



Company Name	: EIH Ltd
BSE Code	: 500840
Time Duration	: 2 year
CMP	: ₹144 (as on 07 December, 2017)
Target Price	: ₹211

The Upstream Pick for the month of December is EIH Ltd. Before 1996, the company was known as East India Hotels Ltd. It is the flagship company of the Oberoi Group, which is one of the largest hospitality groups in India. The primary business of the company is ownership, management and operation of five star deluxe and five-star hotels in metropolitan and major tourist destinations throughout India and in select tourist locations overseas. In addition, it also provides services such as flight and airport services, car rentals, air charter services, and a printing press.

We see this scrip as an Upstream Pick as the company has planned robust expansion plans to be implemented in the upcoming three years. Its prime hotel at New Delhi is also reopening in early 2018 after major renovation. This would be a major trigger for the company to generate revenue and post healthy growth rate. H1FY18 was substantially weak due to impact of GST roll-out and also because monsoon is a detrimental season for the industry. However, H2FY18 is expected to fare well on account of festive and vacation seasons.

Re-opening of Delhi hotel to boost revenue

The company's first and prime hotel at Delhi which generated ~14% of the total revenue was closed on account of major renovation from April 2016. This affected its revenue growth and profitability in FY17 and continued in H1FY18. But as per the updates available, the company has announced that it would start the commercial operations of the hotel from January 2018. This hotel will comprise of 218 guest rooms, including 32 suites. Keeping in mind the air quality of the capital, fixing air filters is one of the major changes included under the renovation plan. This would help the company to generate revenues at par with earlier levels and contribute more than 14% share towards revenue.

Expansion plans over next 3 years

The company plans to open some new hotels consisting of approximately 893 rooms over the next three years. These hotels would be situated across various locations in India, including Madhya Pradesh, Gujarat, Bangalore and Goa and other hotels in Morocco, Kenya and Qatar. All these hotels are currently under construction. The management expects them to get operational within the next 2-3 years. The company has not raised any additional debt for the expansion and is managing well through its working capital. Thus, the finance cost and thereby its D/E ratio will stay unaffected. These new hotels would also trigger its top-line growth going forward.

Impact of GST

When GST was implemented from July 2017, luxury hotels were included in the highest tax bracket of 28%. This led to hike in room tariffs which brought down the demand for such hotels. The adverse effect on revenue and margins was seen in H1FY18. Recently, the GST Council revised the rates to 12% and 18% for luxury hotels, depending on the tariff slabs. We expect the revised rates would tone down the tax burden on the company to manageable level. However, we see profitability to be in the revival mode once the impact of GST dissipates.

Outlook of tourism and hospitality industry

The travel and tourism industry in India has emerged as a promising sector by contributing a significant portion to foreign exchange and employment in India. Travel and tourism industry accounts for one third of India's foreign exchange earnings. India is expected to rank among top 5 business travel markets globally by FY27. Expanding middle class and increasing disposable incomes are the drivers for the growth of this industry.

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Also, hotel occupancies in India exceeded 60% in FY17. This increasing demand has brought pressures on occupancy levels and room rates in the developed cities. Thus, the hotel industry has huge scope for development in primary and secondary cities with scope for opening new hotels.

Financial Performance

The company's total revenue in FY17 declined by 6.3% YoY to Rs 1376.8 cr as compared to Rs 1469.6 cr in FY16. The revenue growth of the company for the year with reference to the other properties, after factoring the closure of The Oberoi, New Delhi, increased by over 8% as compared to the previous year. The net profit for the year declined by 11.5% YoY to Rs 96.5 cr as compared to Rs 109 cr in FY16. The company's revenue and PAT were affected due to the closure of The Oberoi, New Delhi for major renovations.

During FY17, the foreign exchange earnings of the company amounted to Rs 425.5 cr as against Rs 562.5 cr in FY16. The company's debt-equity ratio stood at 0.12x in FY17 which led to decent interest coverage ratio of 9.8x.

Valuation

The company is trading at TTM P/E of 70.15x with TTM EPS of Rs 2.07. The outlook of tourism and hospitality industry is positive in the long run at both domestic and global levels, looking at its strong growth performance. The company's robust capacity expansion and reopening of the prime location hotel in Delhi will contribute majorly to revenue and profitability. We expect H2FY18 would perform better than H1FY18 and see traction from FY19. We expect an upside of 46% from the current level over a period of two years with target price of Rs 211.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201703	201603	201503	201403	201303
Net Sales	1275.73	1417.69	1334.59	1238.04	1133.50
Total Income	1374.96	1467.57	1373.01	1278.94	1177.01
Total Expenditure	1083.90	1148.13	1067.07	999.67	932.65
PBIDT	291.06	319.44	305.94	279.27	244.35
PAT	96.54	109.02	96.63	95.04	50.96
Dividend %	45.00	55.00	55.00	55.00	45.00
Adj. EPS(Rs)	1.69	1.91	1.69	1.66	0.89

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201709	201706	Q on Q Var%	201609	Y on Y Var%
Net Sales	272.33	284.50	-4.28	272.60	-0.10
Total Expenditure	263.34	256.57	2.64	258.86	1.73
PBIDT (Excl OI)	8.99	27.93	-67.81	13.74	-34.57
PAT	1.97	11.52	-82.90	3.79	-48.02
PBIDTM% (Excl OI)	3.30	9.82	-66.40	5.04	-34.52
PBIDTM%	11.01	16.41	-32.91	14.52	-24.17
PATM%	0.72	4.05	-82.22	1.39	-48.20
Adj. EPS(Rs)	0.03	0.20	-85.00	0.07	-57.14

