

## Passing through medium term challenges...

**About the stock:** EIH is the flagship company of the Oberoi group that manages 33 hotels (~11 owned, 22 under management contract) with room inventory of ~4525.

- The company operates the hotels under the brands Oberoi - super luxury brand, Trident-5 star brand and Maidens (heritage)
- EIH also provides catering/kitchen services to airlines and operates restaurants/lounges at airports and is also into air charter and car hire services

**Q1FY22 Results:** Results stayed weak, directly impacted by second Covid wave.

- Revenues were down 57.8% to ₹ 79.3 crore. On a YoY basis, revenues were up 178% on a very low base
- Operating cost declined 18% QoQ only as more than 70% of expenditure is fixed in nature. This led to EBITDA loss of ₹ 97.1 crore (vs. I-direct estimate: loss of ₹ 37.2 crore)
- Net loss came in at ₹ 93 crore (vs. net loss of ₹ 68.1 crore in Q4FY21)

**What should investors do?** The b/s provides strong immunity to weather the challenges while strategic property locations provide visibility to ride on long-term tourism growth story

- Hence, we remain positive on the company with a BUY rating on the stock

**Target Price and Valuation:** We value the stock at ₹ 150 i.e. 28x FY23E EV/EBITDA

**Key triggers for future price performance:**

- Expect resumption of normalcy with settling down of Covid cases that should drive strong tourism demand from Q3, Q4 FY22E onwards
- Benefit of efficiency measures taken during challenging times to get visible from FY23E with likely strong traction in margins
- Strong b/s to help weather medium-term challenges

**Alternate Stock Idea:** Apart from EIH, in our cement sector coverage, we also like Indian Hotels that has a mix of domestic and international room portfolio.

- It has the strong "Taj brand" in the premium segment along with having a larger presence in the midscale and economy segments
- BUY with a target price of ₹ 150/share

### Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21	3 year CAGR (%)	FY22E	FY23E	2 year CAGR (%)
Net Sales	1599	1811	1596	497	-32.3	1021	1458	71.3
EBITDA	299	406	290	-292	-199.2	10	334	LP
EBITDA (%)	18.7	22.4	18.2	-58.7		1.0	22.9	
PAT	179	194	163	-377	-228.2	-48	206	LP
EPS (₹)	3.1	3.1	2.6	-6.0		-0.8	3.3	
EV/EBITDA	24.2	17.8	25.3	-24.7		714.5	21.0	
D/E	0.2	0.2	0.2	0.2		0.2	0.1	
RoNW (%)	6.2	6.5	5.2	-12.2		-1.6	6.4	
RoCE (%)	8.2	9.6	5.7	-9.9		-1.1	8.9	

Source: Company, ICICI Direct Research



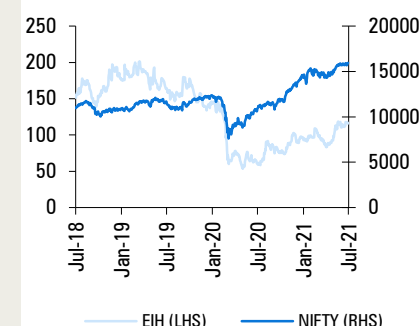
### Particulars

Particulars	Amount
Market Capitalization (₹ Crore)	6,941.4
Total Debt (FY21) (₹ Crore)	475.4
Cash and investments (FY21) (₹ crore)	205.1
EV (₹ Crore)	7,211.7
52 week H/L	188 / 54
Equity capital (post rights issue)	125.1
Face value	₹ 2

### Shareholding pattern

(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	35.3	35.3	35.7	35.7	35.7
FII	3.4	2.3	2.4	2.9	3.3
DII	15.7	14.2	14.0	14.0	13.8
Others	45.7	48.3	47.9	47.4	47.1

### Price Chart



### Key risks

- Any further imposition of restriction on travel
- Companies adopting work from home policy beyond FY22E could further delay the recovery in business hotel segment

### Research Analyst

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## Key performance highlights

- Q1FY22 witnessed a decline in RevPAR due to the second Covid-19 wave. However, a steep recovery is being witnessed from June 2021 onwards
- Weighted average cost of debt as on June 30, 2021 was at 7.51% (down 61 bps YoY). However, second wave led to business disruptions leading to QoQ rise in debt to ₹ 379 crore vs. debt of ₹ 415 crore as on March 31, 2020
- Efforts towards implementing efficient cost structure through rationalisation of human capital (~24% reduction in executive & staff from June-19 to June-21 for the group) and technological advancements have resulted into sustainable savings in fixed expenses
- Reducing carbon footprint: Solar plants with capacity of 3.0 MW are being commissioned, which is expected to generate 4.2 million units per annum
- The company has signed an MoU with Energy Efficiency Services (EESL). With this partnership, EESL, through its nationwide network, will collaborate with all Oberoi Hotels & Resorts to evaluate opportunities for saving energy and lowering emissions

**Exhibit 1: Variance Analysis**

	Q1FY22	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Net Sales	79.3	133.4	28.5	178.6	187.9	-57.8	Stringent restrictions imposed across various states amid second wave led to sharp fall in business
Other income	10.9	10.0	10.0	9.0	10.3	5.3	
Raw Material Expenses	14.1	21.3	5.0	183.1	30.0	-53.1	
Employee cost	82.0	75.3	87.3	-6.0	77.4	6.0	
Other Exp	80.4	74.0	61.6	30.5	107.2	-25.0	
EBITDA	-97.1	-37.2	-125.4	-22.5	-26.7	264.0	
EBITDA Margin (%)	-122.5	-27.9	-440.5	NA	-14.2	NA	
Interest	7.8	7.4	11.1	-30.1	7.5	3.2	
Depreciation	28.5	28.5	30.9	-7.8	28.4	0.3	
PBT and Exceptional exp	-122.6	-63.1	-157.4	NA	-52.3	PL	
Exceptional exps	0.0	0.0	0.0	NA	28.7	0.0	
PBT	-122.6	-63.1	-157.4	NA	-81.0	PL	
Tax Expenses	-29.5	-21.1	-39.2	-24.9	-12.9	NA	
PAT	-93.1	-42.0	-118.2	NA	-68.1	PL	
EPS	-1.6	-0.7	-2.1	NA	-1.2	PL	

**Key Metrics**

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,021.1	1,021.1	0.0	1,458.3	1,458.3	NA	NA
EBITDA	10.1	10.2	1.1	333.9	333.9	NA	NA
EBITDA Margin (%)	1.0	1.0	NA	22.9	22.9	NA	
PAT	-40.0	-48.0	20.0	206.0	206.0	NA	NA
EPS (₹)	-0.6	-0.8	20.0	3.3	3.3	NA	

Source: Company, ICICI Direct Research

## Key triggers for future price performance

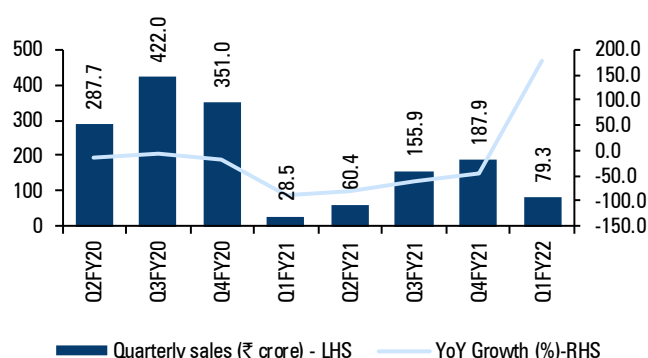
**Benefit of efficiency measures to get visible from FY23E onwards:** With the vaccination drive launched by many developed countries along with India, we expect FY22E to be a year of strong recovery after severe challenges faced by hotel companies during FY21 due to Covid. To cope with this, the company has initiated major steps to bring down costs and come out stronger and more efficient. During the quarter, the company managed to reduce fixed overhead by 22%, major being the salary and admin related. With over 20% of total cost reduction done during FY21 being sustainable, we expect over 5-6% reduction in total costs on a sustainable basis. Hence, in our view, while FY22E would see cost led margin expansion, it would accelerate further with traction in room rates post FY22E

**Strong balance-sheet to help weather medium term challenges:** The second wave of pandemic has again impacted domestic demand, which poses a near-term challenge. As the company derives majority of revenues from the domestic market with Mumbai and Delhi being the key revenue contributor, we expect a recovery to further get delayed due to ongoing second wave of pandemic. However, the company, despite this challenge, is relatively insulated from the risk of medium term slowdown owing to better liquidity and comfortable debt position.

**Valuation & Outlook:** With strong b/s and strategic property locations across key destinations, the company is best positioned to ride on long-term growth story. At the CMP of ₹ 111, stock trading at adjusted EV/room of ₹ 1.9/room (i.e. at 60% of its fair value). Hence, we maintain our BUY recommendation with a target price of ₹ 150/share (i.e. @ 28x FY23E EV/EBITDA).

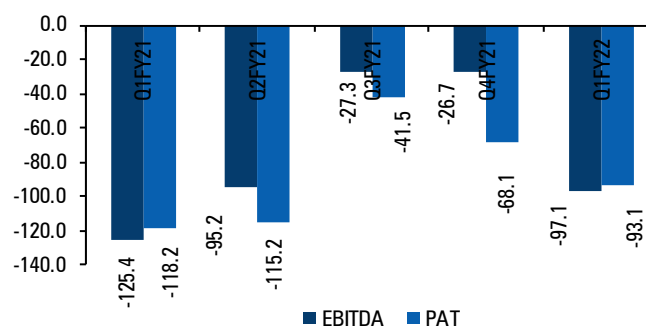
## Financial Story in Charts

**Exhibit 3: Revenues decline 58% QoQ, up 179% YoY**



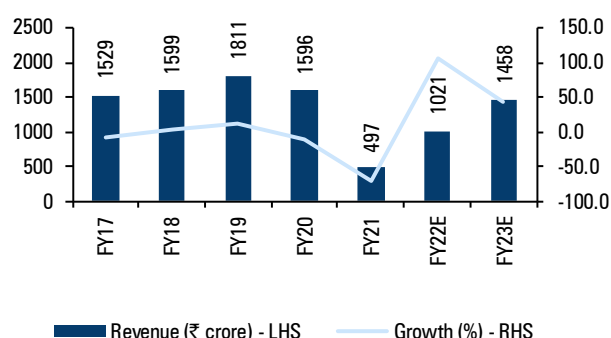
Source: Company, ICICI Direct Research

**Exhibit 4: EBITDA loss spikes QoQ due to lower business**



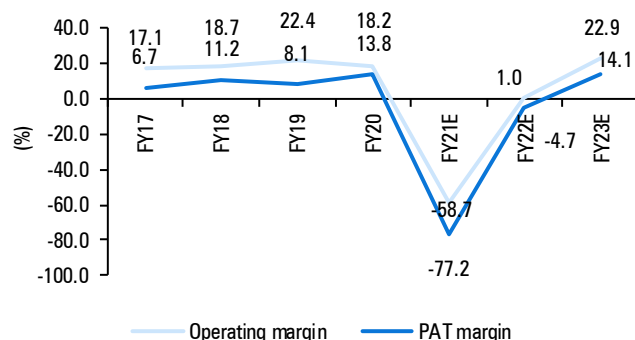
Source: Company, ICICI Direct Research

**Exhibit 5: Revenues to recover from H2FY22E onwards**



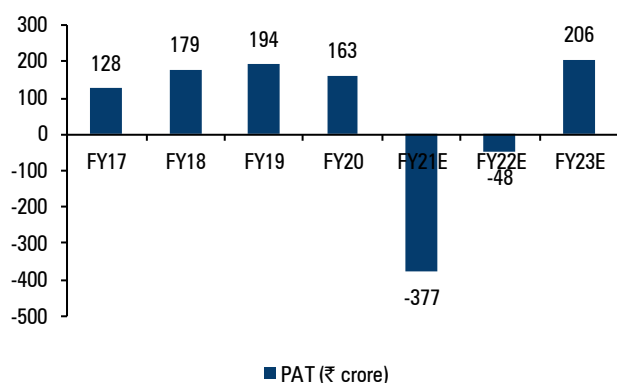
Source: Company, ICICI Direct Research

**Exhibit 6: EBITDA margins to rebound from FY22E**



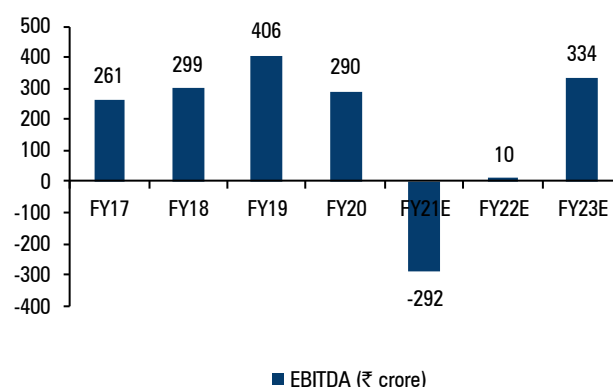
Source: Company, ICICI Direct Research

**Exhibit 7: Profitability trend**



Source: Company, ICICI Direct Research

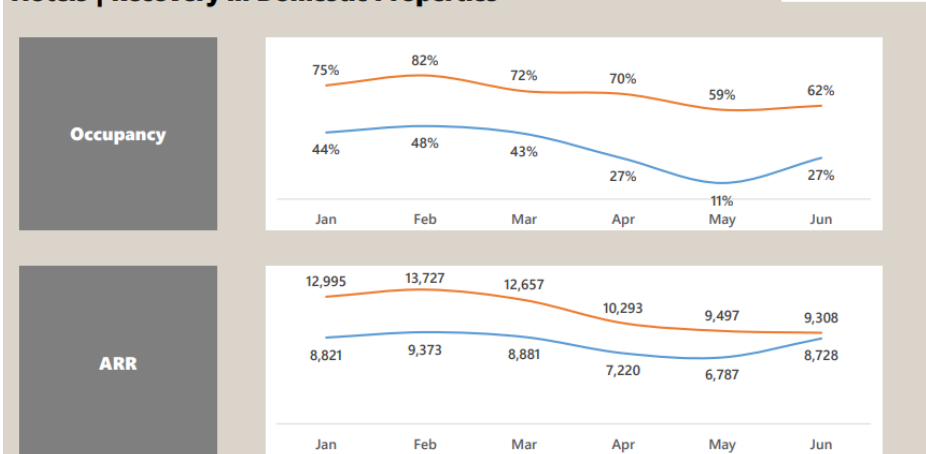
**Exhibit 8: EBITDA trend over FY20-23E**



Source: Company, ICICI Direct Research

### Exhibit 9: Monthly ARR and occupancy trend

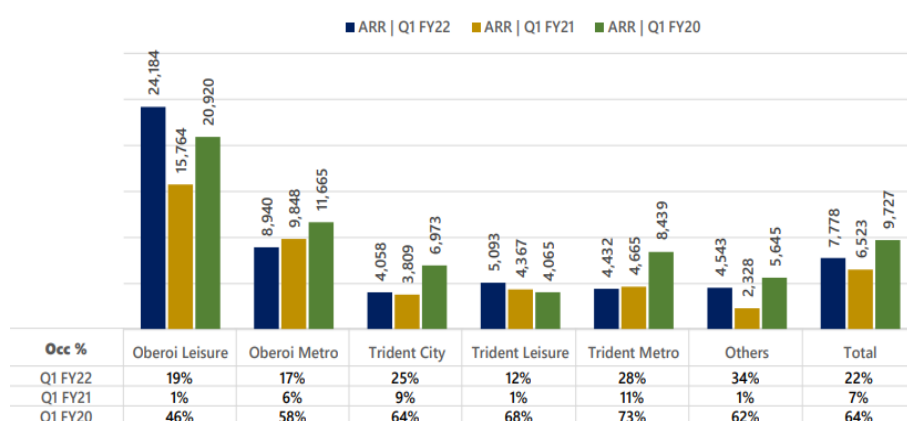
#### Hotels | Recovery in Domestic Properties



Source: Company, ICICI Direct Research

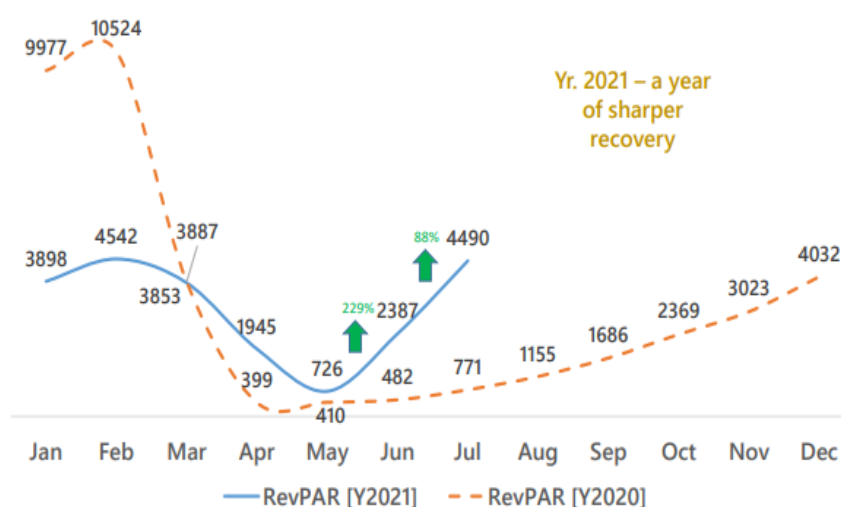
Q1FY22 witnessed a decline in RevPAR due to second wave of Covid-19. However, a steep recovery is being witnessed from June 2021 onwards

### Exhibit 10: Quarterly ARR and occupancy trend



Source: ICICI Direct Research, Company

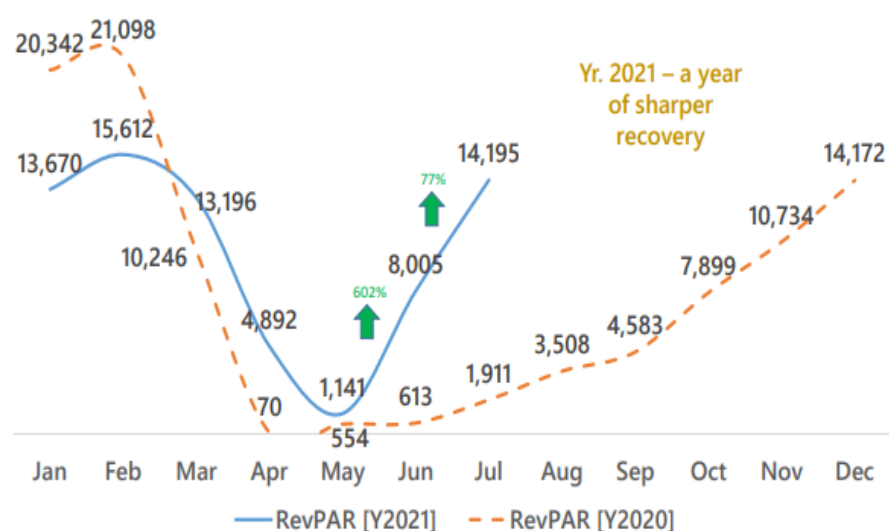
### Exhibit 11: Comparison of performance during first and second wave



Source: Company, ICICI Direct Research

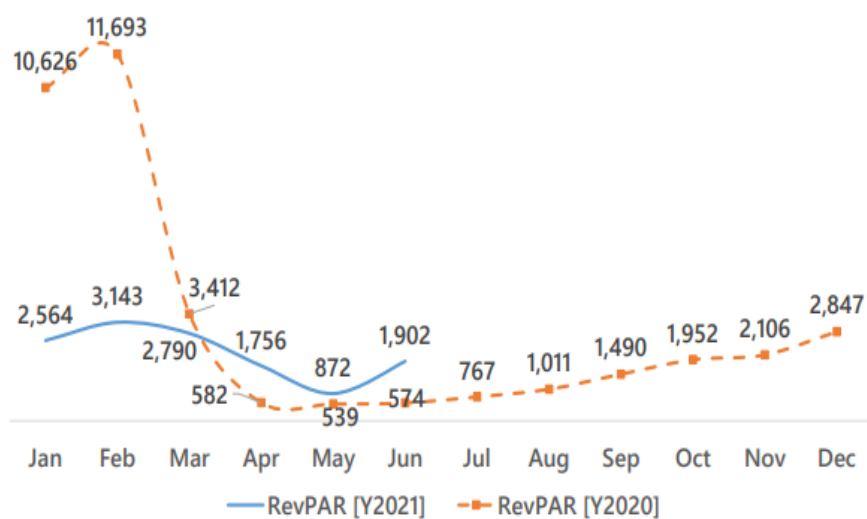
Q1FY22 witnessed sharper recovery in RevPAR compared to the first wave

**Exhibit 12: Oberoi leisure properties performance**



Source: Company, ICICI Direct Research

**Exhibit 13: Oberoi metro properties performance**



Source: Company, ICICI Direct Research

## Financial Summary

**Exhibit 14: Profit & Loss Account**

(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Total operating Income</b>	<b>1,596.3</b>	<b>497.1</b>	<b>1,021.1</b>	<b>1,458.3</b>
Growth (%)	-11.8	-68.9	105.4	42.8
Raw Material Expenses	199	75	138	197
Employee Expenses	469	352	362	373
Other Exp	637	362	511	554
Total Operating Expenditure	1,306.0	789.0	1,010.9	1,124.4
<b>EBITDA</b>	<b>290.3</b>	<b>-291.9</b>	<b>10.2</b>	<b>333.9</b>
Growth (%)	-28.5	-200.5	-103.5	3,168.6
Depreciation	146.5	132.7	136.8	136.8
Interest	55.6	45.7	43.7	29.9
Other Income	78.4	57.9	86.8	130.3
PBT	166.7	-412.4	-83.5	297.4
Others	-54.8	72.3	-15.5	24.1
Total Tax	0.9	-100.9	-20.0	67.3
<b>Reported PAT</b>	<b>220.6</b>	<b>-383.8</b>	<b>-48.0</b>	<b>206.0</b>
Growth (%)	49.7	-274.0	NA	LP
<b>Adjusted EPS (₹)</b>	<b>2.6</b>	<b>-6.0</b>	<b>-0.8</b>	<b>3.3</b>

Source: Company, ICICI Direct Research

**Exhibit 15: Cash flow statement**

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	220.6	-383.8	-48.0	206.0
Add: Depreciation	146.5	132.7	136.8	136.8
(Inc)/dec in Current Assets	236.9	172.9	-78.0	-184.8
Inc/(dec) in CL and Provisions	-4.7	-31.1	-86.9	87.6
<b>CF from operating activit</b>	<b>599.3</b>	<b>-109.3</b>	<b>-76.0</b>	<b>245.5</b>
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-549.3	-63.1	18.9	40.0
Others	-41.3	-30.9	0.0	0.0
<b>CF from investing activit</b>	<b>-590.7</b>	<b>-94.0</b>	<b>18.9</b>	<b>40.0</b>
Issue/(Buy back) of Equity	0.0	10.8	0.0	0.0
Inc/(dec) in loan funds	89.3	-144.9	0.0	-150.0
Dividend paid & dividend tax	-66.2	0.0	0.0	0.0
Inc/(dec) in Sec. premium	0.0	338.9	0.0	0.0
Others	-16.5	19.5	-30.0	0.0
<b>CF from financing activit</b>	<b>6.6</b>	<b>224.3</b>	<b>-30.0</b>	<b>-150.0</b>
Net Cash flow	-17.9	-7.1	-87.1	135.5
Opening Cash	230.2	212.2	205.1	117.9
<b>Closing Cash</b>	<b>212.2</b>	<b>205.1</b>	<b>117.9</b>	<b>253.5</b>

Source: Company, ICICI Direct Research

**Exhibit 16: Balance Sheet summary**

(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	114.3	125.1	125.1	125.1
Reserve and Surplus	3,005.3	2,980.0	2,902.0	3,108.0
Total Shareholders funds	3,119.6	3,105.1	3,027.1	3,233.1
Total Debt	620.3	475.4	475.4	325.4
Deferred Tax Liability	76.1	41.4	41.4	41.4
Minority Interest / Others	99.7	94.4	94.4	94.4
<b>Total Liabilities</b>	<b>3,916</b>	<b>3,716</b>	<b>3,638</b>	<b>3,694</b>
<b>Assets</b>				
Gross Block	4,309.5	4,201.5	4,201.5	4,201.5
Less: Acc Depreciation	1,788.9	1,788.9	1,925.7	2,062.5
Net Block	2,520.5	2,412.5	2,275.7	2,138.9
Capital WIP	130.4	168.9	150.0	110.0
Total Fixed Assets	2,651.0	2,581.4	2,425.7	2,248.9
Goodwill on consolidation	370.1	360.9	360.9	360.9
Investments	613.0	564.4	564.4	564.4
Inventory	61.0	51.4	32.6	87.3
Debtors	205.7	77.8	139.9	199.8
Loans and Advances	149.6	144.2	162.1	187.9
Other Current Assets	93.0	63.1	79.8	124.3
Cash	212.2	205.1	117.9	253.5
Total Current Assets	721.5	618.1	608.9	929.3
Creditors	296.2	266.2	173.4	231.7
Provisions	151.4	150.2	156.1	185.4
Total Current Liabilities	447.5	416.4	329.6	417.1
Net Current Assets	274.0	201.7	279.4	512.2
Others Assets	7.7	7.7	7.7	7.7
<b>Application of Funds</b>	<b>3,916</b>	<b>3,716</b>	<b>3,638</b>	<b>3,694</b>

Source: Company, ICICI Direct Research

**Exhibit 17: Ratio sheet**

(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
Adjusted EPS	2.6	-6.0	-0.8	3.3
Cash EPS	5.9	-4.0	1.4	5.5
BV	49.9	49.7	48.4	51.7
DPS	0.9	0.0	0.0	0.0
Cash Per Share	3.4	3.3	1.9	4.1
<b>Operating Ratios (%)</b>				
EBITDA Margin	18.2	-58.7	1.0	22.9
PAT Margin	13.8	-77.2	-4.7	14.1
Inventory days	13.8	41.2	15.0	15.0
Debtor days	47.0	57.1	50.0	50.0
Creditor days	67.7	195.5	62.0	58.0
<b>Return Ratios (%)</b>				
RoE	5.2	-12.2	-1.6	6.4
RoCE	5.7	-9.9	-1.1	8.9
RoIC	4.5	-14.7	-4.3	6.8
<b>Valuation Ratios (x)</b>				
P/E	26.1	0.0	0.0	27.9
EV / EBITDA	21.2	-20.6	598.2	17.4
EV / Net Sales	3.9	12.1	6.0	4.0
Market Cap / Sales	3.6	11.6	5.6	3.9
Price to Book Value	1.8	1.9	1.9	1.8
<b>Solvency Ratios</b>				
Debt/EBITDA	2.1	-1.6	46.5	1.0
Debt / Equity	0.2	0.2	0.2	0.1
Current Ratio	1.1	0.8	1.3	1.4
Quick Ratio	1.0	0.7	1.2	1.2

Source: Company, ICICI Direct Research



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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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