

Sector Report - Hotels

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Unlocking the hidden potential

- ❑ Unlocking the hidden potential of the Indian Tourism and Hospitality industry, the new government initiatives have opened up India as a new holiday destination for global tourists. As per Ministry of Tourism, the extended e-visa facility to 161 countries more than doubled the foreign tourist arrival (FTA) to 10,79,696 in 2016 from 4,45,300 in 2015. Domestic tourist visits (DTV) also continued to grow in double digit with 15.5% growth in 2016. India has moved up 13 positions to 52nd rank in Tourism & Travel competitive index.
- ❑ The industry which contributes ~2.8% to the GDP generates 13.45 million jobs across the sub industry segments - Restaurants (10.49 million), Hotels (2.3 million) and Travel Agents (0.66 million). On an average, hotel occupancy claims ~65-70% of a tour's budget.
- ❑ **The industry attractiveness characterized by improved government focus, changing industry dynamics improving occupancy ratio and rationalizing tariff structure, increasing share of organized business and the foreign investor's penchant increases the delicacy of the sector for domestic investors as well. Therefore we bring you a select list of stocks from Hotel industry which are expected to benefit from the GST rollout and forecasted to grow by ~10% in the current and next couple of fiscals.**

Key Testimony:

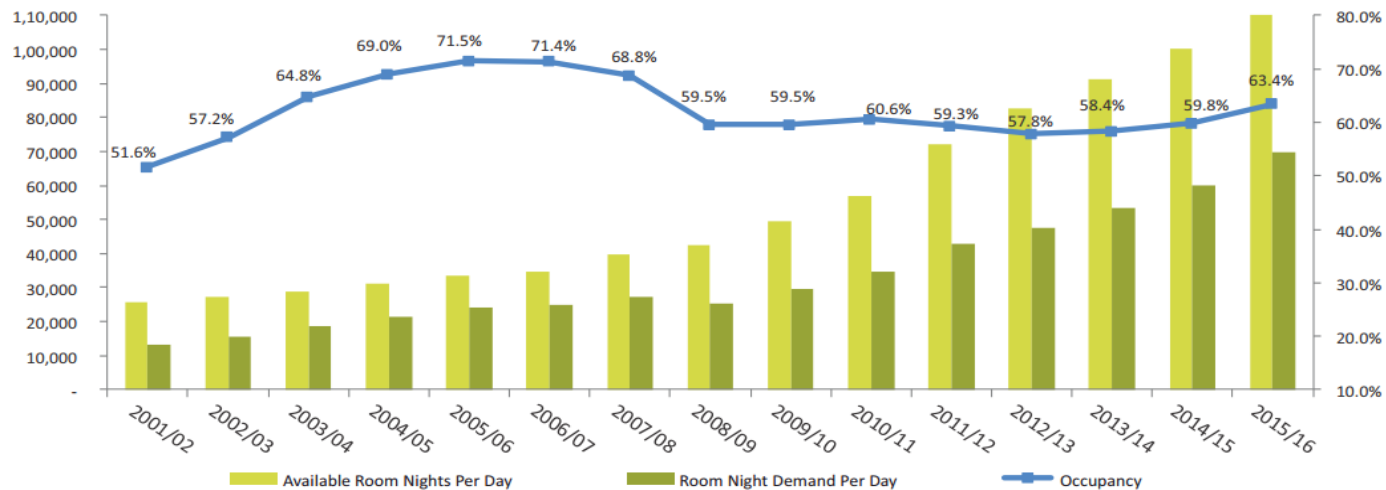
As of 2016, Thailand had 5,27,433 rooms available out of which ~1,30,000 are available in Bangkok alone. The country is also expected to add 20,000 more rooms over couple of years. Whereas, Indian hotel industry sums up in 1,13,600 rooms.

Source: Destimoney Research, IBEF

Changing Industry Dynamics

- Evolution of new industry dynamics and increasing share of organized business:** The scattered and segmented industry has historically been taking brunt of local players and the lack of robust regulations. The organized and registered players which need 42 licenses end up paying 38% of its room revenue in taxes have suffered the most. However, the ambitious ambit expansion plans under the GST and lobbying by the industry associations like Hotel and Restaurant Association of Western India (HRAWI) are awaiting legal reforms to bring about the structural change in the industry.
- Hotel industry is also not left behind in reaping the benefits of Digitization and technological evolution in the country. The germination of new ventures (Oyo Rooms, MakeMyTrip, Goibibo etc) promoting and expanding the network of online intermediaries have brought about radical change in the industry addressing the issue of occupancy.

Rooms availability vs demand (Occupancy Ratio):



Source: Destimoney Research, HVS Research

Changing Industry Dynamics

Trend of average revenue per available room:

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15*	2015/16
Overall Average	2,320	2,276	2,162	1,889	2,134	1,789	1,870	2,313	2,966	3,892	5,049	5,496	4,598	3,861	3,947	3,575	3,343	3,275	3,310	3,512
Five-star Deluxe	3,374	3,480	3,354	2,863	3,107	2,437	2,571	3,046	4,003	5,290	7,138	8,030	6,933	5,715	5,694	5,491	5,398	5,231	5,438	5,803
Five-star	2,000	1,939	1,983	1,876	1,934	1,684	1,775	2,252	2,771	3,509	4,567	5,142	4,250	3,756	3,949	3,626	3,257	3,185	3,178	3,384
Four-star	1,104	1,477	1,283	1,153	1,404	1,248	1,267	1,772	2,217	2,797	3,665	3,942	3,362	2,797	2,977	2,942	2,718	2,643	2,669	2,877
Three-star	705	725	702	718	816	843	895	995	1,038	1,458	2,075	2,257	1,985	1,806	1,959	1,909	1,848	1,786	1,817	2,008
Two-star																1,110	1,091	1,258	1,190	1,272

- Increasing disposable income of the middle class, proliferation of the nuclear families and increasing share of employee welfare activities have further contributed to the jump up in the occupancy ratio at 63.4% in 2016 with the rationalization and stabilization of average tariffs and revenue per room.

Source: Destimoney Research, HVS Research

Conducive environment for Foreign Investments

- ❑ **Conducive Government policies:** The aggressive and reform oriented government has put the Tourism and Hospitality sector on radar in an attempt to boost the employment in the country. A series of recent policy stimuli including 100 per cent FDI in hotels sector through the automatic route, A five-year tax holiday for 2, 3 and 4 star category hotels located around UNESCO World Heritage sites and the introduction of M-visa to promote medical tourism has created a platform to revamp the sector fundamentals and boost the private investment in the industry.

Key foreign investments:

- ✓ The first Incredible India Tourism Investment Summit 2016, which was organised from September 21-23, 2016, witnessed signing of 86 Memoranda of Understanding (MoUs) worth around Rs 15,000 crore (US\$ 2.24 billion), for the development of tourism and hospitality projects.
- ✓ Keys Hotels, a premium brand of Berggruen Hotels launching three new hotels in India at Vishakhapatnam, Calicut and Jaipur, and further add up to 10 Keys Hotels in the country by the end of FY 2017.
- ✓ MakeMyTrip buying Ibibo Group's India travel business at a deal value of US\$ 720 million
- ✓ AccorHotels, a French multinational hotel group expanding its footprint in Guwahati and Kolkata by adding more 550 rooms to its portfolio of hotels in the next three years.
- ✓ Stayzilla, a budget hotels and homestays aggregator, has raised over US\$ 13 million from Matrix Partners and Nexus Ventures for its expansion plans in India

Source: Destimoney Research, HVS Research

Top Picks

The Indian Hotels Company Ltd.

Earnings Summary

(In ₹ mn)	FY13	FY14	FY15	FY16
Net Sales	37,434	40,662	41,886	45,909
Sales Growth	8.7%	8.6%	3.0%	9.6%
EBITDA	5,376	5,596	4,886	6,166
EBITDA Margin	14.4%	13.8%	11.7%	13.4%
PAT	-3,908	-5,231	-3,471	-379
PAT Margin	-10.4%	-12.9%	-8.3%	-0.8%
EPS (₹)	(5.3)	(6.9)	(4.7)	(0.6)
Price Performance	CY14	CY15	CY16	YTD
Absolute	-2%	103%	-7%	7%
Relative	-9%	72%	-3%	-1%

Key Ratios

	FY13	FY14	FY15	FY16
P/E (x)	-	-	-	-
P/B (x)	3.7	4.6	4.7	3.2
EV/Sales	3.1	2.8	2.7	2.5
EV/EBITDA	21.4	20.6	23.5	18.7
ROCE	NA	NA	2.2%	7.1%
ROE	NA	NA	NA	6.2%

Elh Ltd.

Earnings Summary

(In ₹ mn)	FY13	FY14	FY15	FY16
Net Sales	14,685	15,466	16,683	17,869
Sales Growth	4.4%	5.3%	7.9%	7.1%
EBITDA	2,775	3,335	3,301	3,854
EBITDA Margin	18.9%	21.6%	19.8%	21.6%
PAT	469	1,110	670	1,213
PAT Margin	3.2%	7.2%	4.0%	6.8%
EPS (₹)	0.7	1.9	1.1	2.2
Price Performance	CY14	CY15	CY16	YTD
Absolute	-10%	102%	3%	-13%
Relative	-17%	71%	7%	-20%

Key Ratios

	FY13	FY14	FY15	FY16
P/E (x)	138.3	58.5	96.9	53.5
P/B (x)	2.5	2.5	2.4	2.4
EV/Sales	4.1	3.9	3.6	3.4
EV/EBITDA	21.8	18.1	18.3	15.7
ROCE	4.3%	6.8%	6.8%	6.6%
ROE	2.1%	3.9%	4.0%	4.1%

Source: Destimoney Research

Top Picks

Oriental Hotels Ltd.

Earnings Summary				
(In ₹ mn)	FY13	FY14	FY15	FY16
Net Sales	3,446	3,554	3,664	3,798
Sales Growth	8.6%	3.1%	3.1%	3.7%
EBITDA	627	544	601	508
EBITDA Margin	18.2%	15.3%	16.4%	13.4%
PAT	193	-245	4	-31
PAT Margin	5.6%	-6.9%	0.1%	-0.8%
EPS (₹)	0.9	(1.3)	0.1	(0.1)
Price Performance	CY14	CY15	CY16	YTD
Absolute	-27%	41%	15%	39%
Relative	-34%	9%	19%	32%

Key Ratios				
	FY13	FY14	FY15	FY16
P/E (x)	34.4	-	1,612.6	-
P/B (x)	2.2	2.4	2.8	3.0
EV/Sales	2.7	2.6	2.5	2.4
EV/EBITDA	14.6	16.9	15.3	18.1
ROCE	7.1%	3.3%	4.2%	2.0%
ROE	4.8%	-	-	-

Taj GVK Hotels & Resorts Ltd.

Earnings Summary				
(In ₹ mn)	FY13	FY14	FY15	FY16
Net Sales	2,527	2,439	2,480	2,753
Sales Growth	-0.5%	-3.5%	1.7%	11.0%
EBITDA	610	514	487	630
EBITDA Margin	24.1%	21.1%	19.6%	22.9%
PAT	88	50	-20	36
PAT Margin	3.5%	2.0%	-0.8%	1.3%
EPS (₹)	1.4	0.8	(0.3)	0.6
Price Performance	CY14	CY15	CY16	YTD
Absolute	-7%	37%	13%	28%
Relative	-13%	6%	17%	21%

Key Ratios				
	FY13	FY14	FY15	FY16
P/E (x)	92.7	163.7	NA	226.9
P/B (x)	2.4	2.3	2.4	2.3
EV/Sales	3.9	4.0	3.9	3.5
EV/EBITDA	16.0	19.0	20.0	15.5
ROCE	6.5%	5.6%	4.3%	7.4%
ROE	2.6%	1.4%	NA	2.4%

Source: Destimoney Research

Company Name	Net Sales (Rs. Cr)	EBITDA (Rs. Cr)	PAT (Rs. Cr)	Total Debt (Rs. Cr)	D/E (x)	Latest Price (Rs)	52 Wk High (Rs.)	52 Wk Low (Rs.)	All Time High (Rs.)	TTM PE (x)	Industry PE (x)
The Indian Hotels Company Ltd.	4591	617	-38	4781	1.5	123	143	89	163	-	46
EIH Ltd.	1787	385	121	445	0.2	110	127	91	220	90.8	46
Country Club Hospitality & Holidays Ltd.	521	133	28	443	0.4	12	17	10	18	0.0	46
India Tourism Development Corporation Ltd.	459	16	18	4	0.0	395	460	203	460	106.0	46
Oriental Hotels Ltd.	380	51	-3	349	1.0	38	39	20	46	-	46
Taj GVK Hotels & Resorts Ltd.	275	63	4	382	1.1	129	158	71	342	52.5	46
EIH Associated Hotels Ltd.	246	72	38	35	0.1	330	379	256	379	23.4	46
Asian Hotels (North) Ltd.	241	70	-19	1144	1.9	103	129	96	934	-	46
The Byke Hospitality Ltd.	232	53	26	11	0.1	183	200	151	200	24.3	46
Asian Hotels (East) Ltd.	193	47	-13	290	0.4	218	243	132	490	14.1	46
Apollo Sindoori Hotels Ltd.	186	8	1	3	0.1	600	725	200	725	9.7	46
Sayaji Hotels Ltd.	181	36	6	118	1.1	186	139	139	146	-	46
Royal Orchid Hotels Ltd.	159	21	-4	83	0.5	88	97	60	261	25.1	46
TGB Banquets And Hotels Ltd.	136	22	-15	111	1.0	54	121	54	196	0.0	46
Blue Coast Hotels Ltd.	115	29	5	224	2.0	128	178	84	364	9.1	46

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