MIRAE ASSET Sharekhan

Stock Update

Result Update

Indian Hotels Company Ltd

Soft Q2; strong outlook for H2

Consumer Discretionary	Sharekhan code: INDHOTEL
Reco/View: Buy ↔	CMP: **Rs. 707**
	Price Target: **Rs. 891** ↔

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

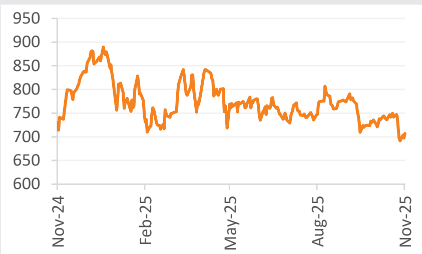
Company details

Market cap:	Rs. 1,00,637 cr
52-week high/low:	Rs. 894/673
NSE volume: (No of shares)	30.0 lakh
BSE code:	500850
NSE code:	INDHOTEL
Free float: (No of shares)	88.1 cr

Shareholding (%)

Promoters	38.1
FII	27.0
DII	19.6
Others	15.4

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-2.6	-5.4	-8.1	-3.2
Relative to Sensex	-5.2	-10.7	-10.6	-10.6

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- Indian Hotels Company Ltd's (IHCL's) Q2FY26 numbers were soft, with hotel segment growing at a muted 7% y-o-y due to heavy rains, a high base, geopolitical/flight issues, and renovations at key properties and adjusted PAT was down by 3.4% y-o-y. Consolidated LFL ARR grew 8% y-o-y and occupancy stood flat y-o-y in H1, leading to 9% y-o-y RevPar growth.
- Management maintained double-digit FY26 growth guidance, driven by favourable demand-supply dynamics, high-profile diplomatic visits, and busy wedding season in H2.
- IHCL currently has a portfolio of 435-hotels, including 268 in the pipeline (excluding Clarks - 135 hotels). The company signed 46 hotels and opened 26 hotels in H1.
- We maintain a Buy with an unchanged PT of Rs. 891. Stock trades at 26x/22x/19x its FY26E/FY27E/FY28E EV/EBITDA, respectively.

Consolidated revenues grew by 11.8% y-o-y to Rs. 2,041 crore, missing our expectation of Rs. 2,118 crore. Subsidiaries delivered healthy growth of 24% y-o-y, while standalone revenue rose only 2.4% y-o-y owing to renovations, a high base (high-profile weddings in the base quarter), and extreme weather. Standalone LFL ARR grew by 5% y-o-y in H1FY26, with occupancy flat y-o-y, resulting in standalone RevPAR growth of 5% y-o-y. Hotels' revenues grew 7% y-o-y, with operating EBITDA margin up by 80 bps y-o-y to 28.7%, while TajSATS' (air & institutional catering business) revenue grew by 13% y-o-y, with operating EBITDA margin down by 40 bps y-o-y to 23.3%. Management fee income grew by 21% y-o-y in H1, backed by 12% y-o-y managed room additions. New businesses' (Ginger, Qmin, amã Stays & Trails and Tree of Life) clocked consolidated revenue growth of 22% y-o-y in H1FY26 to Rs. 324 crore. EBIDTA margins rose by 48 bps y-o-y to 27.9%, beating our expectation of 26.9%. EBIDTA grew by 13.7% y-o-y to Rs. 570 crore. However, adjusted PAT fell by 3.4% y-o-y due to higher tax expense (on a low base) to Rs. 316 crore, largely in line with our expectation of Rs. 310 crore. In H1FY26, revenue grew by 20.9% y-o-y to Rs. 4,082 crore, EBITDA margin stood flat y-o-y at 28.1% and adjusted PAT grew by 13.2% y-o-y to Rs. 636 crore. IHCL opened 46 hotels and signed 26 hotels in H1, taking the portfolio to 435 hotels (268 operational; 167 pipeline) at Q2FY26-end.

Key positives

- Taj Bandstand has received all requisite regulatory approvals to commence construction and excavation work has started already.
- Balance sheet continues to be healthy with gross cash of Rs. 2,850 crore at H1FY26-end.

Key negatives

- In H1FY26, standalone LFL ARR grew by 5% y-o-y, with occupancy flat y-o-y, resulting in standalone RevPAR growth of 5% y-o-y.

Management Commentary

- Management expects the Clarks' deal to close in Q3 and has begun integration activities. Once completed, it will add another 135 hotels to IHCL's portfolio. This transaction will make IHCL the clear leader in the mid-scale segment in India with a portfolio of over 240 hotels, giving the Ginger brand significant scale.
- Taj Bandstand, an iconic development for Mumbai skyline has commenced construction post securing necessary approvals.
- Major upgrades were completed by October across multiple properties including Taj Palace Hotel in New Delhi, President Hotel in Mumbai, Taj Fort Aguada, Taj West End and Taj Bengal in Kolkata. IHCL expects to see the positive impact partially in Q3 and fully in Q4, both in terms of improved guest experiences and higher yields due to the upgraded product.
- Management has maintained double-digit growth guidance for FY26, driven by favorable demand-supply dynamics, high-profile diplomatic visits, and busy wedding season in H2.
- Key greenfield hotels expected to be operational in FY26 include hotels in Dehradun, Ekta Nagar and Frankfurt (476 keys).
- The current portfolio operational + pipeline excluding Clarks (135 Hotels, ~6,800 rooms) stands at 435 hotels with more than 50,000 keys, with 268 operational containing 28,273 rooms. IHCL signed 32 hotels and opened 12 hotels during H1FY26.

Revision in earnings estimates – We have reduced our earnings estimates for FY26 and FY27 by ~3% to factor in muted performance in Q2. We have introduced FY28 estimates through this note.

Our Call

View – Retain Buy with an unchanged PT of Rs. 891: Despite a dull Q2, IHCL's outlook remains strong, supported by sustained demand and well-calibrated strategic growth initiatives. The company has excelled its performance in the past five years by delivering consistent growth ahead of industry, strong uptick margins and strengthening its balance sheet by becoming net cash positive. We expect the next five years' journey to be good for IHCL, led by industry tailwinds and its strategic initiatives. We expect revenues and PAT to clock a CAGR of 13% and 19% respectively over FY25-28E. The stock trades at 26x/22x/19x its FY26E/FY27E/FY28E EV/EBITDA, respectively. IHCL remains one of our top picks in the hospitality space. We retain a Buy with an unchanged PT of Rs. 891.

Key Risks

Any slowdown in corporate travel, a slower recovery in inbound and the outbound tourism industry or delay in room addition would act as a key risk to our earnings estimates.

Valuation (Consolidated) Rs cr

Particulars	FY24	FY25	FY26E	FY27E	FY28E
Revenue	6,769	8,335	9,835	10,917	12,008
EBITDA margin (%)	31.9	33.2	33.5	35.0	35.6
Adjusted PAT	1,202	1,717	2,036	2,468	2,883
Adjusted EPS (Rs.)	8.4	12.1	14.3	17.3	20.3
P/E (x)	75.7	56.1	46.7	38.7	33.4
P/B (x)	9.9	8.1	7.1	6.2	5.3
EV/EBIDTA (x)	39.8	30.8	25.8	22.1	19.3
RoNW (%)	12.8	15.2	15.3	16.2	16.4
RoCE (%)	14.8	16.7	17.4	19.1	20.0

Source: Company; Mirae Asset Sharekhan estimates

Results (Consolidated) Rs cr

Particulars	Q2FY26	Q2FY25	y-o-y (%)	Q1FY26	q-o-q (%)
Net Sales	**2,040.9**	**1,826.1**	**11.8**	**2,041.1**	**0.0**
Foods & Beverage consumed	208.2	174.0	19.7	208.2	0.0
Employee cost	591.1	522.5	13.1	597.6	-1.1
Other operating & general expenses	671.5	628.3	6.9	659.3	1.9
Total expenditure	**1,470.8**	**1,324.9**	**11.0**	**1,465.1**	**0.4**
EBITDA	**570.1**	**501.3**	**13.7**	**576.0**	**-1.0**
Other income	83.4	64.1	30.0	61.1	36.5
Interest cost	56.1	52.2	7.3	54.6	2.7
Depreciation	144.7	124.9	15.8	142.8	1.4
PBT	**452.7**	**388.2**	**16.6**	**439.8**	**2.9**
Tax	136.5	60.9	-	120.4	13.4
Adjusted PAT	**316.2**	**327.3**	**-3.4**	**319.4**	**-1.0**
Share of profit from associates	2.1	9.5	-78.1	9.9	-79.0
Adjusted PAT after MI	318.3	336.8	-5.5	329.3	-3.4
Extraordinary item	0.0	245.9	-	0.0	-
Reported PAT	**318.3**	**582.7**	**-45.4**	**329.3**	**-3.4**
EPS (Rs.)	2.2	2.3	-3.4	2.2	-1.0
			bps		bps
GPM (%)	89.8	90.5	-67	89.8	0
EBITDA margin (%)	27.9	27.5	48	28.2	-29
NPM (%)	15.5	17.9	-243	15.6	-16
Tax rate (%)	30.2	15.7	-	27.4	278

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

Sector Outlook – Hotel industry to benefit from demand supply gap

Higher demand from domestic leisure travellers, recovery in foreign tourist arrivals (FTAs) and a revival in corporate travels will keep room demand high for hotel companies (also help in achieving higher room rentals) in the short to medium term. Recent industry data shows that demand is expected to continue to grow in double digits (~12%). However, room supply is expected to grow by ~9% over the next 4-5 years. This augurs well for the industry because hotels' performance in India is highly sensitive to supply and demand dynamics. Margins of hotel companies are likely to expand, aided by better operating leverage and various cost-saving initiatives.

Company Outlook – Strong growth seen over FY25-28

With room demand expected to exceed supply, domestic performance would be strong in the coming years. This along with a likely recovery in international properties and higher contribution from new ventures, will aid revenues and PAT clock a CAGR of 13% and 19% over FY25-28E. Multiple cost-saving initiatives and operating leverage will aid improvement in margins. We expect IHCL's EBIDTA margins to be close to 36% in FY28. Asset-light model will help in high free cash generation. RoE/RoCE are expected to increase to ~16%/20% in FY28 from ~15%/17% in FY25.

Valuation – Retain Buy with an unchanged PT of Rs. 891

Despite a dull Q2, IHCL's outlook remains strong, supported by sustained demand and well-calibrated strategic growth initiatives. The company has excelled its performance in the past five years by delivering consistent growth ahead of industry, strong uptick margins and strengthening its balance sheet by becoming net cash positive. We expect the next five years' journey to be good for IHCL, led by industry tailwinds and its strategic initiatives. We expect revenues and PAT to clock a CAGR of 13% and 19% respectively over FY25-28E. The stock trades at 26x/22x/19x its FY26E/FY27E/FY28E EV/EBITDA, respectively. IHCL remains one of our top picks in the hospitality space. We retain a Buy with an unchanged PT of Rs. 891.

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E
Lemon tree Hotels	52.9	39.3	29.2	20.5	17.1	14.4	12.7	15.4	17.9
Chalet Hotels	55.0	32.8	30.1	25.3	15.3	14.0	11.0	16.5	15.8
Indian Hotels Company	56.1	46.7	38.7	30.8	25.8	22.1	16.7	17.4	19.1

Source: Company; Mirae Asset Sharekhan Research

About company

IHCL and its subsidiaries bring together a group of brands and businesses that offer a fusion of warm Indian hospitality and world-class service. These include Taj, the iconic brand for the most discerning travellers; Claridges Collection, a curated set of boutique luxury hotels merging elegance with historical charm; SeleQtions, a named collection of hotels; Tree of Life, private escapes in tranquil settings; Vivanta, sophisticated upscale hotels; Gateway, full-service hotels designed to be your gateway to exceptional destinations and Ginger, which is revolutionising the lean luxe segment. Incorporated by the founder of the Tata Group, Jamsetji Tata, IHCL opened its first hotel - The Taj Mahal Palace, in Bombay in 1903. It currently has a portfolio of 570 hotels including 268 operational and 302 under development globally across 4 continents, 14 countries and in over 250+ locations.

Investment theme

The hotel industry's business fundamentals have improved with room demand outpacing room supply. Strong domestic travel coupled with recovery in foreign travel would help IHCL in posting better performance in the medium term. A strong focus on building an asset-light model, market share gains in key markets and scale-up in the new businesses will help IHCL to deliver strong revenue growth in the coming years with strong growth in profitability. Further, the company is focusing on strengthening its balance sheet by a sustained reduction in debt, which augurs well from a long-term perspective.

Key Risks

- Any drop in room demand due to the emergence of any black swan event/sustained high inflationary environment or a significant increase in room supply in the coming years would be a key risk to our earnings estimates.
- Any delay in the launch of new hotels/rooms will impact company's performance.
- Any disruption in the performance of international properties will affect the consolidated performance of IHCL in the coming years.

Additional Data

Key management personnel

Name	Designation
N. Chandrasekaran	Chairman
Giridhar Sanjeevi	Executive Vice President and Chief Financial Officer
Puneet Chhatwal	Chief Executive Officer and Managing Director
Beejal Desai	Senior Vice President - Corporate Affairs, Company Secretary (Group) and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	NPS Trust A/c Uti Retirement Solutions Ltd	3.20
2	Nippon Life India Asset Management Co. Ltd.	2.58
3	Vanguard Group Inc	2.55
4	Nippon Life India Trustee Ltd.	2.47
5	Axis Asset Management Co. Ltd.	2.41
6	Blackrock Inc.	2.38
7	Jhunjunwala Rekha	2.02
8	Canara Robeco AMC Ltd	1.98
9	HDFC Trustee Co. Ltd.	1.83
10	HDFC AMC Ltd.	1.82

Source: Bloomberg

SOMIL RAMESH MEHTA

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Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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