

East India Hotels (EIHLM)

₹ 124

At the cusp of higher growth trajectory...

East India Hotels (EIH), one of the premium hotel operators, is expected to be a key beneficiary of a revival in the economic environment. We believe that a slowing down of capacity addition coupled with a rise in spending by domestic travellers will drive occupancy levels over the next few years. Also, with improved tourism measures by the government, the sector may see a better growth trajectory and pricing in the next three to four years. Apart from an improving environment, the reopening of the Delhi property and opening of six new hotels is expected to drive topline (CAGR of 14.4% in FY17E-19E) and bottomline growth (32.7% CAGR in FY17E-19E). The stock is trading at attractive valuation of (i.e. at EV of ₹ 3.2 crore/room, 15.0x FY19E EV/EBITDA). Hence, we upgrade the stock to BUY with a revised target price of ₹ 150 (i.e. valuing at EV/EBITDA of 17.0x and EV of ₹ 3.9 crore/room).

Improving demand supply dynamics to drive growth...

In FY16, the hotel industry witnessed a healthy demand improvement with pan-India occupancy crossing 63.0%. This is the first time in five years that pan-India hotel occupancy has crossed 60%. The improvement in occupancy was mainly due to demand growth (10.5% YoY) outpacing supply growth (3.9% YoY). Going forward, we expect occupancy and ARR levels to improve further due to slowing down of capacity addition, the government's focus on boosting tourism and a rise in spending of domestic travellers.

Reopening of Delhi property to drive revenues in FY19E

EIH closed The Oberoi, New Delhi (one of its prime property) from April 1, 2016 for renovation. The hotel is expected to be ready for commercial operation by April 1, 2018. The hotel generated revenue of ₹ 186.9 crore (contributed 13.7% of total revenues of the company). Hence, the reopening of the Delhi hotel in FY19E will result in 22.0% YoY growth in revenues.

Six new properties to be added over next three years

Over the next three years, EIH plans to open at least six new hotels consisting of ~641 rooms. These hotels are in various stages of construction and are expected to be operational over the next three years. We believe the company is in a better position on the balance sheet front (D/E of 0.2x) to fund these expansions. Better working capital management and healthy operating cash flows would also aid in keeping D:E below 0.5:1. Further, EIH also has a strategic partner, Reliance Industries, with an 18.5% stake in the company. This, we believe, would help EIH grow faster with a rebound in the macro environment.

Premium play; upgrade to BUY

EIH's hotels have a major presence in business destinations, which are expected to witness robust growth, going ahead, led by a revival in the economic environment. Further, reopening of the Delhi property and opening of six new hotels is expected to drive topline (CAGR of 14.4% in FY17E-19E) and bottomline growth (CAGR of 32.7% in FY17E-19E). Consequently, we upgrade the stock from HOLD to BUY. The stock is trading at attractive valuation of 15.0x FY19E EV/EBITDA (i.e. at ₹ 3.2 crore/room). We have valued the stock at 17.0x FY19E EBITDA (i.e. at ₹ 3.9 crore/room) and arrived at a target price of ₹ 150/share.

Rating matrix

Rating	:	Buy
Target	:	₹ 150
Target Period	:	12-15 months
Potential Upside	:	21%

What's Changed?

Target	Changed from ₹ 105 to ₹ 150		
EPS FY17E	Unchanged		
EPS FY18E	Unchanged		
EPS FY19E	Introduced at ₹ 3.3		
Rating	Changed from Hold to Buy		

Key Financials

₹ Crore	FY16	FY17E	FY18E	FY19E
Net Sales	1,786.9	1,679.6	1,800.6	2,196.7
EBITDA	385.4	327.5	360.1	477.8
Net Profit	123.3	105.7	126.4	186.2
EPS (Rs)	2.2	1.8	2.2	3.3

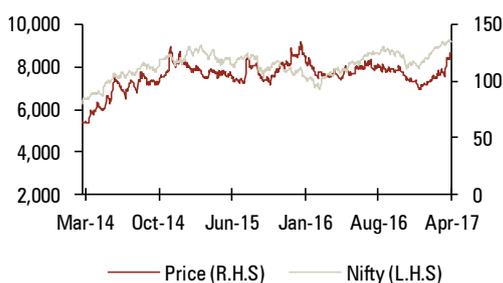
Valuation summary

	FY16	FY17E	FY18E	FY19E
P/E	57.3	66.8	55.9	37.9
Target P/E	69.5	81.1	67.8	46.1
EV / EBITDA	18.9	22.5	20.4	15.0
P/BV	2.7	2.9	2.6	2.5
RoNW	5.1	4.4	4.7	6.6
RoCE	7.8	6.7	7.0	9.7

Stock data

Particulars	Amount
Market Capitalization	₹ 7059 crore
Total Debt (FY16)	₹ 408 crore
Cash and Investments (FY16)	₹ 194 crore
EV	₹ 7273 crore
52 week H/L	127/86
Equity capital	114.3
Face value	₹ 2

Price Chart



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Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Total operating Income	1,786.9	1,679.6	1,800.6	2,196.7	
Growth (%)	7.1	-6.0	7.2	22.0	
Raw Material Expenses	237	235	252	280	
Employee Expenses	467	445	468	560	
Other Exp	698	672	720	879	
Total Operating Expenditure	1,401.4	1,352.1	1,440.5	1,718.9	
EBITDA	385.4	327.5	360.1	477.8	
Growth (%)	16.8	-15.0	9.9	32.7	
Depreciation	170.3	168.2	173.6	205.3	
Interest	42.4	44.1	37.9	19.5	
Other Income	44.9	46.3	47.7	49.7	
PBT	217.7	161.5	196.4	302.7	
Others	16.2	-7.5	-7.0	-2.1	
Total Tax	78.1	63.3	77.0	118.7	
PAT	123.3	105.7	126.4	186.2	
Growth (%)	95.3	-14.3	19.6	47.3	
EPS (₹)	2.2	1.8	2.2	3.3	

Source: ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Liabilities					
Equity Capital	114.3	114.3	114.3	114.3	
Reserve and Surplus	2,528.9	2,278.9	2,602.4	2,725.7	
Total Shareholders funds	2,643.2	2,393.2	2,716.7	2,840.0	
Total Debt	408.5	358.5	308.5	158.5	
Deferred Tax Liability	205.3	205.3	205.3	205.3	
Minority Interest / Others	89.1	96.9	106.5	121.2	
Total Liabilities	3,346.0	3,053.9	3,337.0	3,325.0	
Assets					
Gross Block	3,197.2	3,576.5	3,721.5	4,271.5	
Less: Acc Depreciation	1,131.1	1,299.3	1,472.9	1,678.1	
Net Block	2,066.1	2,277.2	2,248.6	2,593.4	
Capital WIP	309.3	200.0	325.0	0.0	
Total Fixed Assets	2,375.4	2,477.2	2,573.6	2,593.4	
Goodwill on consolidation	331.5	331.5	331.5	331.5	
Investments	223.6	228.6	233.6	238.6	
Inventory	52.2	35.2	58.5	55.8	
Debtors	217.3	211.7	226.9	276.8	
Loans and Advances	335.1	168.8	371.4	375.5	
Other Current Assets	0.9	0.5	1.0	0.8	
Cash	194.1	54.6	27.3	47.3	
Total Current Assets	799.6	470.8	685.1	756.3	
Creditors	350.6	372.7	399.6	487.5	
Provisions	34.1	82.0	87.9	107.2	
Total Current Liabilities	384.7	454.7	487.5	594.7	
Net Current Assets	415.0	16.0	197.6	161.6	
Others Assets	0.6	0.6	0.6	0.0	
Application of Funds	3,346.0	3,053.9	3,336.9	3,325.0	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Profit after Tax	123.3	105.7	126.4	186.2	
Add: Depreciation	170.3	168.2	173.6	205.3	
(Inc)/dec in Current Assets	-46.8	189.4	-241.7	-51.2	
Inc/(dec) in CL and Provisions	-75.9	70.1	32.7	107.2	
CF from operating activities	170.9	533.3	91.0	447.5	
(Inc)/dec in Investments	30.5	-5.0	-5.0	-5.0	
(Inc)/dec in Fixed Assets	-169.6	-270.0	-270.0	-224.4	
Others	20.3	7.9	9.6	14.7	
CF from investing activities	-118.8	-267.1	-265.4	-214.6	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	33.9	-50.0	-50.0	-150.0	
Dividend paid & dividend tax	-62.9	-62.9	-62.9	-62.9	
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0	
Others	-27.2	-292.8	260.0	0.0	
CF from financing activities	-56.2	-405.7	147.1	-212.9	
Net Cash flow	-4.1	-139.5	-27.3	20.0	
Opening Cash	198.1	194.1	54.6	27.3	
Closing Cash	194.1	54.6	27.3	47.3	

Source: Company, ICICIdirect.com Research

Key ratios		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Per share data (₹)					
EPS	2.2	1.8	2.2	3.3	
Cash EPS	5.1	4.8	5.2	6.8	
BV	46.2	41.9	47.5	49.7	
DPS	1.1	1.1	1.1	1.1	
Cash Per Share	3.4	1.0	0.5	0.8	
Operating Ratios (%)					
EBITDA Margin	21.6	19.5	20.0	21.8	
PBT / Total Operating income	6.9	6.3	7.0	8.5	
PAT Margin	6.9	6.3	7.0	8.5	
Inventory days	10.3	9.5	9.5	9.5	
Debtor days	44.4	46.0	46.0	46.0	
Creditor days	71.6	81.0	81.0	81.0	
Return Ratios (%)					
RoE	5.1	4.4	4.7	6.6	
RoCE	7.8	6.7	7.0	9.7	
RoIC	8.6	6.5	7.1	9.3	
Valuation Ratios (x)					
P/E	57.3	66.8	55.9	37.9	
EV / EBITDA	18.9	22.5	20.4	15.0	
EV / Net Sales	4.1	4.4	4.1	3.3	
Market Cap / Sales	4.0	4.2	3.9	3.2	
Price to Book Value	2.7	2.9	2.6	2.5	
Solvency Ratios					
Debt/EBITDA	1.1	1.1	0.9	0.3	
Debt / Equity	0.2	0.1	0.1	0.1	
Current Ratio	1.6	0.9	1.3	1.2	
Quick Ratio	1.4	0.8	1.2	1.1	

Source: Company, ICICIdirect.com Research

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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