IHIN delivered standalone revenue/EBITDA CAGR of 27%/64% on account of operating leverage (occupancy jumped from 69% in FY04 to 73% in FY08 and ARR increased at ~25% CAGR to INR10,674). We see huge operating leverage coming through for IHIN in the impending upcycle too. Occupancy in the standalone business is expected to improve by 400bp to 69%, with ARR CAGR of 7% to INR12,160 over FY18-20. IHIN is also likely to benefit from higher room addition under the management contract route and cost rationalization. Moreover, distribution costs (3-3.5% of revenue) are likely to come down further due to the reducing share of online travel agents (OTA) in the overall mix (company's focus is on increasing bookings via IHIN's website or mobile application). Consequently, we expect the standalone/consolidated EBITDA margin to expand by 620bp/500bp to 30.5%/21.4% over FY18-20.

Initiating coverage with a Buy rating

We expect consolidated revenue/EBITDA CAGR of 9%/25% over FY18-20. IHIN's balance sheet is expected to strengthen further due to asset monetization and higher FCF generation (avg. FCF of INR4b over FY19-20 vs INR 2.8b over FY13-18). RoCE is likely to improve from 4.6% in FY18 to 7.5% in FY20. Strategic initiatives such as (i) selling off of loss-making hotels, (ii) focus on technology to reduce distribution cost, (iii) cost-rationalization, (iv) increase in ARR of corporate clients, (v) higher room addition under management contracts and (vi) deleveraging of balance sheet are expected to drive earnings, going forward. Also, with demand likely to outpace supply over the coming few years, pan-India ARR is likely to improve in both the corporate and FIT segments. On a one-year forward EV/EBITDA basis, IHIN has historically traded at a 10-year average of 21.4x. However, taking the last cycle into account (FY05-18, 14-year average), the stock has traded at 19.7x one-year forward EV/EBITDA (at 13.5x over FY04-08). We value IHIN on a one-year forward EV/EBITDA of 20x. On an SOTP (consolidated and JV) basis, we arrive at a target price of INR163, implying an upside of 21%. We initiate coverage on IHIN with a **Buy** rating.

Exhibit 1: IHIN one year forward EV/ EBITDA trend



Source: Bloomberg, MOSL

Exhibit 2: Phases of Indian hospitality industry vs IHIN's performance

Particulars	FY1997-04	FY04-08	FY08-13	FY13-18	FY18-20E
	Declining occupancy and flattish ARRs	Higher occupancy and ARR	Decline in occupancy and ARR	Increasing occupancy and flattish ARR	Increasing occupancy and ARR
Industry Phases					
India's Nominal GDP Growth CAGR (%)	10.4%	15.1%	14.8%	11.0%	11-12%
Gr. in Private Corporate Investments in India CAGR (%)	6.5%	46.8%	1.4%	*9.2%	-
Indian Hospitality Industry					
Avg Industry Occupancy (%)	56.5%	69.1%	59.3%	62.6%	68.4%
Industry ARR Growth (%)	-0.5%	22.3%	-6.3%	-0.1%	8-10%**
Demand Growth CAGR (%)	3-4%	12-13%	11.0%	9.4%	10-12%**
Supply Growth CAGR (%)	~7%	~8%	14.9%	6.3%	~5%
IHIN - Standalone					
Avg Occupancy (%)	-	71.6%	65.0%	64.7%	67.6%
ARR Growth CAGR (%)	-	24.7%	-2.3%	2.2%	7.0%
Revenue Growth CAGR (%)	2.1%	27.5%	1.2%	6.6%	10.4%
EBITDA Growth CAGR (%)	-10.9%	63.9%	-10.4%	9.2%	23.7%
Adj PAT Growth CAGR (%)	-11.8%	57.9%	-16.2%	5.4%	41.8%
Avg RoCE (%)	7.8%	10.1%	4.8%	5.1%	8.0%
Avg RoE (%)	11.7%	14.6%	5.5%	4.8%	7.5%
Avg EV/EBITDA (x)	15.0	13.4	21.1	21.7	-
Avg P/B (x)	4.4	4.3	2.8	3.8	-
Avg Capex/ Sales (%)	18.9%	13.7%	11.5%	9.2%	10.0%
Avg FCF/ PBT (%)	-0.01	0.5	0.85	1.0	0.5
Avg Sales/ Capital Employed (x)	0.47	0.44	0.30	0.41	0.44
Avg Sales/ Net Worth (x)	0.68	0.77	0.54	0.78	0.62
IHIN - Consolidated					
Revenue Growth CAGR (%)	8.2%	30.6%	5.1%	1.9%	9.4%
EBITDA Growth CAGR (%)	-3.6%	50.3%	-9.2%	4.5%	25.2%
Avg Sales/ Capital Employed (x)	0.44	0.43	0.39	0.53	0.59
Avg Sales/ Net Worth (x)	0.74	1.07	1.02	1.51	1.03

*CAGR over FY13-17 **In the impending upcycle

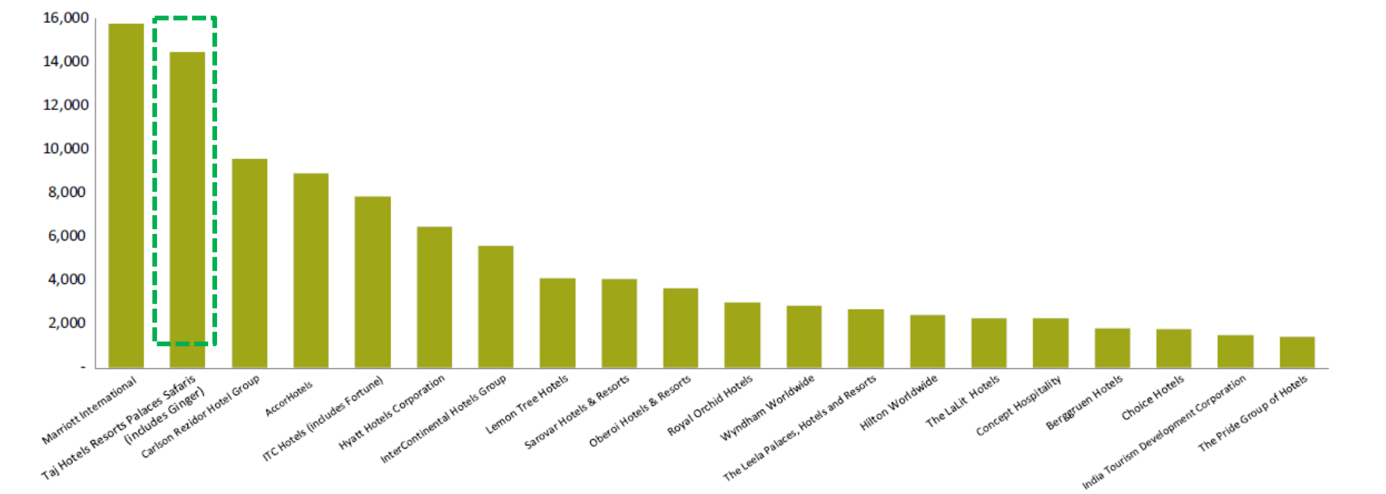
Source: Industry, HVS, Hotelivate, MOSL

Company overview

Incorporated in 1902, IHIN is promoted by the Tata Group. IHIN is primarily engaged in the business of owning, operating and managing hotels. It is the second largest hotel chain operator in India, with a 13% market share (in terms of room inventory; including owned, JVs, associates, managed). IHIN operates 17,145 (including owned, JVs, associates, managed) rooms across India (85%) and international locations (14%). The company holds 11% market share (consolidated basis) in the domestic five-star hotel space.

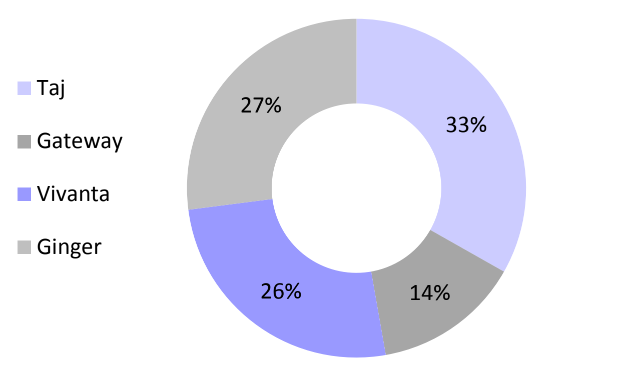
IHIN caters to a wide range of pricing spectrum through its four brands – (i) Taj, (ii) Vivanta, (iii) Seleqtions and (iv) Ginger. Over FY08-18, IHIN's consolidated room inventory (owned and managed) increased from 7,258 to 13,918 (up 1.9x). Mumbai, Bangalore, NCR and Goa contribute 46% of the company's overall room inventory – the company enjoys 8-14% room inventory market share across key cities (FY18: Mumbai – 14% market share, NCR – 8.4%, Bangalore – 10% and Goa – 11%).

Exhibit 3: IHIN is the second largest hotel operator in India



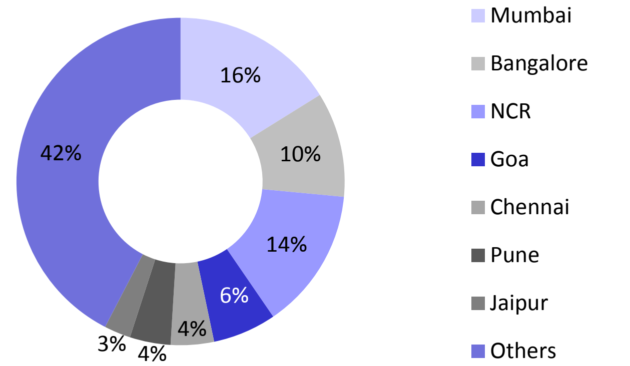
Source: HVS, Hotelivate, MOSL

Exhibit 4: IHIN's brand mix (consolidated)



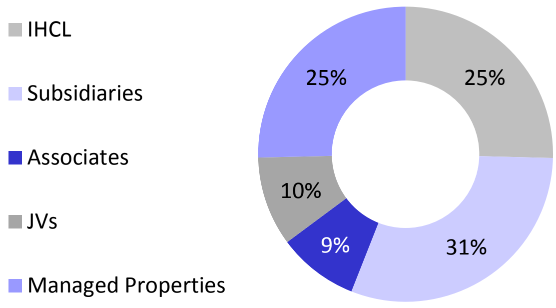
Source: Company, MOSL

Exhibit 5: IHIN's consolidated room inventory mix, city-wise (including management contract)



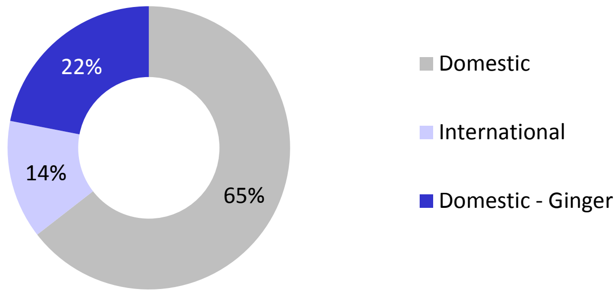
Source: Company, MOSL

Exhibit 6: Entity-wise rooms (FY18) (17,145 rooms)



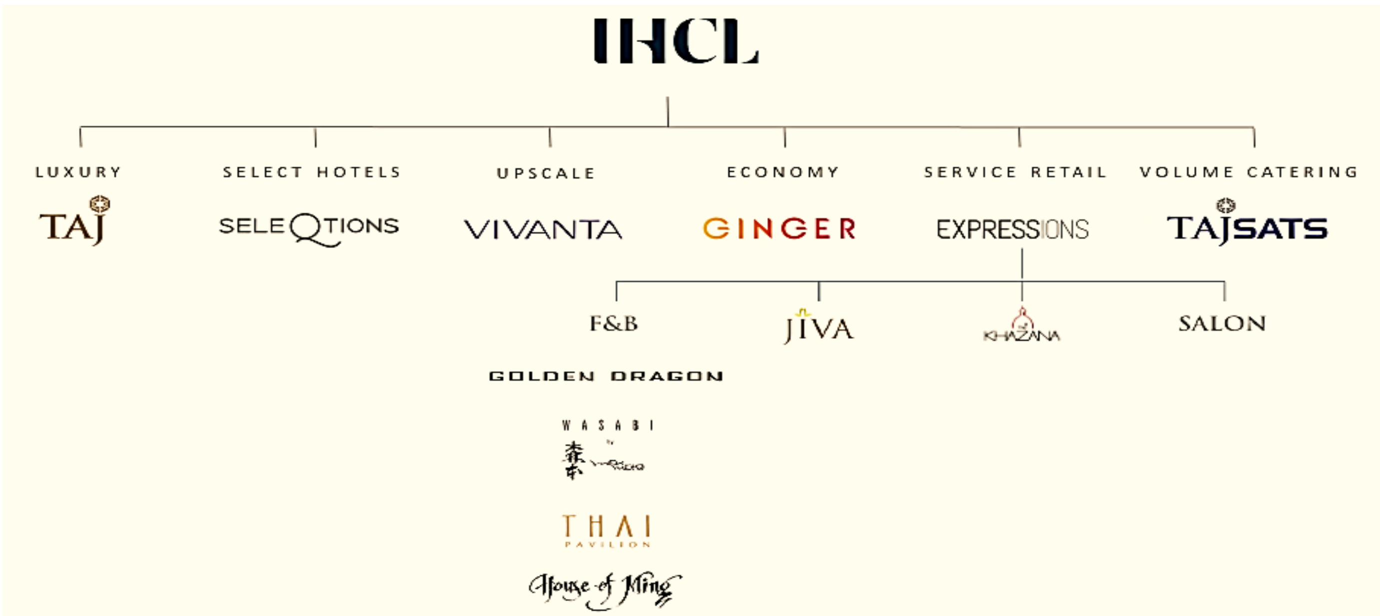
Source: Company, MOSL

Exhibit 7: Geography-wise rooms (FY18) (17,145 rooms)



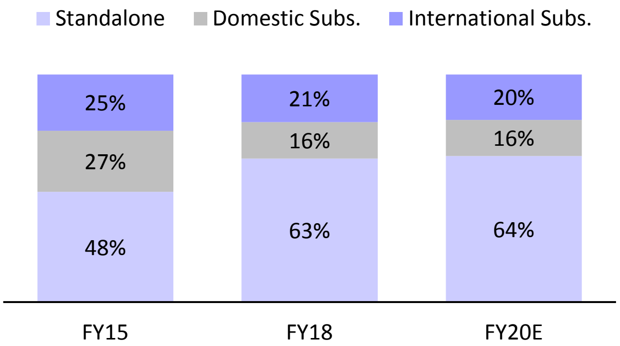
Source: Company, MOSL

Exhibit 8: IHCL's brand portfolio



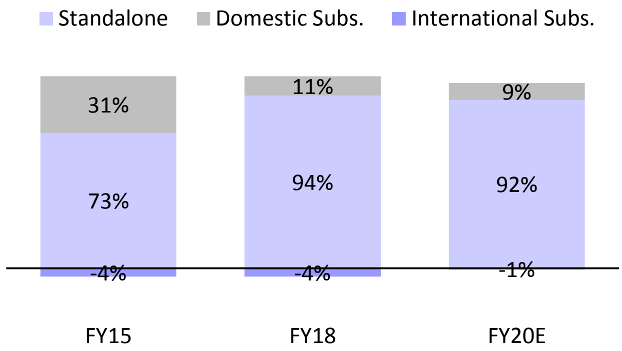
Source: Company, MOSL

Exhibit 9: Revenue mix trend



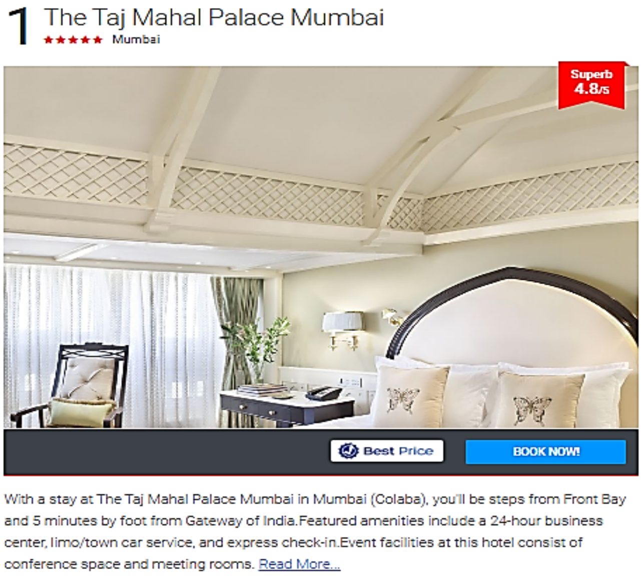
Source: Company, MOSL

Exhibit 10: EBITDA mix trend



Source: Company, MOSL

Exhibit 11: IHIN's Taj Mahal Palace Hotel ranked as best hotel in Mumbai

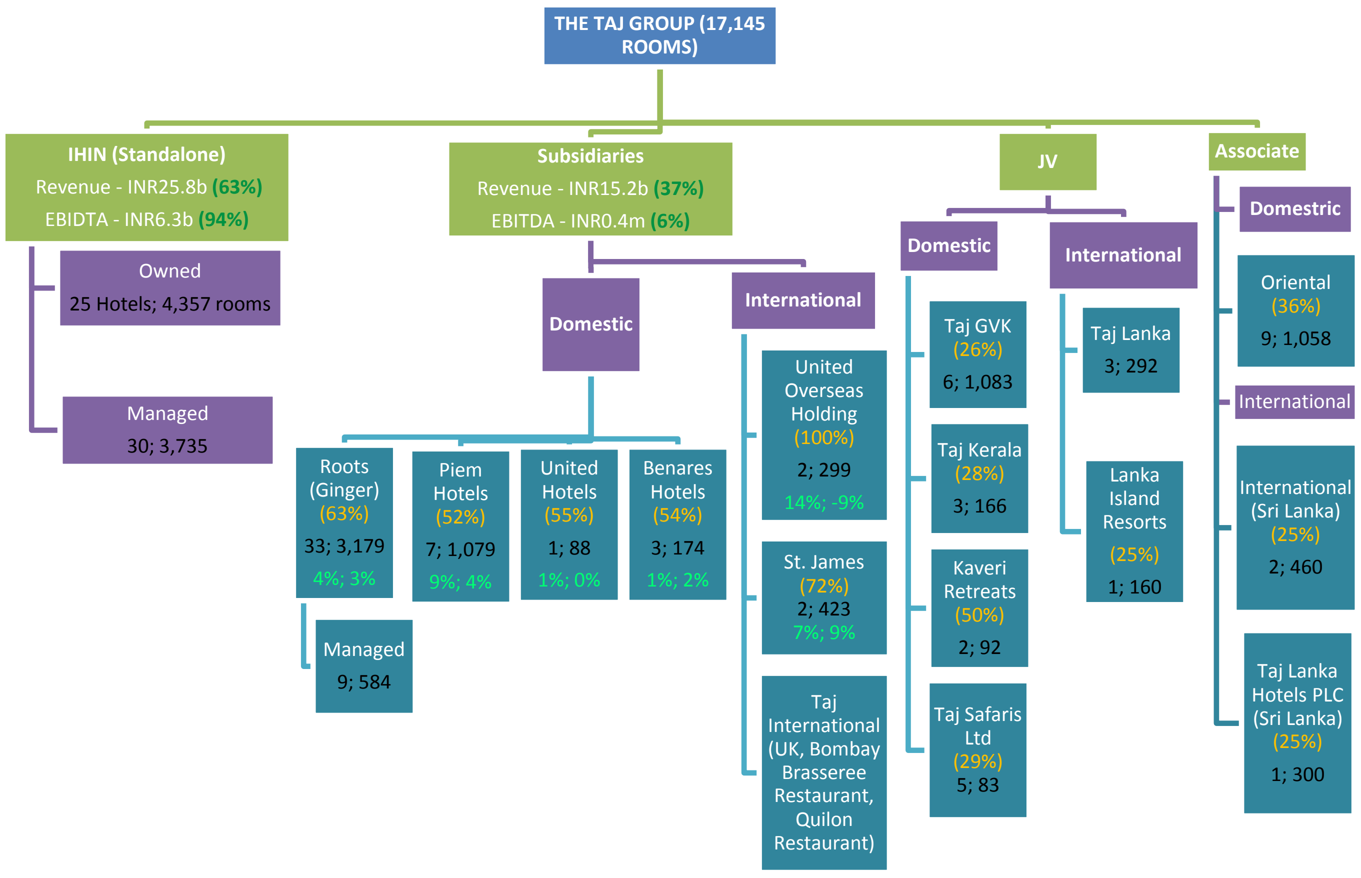


Source: Hotel.com, MOSL

Exhibit 12: ...and Taj Mahal Tower occupied 2nd position

Source:Hotels.com, MOSL

Exhibit 13: IHIN's group structure



Source: Company, MOSL

Reference of the colors as given in the table:

IHINs - Holding in the company | Hotels: Rooms | Revenue/EBIDTA: As % of the consolidated revenue/ EBIDTA (FY18)

Market dynamics turning favorable

With occupancy breaching optimum level, we expect ARR to grow at 8-10%

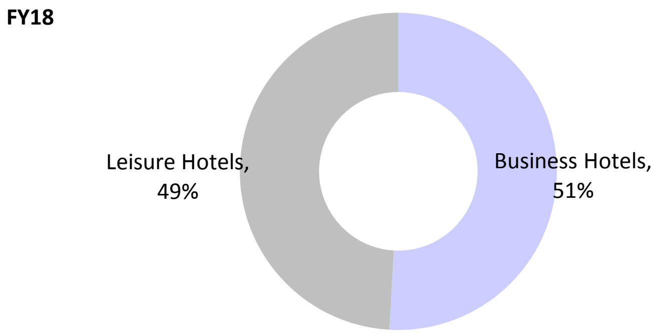
- **Demand growth (10-12%) is expected to outpace supply growth (5% over FY18-23), which, in turn, should drive up occupancy from the current level of 67% (as of FY18).**
- **In the last upcycle (FY04-08), industry occupancy increased from 65% to 72%, with ARR CAGR of 22%. Over the same period, IHIN's standalone business was operating at 69-73% occupancy, with ARR CAGR of 25%.**
- **We believe that the Indian hospitality industry is ready for the next upcycle, as occupancy has already breached the optimum level of 65%. This also indicates strong ARR growth going ahead – historical data suggest that ARR growth jumps significantly once occupancy reaches optimum levels.**
- **Strong domestic demand (corporate and domestic tourism) and an increase in FTA are the key drivers of the hotel industry. Corporates (40-50% of overall hotel bookings) have not seen any rate hikes in the recent past. Prices, however, are likely to be raised in this segment with an increase in occupancy.**
- **ARR growth, however, is likely to be less in the next upcycle at 8-10% compared to the previous upcycle (CAGR of 22% over FY04-08) due to a change in industry dynamics – easy price discovery through the digital platform, entry of MNC hotel operators, and competition from homestays like AirBnb, among other factors.**

The Indian hospitality industry is moving at a rapid pace and venturing in newer areas. The Indian government's branding initiatives – such as 'Incredible India' and 'Swadesh Darshan' – too are in the right direction. After going through a long-winding downcycle, the domestic hospitality industry appears set to enter into an upcycle after nearly a decade. Appended below are some of the key demand drivers for the Indian hotel industry.

1. Business travel – renewals to drive ARRs

It encompasses inbound and domestic visitations for business-related purposes. This includes travel on corporate accounts and also by individual business travellers. This segment is a predominant source of demand for hotels located primarily in business-oriented locations. MICE (meetings, incentives, conferences and events) visitations are mainly corporate-driven.

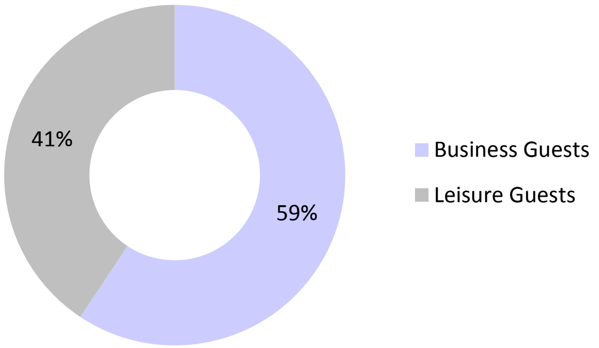
Exhibit 14: IHIN's room split



Source: Company, MOSL

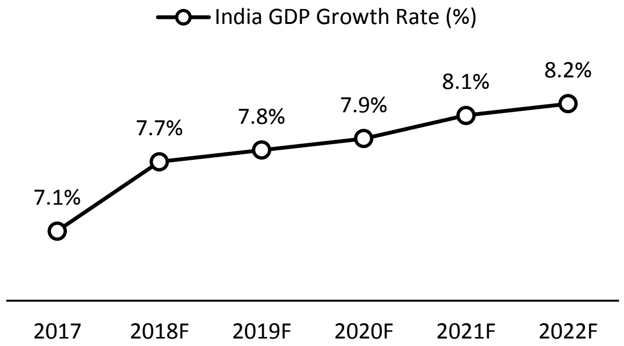
Over 59% of customers in India's hospitality industry are business guests, according to FHRAI. This implies that the business environment can have significant repercussions on the hotel industry. Encouragingly, India's GDP is expected to grow at 7.5-8.2% over 2018-22 (according to the IMF), depicting a favorable business environment, going ahead. Office space absorption in top 7 regions in India, which has increased at a 12% CAGR over the past 8 years, has been one of the key drivers of the performance of hotels in India.

Exhibit 15: Business guests dominated total customers mix for the hotel industry in FY17



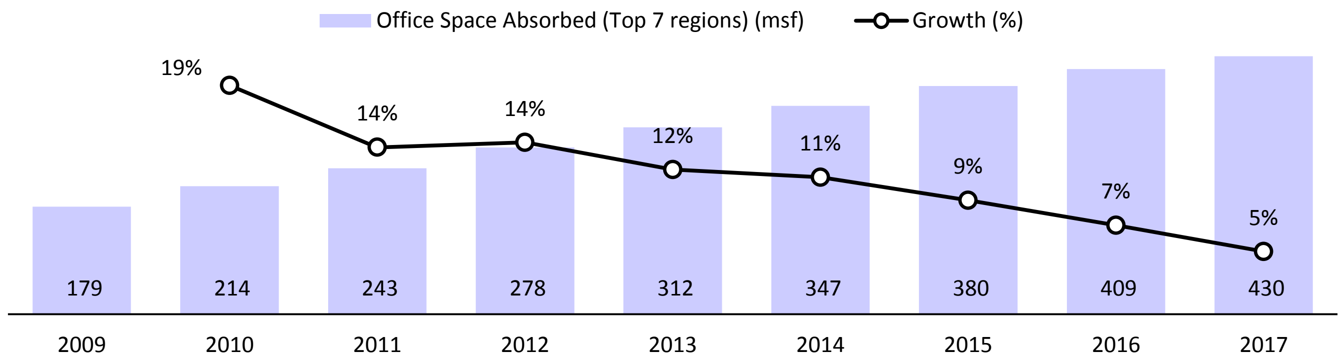
Source: FHRAI, MOSL

Exhibit 16: Expect India's GDP to grow at 7-8% going ahead



Source: Central Statistics Office, Govt of India, IMF, IBEF, MOSL

Exhibit 17: Office space absorption has increased at 12% CAGR over last eight years



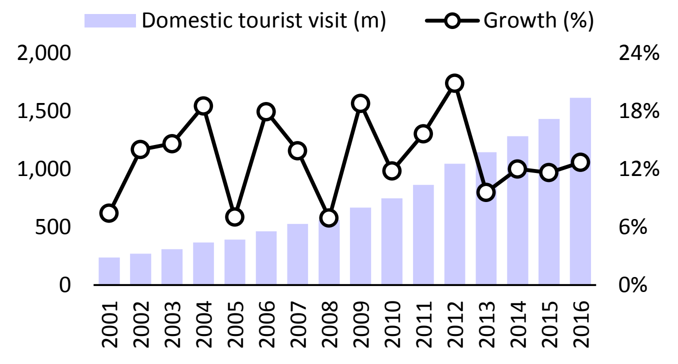
Source: Propequity, MOSL

2. Leisure travel – domestic tourists driving demand

It comprises of vacation travel, including short-duration vacations. Greater affordability, frequent holidays visits and improved road & air connectivity have materially encouraged short-stay vacations, including those taken on weekends and extended weekends.

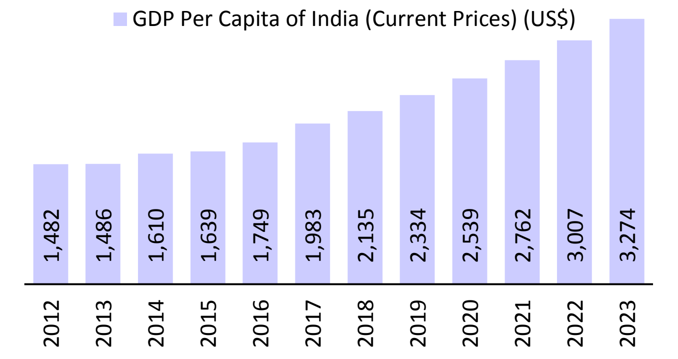
Domestic tourist visits have increased at a 14% CAGR over 2001-16 and FTA in India have grown at 9% CAGR over 2001-17. We expect domestic tourist visits to continue rising, with India's per capita GDP expected to increase at 8.7% CAGR over 2017-23.

Exhibit 18: Domestic tourist arrivals increased at 14% CAGR over 2001-16



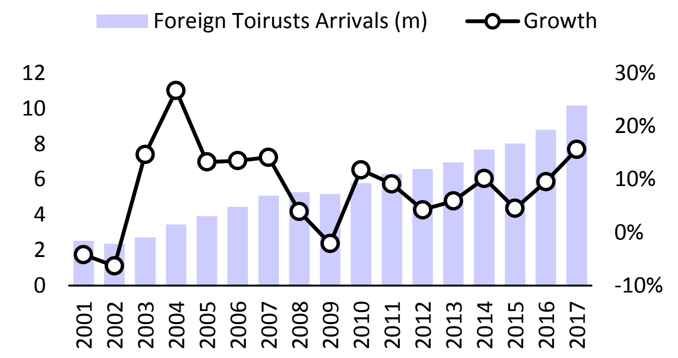
Source: Ministry of Tourism, MOSL

Exhibit 19: Growing per capita GDP to support domestic leisure business



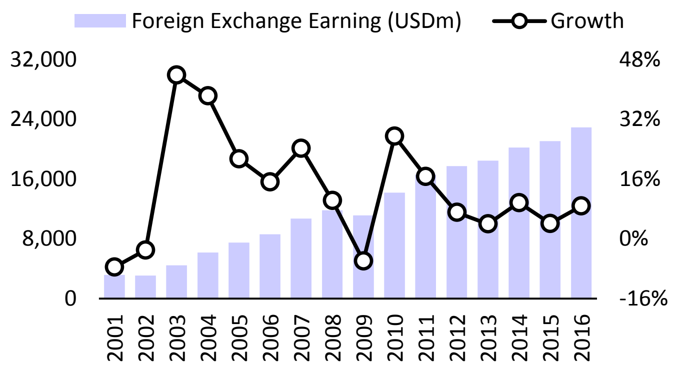
Source: IBEF, MOSL

Exhibit 20: FTAs increased at 9% CAGR over 2001-17



Source: Ministry of Tourism, MOSL

Exhibit 21: Foreign exchange earnings increased at 14% CAGR over 2001-16



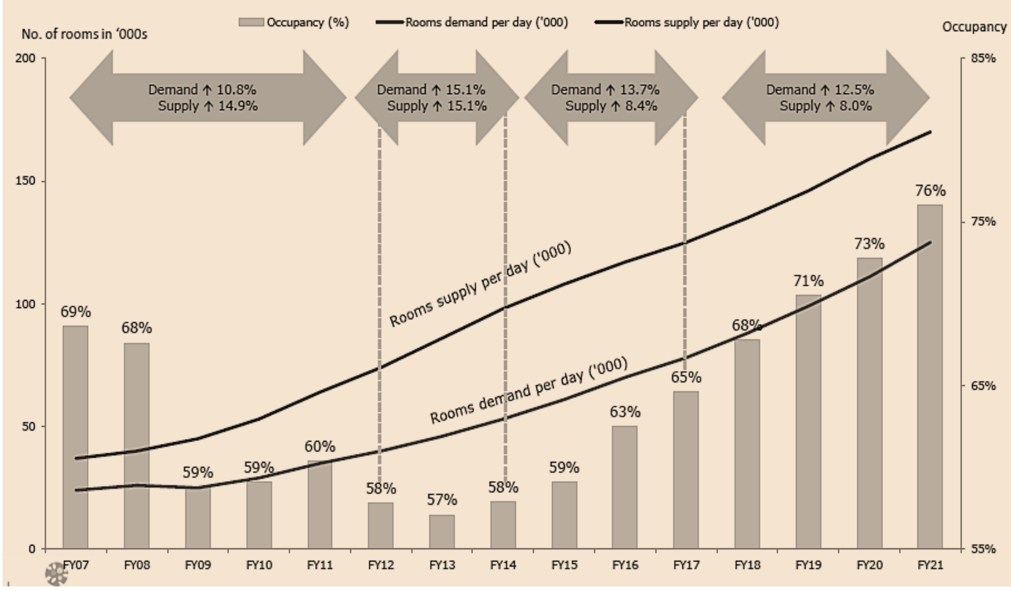
Source: Ministry of Tourism, MOSL

3. Weddings and social travel – an upcoming demand driver

It involves mainly domestic visitation for participating in family weddings, destination weddings and other wedding related or family celebrations (such as anniversaries).

India's wedding tourism industry and destination weddings have been growing at 25% over the last few years. The industry size was estimated at INR290b in 2017, according to MRSS India; it is pegged to be worth INR450b by 2020. Rising middle-class population, the NRI connect, celebrity endorsements and high degree of personalization are considered to be the key drivers of the wedding tourism industry. Rajasthan, Goa, Kerala and most recently Uttarakhand (IHIN has 1,887 rooms spread across these locations (both owned and managed), which is 14% of its total inventory) have been developing as hotspots for destination weddings in India.

Exhibit 22: Over FY17-21, demand growth is likely to outpace supply growth, leading to higher occupancy



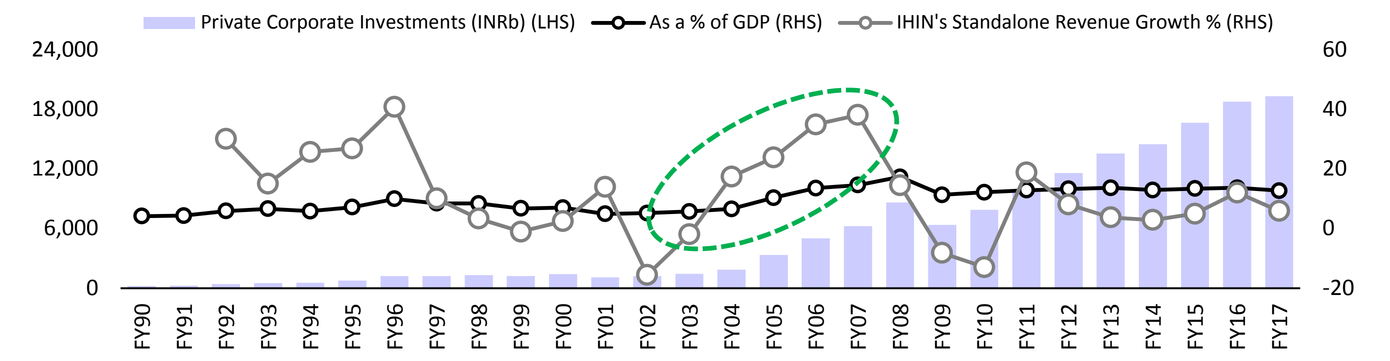
Source: Horwarth, Lemon Tree, MOSL

4. Economic environment matters too

Hotel demand is closely linked to factors such as macroeconomic policy, economic development, transportation infrastructure, and particularly, growth in commercial real estate and tourism. Tourism has steadily become a major industry in India.

- Private corporate investments increased at a 47% CAGR over FY04-08 (the previous upcycle), as against 10-year CAGR of 14% (FY94-04). Over FY04-08 private corporate investments as a percentage of nominal GDP stood at 14% (avg.), as against the 10-year average of 7% (FY94-04). This implies a significant bearing of private corporate investments and GDP on the performance of the hotel industry.
- Average GDP multiplier of the Indian hotel industry stood at 1.3x over FY10-18 (GDP multiplier = growth of Indian hospitality industry / growth in GDP [manufacturing + services]). Thus, extrapolating the likely GDP growth, we expect hotel industry demand to increase in the range of 10-12% in the impending upcycle.

Exhibit 23: Private corporate investments aided in driving demand for hotels in last upcycle



Source: CEIC, MOSL

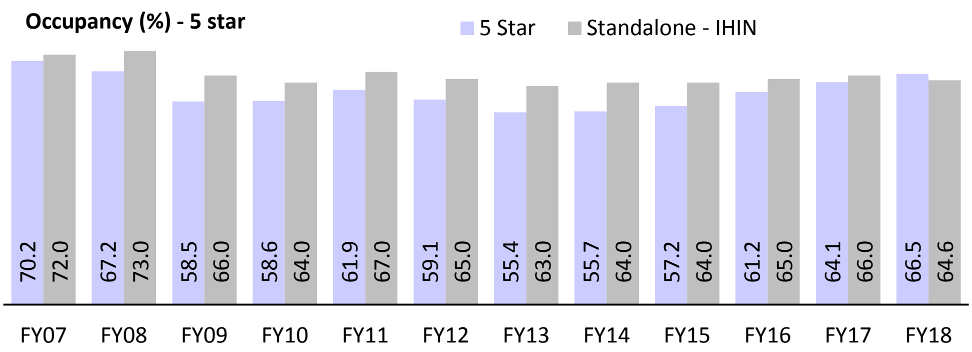
Hotel occupancy on uptrend since past six years, ARRs flattish…

- The Indian hospitality sector is set to perform well in most key markets across India. Gradually rising occupancy levels (led by increasing MICE events), increasing office absorption, growth in foreign tourist arrivals (FTAs), increasing aspiration of the middle class to go on holidays and lower supply are likely to drive ARR, going forward. Thus, the hospitality industry is likely to once again enter the growth cycle after years of slowdown (especially post FY08).
- Post the global financial crisis, the hospitality industry was adversely affected by an unfavorable demand-supply scenario (over FY08-13, supply growth of 14.9% outpaced demand growth of 11.0%). This took a toll on occupancy and ARR of the domestic hospitality industry.
- However, hotel industry occupancy has been on an uptrend over the last six years (FY13-18). ARRs, though, remained flattish over FY13-18.

IHIN outperforms in five-star hotels category in terms of occupancy

- Standalone revenue/EBITDA contributed 63%/94% of consolidated revenue/EBITDA in FY18. In the standalone entity, the company owns/manages hotels only under Taj, Seleqtions and Vivanta brands, which majorly operate in the five-star and above category hotels space. Thus, the luxury segment is the key driver of the company's overall performance.
- Over FY08-17, IHIN outperformed industry occupancy in the five-star hotels category.

Exhibit 24: IHIN standalone hotels outperformed industry in terms of occupancy since FY07 (except FY18)



Source: HVS, Hotelivate, Company, MOSL

…but expect ARR growth to pick up as occupancy reaches optimum levels…

- Over the last five years, demand growth has outpaced supply growth, leading to higher occupancy. Going ahead too, we expect demand to grow at 10-12% as against supply growth of 5%, further driving up occupancy levels.
- Industry occupancy has already breached the optimum level of 65%. Historical data indicate a difference in the timing of ARR and occupancy growth pick-up – ARR picks up after a lag. Thus, we expect industry-wide growth in ARRs once occupancy reaches optimum levels.
- Moreover, the current industry ARR levels are ~28% below the peak of INR7,989 in FY08, indicating further headroom for growth.

Exhibit 25: In the last upcycle, as industry occupancy moved above 65%, ARRs increased at 22% CAGR over FY04-08

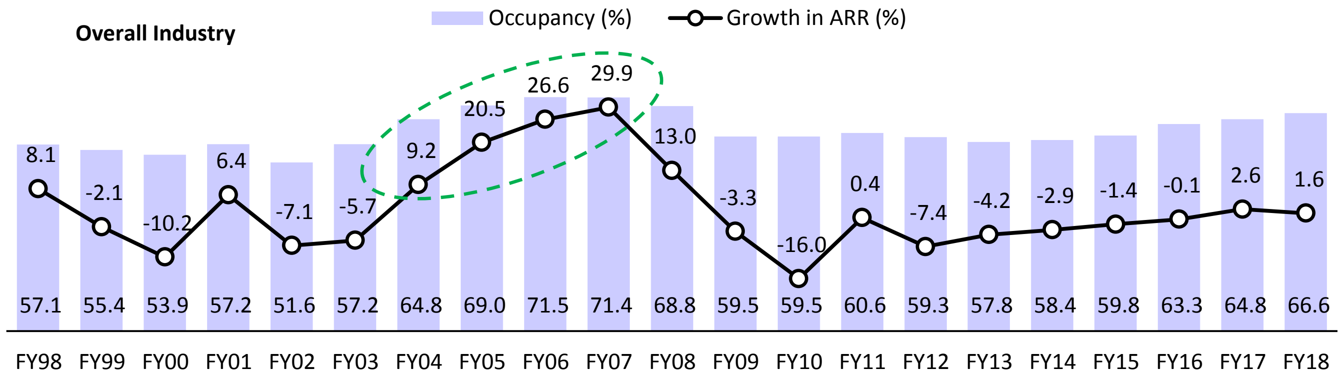


Exhibit 26: For the last six years, industry occupancy for hotels in India has been on an uptrend

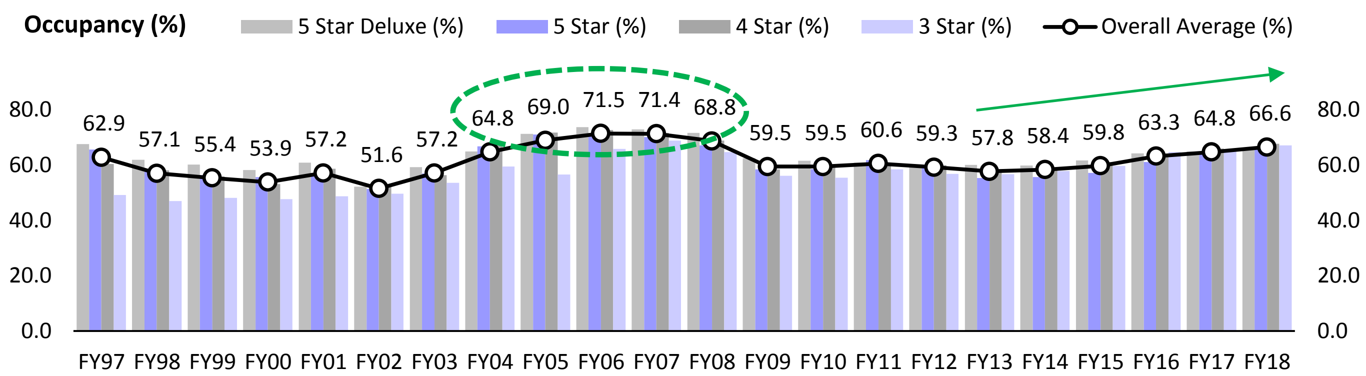
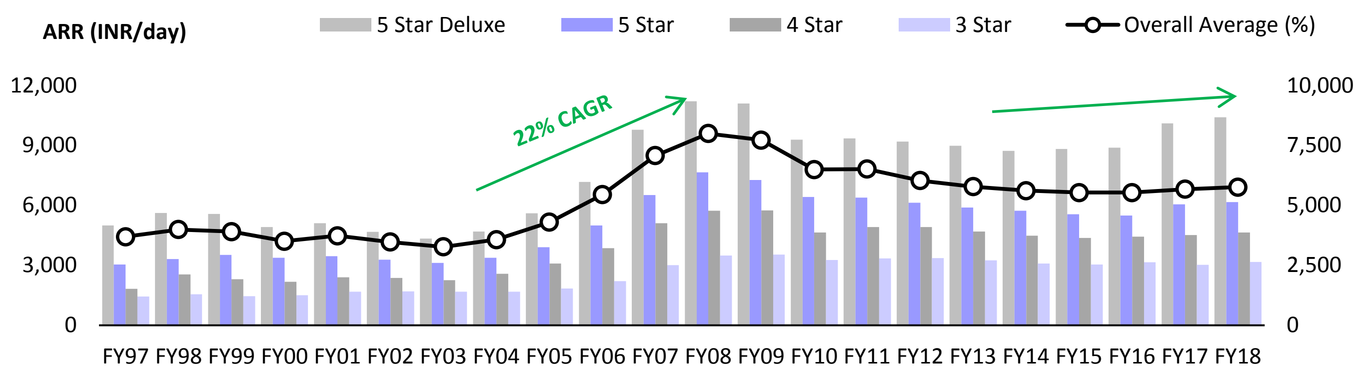
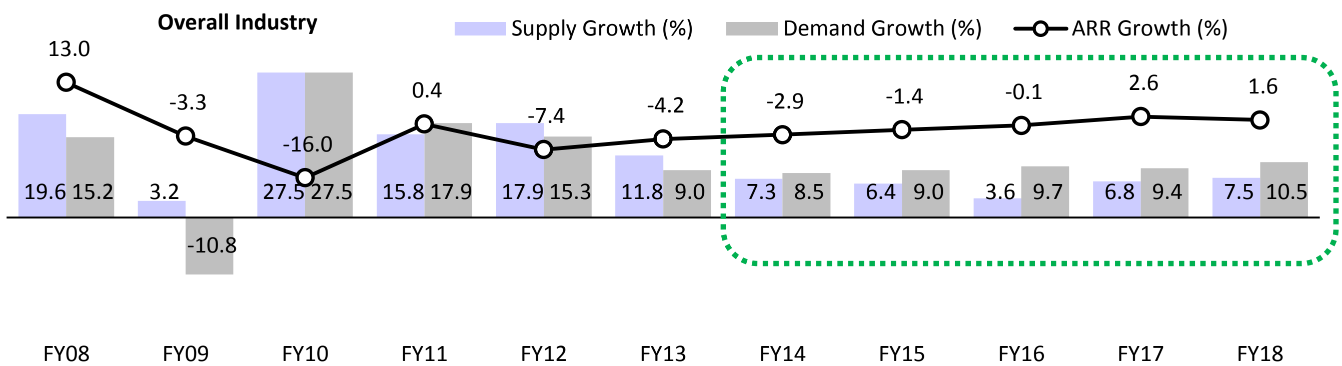


Exhibit 27: Industry ARRs have remained flattish over FY13-18, despite an improvement in occupancy



Source: HVS, Hotelivate, MOSL

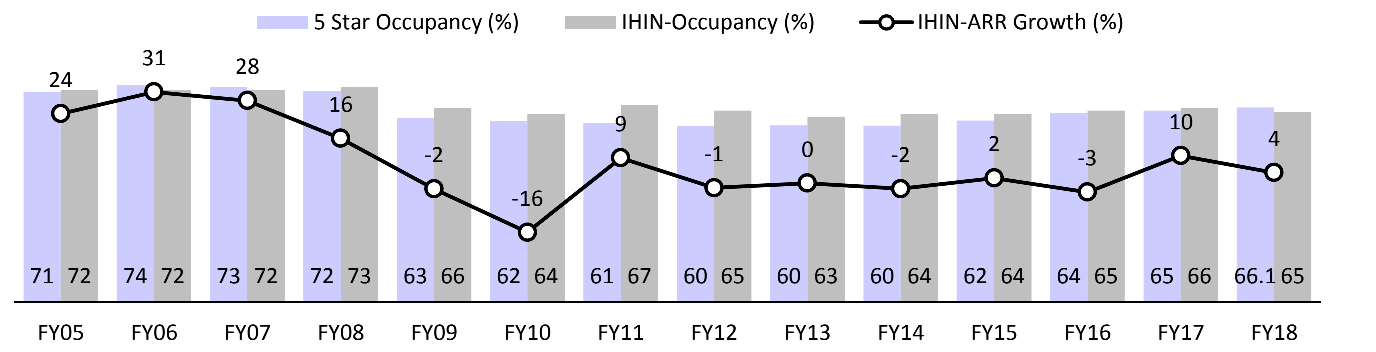
Exhibit 28: For last 5 years, demand growth has outpaced supply growth, while growth in ARRs has remained flat



Demand = Supply * Occupancy

Source: HVS, Hotelivate, MOSL

Exhibit 29: Occupancy and ARR growth trend…



Source: HVS, Hotelivate, Company, MOSL

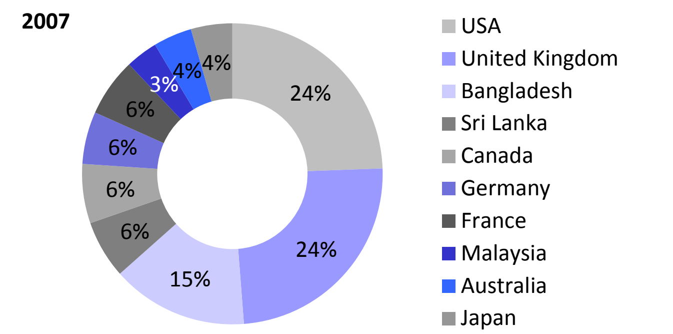
ARR growth, though, likely to be lower than last upcycle

While ARR is expected to pick up as occupancy reaches optimum levels of 65%, we believe that ARR growth in the impending upcycle might lag that in the previous upcycle due to:

- Shift toward asset light model leading to an increase in the number of branded hotels
- Entry of several multinational hotel brands in the Indian market
- Better price discovery (due to digital platform for bookings) leading to intense competition among existing players
- Increase in connectivity/ infrastructure development (frequency of air connectivity has impacted demand for hotels in metro cities) leading to a decline in overnight stays
- Change in the customer mix of foreign tourist arrivals in India; currently dominated by arrivals from Bangladesh (previously dominated by US and UK)
- Competition from homestays like AirBnb and others
- Increase in luxury serviced apartments
- Availability of options on improving quality of 3/4 star hotels

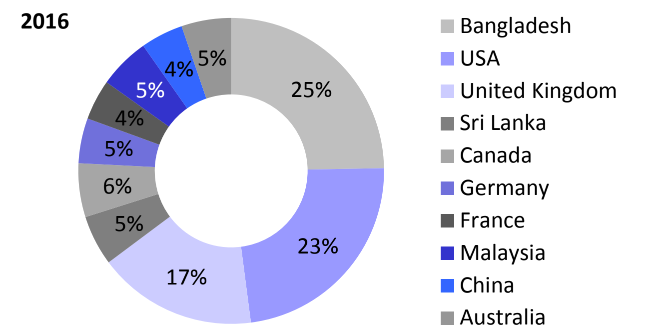
Against this backdrop, we expect ARR to grow at 8-10% in the next upcycle – lower than the CAGR of 22% over FY04-08 (previous upcycle) due to a change in industry dynamics. According to our channel checks, industry wide room rates increased by 5-6% in the corporate segment (in October 2018) and by 12-15% in the free individual traveler (FIT) segment (in YTD FY19). Both these segments account for 50% of hospitality industry bookings.

Exhibit 30: US/UK dominated source FTAs in 2007



Source: Ministry of Tourism, MOSL

Exhibit 31: …in 2016, Bangladesh dominated with 25% share in top 10 source countries



Source: Ministry of Tourism, MOSL

Domestic market to help IHIN stand in pride

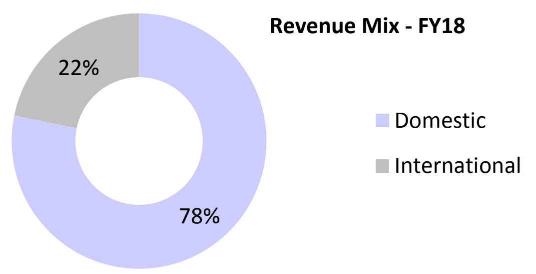
Expect standalone revenue/EBITDA CAGR of 10%/ 24% over FY18-20

- **According to our calculations, IHIN's hotels located in Mumbai, NCR, Bangalore and Goa contribute ~55% of domestic revenue and ~51% of domestic EBIDTA.**
- **Although the domestic hospitality industry is preparing for the next upcycle, key micro markets like Mumbai, Goa, NCR and Bangalore are likely to see ARR pick up earlier than other markets as they are already operating at >65% occupancy level.**
- **IHIN has employed the asset-light business model for room addition post the financial crisis. Thus, IHIN's consolidated (domestic) room inventory grew 2.2x from 5,557 in FY08 to 12,067 in FY18, implying 8.1% CAGR. However, more rooms were added under management contracts (up 4.0x, 14.9% CAGR) than owned rooms (up 1.9x, 6.4% CAGR) over this period.**
- **Key supply constraints like availability of strategic land parcels, regulatory approvals and huge capital requirements would restrain new supply from entering into the market, prolonging the impending upcycle by a few years (four years in the previous cycle).**

Domestic demand-supply dynamics improving; IHIN stands to benefit from its significant exposure to domestic market

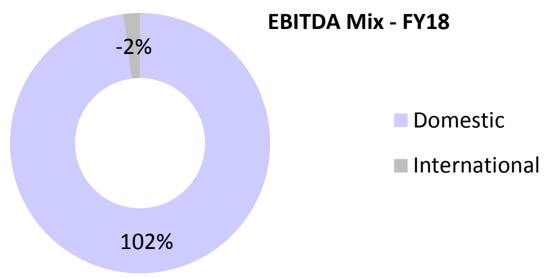
Domestic tourism is likely to grow at a rapid pace, given the country's increasing middle-class population, rising disposable incomes, growth in foreign tourist arrivals (FTAs), and the government's numerous initiatives to grow this sector. India has also taken a big leap in terms of digital tools being used for planning and booking travel. This bodes extremely well for the Indian hospitality industry in general and IHIN in particular. The expected improvement would hugely benefit IHIN as domestic operations contribute 78%/102% of its consolidated revenue/EBITDA (as of FY18).

Exhibit 32: Revenue mix – geography wise



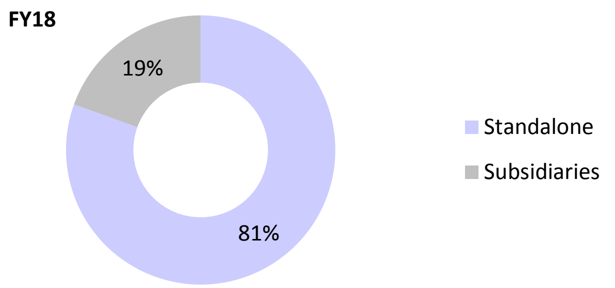
Source: Company, MOSL

Exhibit 33: Domestic business drives consolidated EBITDA



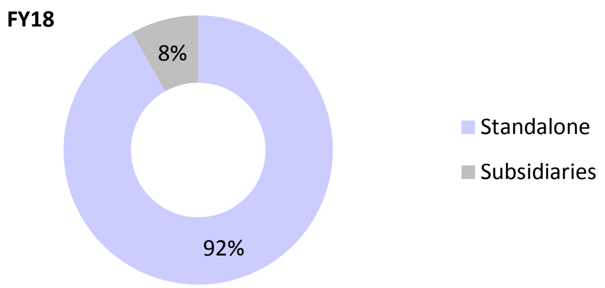
Source: Company, MOSL

Exhibit 34: Consolidated revenue mix (FY18)



Source: Company, MOSL

Exhibit 35: Consolidated EBITDA mix (FY18)



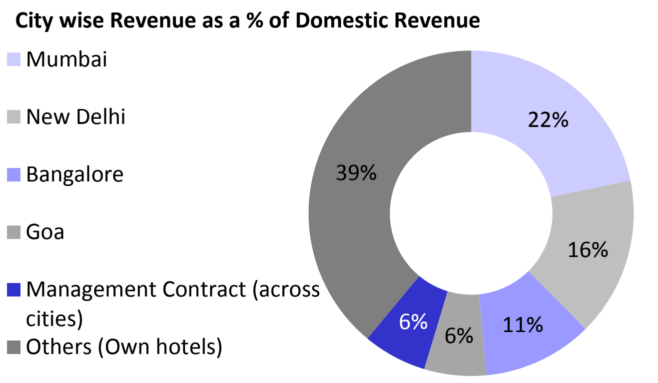
Source: Company, MOSL

Although the domestic hospitality industry is preparing for the next upcycle (likely ARR increase of 8-10% for next 4-5 years on account of favorable demand-supply dynamics), key micro markets like Mumbai, NCR, Goa and Bangalore are likely to see ARR pick up earlier than other markets as they are already operating at >65% occupancy level.

According to our calculations, Mumbai, NCR, Goa and Bangalore constitute ~55% of domestic revenue and ~51% of domestic EBITDA. On a consolidated basis, these markets account for ~43% of revenue and ~53% of EBIDTA.

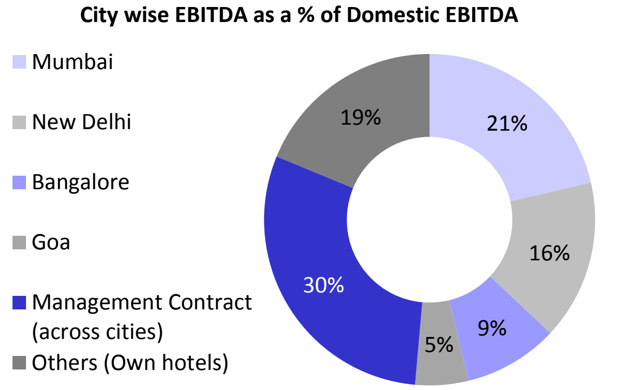
The company, thus, stands to benefit significantly from the upcycle in the domestic hospitality industry, especially in the key micro markets, where it has significant exposure.

Exhibit 36: Mumbai, NCR, Goa and Bangalore contribute 55% of domestic revenue



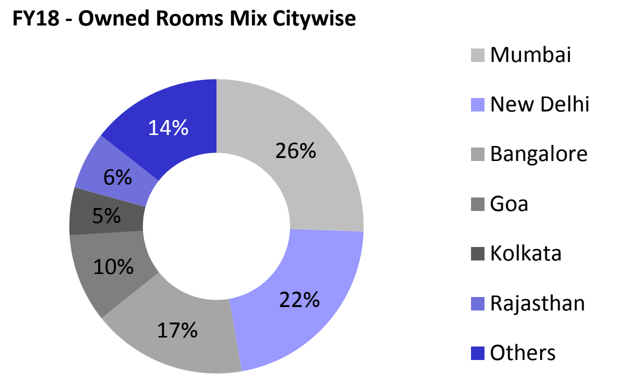
Source: MOSL estimates

Exhibit 37: Mumbai, NCR, Goa and Bangalore contribute 51% of domestic EBITDA



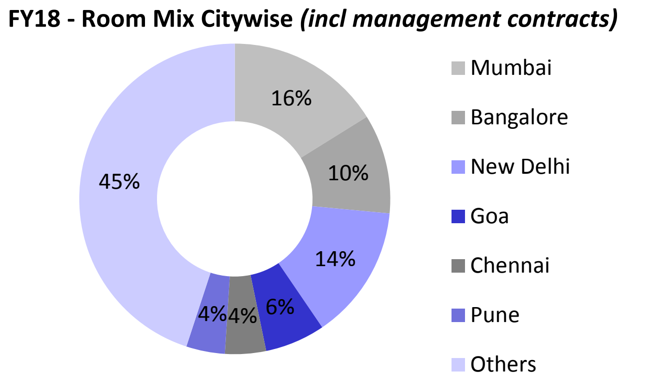
Source: MOSL estimates

Exhibit 38: Standalone own rooms mix, city-wise (4,357 rooms)



Source: Company, MOSL

Exhibit 39: Domestic city wise room mix (12,067 rooms)



Source: Company, MOSL

Exhibit 40: City wise demand and supply dynamics at a glance

Location	Key Demand Drivers	IHIN's consolidated rooms (FY18)	Industry Room Supply (FY18)	IHIN's Market Share (%)	Occupancy (%) (FY18)	ARR (FY18)	Active Development of Supply (FY18-23)	Expected Room Demand Growth (%)	Room Supply Growth FY18-23E (%)
India	Rise in FTA, demand from MICE and increase in leisure spending	11,736	128,163	9.2%	67%	5,759	35,554	10-12%	~5%
Mumbai	Business travel & MICE	1,947	13,726	14.2%	76%	7,740	2,181	8-10%	~3%
NCR	Gurugram & Noida cater to business travellers (ITeS, telecom and automobiles) and Delhi leisure and business.	1,863	22,159	8.4%	69%	6,001	3,251	7-9%	~3%
Bangalore	ITeS and BFSI - business travel	1,250	12,659	9.9%	70%	5,807	4,444	8-10%	~6%
Goa	Leisure and MICE travel	756	6,741	11.2%	72%	7,844	1,726	6-8%	~5%
Chennai	ITeS and Auto are key drivers. Room demand is likely to be driven by auto industry	514	9,211	5.6%	64%	4,866	870	6-8%	~2%
Hyderabad	ITeS and pharma - business travel	60	6,772	0.9%	66%	4,929	885	7-9%	~2.5-3%

Source: HVS, Hotelivate, Industry Sources, MOSL

Incremental supply of 49,380 rooms is expected to come into the market over FY18-23 – of this, active development is going on for only 72% of the rooms. Incremental supply mix (active) is majorly in the upper mid-market (31%), mid-market (23%) and budget (19%) categories. IHIN largely caters to the luxury and upscale market, which is likely to attract limited part of incremental supply (27%; luxury – 9% and upscale – 18%). This largely insulates IHIN from upcoming competition.

Standalone city-wise room mix indicates that a majority of rooms are located in the key cities, where demand is relatively high, and importantly, enjoy good demand-supply dynamics. Thus, we expect IHIN's standalone hotel occupancy to improve 400bp from 65% in FY18 to 69% in FY20. Further, we expect standalone business ARR CAGR of 7% over FY18-20. Consequently, we expect standalone revenue/ EBITDA CAGR (FY18-20) of 10%/ 24% to INR31.5b/INR9.6b.

IH IN standalone charts

Exhibit 41: Expect ARR CAGR of 7% over FY18-20

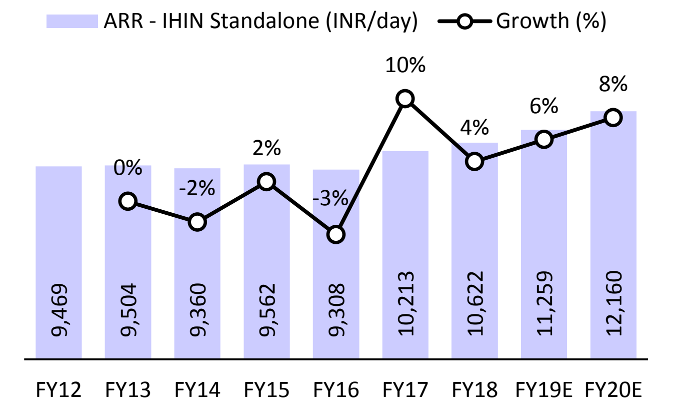


Exhibit 42: Occupancy to improve by 400bp over FY18-20

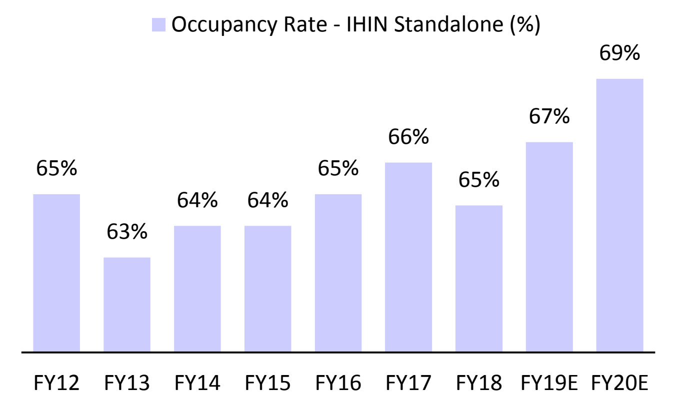
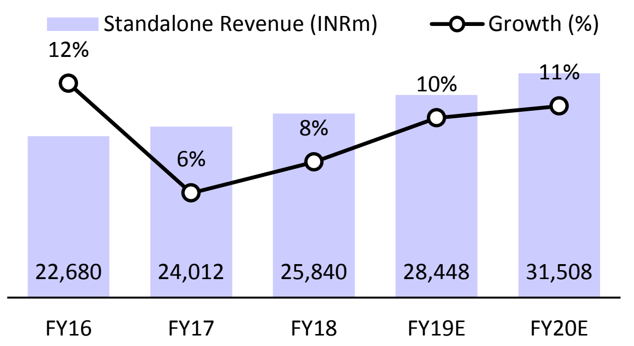
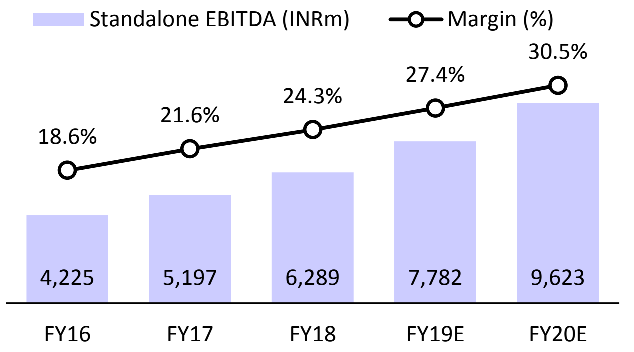


Exhibit 43: Expect revenue CAGR of 10% over FY18-20



Source: Company, MOSL

Exhibit 44: Expect EBITDA CAGR of 24% over FY18-20



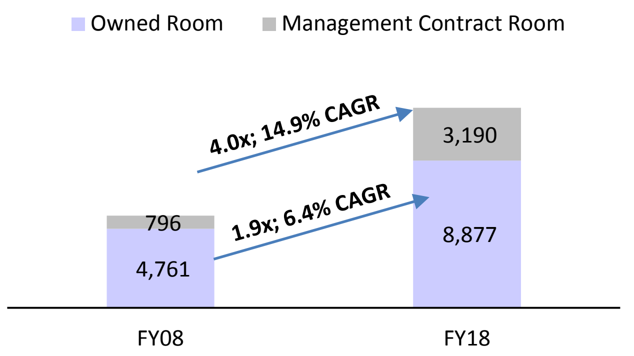
Source: Company, MOSL

Management contracts – a preferred route to add rooms

Under the hotel management contract, the operator runs the hotel on behalf of the owner for a fee ranging from 8-10% of revenue. Post the financial crisis, IHIN shifted its business strategy for room addition toward the asset-light model.

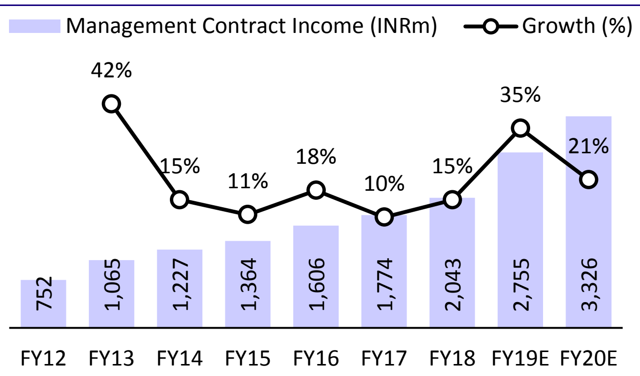
IHIN's room inventory in the domestic market grew by 2.2x from 5,557 rooms in FY08 to 12,067 rooms in FY18, implying 8.1% CAGR. Rooms under management contract increased by 4.0x to 3,190 (14.9% CAGR), while owned rooms increased by 1.9x to 8,877 (6.4% CAGR) over FY08-18.

Exhibit 45: Management contract room addition was higher than owned room addition (consolidated)



Source: Company, MOSL

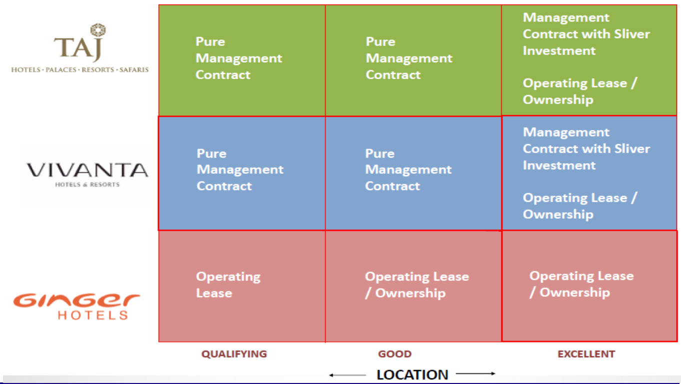
Exhibit 46: Expect management contract income (consolidated) CAGR of 28% over FY18-20



Source: Company, MOSL

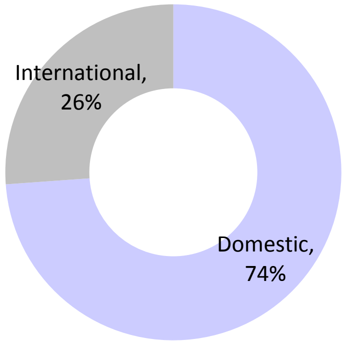
The company intends to achieve future room expansion via management contracts. Management contract rooms account for 31% (as of FY18) of consolidated room inventory, and management intends to increase this share to 50%, going ahead. Income from management contracts increased at 18% CAGR over FY12-18, backed by room addition CAGR of 13%. We expect management income to increase at 28% CAGR over FY18-20, primarily driven by addition of rooms and improving occupancy/ARRs at hotels.

Exhibit 47: IHIN's approach to evaluate addition of new hotels going ahead



Source: Company, MOSL

Exhibit 48: Domestic remains key driver for management income (4,319 rooms)



Source: Company, MOSL

New supply to remain restrained in next upcycle

Another key positive is that new hotel supply is likely to remain muted for the next 4-5 years. This should ensure higher ARR for IHIN/existing hotel operators in the impending upcycle.

Factors curbing new supply in the impending upcycle

- **Availability of strategic land parcels:** With land prices rising, availability of cheap land parcel at a good location is a challenge for developers, particularly in urban markets. Such high land costs in prime areas make the hotel projects economically unviable, restraining new supply.
- **Financing and capital requirement (equity and debt):** Against the backdrop of several hotel projects defaulting on debt, bankers are extremely selective in providing development finance for hotel projects. Further, the interest rates are usually high – currently in the range of 10% to 12% – the lower range only being available to borrowers with established credibility.
  In addition, hotel projects require sizeable equity capital for project development and meeting cash shortfalls during operations. Shortage of suitable equity capital is a significant constraint towards development of hotels, particularly a portfolio of assets or hotels with large inventory of rooms and other facilities. The long gestation period required to construct a hotel (3-4 years) also poses a challenge.
- **Competition from existing players:** Competition from existing hotel brands constraints newer hotel operators from entering into a market. A recognized hotel company and brand that is already established in the market carries an added advantage.
- **Regulatory approvals:** Uncertainties associated with the timing of approvals have often caused delays in opening of hotels – these delays significantly add to interest cost during the construction period and exert pressure on the debt service obligations. Cost escalations also occur due to delays in completion, which impact project viability, funding of completion and initial operations, and project quality.

More operating leverage to kick in

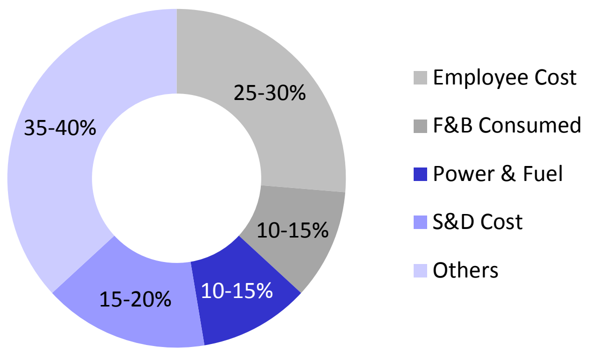
EBITDA margin to improve by 500bp to 21.4% in FY20

- **Fixed costs constitute 65% of total cost for the hotel industry/ IHIN, which provides headroom for operating leverage. During the last upcycle (FY04-08), IHIN's standalone EBITDA increased at 64% CAGR, much higher than ARR/revenue CAGR of 25%/27%, on account of operating leverage. Hence, we believe incremental growth in ARR (inflation adjusted) will directly flow through EBITDA.**
- **Distribution cost has increased in recent years due to a rise in the share of OTAs (which charge ~15% commission) in the channel mix. Nevertheless, IHIN is investing in technology to increase bookings via its own website and mobile application, which should reduce distribution costs. IHIN also intends to rationalize cost, supporting EBITDA margin expansion.**
- **Thus, we expect domestic/standalone/consolidated EBITDA to increase at CAGR (FY18-20) of 23%/24%/25% to INR10.4b/INR9.6b/INR10.5b. Domestic/standalone/consolidated EBITDA margin is estimated to expand by 545bp/620bp/500bp to 26.8%/30.5%/21.4%.**

Hotel industry cost structure

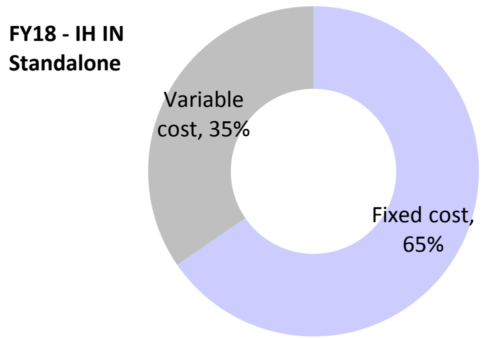
Employee cost (25-30% of total expenditure) is one of the largest cost components for hotels. Thus, hotels have large fixed costs and marginal cost per additional guest is comparatively low. Selling & distribution costs account for 15-20% of operating costs, which includes advertising expenses and marketing costs. Power & fuel costs account for 8-10%. F&B contributes 10-15% of costs on an average. Other operating costs (repairs & maintenance, travelling, etc.) make up the remaining 35-40%.

Exhibit 49: Hotel industry cost structure



Source: CARE, MOSL

Exhibit 50: Fixed cost accounts for 65% of total expenditure of IHIN

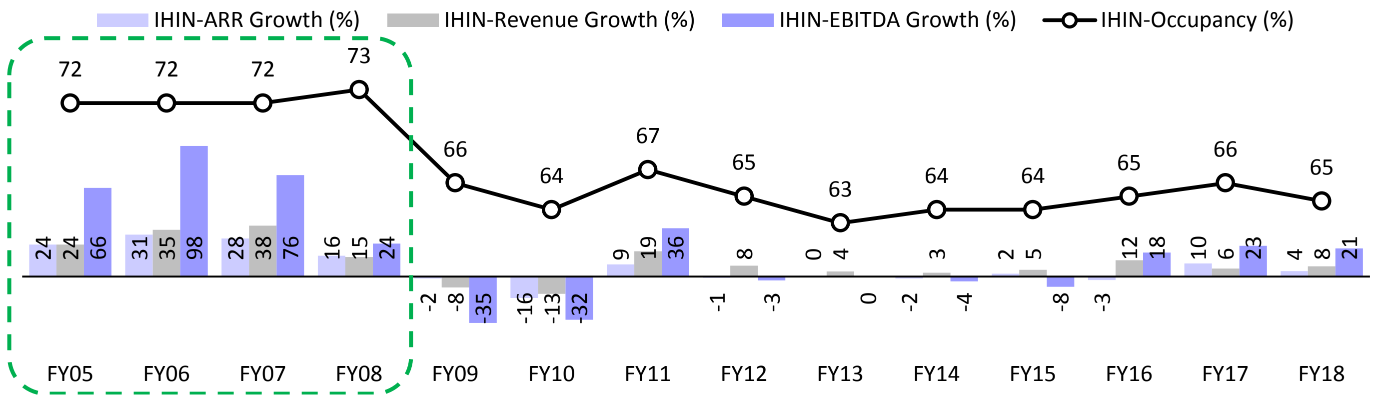


Source: Company, MOSL

- As occupancy moves up from the current level of 65% (as of FY18), the company's ARR is likely to grow at 8-10% in the impending upcycle, which would eventually flow down to EBITDA (adjusted to inflation), and 65% of incremental growth from occupancy will flow to EBITDA (standalone as well as consolidated fixed cost of IHIN is 65%). This would be a key factor driving the company's EBITDA, going forward. During the last cycle (FY04-08), IHIN's standalone EBITDA increased at 64% CAGR, much more than ARR/revenue CAGR of 25%/27%, on account of operating leverage.

- We expect 24% EBITDA CAGR (standalone) over FY18-20 on account of an increase in occupancy by 400bp to 69% in FY20 and 7% CAGR growth in ARR to INR12,160 in FY20.
- Additionally, management has also indicated to rationalize cost and reducing distribution cost which would further aid in expanding EBITDA margins.
- Thus, we expect domestic/standalone/consolidated EBITDA to increase at CAGR (FY18-20) of 23%/24%/25% to INR10.4b/INR9.6b/INR10.5b. Domestic/standalone/consolidated EBITDA margin is estimated to expand by 545bp/620bp/500bp to 26.8%/30.5%/21.4%.

Exhibit 51: Standalone EBITDA CAGR of 64% over FY04-08, much more than ARR/revenue CAGR of 25%/27%



Source: HVS, Hotelivate, Company, MOSL

Change in distribution channel mix to help reduce cost

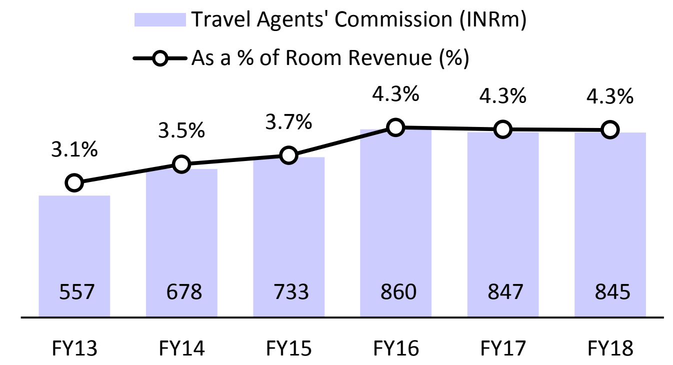
The distribution channels that hotels use and invest in can have a significant bearing on costs. IHIN's distribution cost has increased in recent past due to a rise in the share of OTA in the channel mix where commission is as high as 15%. However, the company has invested in technology to improve bookings through its own website and mobile application, and thus, reduce commission expenses. As of now, commission expense forms 3-3.5% of the company's revenue (6.5-7.5% of the room revenue), which is indicative of the headroom for cost reduction and EBITDA margin expansion.

Exhibit 52: Distribution channels in hotel industry

Broker	• Link between traveller and hotel
Online Travel Portals	• Online portals dedicated to travel and related transactions
Marketing Alliances	• Hotels associated with marketing alliances to get direct access to reservation network
Company website/ application	• Hotel owned websites/ applications

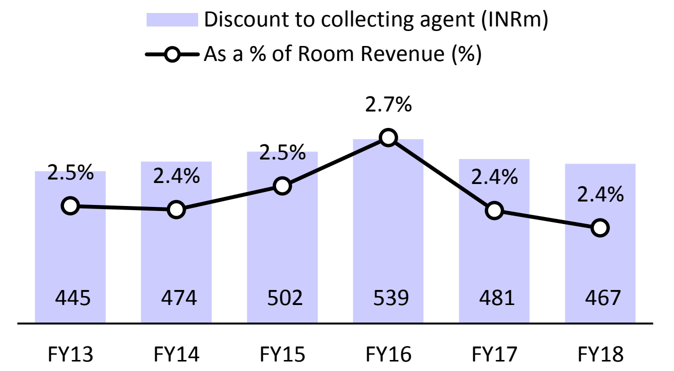
Source: Industry sources, MOSL

Exhibit 53: Agent commission expense trend…



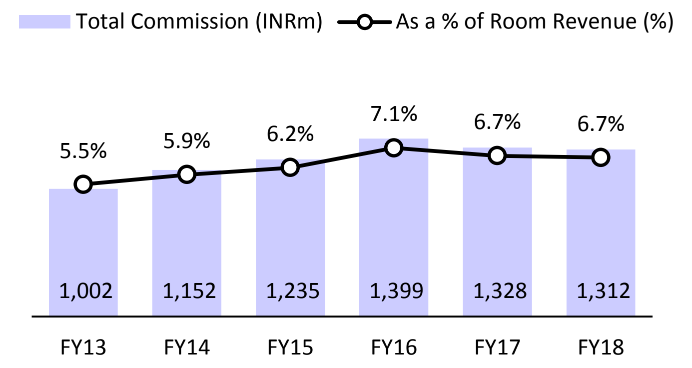
Source: Company, MOSL

Exhibit 54: Discount to collecting agent expense trend…



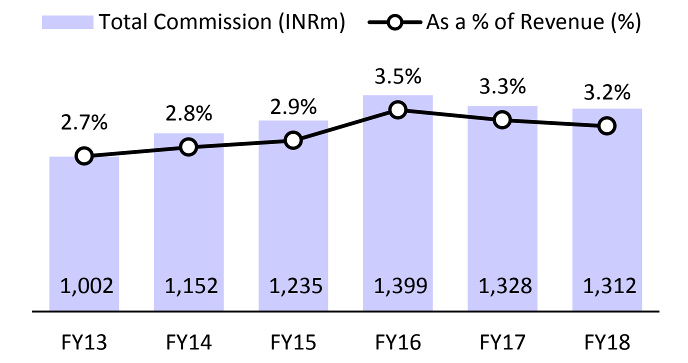
Source: Company, MOSL

Exhibit 55: Total commission expense forms 6.5-7.5% of room revenue



Source: Company, MOSL

Exhibit 56: Total commission expense forms 3-3.5% of total revenue (room revenue + F&B)



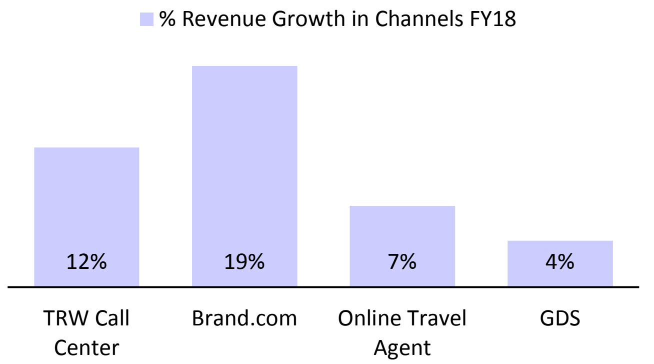
Source: Company, MOSL

Exhibit 57: Aspiration 2022 – Margin Expansion

Particulars	Margin Improvement
Revenue	
RevPAR Growth	
Other Operating Income	3 to 4 %
Management Fee Income	
Incremental Income from New Inventory	
Costs	
Operational Payroll	
Procurements (Raw Materials, Stores & Supplies)	
Corporate Overheads	3 to 5%
Admin and General Expenses	
Fuel, Power & Light	
Asset Contract Costs	
EBITDA Margin Improvement	8.0%
Depreciation	1.0%
Interest	1.0%
PAT Margin Improvement	10.0%

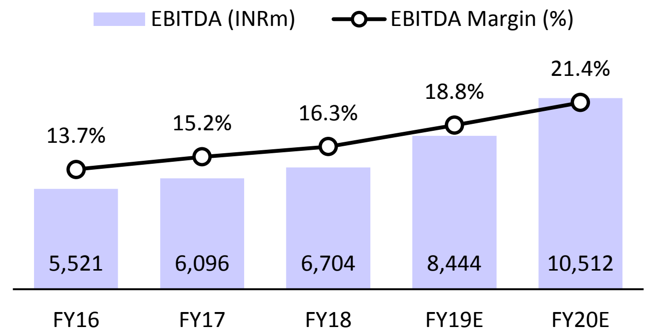
Source: Company

Exhibit 58: IHIN has witnessed higher revenue growth from own distribution channels



TRW – Taj Reservations Worldwide Source: Company, MOSL

Exhibit 59: Consolidated EBITDA margin to improve by 500bp to 21.4% in FY20



Source: Company, MOSL

Expect subsidiary EBITDA CAGR of 46% over FY18-20

Performance of international subsidiaries improving

- **The plan to go global (with major investment of USD591m over 2005-07) has not panned out as expected for IHIN, with subsidiaries exhibiting a muted performance on the back of global downturn and financial crisis in 2008-09. IHIN intends allocate capital efficiently by selling off loss-making hotels and focusing on profitability.**
- **Subsidiary revenue/EBITDA accounted for 37%/6% of consolidated revenue/EBITDA in FY18. We expect subsidiary (consolidated less standalone) revenue/EBITDA to increase at 8%/46% CAGR over FY18-20, led by lower losses at United Holding USA subsidiary, an improvement in St. James Court performance, and operationalization of new hotels in the domestic market.**
- **Revenue/EBITDA at IHIN's domestic subsidiaries is expected to increase at 9%/17% CAGR over FY18-20, led by Piem Hotels (revenue/EBITDA CAGR of 8%/23%, driven by stabilization of Amritsar hotel, increase in occupancy and ARR growth) and Roots Corporation (revenue/EBITDA CAGR of 12%/19%, driven by room addition and ARR growth).**
- **We expect EBITDA loss at international subsidiaries to reduce to INR78m by FY20 from INR297m in FY18 on account of 100-200bp improvement in occupancy, 2% ARR growth and cost-rationalization measures.**

Aspiration was to go global over latter half of last decade…

- IHIN made strategic investments of USD591m over 2005-07 in overseas market, with an aim of promoting the 'Taj' brand and expanding its business. These investments were made prior to the global downturn and financial crisis in 2008-09, when the markets were buoyant.
- IHIN entered into a contract to operate and manage New York-based hotel, **The Pierre** – a premier address in Manhattan (incurred capex of USD91m over 2 years). Leasing of The Pierre was strategically important to establish its brand and visibility in the US, which is a key feeder market for the Taj Group's Indian operations.
- The company acquired Taj Boston in 2006 for USD170m (INR7.7b) which was sold in 2016 for USD125m (INR8.4b) and the funds from the same were used to pare debt. IHIN also acquired Taj Campton for USD58m in 2007.

Exhibit 60: Key acquisitions and investment over 2005-09

- **2005 - The Pierre (leased; capex of USD91m)**
- **2006 - Taj Boston acquired for USD170m (INR7.7b) and sold in 2016 for USD125m (INR8.4b)**
- **2006 - Taj Australia acquired for AUD32m (INR1,165m) and sold for AUD32m (INR1,791m)**
- **2007 - Taj Campton for USD58m**
- **2007 - Acquired stake in Belmond (Orient Express) for USD249m**
- **2009 Acquired Sea Rock for INR6.8b**

Source: Company, MOSL

…but some unforeseen events derailed the plans…

- The 'black swan' event (Global Financial Crisis) in 2008-09 adversely impacted the global hotel industry. As a result, IHIN was forced to sell some of its properties at a loss – e.g. **Belmond** (erstwhile known as Orient Express Hotels). In other cases, IHIN has written-down its investments. IHIN also divested its Blue Sydney property in Australia (acquired in 2006 for AUD32m [INR1,165m] and sold for AUD32m [INR1,791m]), on which it realized a profit.

- The company acquired the **Sea Rock property** in Mumbai for a consideration of INR6.8b (USD142m) in 2006. The acquisition of this property was done just before some unforeseen events – the 26/11 terrorist attacks in Mumbai and the global financial crisis in 2008/09. Commencement of operations at this property is dependent on final approvals from the required authorities.

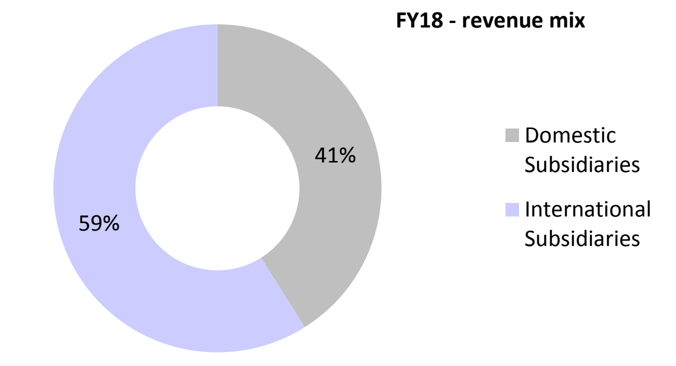
…thus the focus now is on profitability and better capital allocation

Going ahead, IHIN intends to focus on efficient capital allocation by selling loss-making hotels and focusing on profitability.

Expect subsidiary EBITDA CAGR (FY18-20) of 46% off a low base

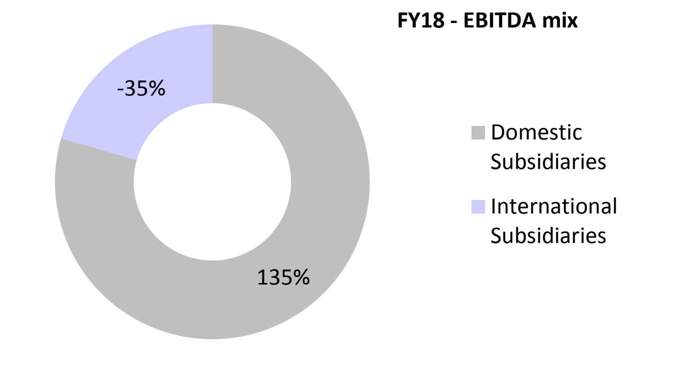
Subsidiary revenue/EBITDA accounted for 37%/6% of consolidated revenue/EBITDA in FY18. We expect subsidiary (consolidated less standalone) revenue/EBITDA to increase at 8%/46% CAGR over FY18-20, led by lower losses at United Holding USA subsidiary, an improvement in St. James Court performance, and operationalization of new hotels in the domestic market.

Exhibit 61: 59% of subsidiary revenue is contributed by international subsidiaries…



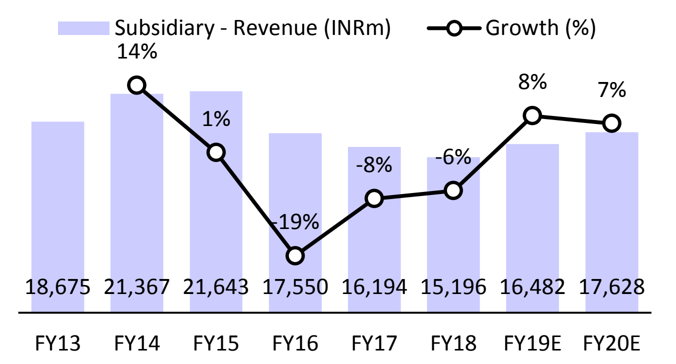
Source: Company, MOSL

Exhibit 62: …but international subs are a drag on EBITDA



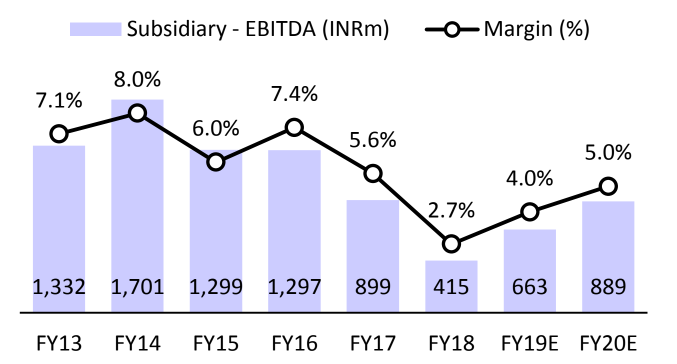
Source: Company, MOSL

Exhibit 63: Expect subs revenue CAGR of 8% over FY18-20



Source: Company, MOSL

Exhibit 64: Expect subs EBITDA CAGR of 46% over FY18-20

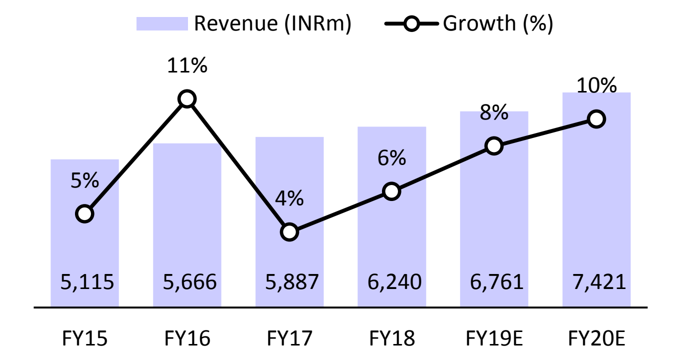


Source: Company, MOSL

Domestic subsidiary's EBITDA to grow at 17% CAGR over FY18-20E

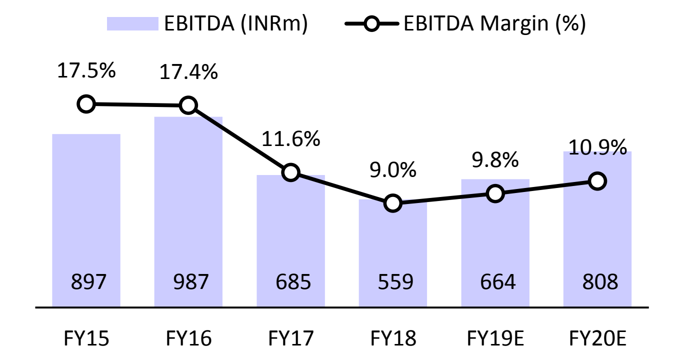
Revenue/EBITDA at IHIN's domestic subsidiaries is expected to increase at 9%/17% CAGR over FY18-20, led by Piem Hotels (revenue/EBITDA CAGR of 8%/23%, driven by stabilization of Amritsar hotel, increase in occupancy and ARR growth) and Roots Corporation (revenue/EBITDA CAGR of 12%/19%, driven by room addition and ARR growth).

Exhibit 65: Expect dom subs revenue CAGR of 9% (FY18-20)



Source: Company, MOSL

Exhibit 66: Expect dom subs EBITDA CAGR of 17% (FY18-20)



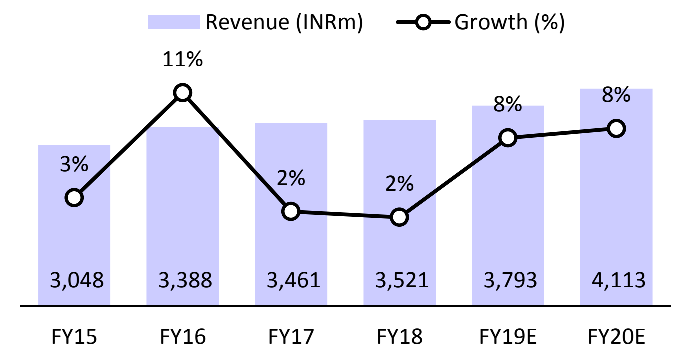
Source: Company, MOSL

Key subsidiaries

Piem Hotels – operates 7 hotels with 1,079 rooms under Vivanta/Gateway brands

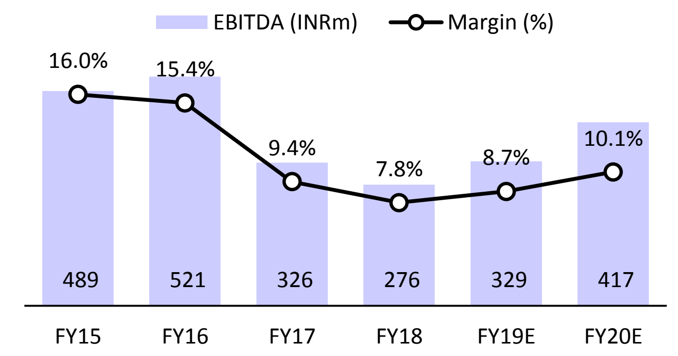
The company commenced operations of a hotel in Amritsar in FY17, which led to a dip in its EBITDA. It also undertook renovation activities at Vivanta by Taj - MG Road, Bangalore and Vivanta by Taj - Gomti Nagar, Lucknow in FY18.

Exhibit 67: Expect revenue CAGR of 8% over FY18-20



Source: Company, MOSL

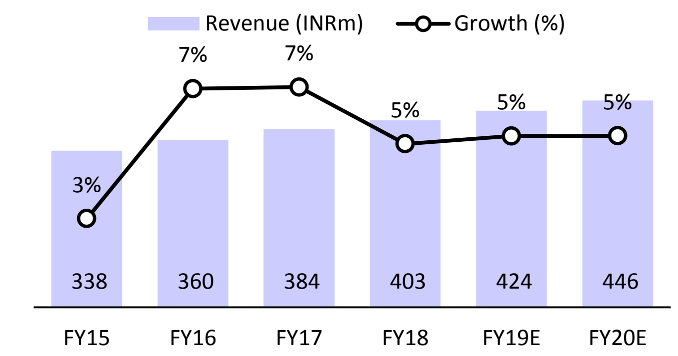
Exhibit 68: Expect EBITDA CAGR of 23% over FY18-20



Source: Company, MOSL

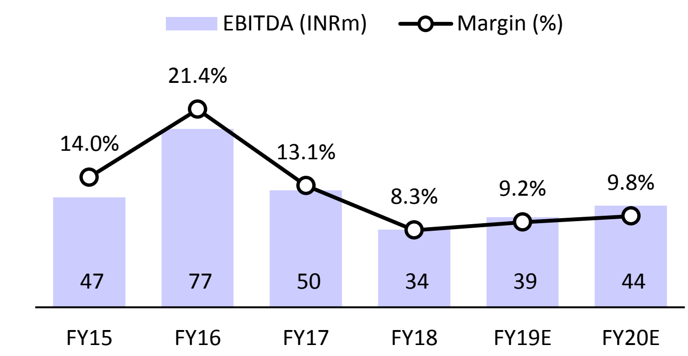
United Hotels – operates Vivanta by Taj – Ambassador, New Delhi hotel with 88 keys

Exhibit 69: Expect revenue CAGR of 6% over FY18-20



Source: Company, MOSL

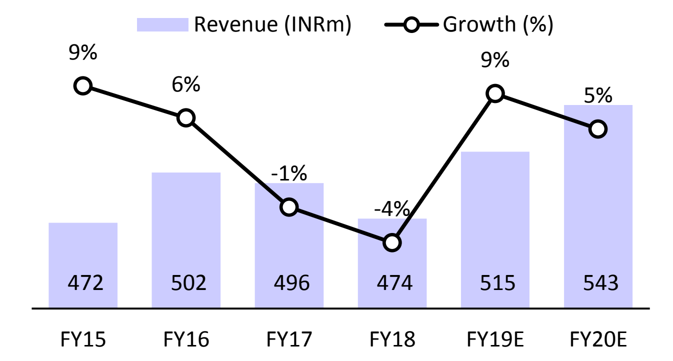
Exhibit 70: EBITDA margins trend



Source: Company, MOSL

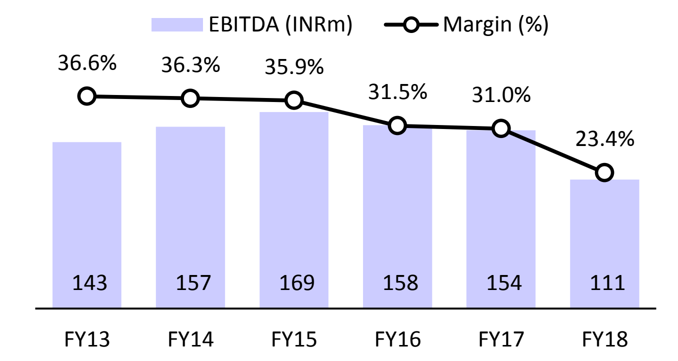
Benares Hotels – operates 3 hotels with 174 keys

Exhibit 71: Expect revenue CAGR of 7% over FY18-20



Source: Company, MOSL

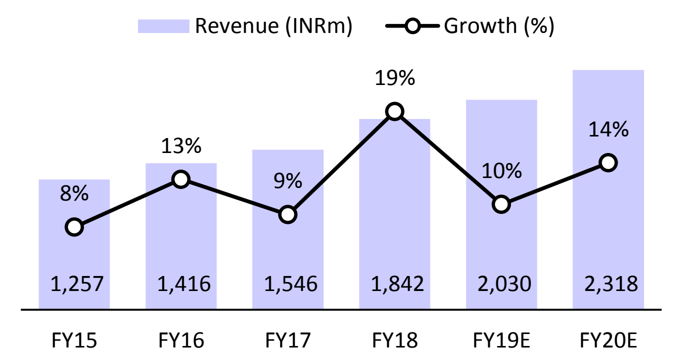
Exhibit 72: EBITDA margin trend



Source: Company, MOSL

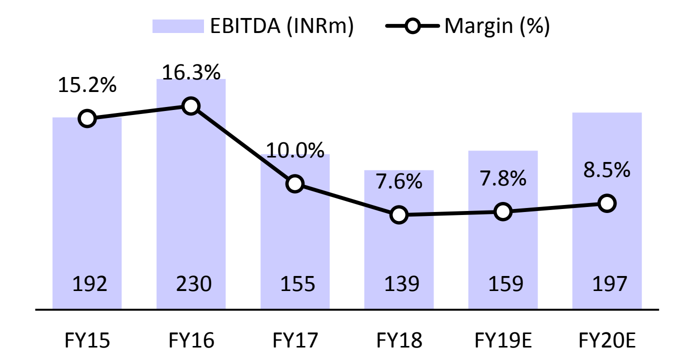
Roots Corporation – operates & manages hotels under 'Ginger' brand

Exhibit 73: Expect revenue CAGR of 12% over FY18-20



Source: Company, MOSL

Exhibit 74: EBITDA margin trend



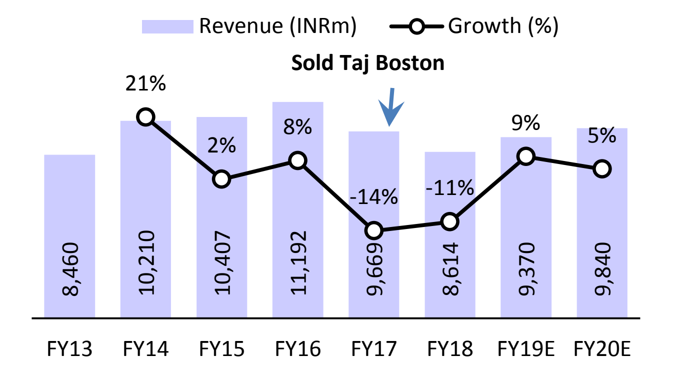
Source: Company, MOSL

Performance of international subsidiaries improving

Management's efforts to rationalize costs and sell-off loss-making hotel 'Taj Boston' helped improve the performance of its international subsidiaries.

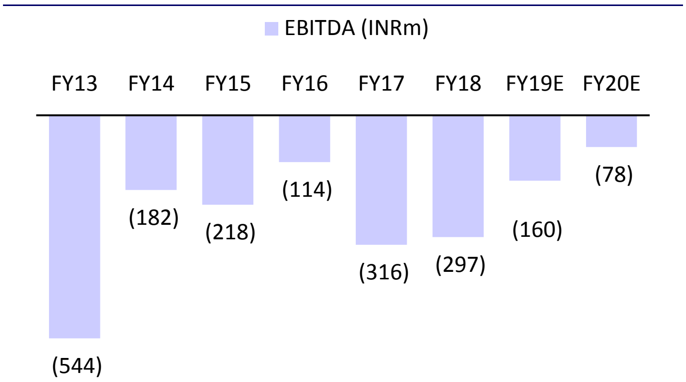
We expect international subsidiaries to deliver revenue CAGR of 7% over FY18-20, led by 100-200bp improvement in occupancy and 2% ARR growth. We expect EBITDA loss at international subsidiaries to reduce to INR78m by FY20 from INR297m in FY18.

Exhibit 75: Revenue to increase at 7% CAGR over FY18-20



Source: Company, MOSL

Exhibit 76: EBITDA loss is expected to reduce by FY20



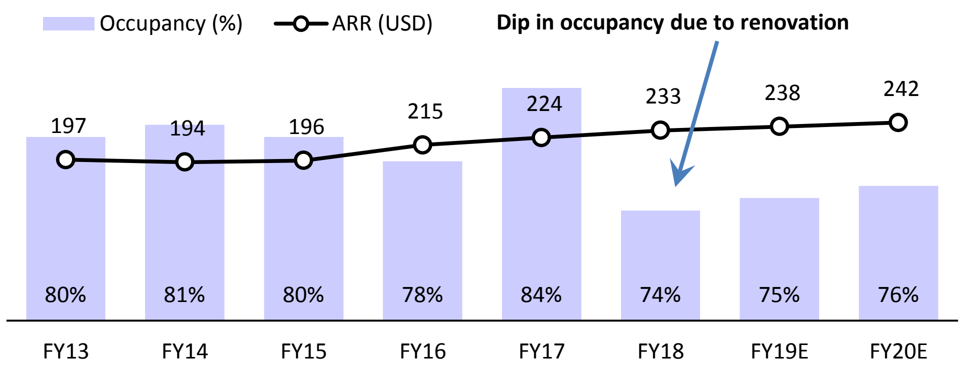
Source: Company, MOSL

St. James Court Hotels

IHIN operates two hotels with 423 rooms through this subsidiary (Taj 51 Buckingham – 86 rooms and St James Court, London – 342 rooms). The company commenced renovation at its other town houses (182 rooms at St. James Court) in September 2017.

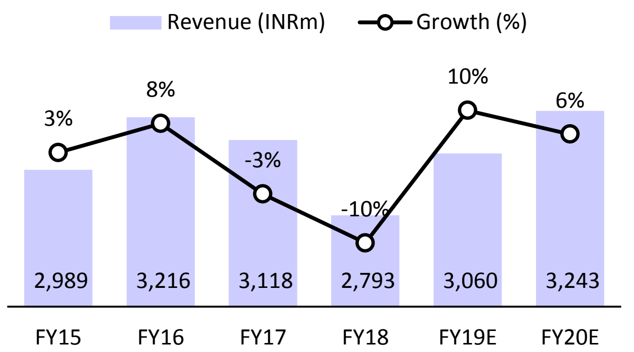
We expect revenue/EBITDA CAGR of 8%/13% over FY18-20 on account of 100bp improvement in occupancy and 2% ARR growth each year.

Exhibit 77: St James Hotel's operational performance



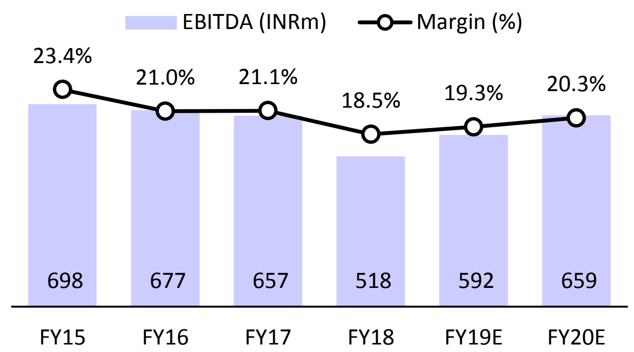
Source: Company, MOSL

Exhibit 78: Revenue to increase at 8% CAGR over FY18-20



Source: Company, MOSL

Exhibit 79: EBITDA to increase at 13% CAGR over FY18-20



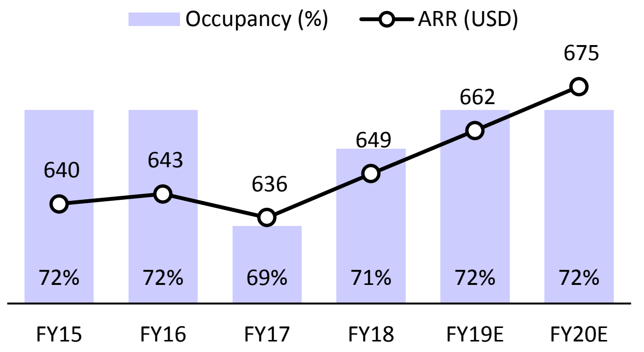
Source: Company, MOSL

United Holding USA

IHIN acquired Taj Boston in 2006 to mark its presence in the US. However, the global recession took a toll on the hospitality industry worldwide, impacting profitability of the hotel. In 2016, IHIN sold Taj Boston for USD125m (INR8.39b) to pare its debt. However, the company operates the hotel under a management contract under its standalone entity. Post selling Taj Boston, IHIN operates two hotels (The Pierre, New York and Taj Campton Place, San Francisco) with 299 keys.

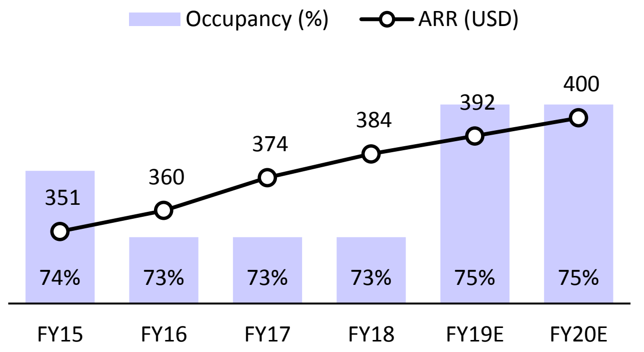
We expect revenue CAGR of 6% over FY18-20, led by 100-200bp improvement in occupancy and 2% ARR growth. We expect EBITDA loss to reduce to INR737m in FY20 from INR815m in FY18.

Exhibit 80: The Pierre, New York, hotel's operational performance



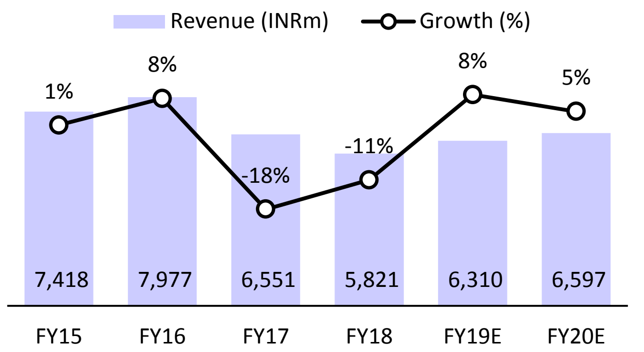
Source: Company, MOSL

Exhibit 81: Taj Campton Place, San Francisco, hotel's operational performance



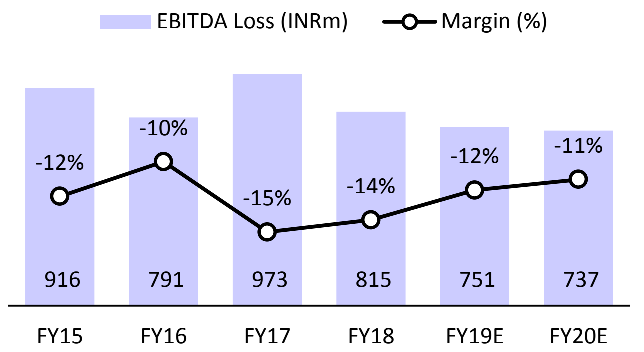
Source: Company, MOSL

Exhibit 82: Revenue to increase at 6% CAGR over FY18-20



Source: Company, MOSL

Exhibit 83: EBITDA loss trend



Source: Company, MOSL

SWOT Analysis

- ☑ Strong brand image helps in attracting customers across globe and command premium
- ☑ IHIN caters to various customers through its brands (Taj, Vivanta, Seleqtions and Ginger)
- ☑ Has presence across the key cities in India

- ☑ Hotel business is cyclical in nature and thus leads to volatility in earnings
- ☑ Business seasonality (second half is seasonally stronger)

- ☑ Over the past few years, demand has outpaced supply, presenting an strong opportunity for players to grow revenue
- ☑ Rooms penetration per 1,000 people in India is lowest at 0.2 vs global average of 2.2

- ☑ Homestays like AirBnB offer an alternative to leisure travelers, increasing competitive intensity
- ☑ Changes in government regulation can affect the business adversely (for example, liquor ban near highways)

Bull & Bear case

Bull case

- ☑ The favorable demand-supply scenario is likely to boost industry wide occupancy from current levels. Thus, in case of standalone entity, we have assumed an improvement in occupancy by 800bp v/s our base-case assumption of occupancy improvement of 400bp over FY18-20.
- ☑ As industry wide occupancy breaches the optimum level of 65%, the impact would eventually flow down to ARR growth. Thus, in case of standalone entity, we have assumed higher ARR growth of 9.5% v/s our base-case ARR growth assumption of 7% over FY18-20. Additionally, ARR growth will be aided by a revision in rates from corporate bookings, which account for ~40-50% of the hotel. We have also factored in higher EV/EBITDA of 23.0x v/s 20.0x in our base-case scenario.
- ☑ Target price in the base-case is INR163. However, the target price in our bull-case stands at INR222, 36% above our base-case target price.

Bear Case

- ☑ Occupancy levels might moderate if industry wide occupancy fails to pick up on account of weak demand and an increase in supply. Thus, in case of standalone entity, we have assumed a decline in occupancy by 400bp, as against our base-case occupancy improvement assumption of 400bp over FY18-20.
- ☑ Due to a decline in occupancy, IHIN may not be able to hike the room rates. Thus, in case of standalone entity, we have assumed ARRs to decline by 1%, as against our base-case ARR growth assumption of 7% over FY18-20. We have also factored in lower EV/EBITDA of 17.0x v/s 20.0x in our base-case scenario.
- ☑ Target price in the base case is INR163. However, the target price in our bear-case stands at INR97, 41% below our base-case target price.

Exhibit 84: Scenario analysis – Bull & Bear Case

Particulars	Bull Case			Base Case	Bear Case		
	INRm	Per Share (INR)	%		INRm	Per Share (INR)	%
IHCL- ex JV/Associate							
EBITDA	12,045				7,936		
EV/EBITDA Multiple (x)	23			20	17		
EV	277,031	233		177	134,913	113	
Less: Net Debt	-9,991	-8		-10	-14,833	-12	
Less: Minority Interest	-7,774	-7		-7	-7,774	-7	
Sub Total	259,266	218	98%	160	112,306	94	97%
Taj GVK (JV)	2,410	2.0	1%	1.7	1,607	1.4	2%
Oriental Hotel (Associate)	2,289	1.9	1%	1.6	1,526	1.3	1%
Sub Total	4,699	4		3	3,133	3	
Target Price	263,965	222	100%	163	115,439	97	100%
CMP		135		135		135	
Upside (%)		65%		21%		-28%	

Source: MOSL

Expect EBITDA CAGR of 25% to INR10.5b over FY18-20

Likely to generate CFO of INR15b over FY19-20

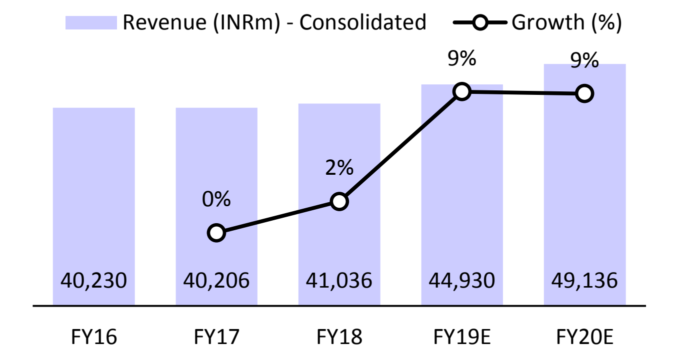
- **IHIN is expected to deliver revenue CAGR (FY18-20) of 9% to INR49.1b, mainly on account of an improvement in occupancy by 400bp and ARR CAGR of 7% over FY18-20 in the standalone business.**
- **Income from management contracts (standalone) is expected to increase at 23% CAGR to INR3.2b due to room addition and occupancy improvement. Thus, the share of income from management contracts in total revenue is expected to increase to 10% in FY20 from 8% in FY18.**
- **We expect EBITDA CAGR (FY18-20) of 25% due to (i) operating leverage, (ii) cost-rationalization measures and (iii) reducing commission to agents. We expect adjusted PAT to grow 4.6x to INR3.6b in FY20.**
- **IHIN is expected to generate strong CFO of INR15b over FY19-20, which is likely to be deployed toward capex and reducing debt. As a result, interest cost is expected to decline to INR1.9b in FY20 from INR2.7b in FY18. We, thus, expect the net D/E ratio to come down to 0.3x in FY20 from 0.4x in FY18.**

Revenue to be driven by standalone business

We expect IHIN to deliver consolidated revenue CAGR (FY18-20) of 9% to INR49,136m, mainly led by the standalone entity, which contributes 63% of overall revenue and 94% of overall EBITDA (as of FY18).

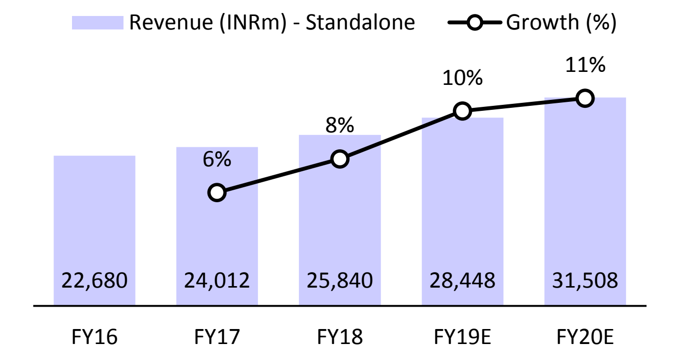
Standalone entity is expected to deliver revenue CAGR of 10% over FY18-20, primarily on account of an improvement in occupancy by 400bp and 7% CAGR in ARRs over the next two years. Additionally, income from management contracts (standalone) is expected to grow at 23% CAGR to INR3,197m in FY20 from INR2,100m in FY18, led by room addition, occupancy improvement and ARR growth. This would also support EBITDA margin expansion as revenue would flow directly to EBITDA.

Exhibit 85: Expect revenue CAGR of 9% over FY18-20



Source: Company, MOSL

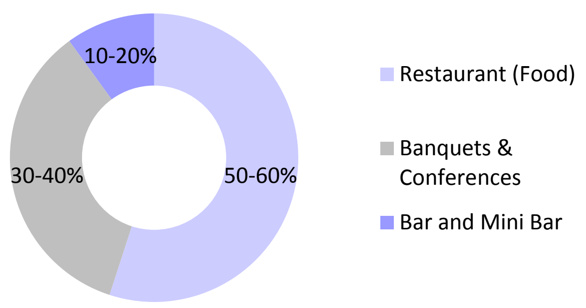
Exhibit 86: Expect S/A revenue CAGR of 10% over FY18-20



Source: Company, MOSL

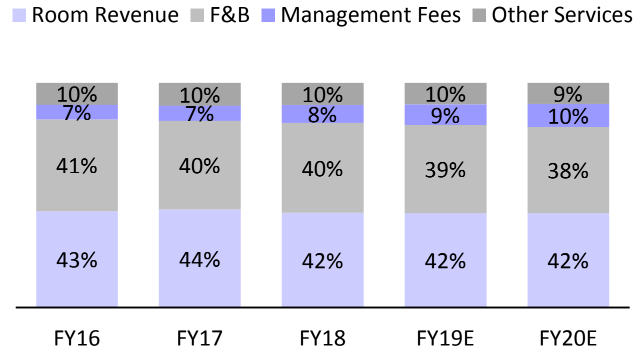
Typically, food & beverages income (F&B) accounts for ~40-45% of total revenue of premium hotels. IHIN's F&B segment (standalone) reported 8% revenue growth in FY18, post a subdued performance (revenue up 3% in FY17) due to demonetization. However, we expect it to grow at 8% CAGR to INR12,070m over FY18-20.

Exhibit 87: Split of F&B income of hotel (industry)



Source: Industry Sources, MOSL

Exhibit 88: IHIN standalone revenue mix trend



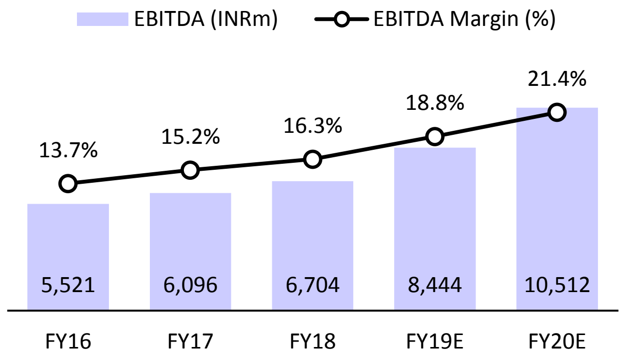
Source: Company, MOSL

EBITDA growth to exceed revenue growth led by operating leverage

We expect IHIN to deliver consolidated EBITDA CAGR of 25% to INR10,512m in FY20 from INR6,704m in FY18, primarily driven by (i) ARR growth (adjusted for inflation) flowing down to EBITDA, (ii) operating leverage as 65% of the total cost is fixed cost, (iii) cost-rationalization measures and (iv) decrease in distribution cost to agents on account of increased bookings through IHIN's website and application.

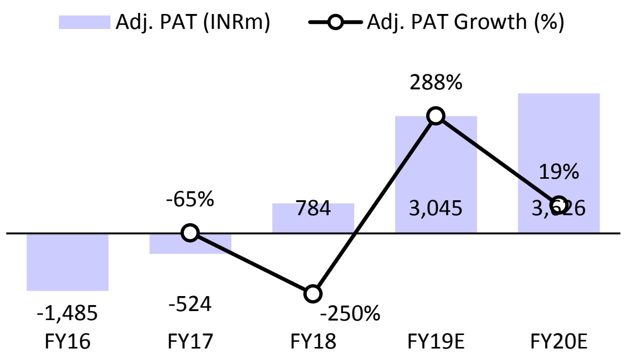
We expect consolidated EBITDA margin to expand by 500bp to 21.4% over FY18-20. We expect adjusted PAT to grow 4.6x to INR3,626m by FY20.

Exhibit 89: Expect consolidated EBITDA CAGR of 25% over FY18-20



Source: Company, MOSL

Exhibit 90: Consolidated adj. PAT to grow 4.6x by FY20

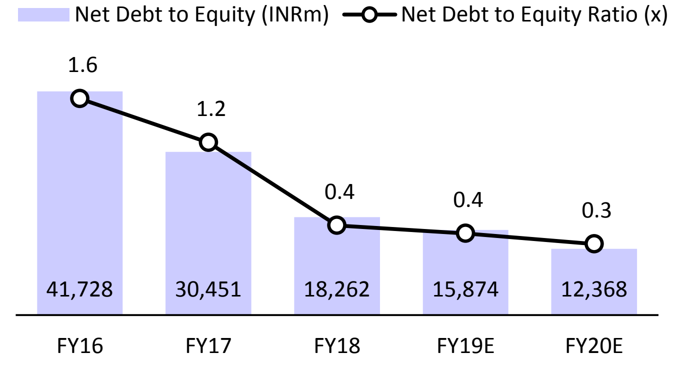


Source: Company, MOSL

Net D/E ratio to come down to 0.3x in FY20 from 0.4x in FY18

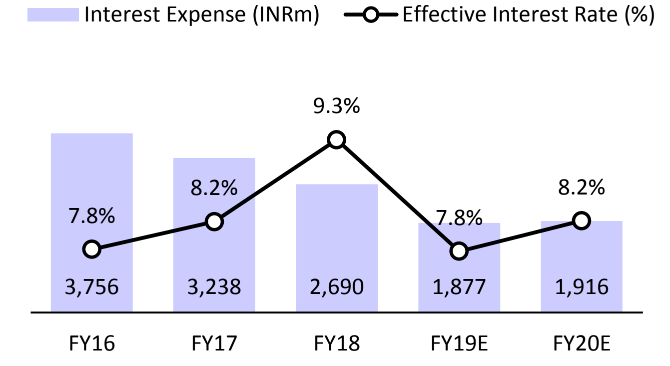
Proceeds from the INR15b rights issue in 2017 are partly deployed toward reducing debt and the balance will be deployed as capital expenditure. Consequently, net debt-to-equity ratio declined to 0.4x in FY18 from 1.2x in FY17. We expect net debt-to-equity ratio to come down further from 0.4x in FY18 to 0.3x in FY20. In our view, IHIN should generate CFO of INR14,977m over FY19-20.

Exhibit 91: Net D/E ratio to come down to 0.3x in FY20



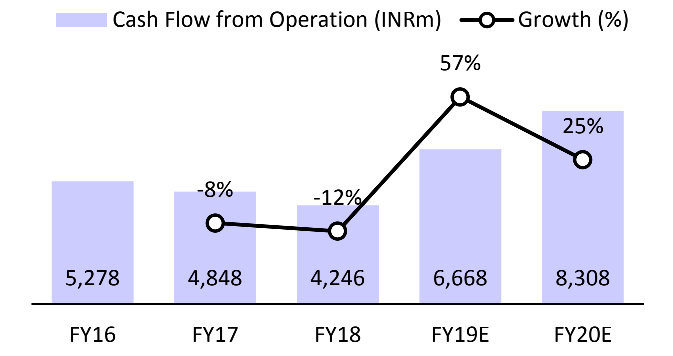
Source: Company, MOSL

Exhibit 92: Debt repayment to lead to lower interest cost



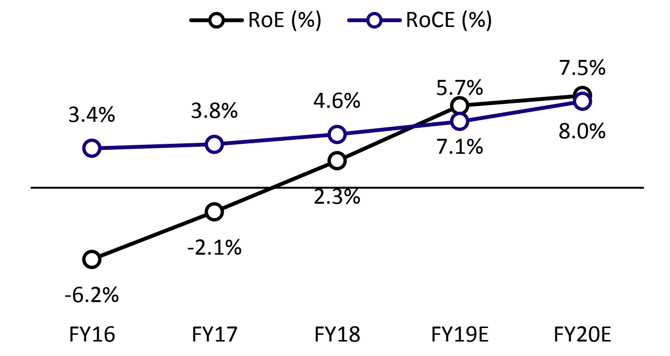
Source: Company, MOSL

Exhibit 93: IHIN to generate CFO of INR15b over FY19-20



Source: Company, MOSL

Exhibit 94: RoE and RoCE to improve going ahead…



Source: Company, MOSL

Valuation and view

Initiating with Buy

IHIN well poised for riding the next upcycle

- The Indian hospitality sector is on the cusp of an upcycle, as the industry is operating at 67% occupancy, which is expected to inch up further on account of a favorable demand-supply scenario.
- Strong domestic demand (growth in corporate demand and domestic leisure tourism) and an increase in FTAs are the key drivers for the hotel industry. Demand is expected to grow at 10-12% in the impending upcycle, as against supply growth of 5% (as per HVS) over FY18-23.
- Hence, the hospitality industry is poised to take an ARR increase in both corporate and FIT segments, as occupancy reaches optimum levels due to favorable demand-supply dynamics. As per our channel checks, industry wide room rates increased by 5-6% in the corporate segment in October, 2018 while FIT is growing by 12-15%.
- We believe the industry is also likely to see ARR increase due to an inventory cut for large corporate clients (which is likely to be allocated to FIT and high-paying corporate clients) and a change in product mix (upgrading corporate customers to premium rooms due to unavailability of basic rooms).
- We expect ARR growth to moderate to 8-10% in the impending upcycle (v/s ARR growth of 22% in the last upcycle – FY04-08) due to a change in industry dynamics – (i) better price discover due to digital platform, (ii) entry of global brands through management contract, (iii) change in FTA mix, (iv) better availability of service apartment, (v) better air and road connectivity and (vi) competition from homestays like AirBnb.
- We believe that IHIN is well placed to capitalize on the impending opportunity in the domestic hospitality industry and expected upcycle due to its (i) ability to cater to luxury, upscale, midscale and economy hotels through its different brands, (ii) strong brand and (iii) increased room inventory (up ~2.2x to 12,067 over FY08-18, majorly through management contracts).
- IHIN's standalone EBITDA/occupied room stood at INR6,117 (with occupancy of 65%) in FY18, which is at the same level as in FY07 with occupancy of 72%. This is indicative of the potential of increasing EBITDA/room as occupancy increases. We expect EBITDA/occupied room to increase at CAGR of 20% over FY18-20 to ~INR8,815 at 69% occupancy (peak EBITDA/occupied room was INR7,521 in FY08 at 73% occupancy). In our view, the upcoming cycle will see higher EBITDA/room compared to the last cycle (FY04-08) due to a significant increase in management contract income over FY04-18.
- IHIN intends to develop the unutilized floor space index (FSI) at some of its existing hotels and extract value from the land bank. Thus, utilizing its existing land bank and value unlocking from other land parcels would aid in generating strong cash flows, going forward.
- We expect consolidated revenue/EBITDA CAGR of 9%/25% over FY18-20. IHIN's balance sheet is expected to strengthen further due to asset monetization and higher FCF generation (avg. FCF of INR4b over FY19-20 vs INR 2.8b over FY13-18). RoCE is likely to improve from 4.6% in FY18 to 7.5% in FY20.

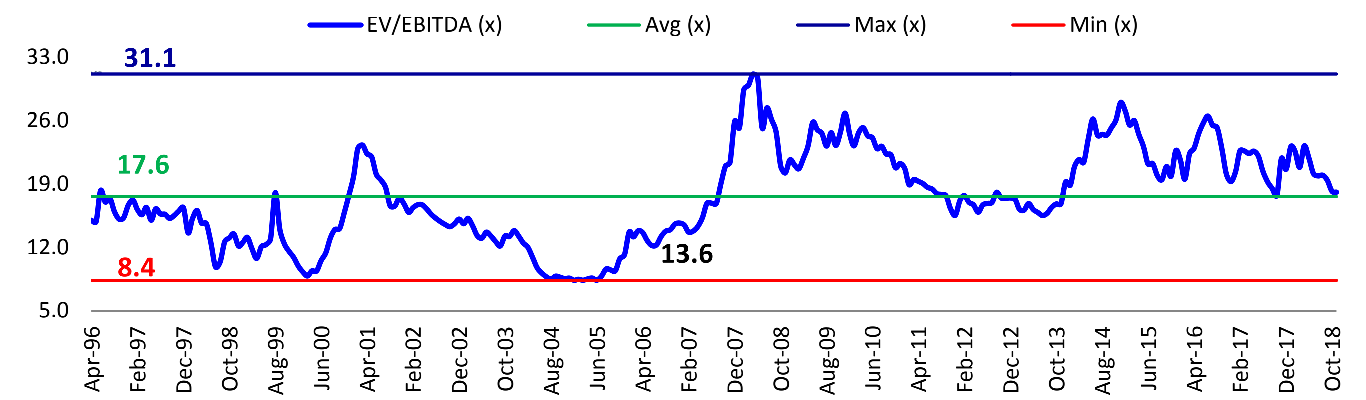
- IHIN is expected to deliver consolidated revenue/EBITDA CAGR of 9%/ 25% over FY18-20, led by better demand and operating leverage. The series of strategic initiatives like (i) loss-making hotels sell-off, (ii) focus on technology to reduce distribution cost, (iii) cost-rationalization measures, (iv) increase in ARR of corporate clients and FITs, (v) higher room addition through management contracts and (vi) deleveraging of balance sheet is expected to drive earnings, in our view.
- On a one-year forward EV/EBITDA, IHIN has historically traded at a 10-year average of 21.4x. However, taking the last upcycle into account (FY05-18, 14-year average), the stock has traded at 19.7x one-year forward EV/EBITDA. On a one-year forward EV/room basis, the stock has traded at a 10-year average of INR13.1m.
- We value the company on one-year forward EV/EBITDA of 20x. Our SOTP-based target price stands at INR163 (implying an upside of 21%). We initiate coverage on IHIN with a **Buy** rating.

Exhibit 95: Initiate with an upside of 21%

Particulars	Methodology	Metrics	FY20E	Multiple (x)	Value (INR m)	Value/ share (INR)
IHIN- ex JV/ Associate						
EV	EV/EBITDA (x)	EBITDA	10,512	20.0	210,242	177
Less: Net Debt					-12,368	(10)
Less: Minority Interest					-7,774	(7)
Sub Total					**190,100**	**160**
JV/ Associate						
Taj GVK (IHIN's share - 25.5%)	20% discount to MCAP	Attributable Mcap	2,510	0.8	2,008	1.7
Oriental Hotel (IHIN's share - 35.7%)	20% discount to MCAP	Attributable Mcap	2,385	0.8	1,908	1.6
Sub Total					**3,916**	**3**
Target Price					**194,016**	**163**
CMP						**135**
Upside (%)						**21%**

Source: MOSL

Exhibit 96: IHIN one year forward EV/EBITDA trend



Source: Bloomberg, MOSL

Exhibit 97: Phases of Indian hospitality industry vs IHIN's performance

Particulars	FY1997-04	FY04-08	FY08-13	FY13-18	FY18-20E
	Declining occupancy and flattish ARRs	Higher occupancy and ARR	Decline in occupancy and ARR	Increasing occupancy and flattish ARR	Increasing occupancy and ARR
Industry Phases					
India's Nominal GDP Growth CAGR (%)	10.4%	15.1%	14.8%	11.0%	11-12%
Gr. in Private Corporate Investments in India CAGR (%)	6.5%	46.8%	1.4%	*9.2%	-
Indian Hospitality Industry					
Avg Industry Occupancy (%)	56.5%	69.1%	59.3%	62.6%	68.4%
Industry ARR Growth (%)	-0.5%	22.3%	-6.3%	-0.1%	8-10%**
Demand Growth CAGR (%)	3-4%	12-13%	11.0%	9.4%	10-12%**
Supply Growth CAGR (%)	~7%	~8%	14.9%	6.3%	~5%
IHIN - Standalone					
Avg Occupancy (%)	-	71.6%	65.0%	64.7%	67.6%
ARR Growth CAGR (%)	-	24.7%	-2.3%	2.2%	7.0%
Revenue Growth CAGR (%)	2.1%	27.5%	1.2%	6.6%	10.4%
EBITDA Growth CAGR (%)	-10.9%	63.9%	-10.4%	9.2%	23.7%
Adj PAT Growth CAGR (%)	-11.8%	57.9%	-16.2%	5.4%	41.8%
Avg RoCE (%)	7.8%	10.1%	4.8%	5.1%	8.0%
Avg RoE (%)	11.7%	14.6%	5.5%	4.8%	7.5%
Avg EV/EBITDA (x)	15.0	13.4	21.1	21.7	-
Avg P/B (x)	4.4	4.3	2.8	3.8	-
Avg Capex/ Sales (%)	18.9%	13.7%	11.5%	9.2%	10.0%
Avg FCF/ PBT (%)	-0.01	0.5	0.85	1.0	0.5
Avg Sales/ Capital Employed (x)	0.47	0.44	0.30	0.41	0.44
Avg Sales/ Net Worth (x)	0.68	0.77	0.54	0.78	0.62
IHIN - Consolidated					
Revenue Growth CAGR (%)	8.2%	30.6%	5.1%	1.9%	9.4%
EBITDA Growth CAGR (%)	-3.6%	50.3%	-9.2%	4.5%	25.2%
Avg Sales/ Capital Employed (x)	0.44	0.43	0.39	0.53	0.59
Avg Sales/ Net Worth (x)	0.74	1.07	1.02	1.51	1.03

*CAGR over FY13-17 **In the impending upcycle

Source: Industry, HVS, Hotelivate, MOSL

Exhibit 98: Peer comparison

Company Name	M Cap (INR m)	EV/ EBITDA (x)		PE (x)		RoE (%)		Revenue CAGR % FY18-20E	EBITDA CAGR % FY18-20E
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E		
EIH Ltd	95,995	25.7	23.2	47.1	42.7	7.0	7.3	12.3	21.1
TAJ GVK Hotels & Resorts Ltd	9,844	15.8	13.3	40.3	27.5	7.2	9.6	8.0	15.2
Lemon Tree Hotels Ltd	57,042	35.9	24.0	146.3	68.4	4.6	8.9	25.7	45.7
Indian Hotels Co Ltd	**160,258**	**21.8**	**17.2**	**52.6**	**44.2**	**7.1**	**8.0**	**9.4**	**25.2**

Source: Bloomberg, MOSL

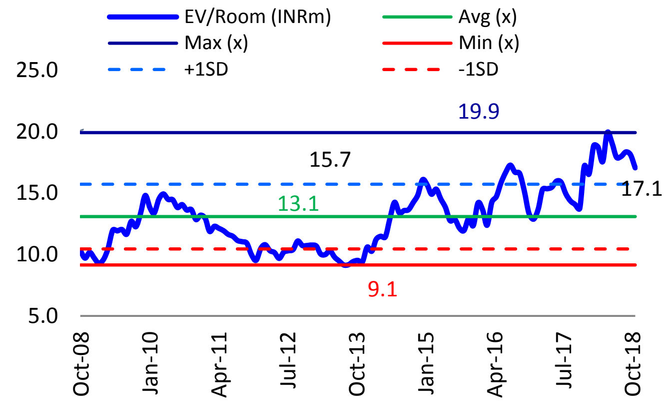
Exhibit 99: Expected value of freehold land stands at INR24,390m (not included in TP)

Region	Freehold Land (acres)	Value/ acres (INR/m) of freehold land	Value (INR m)	License Hold (acres)
	(A)	(B)	(A) * (B)	
North India (NCR*)	64	15.0	960	11
West India (Mumbai*)	468	50.0	23,400	213
South India (Kerala*)	3	10.0	30	1
Total	**535**		**24,390**	**225**

* Expected

Source: MOSL

Exhibit 100: 1yr forward EV/Rooms



Source: Bloomberg, MOSL

Key risks

Seasonal and cyclical volatility may adversely affect operations

IHIN operates in an industry which is seasonal in nature. The periods during which the hotel properties witness higher revenue vary from property to property, depending principally upon location and the customer base served. The seasonality and cyclicality in the hotel industry may contribute to fluctuations in its operational and financial performance.

Non-renewal of license/lease arrangements with third parties

Some of IHIN's hotels, including a few key hotels, are maintained under license or lease arrangements entered with third parties. While the company typically has long-term lease arrangements, there can be no assurance that the license or leasehold arrangements will be renewed upon expiry of the period. Further, there can be no assurance that renewals will be on the same terms & conditions or that the revised conditions would not be unfavorable for IHIN.

Economic slowdown in India/globally

Consumer demand for the hotel industry is closely linked to the performance of the general economy and is sensitive to business and personal discretionary spending levels. Decreased global or regional demand for hotel services can be especially pronounced during periods of economic contraction or low levels of economic growth, and the recovery period in the industry may lag overall economic improvement.

Deterioration in quality/reputation of brand

IHIN's ability to attract and retain guests depends, in part, on the public recognition of its brands and their associated reputation. Such dependence makes IHIN's business susceptible to risks regarding brand obsolescence and to reputational damage. If its brands are found to be lacking in consistency and quality, the company may be unable to attract guests to its hotels, and further, it may be unable to attract or retain the hotel owners. In addition, there are many factors which can negatively affect the reputation of any of its individual brands or its overall brand. Occurrence of accidents or injuries, natural disasters, crime, individual guest notoriety, or similar events can have a substantial negative impact on its reputation as well.

Management overview

Puneet Chhatwal, Managing Director & Chief Executive Officer

Mr. Chhatwal has over three decades of leadership experience at highly-acclaimed hotel groups in Europe and North America. Prior to joining IHIN, Mr. Chhatwal was the Chief Executive Officer and Member of the Executive Board of Steigenberger Hotels AG – Deutsche Hospitality. He was also the Chief Development Officer of The Rezidor Hotel Group – Carlson Hotels Worldwide. Mr. Chhatwal is a graduate of both Delhi University and Institute of Hotel Management, Delhi. He has completed an MBA in Hospitality from ESSEC, Paris and an Advanced Management Program from INSEAD.

Giridhar Sanjeevi, Executive Vice President & Chief Financial Officer

Mr. Sanjeevi is a Chartered Accountant and an MBA from IIM Ahmedabad. In a career spanning across 30 years, Mr. Sanjeevi has built a broadbased career, both finance and commercial domain. He joined IHIN from Merck & Co, where he was the CFO for South Asia division. Mr. Sanjeevi started his career in ITC Ltd, where he did a variety of roles across businesses in India and the Middle East. Subsequently, he was with IL&FS as an Investment Banker and head of M&A. At Wockhardt, where he was a Global CFO, such transformation efforts led to a very visible 18x jump in share price. Mr. Sanjeevi has also built experience in Retail through stints in Shoppers Stop and Aditya Birla Group, where he was the CFO.

Chinmai Sharma, Executive Vice President & Chief Revenue Officer

At IHIN, Mr. Sharma's responsibilities include Brand Management, Digital Platforms, Loyalty programs, Public Relations, Customer Analytics, Global Sales and Revenue Management. Before joining IHIN, Mr. Sharma was with Starwood Capital Group, based in Paris as the Global head of Revenue for Louvre Hotels Group's entire portfolio of six hotel brands with 1,100 plus hotels spread across globe. Mr. Sharma commenced his hotel career eighteen years ago with the Taj Group where he was part of the very first revenue management group ever created in the company in 1997. Mr. Sharma is a Hotel Management graduate from the Institute of Hotel Management, Jaipur. He holds a Diploma in Economics from the Indian Institute of Planning and Management, New Delhi and a joint MBA in Hospitality from IMHI/ESSEC Business School, Paris and Cornell Hotel School (M.M.H), New York.

Suma Venkatesh, Executive Vice President – Real Estate & Development

Ms. Venkatesh leads the Technical Services and Development functions of the company. She is responsible for Taj Group's initiatives for identifying, strengthening and growing the real estate and development projects. Over the last 12 years with the Taj Group, she has been involved in doubling the Group's inventory to 131 hotels with 15000+ keys besides handling a host of renovation and green-field projects. Ms. Venkatesh is an Electrical Engineer by training and holds a Masters Degree in Management Studies from the Mumbai University in India. She has over 23 years of cross functional experience across industries. Before joining the Taj Group, she has worked in different functions across multiple industry sectors in India.

Financials and valuations

Consolidated - Income Statement								(INR m)
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Total Income from Operations	**37,434**	**40,662**	**41,886**	**40,230**	**40,206**	**41,036**	**44,930**	**49,136**
Change (%)	8.7	8.6	3.0	-4.0	-0.1	2.1	9.5	9.4
Food and beverages consumed	3,816	4,271	4,431	3,669	3,640	3,764	3,909	4,127
Employees Cost	12,718	13,722	14,625	14,233	13,647	13,466	14,112	14,945
Power & Fuel Cost	2,888	3,112	3,204	2,754	2,586	2,591	2,741	2,899
License Fees	1,971	2,082	2,096	2,408	2,502	2,544	2,786	2,997
Other Expenses	10,665	11,881	12,645	11,644	11,736	11,967	12,938	13,655
Total Expenditure	**32,057**	**35,066**	**37,001**	**34,709**	**34,110**	**34,332**	**36,486**	**38,624**
% of Sales	85.6	86.2	88.3	86.3	84.8	83.7	81.2	78.6
EBITDA	**5,376**	**5,596**	**4,886**	**5,521**	**6,096**	**6,704**	**8,444**	**10,512**
Margin (%)	14.4	13.8	11.7	13.7	15.2	16.3	18.8	21.4
Depreciation	2,884	3,081	2,913	2,848	2,994	3,012	3,394	3,571
EBIT	**2,492**	**2,515**	**1,973**	**2,673**	**3,102**	**3,692**	**5,050**	**6,941**
Int. and Finance Charges	1,707	1,685	1,756	3,756	3,238	2,690	1,877	1,916
Other Income	602	598	987	997	549	617	676	739
PBT bef. EO Exp.	**1,387**	**1,427**	**1,204**	**-86**	**413**	**1,618**	**3,849**	**5,764**
EO Items	-4,304	-5,548	-3,529	-827	-108	225	-492	0
PBT after EO Exp.	**-2,917**	**-4,121**	**-2,325**	**-913**	**306**	**1,843**	**3,357**	**5,764**
Total Tax	990	1,110	1,146	906	1,137	1,211	1,658	2,594
Tax Rate (%)	-33.9	-26.9	-49.3	-99.3	372.2	65.7	49.4	45.0
Minority Interest	395	307	310	493	-200	-376	-855	-455
Reported PAT	**-4,302**	**-5,538**	**-3,781**	**-2,312**	**-632**	**1,009**	**2,554**	**3,626**
Adjusted PAT	**2**	**10**	**-252**	**-1,485**	**-524**	**784**	**3,045**	**3,626**
Change (%)	-94.6	325.0	-2,572.5	NA	NA	NA	288.3	19.1
Margin (%)	0.0	0.0	-0.6	-3.7	-1.3	1.9	6.8	7.4

Consolidated - Balance Sheet								(INR m)
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	808	808	808	989	989	1,189	1,189	1,189
Total Reserves	28,985	25,557	21,465	24,813	24,188	40,622	42,740	45,785
Net Worth	**29,793**	**26,365**	**22,272**	**25,803**	**25,177**	**41,811**	**43,929**	**46,974**
Minority Interest	7,077	7,359	7,378	7,429	7,378	7,774	7,774	7,774
Total Loans	38,172	42,514	50,741	45,260	33,830	24,270	23,864	22,864
Deferred Tax Liabilities	1,243	1,615	2,516	2,382	2,820	3,563	3,563	3,563
Capital Employed	**76,285**	**77,852**	**82,908**	**80,874**	**69,206**	**77,418**	**79,130**	**81,175**
Gross Block	77,313	83,531	86,887	64,751	57,923	63,356	66,682	70,147
Less: Accum. Deprn.	23,531	27,232	28,727	2,661	5,506	7,385	10,779	14,350
Net Fixed Assets	**53,782**	**56,299**	**58,160**	**62,090**	**52,417**	**55,971**	**55,903**	**55,797**
Goodwill on Consolidation	5,176	5,849	4,832	5,527	5,737	5,655	5,655	5,655
Capital WIP	4,215	5,542	3,057	2,900	2,227	1,970	2,144	2,179
Total Investments	**15,628**	**14,272**	**15,869**	**15,152**	**12,437**	**15,965**	**15,965**	**17,965**
Curr. Assets, Loans &Adv.	**14,107**	**13,177**	**16,952**	**12,306**	**13,173**	**14,184**	**17,228**	**18,876**
Inventory	967	1,021	1,030	802	804	857	911	964
Account Receivables	2,740	2,805	3,029	2,420	2,721	3,286	3,597	3,934
Cash and Bank Balance	2,101	1,836	5,036	1,826	2,471	2,703	4,684	5,191
Loans and Advances	8,299	7,516	7,857	7,258	7,177	7,338	8,035	8,787
Curr. Liability & Prov.	**16,623**	**17,287**	**15,961**	**17,099**	**16,785**	**16,328**	**17,764**	**19,296**
Account Payables	3,385	3,668	3,645	3,240	3,370	3,513	3,733	3,952
Other Current Liabilities	4,651	11,424	10,711	11,846	11,305	10,349	11,332	12,392
Provisions	8,587	2,195	1,605	2,013	2,110	2,465	2,699	2,952
Net Current Assets	**-2,516**	**-4,110**	**990**	**-4,793**	**-3,612**	**-2,143**	**-536**	**-420**
Appl. of Funds	**76,285**	**77,852**	**82,909**	**80,875**	**69,205**	**77,418**	**79,131**	**81,176**

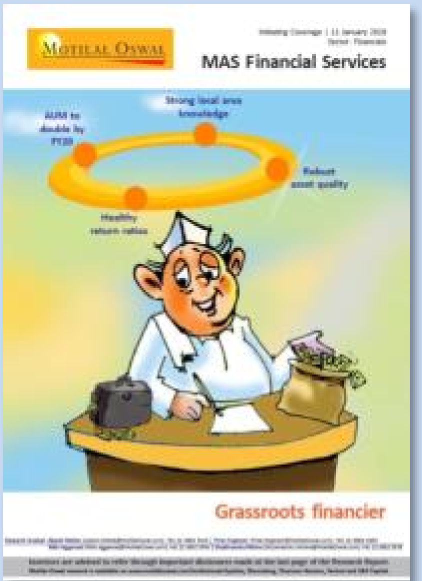
Financials and valuations

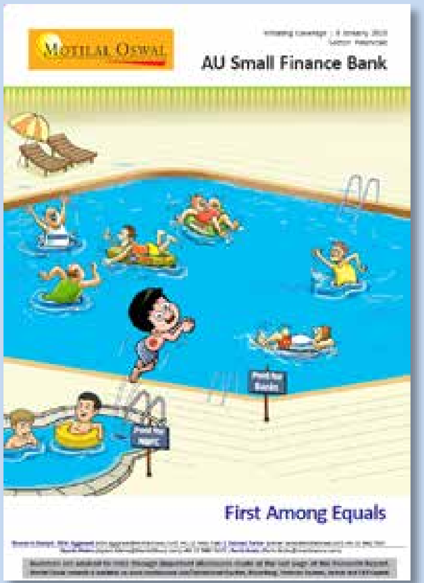
Ratios								
Y/E March	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
Basic (INR)								
EPS	**0.0**	**0.0**	**-0.2**	**-1.2**	**-0.4**	**0.7**	**2.6**	**3.0**
Cash EPS	2.4	2.6	2.2	1.1	2.1	3.2	5.4	6.1
BV/Share	25.1	22.2	18.7	21.7	21.2	35.2	36.9	39.5
DPS	0.5	0.0	0.0	0.0	0.2	0.3	0.3	0.4
Payout (%)	-17.7	-1.3	-0.9	0.0	-53.9	41.9	17.1	16.0
Valuation (x)								
P/E					NA	204.4	52.6	44.2
Cash P/E					64.9	42.2	24.9	22.3
P/BV					6.4	3.8	3.6	3.4
EV/Sales					4.9	4.5	4.1	3.7
EV/EBITDA					32.5	27.8	21.8	17.2
Dividend Yield (%)					0.2	0.2	0.2	0.3
FCF per share					8.0	-0.1	2.7	4.0
EV/ Adj Rooms (INRm)					20.8	18.9	18.4	17.6
EBITDA/ Rooms (INR)					4,107	4,454	5,329	6,189
Return Ratios (%)								
RoE	0.0	0.0	-1.0	-6.2	-2.1	2.3	7.1	8.0
RoCE	3.0	3.0	2.8	3.4	3.8	4.6	5.7	7.5
RoIC	6.2	5.8	5.1	8.9	-14.9	2.3	4.5	6.8
Working Capital Ratios								
Fixed Asset Turnover (x)	0.5	0.5	0.5	0.6	0.7	0.6	0.7	0.7
Asset Turnover (x)	0.5	0.5	0.5	0.5	0.6	0.5	0.6	0.6
Inventory (Days)	9	9	9	7	7	8	7	7
Debtor (Days)	27	25	26	22	25	29	29	29
Creditor (Days)	33	33	32	29	31	31	30	29
Leverage Ratio (x)								
Current Ratio	0.8	0.8	1.1	0.7	0.8	0.9	1.0	1.0
Interest Cover Ratio	1.5	1.5	1.1	0.7	1.0	1.4	2.7	3.6
Net Debt/Equity	1.2	1.5	1.8	1.6	1.2	0.4	0.4	0.3

Consolidated - Cash Flow Statement								(INR m)
Y/E March	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
OP/(Loss) before Tax	-2,918	-4,122	-2,325	-912	306	1,618	3,357	5,764
Depreciation	2,884	3,081	2,913	2,848	2,994	3,012	3,394	3,571
Interest & Finance Charges	1,517	1,453	1,267	3,293	3,015	2,073	1,201	1,177
Direct Taxes Paid	-923	-782	-197	-900	-868	-1,425	-1,658	-2,594
(Inc)/Dec in WC	508	668	-206	948	-599	-1,033	375	390
CF from Operations	**1,068**	**298**	**1,452**	**5,278**	**4,848**	**4,246**	**6,668**	**8,308**
Others	3,950	5,091	3,496	910	498	675	0	0
CF from Operating incl EO	**5,018**	**5,389**	**4,948**	**6,188**	**5,345**	**4,920**	**6,668**	**8,308**
(Inc)/Dec in FA	-4,227	-3,400	-3,111	-3,657	4,193	-5,094	-3,500	-3,500
Free Cash Flow	**790**	**1,990**	**1,836**	**2,531**	**9,538**	**-174**	**3,168**	**4,808**
(Pur)/Sale of Investments	372	-665	-4,501	5,028	4,425	-1,462	0	-2,000
Others	514	529	954	1,196	496	912	676	739
CF from Investments	**-3,341**	**-3,536**	**-6,658**	**2,567**	**9,114**	**-5,644**	**-2,824**	**-4,761**
Issue of Shares	4,231	0	0	0	0	14,999	0	0
Inc/(Dec) in Debt	-2,426	668	6,865	-9,850	-11,719	-9,498	-406	-1,000
Interest Paid	-1,883	-1,857	-1,774	-1,880	-1,637	-4,089	-1,877	-1,916
Dividend Paid	-1,096	-929	-180	-235	-458	-447	-435	-581
Others	0	0	0	0	0	-7	855	455
CF from Fin. Activity	**-1,173**	**-2,119**	**4,911**	**-11,965**	**-13,814**	**957**	**-1,863**	**-3,041**
Inc/Dec of Cash	**503**	**-265**	**3,200**	**-3,210**	**645**	**233**	**1,981**	**506**
Opening Balance	1,597	2,101	1,836	5,036	1,826	2,471	2,704	4,684
Closing Balance	**2,101**	**1,836**	**5,036**	**1,826**	**2,471**	**2,704**	**4,684**	**5,191**

REPORT GALLERY

RECENT INITIATING COVERAGE REPORTS





Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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