EIH Ltd (EIHLIM)

ICICI direct Research

CMP: ₹ 92 | Target: ₹ 125 (36%) | Target Period: 12 months | **BUY**

May 11, 2021

Firm b/s to help weather medium term challenges…

EIH's operational performance in Q4FY21 was impacted by impairments and rise in other costs despite improvement in revenues. This led the company to report a net loss of ₹ 68.1 crore vs. loss of ₹ 41.5 crore in Q3FY21. Pick-up in leisure segment in January-February led to 20.5% QoQ growth in revenue to ₹ 187.9 crore (vs. I-direct estimate of ₹ 149 crore). However, it was down 46.5% YoY as foreign tourist arrivals continued to be affected by Covid induced restricted travel. There was a sharp rise in other expenditure (up 26.8% QoQ to ₹ 107.2 crore) due to spillover of some expenses related to previous quarter and some statutory dues. However, lower employee costs restricted total increase in expenses to 17.1% (lower than topline growth). This helped restrict EBITDA losses to ₹ 26.7 crore vs. EBITDA loss of ₹ 27.3 crore in Q3FY21 and ₹ 42.9 crore in Q2FY21. Net loss was higher at ₹ 68.1 crore (vs. net loss of ₹ 41.5 crore in Q3FY21) as it included impairment loss of ₹ 28.7 crore pertaining to non-current investments. Total debt on the books reduced by ₹ 144 crore to ₹ 277 crore with the help of fund raising of ₹ 349.7 crore through rights issue in October 2020.

Benefit of efficiency measures to be visible from FY23E onwards

With the vaccination drive launched by many developed countries including India, we expect FY22E to be the year of strong recovery after severe challenges faced by hotel companies in FY21 due to Covid. To cope up with this, the company has initiated major steps to bring down costs and come out stronger and more efficient. During the quarter, EIH managed to reduce fixed overhead by 22%, major being 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 the pandemic has again started impacting 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 the ongoing second wave of pandemic. However, EIH, despite this challenge, is relatively insulated from the risk of medium term slowdown owing to better liquidity and comfortable debt position.

Valuation & Outlook

With a strong balance sheet and strategic property locations across key destinations, the company is best positioned to ride the long-term growth story. At the CMP of ₹ 92, the stock trading at adjusted EV/room of ₹ 1.8/room (i.e. at 51% of its fair value). Hence, we maintain our **BUY** rating with an unchanged target price of ₹ 125 (@ 23.5x FY23E EV/EBITDA).

EIH Limited
A MEMBER OF THE OBEROI GROUP

Stock Data

Particulars	Amount
Market Capitalization (₹ Crore)	5,753.2
Total Debt (FY21) (₹ Crore)	475.4
Cash and investments (FY21) (₹ crore)	212.2
EV (₹ Crore)	6,016.4
52 week H/L	188 / 54
Equity capital (post rights issue)	125.1
Face value	₹ 2

Key Highlights

- Pick-up in leisure travel led to QoQ growth in revenues
- Ave occupancy stood at 46% for Q4FY21. For FY21, it is at 27%.
- Lower fixed expenses helped narrow down losses
- Weighted average cost of debt down from 8.7% last year to 7.9% as of March 2021
- D/E now 0.09x from 0.21x earlier
- Maintain BUY with unchanged target price of ₹ 125

Key risks to our call

- Any further imposition of restriction on travel (domestic + International) could further delay recovery in tourist destinations
- Companies adopting work from home policy beyond FY22E could further delay recovery in business hotel segment

Research Analyst

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	1811	1596	497	1021	1458	71.3%
EBITDA	406	290	-292	10	334	LP
EBITDA (%)	22.4	18.2	-58.7	1.0	22.9	
PAT	194	163	-377	-48	206	LP
EPS (₹)	3.1	2.6	-6.0	-0.8	3.3	
EV/EBITDA	14.9	21.2	-20.6	598.2	17.4	
D/E	0.2	0.2	0.2	0.2	0.1	
RoNW (%)	6.5	5.2	-12.2	-1.6	6.4	
RoCE (%)	9.6	5.7	-9.9	-1.1	8.9	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Net Sales	187.9	149.0	351.0	-46.5	155.9	20.5	Improved traction in the leisure segment led to better than expected revenue for Q4FY21
Other income	10.3	9.0	16.5	-37.4	11.6	-11.0	
Raw Material Expenses	30.0	23.5	40.7	-26.3	24.6	22.1	
Employee cost	77.4	75.0	102.0	-24.1	74.2	4.4	
Other Exp	107.2	80.8	139.9	-23.4	84.5	26.8	
EBITDA	-26.7	-30.2	68.5	-139.0	-27.3	-2.3	
EBITDA Margin (%)	-14.2	-20.3	19.5	NA	-17.5	NA	
Interest	7.5	6.0	11.3	-33.5	9.7	-22.2	Reduced cost of debt and part repayment led to fall in interest expenses
Depreciation	28.4	29.1	32.5	-12.5	29.7	-4.2	
PBT and Exceptional exp	-52.3	-56.3	41.1	NA	-55.1	PL	
Exeptional exps	28.7	0.0	16.1	NA	0.0	0.0	Represents impairment in the value of non-current investments
PBT	-81.0	-56.3	25.0	NA	-55.1	PL	
Tax Expenses	-12.9	-14.1	9.4	-237.6	-13.5	NA	
PAT	-68.1	-42.3	15.6	NA	-41.5	PL	
EPS	-1.2	-0.7	0.3	NA	-0.7	PL	

Source: Company, ICICI Direct Research

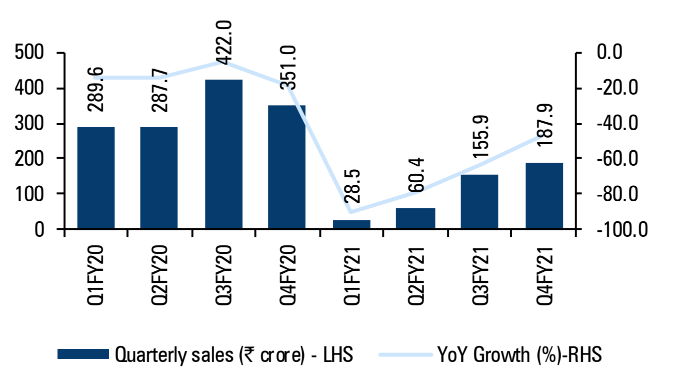
Exhibit 2: Change in estimates

	FY22E			FY23E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	Comments
Revenue	1,121.1	1,021.1	-8.9	NA	1,458.3	NA	NA
EBITDA	18.3	10.2	-44.2	NA	333.9	NA	NA
EBITDA Margin (%)	1.6	1.0	NA	NA	22.9	NA	

Source: Company, ICICI Direct Research

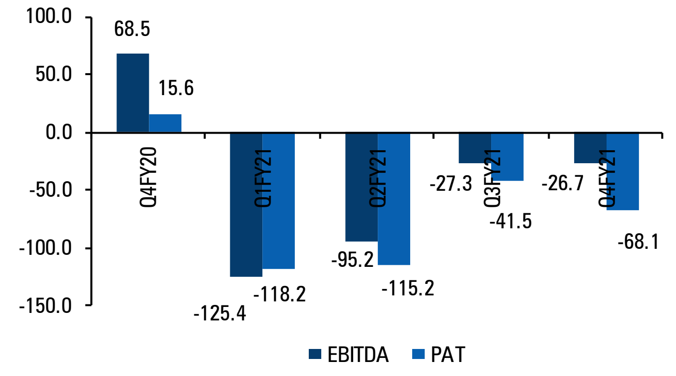
Financial Story in charts

Exhibit 3: Revenues decline 46.5% YoY in Q4FY21



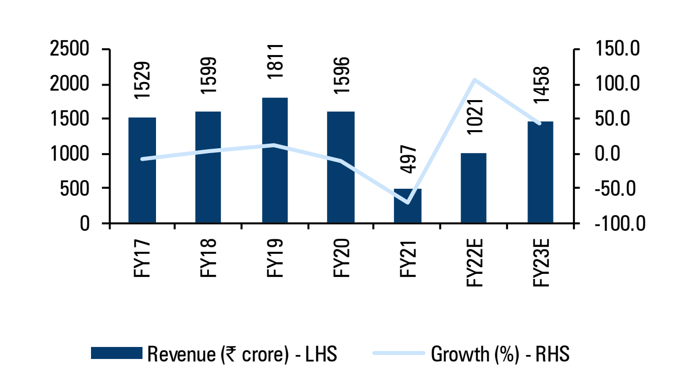
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA loss narrows marginally in Q4FY21



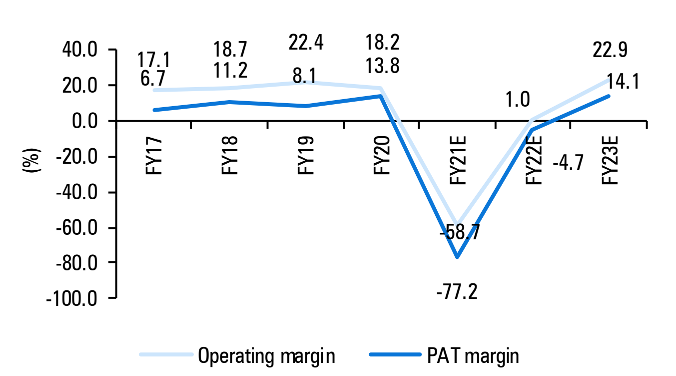
Source: Company, ICICI Direct Research

Exhibit 5: Revenues to recover from FY22E onwards



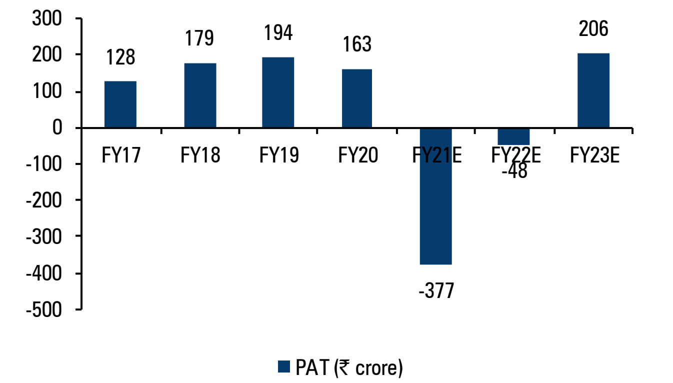
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA margins to rebound from FY22E



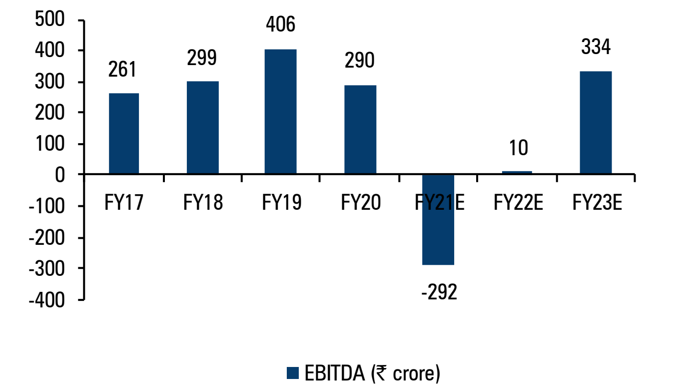
Source: Company, ICICI Direct Research

Exhibit 7: Profitability trend



Source: Company, ICICI Direct Research

Exhibit 8: EBITDA trend over FY20-23E



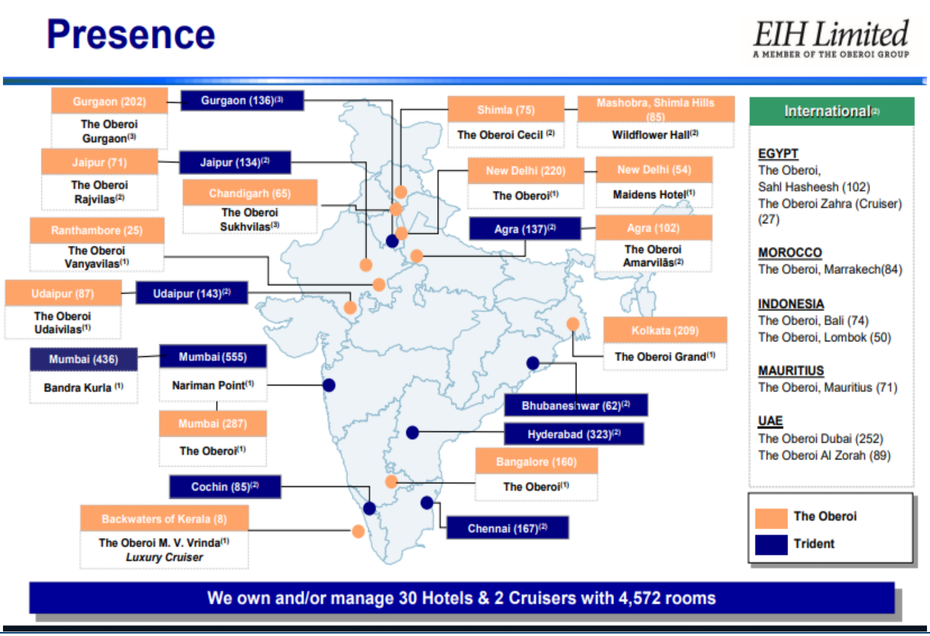
Source: Company, ICICI Direct Research

Exhibit 9: EIH Group brand wise portfolio

Source: Company, ICICI Direct Research

Out of total room portfolio of 4572 rooms, it operates over 2719 rooms under super luxury segment

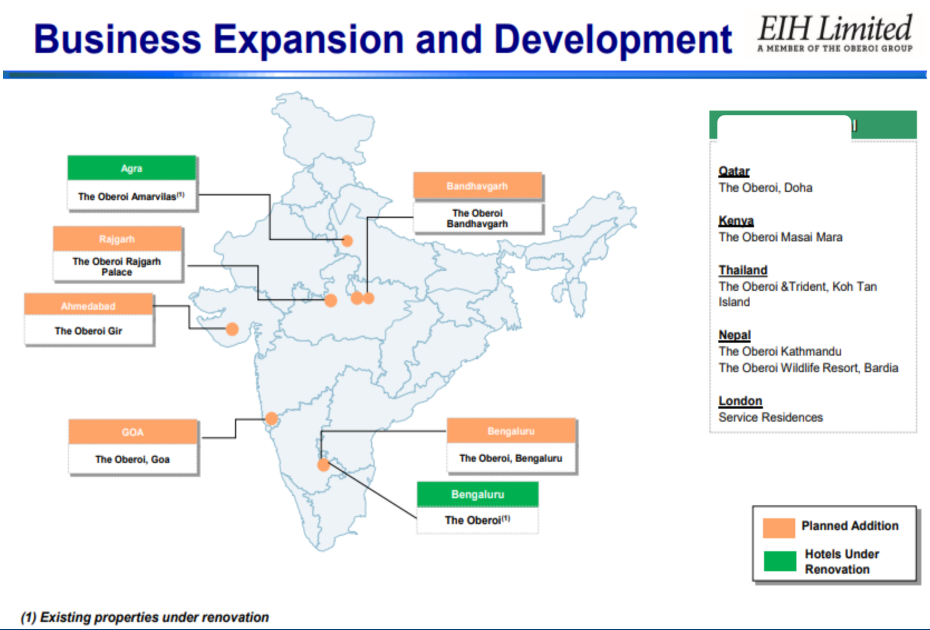
Exhibit 10: Market leader in most micro markets where EIH has presence



Source: ICICI Direct Research, Company

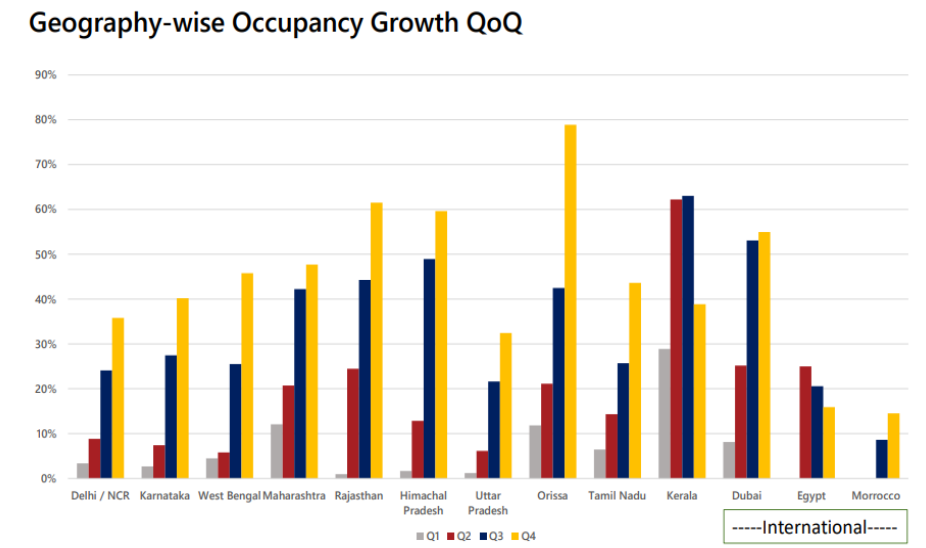
The company has a balanced room portfolio across key business and leisure destinations in India

Exhibit 11: Future plans



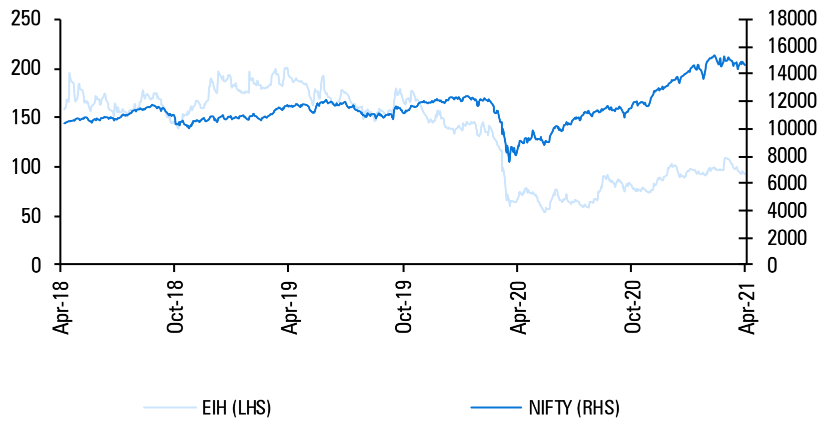
Source: Company, ICICI Direct Research

Exhibit 12: Leisure destination witness sharp uptick in occupancy during FY21



Source: Company, ICICI Direct Research

Exhibit 13: Three year price chart vs Nifty



Source: ICICI Direct Research, Thomson Reuters

Exhibit 14: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	osition (m)	Change
1	Reliance Strategic B	23-Sep-19	18.5	105.91m	0.00m
2	Itc Ltd	31-Dec-19	15.0	85.62m	0.00m
3	Oberoi Hotels Pvt Lt	31-Mar-20	14.6	83.65m	0.00m
4	Oberoi Holdings Pvt	31-Mar-20	5.9	33.44m	0.00m
5	Oberoi Investments P	31-Mar-20	4.9	28.15m	0.00m
6	Reliance Capital Tru	15-Jun-20	3.9	22.36m	0.00m
8	Oberoi Building & In	31-Mar-20	3.2	18.06m	0.00m
8	L&T Mutual Fund	31-May-20	2.8	16.23m	(0.00)m
8	Hdfc Asset Managemen	31-May-20	1.9	11.08m	(0.12)m
8	Sundaram Asset Manag	30-Apr-20	1.6	9.30m	(0.12)m

Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 15: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	35.25	35.25	35.25	35.74	35.74
FII	4.08	3.43	2.27	2.40	2.83
DII	16.29	15.67	14.23	13.98	14.45
Others	44.38	45.65	48.25	47.88	46.98

Source: Company, ICICI Direct Research, Thomson Reuters

Financial summary

Exhibit 16: Profit and Loss Statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	**1,596.3**	**497.1**	**1,021.1**	**1,458.3**
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
EBITDA	**290.3**	**-291.9**	**10.2**	**333.9**
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
Reported PAT	**220.6**	**-383.8**	**-48.0**	**206.0**
Growth (%)	49.7	-274.0	NA	LP
Adjusted EPS (₹)	**2.6**	**-6.0**	**-0.8**	**3.3**

Source: Company, ICICI Direct Research

Exhibit 17: Cash Flow Statement ₹ crore

(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
CF from operating activit	**599.3**	**-109.3**	**-76.0**	**245.5**
(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
CF from investing activit	**-590.7**	**-94.0**	**18.9**	**40.0**
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
CF from financing activit	**6.6**	**224.3**	**-30.0**	**-150.0**
Net Cash flow	-17.9	-7.1	-87.1	135.5
Opening Cash	230.2	212.2	205.1	117.9
Closing Cash	**212.2**	**205.1**	**117.9**	**253.5**

Source: Company, ICICI Direct Research

Exhibit 18: Balance Sheet ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
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	88.5	99.7	94.4	94.4
Total Liabilities	**3,905**	**3,722**	**3,638**	**3,694**
Assets				
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	579.8	613.0	564.4	564.4
Inventory	59.8	61.0	51.4	32.6
Debtors	248.0	205.7	77.8	139.9
Loans and Advances	367.6	149.6	144.2	162.1
Other Current Assets	70.9	93.0	63.1	79.8
Cash	230.2	212.2	205.1	117.9
Total Current Assets	976.4	721.5	541.5	532.3
Creditors	306.0	296.2	266.2	173.4
Provisions	146.2	151.4	150.2	156.1
Total Current Liabilities	452.2	447.5	416.4	329.6
Net Current Assets	524.2	274.0	125.1	202.8
Others Assets	7.2	7.7	7.7	7.7
Application of Funds	**4,132**	**3,837**	**3,484**	**3,385**

Source: Company, ICICI Direct Research

Exhibit 19: Key Ratios

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
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
Operating Ratios (%)				
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
Return Ratios (%)				
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
Valuation Ratios (x)				
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
Solvency Ratios				
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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Sell: <-15%

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