

RESULTS REVIEW

Indian Hotels Company Ltd.

Hold

Share Data

| | |
|-----------------------|-----------------|
| Market Cap | Rs. 56.65 bn |
| Price | Rs. 78.30 |
| BSE Sensex | 16,063.90 |
| Reuters | IHTL.BO |
| Bloomberg | IH IN |
| Avg. Volume (52 Week) | 0.52 mn |
| 52-Week High/Low | Rs. 82.0 / 34.0 |
| Shares Outstanding | 723.47 mn |

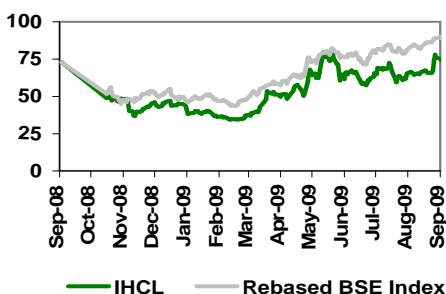
Valuation Ratios (Consolidated)

| Year to 31 March | 2010E | 2011E |
|------------------|--------|-------|
| EPS (Rs.) | 2.6 | 4.1 |
| +/- (%) | 307.3% | 60.4% |
| PER (x) | 30.6x | 19.1x |
| EV/ Sales (x) | 3.5x | 3.0x |
| EV/ EBITDA (x) | 16.3x | 13.2x |

Shareholding Pattern (%)

| | |
|-----------------|----|
| Promoters | 30 |
| FII's | 14 |
| Institutions | 26 |
| Public & Others | 30 |

Relative Performance



Early Signs of Recovery

For Q2'10, the standalone revenues of IHCL plunged 11.7% yoy, but increased 9.0% qoq to Rs. 2,859.2 mn, while its reported net income plunged 77% yoy and 28% qoq to Rs. 118.7 mn, mainly due to sluggish inbound traffic and a dip in room rates. However, the Company delivered a good operating performance as the EBITDA surged by 148% qoq to Rs. 297.8 mn, though still down by 67% yoy. With the commencement of the festive season and the impact of the global slowdown and swine flu now fading, the occupancy rates are expected to rise and support the hotels industry. Our DCF valuation suggests a fair value of Rs. 83 for the company which implies a 7% upside potential from the CMP of Rs. 79. Hence, we downgrade our rating from Buy to Hold.

Festivities and Global Economic Recovery to boost the Hospitality sector:

Although the foreign tourist arrivals (FTA) plunged in August and September 2009 due to the swine flu scare, after recovering in June and July 2009, there is a likelihood of increased foreign as well as domestic tourists owing to the festive season. Foreign tourist arrivals are estimated to grow by 4.4% in 2009-10 due to the improving global economic scenario. Leisure travellers as well as corporates are expected to spend more on their travel expenditure due to pick up in earnings and the festive environment.

Likely improvement in Revenues: The occupancy levels are expected to be ~70% for FY10, while the average room rates are expected to pick up in the following months, though by a slender margin only as the increase in demand is blunted by the addition of new capacity. All in all, in view of the seasonality of the business and the solid foundation of the company, the financial results for the quarter and half year ended September 30, 2009 are not indicative of the full year's performance and we expect a marked improvement in revenues.

Key Figures (Standalone)

| Quarterly Data | Q2'09 | Q1'10 | Q2'10 | YoY% | QoQ% | FY08 | FY09 | YoY% |
|--------------------------------------------|-------|--------|-------|---------|--------|--------|--------|---------|
| (Figures in Rs. mn, except per share data) | | | | | | | | |
| Net Sales | 3,240 | 2,624 | 2,859 | (11.7%) | 9.0% | 17,645 | 16,196 | (8.2%) |
| Adj. EBITDA | 899 | 120 | 298 | (66.9%) | 148.4% | 7,016 | 4,886 | (30.4%) |
| Adj. Net Profit | 581 | (447) | 90 | (84.5%) | NM | 3,665 | 2,531 | (30.9%) |
| Margins(%) | | | | | | | | |
| EBITDA | 27.7% | 4.6% | 10.4% | | | 39.8% | 30.2% | |
| NPM | 17.9% | -17.0% | 3.2% | | | 20.8% | 15.6% | |
| Per Share Data (Rs.) | | | | | | | | |
| Adj. EPS | 0.8 | (0.6) | 0.1 | (84.5%) | NM | 6.1 | 3.5 | (42.4%) |

Result Highlights

Revenues pick up

- For Q2'10, the standalone revenues rose by 9.0% qoq to Rs. 2,859.20 mn, however it was still down 11.7% yoy,. This was quite a recovery considering the revenues were down 37.3% qoq and 30.4% yoy in the first quarter. The recovery in revenues can be attributed to the aggressive increase in room inventory, the steady increase in guests' inflows and gradual improvement in average room rates (ARRs). It is safe to say now that the Indian hotel industry has bottomed out and the business environment is likely to improve.

Better operating performance

- In Q2'10, IHCL's standalone EBITDA witnessed a firm increase by 148.4% qoq to Rs. 297.8 mn, as the employee costs and fuel costs declined. Simultaneously, the Company's EBITDA margin also increased to 10.4% in Q2'10 as against 4.6% in Q1'10, primarily due to the cut backs in operational costs and increase in efficiency.

Net profit stumbles

- The Company reported an adjusted net profit of Rs. 90.14 mn, as compared to the adjusted net loss of Rs. 446.8 mn in Q1'10. However, the Company's reported net profit declined by 76.6% yoy to Rs. 118.7 mn during the period. The net profit includes sale of a hotel project amounting to Rs. 68.2mn and refund of annuity pension premium of Rs. 19.4 mn.

Other Updates

- The IHCL represents an insurance claim for business interruption with regards to Taj Mahal Palace & Tower, Mumbai on an estimated basis. As of date, the company has received Rs. 1.3bn from the insurance company as an "on account" payment towards business interruption and property damage claim.
- It will partially open the heritage wing of the Taj Mahal Palace and Tower Hotel on 25 November 2009, a day before the anniversary of the attack and the Cape Town hotel in December 2009.

Expansion Plans & Organic Growth

IHCL has continued to move forward aggressively with its expansion plans. The Company is in talks with the NYSE-listed international luxury hotel chain Orient Express Hotels and plans to take its Ginger and Gateway hotel chains abroad as it continues to ramp up international presence. The company successfully entered into a land deal with 'Delhi Metro Rail Corporation' for setting up a 400-room 5-star hotel in Dwarka, New Delhi. During the year so far, IHCL has added four luxury properties in Bangalore, Chennai and Thiruvananthapuram. Besides, the company commenced operations of seven new 'Ginger' hotels in New Delhi, Panaji, Ludhiana, Ahmedabad, Mangalore and Durg.

Key Figures (Consolidated)

| Year to March | FY07 | FY08 | FY09 | FY10E | FY11E | CAGR (%) |
|--------------------------------------------|--------|--------|--------|--------|--------|------------|
| (Figures in Rs. mn, except per share data) | | | | | | (FY09-11E) |
| Net Sales | 25,061 | 29,200 | 26,864 | 29,552 | 34,809 | 13.8% |
| Adj. EBITDA | 7,205 | 8,920 | 5,583 | 6,351 | 7,837 | 18.5% |
| Adj. Net Profit | 3,703 | 3,776 | 455 | 1,852 | 2,970 | 155.6% |
| Margins(%) | | | | | | |
| EBITDA | 28.7% | 30.5% | 20.8% | 21.5% | 22.5% | |
| NPM | 14.8% | 12.9% | 1.7% | 6.3% | 8.5% | |
| Per Share Data (Rs.) | | | | | | |
| Adj. EPS | 6.1 | 6.3 | 0.6 | 2.6 | 4.1 | 155.6% |
| PER (x) | 23.7x | 17.9x | 62.6x | 30.6x | 19.1x | |

Valuation

The estimates are attuned to account for a likely improvement in the occupancy levels to ~70% in FY10 and to ~73% in FY11, and a measured improvement in ARRs. The future augurs well for IHCL as guests inflow shall increase with the commencement of the festive season and improving macroeconomic outlook. A shot in the arm is likely at FY11 end with the Commonwealth Games in the country expected to increase the FTAs by 20% and push India's foreign exchange earnings in 2010 through Tourism alone to estimated levels of over USD 16.9 bn. At the current market price (CMP), the stock trades at a forward PE of 30.6x and 19.1x for FY10E and FY11E, respectively. We have valued the Company using the Discounted Cash Flow (DCF) method. Our valuation suggests a target price of Rs. 83, which implies a 7% upside potential from the CMP of Rs. 78. Hence, we change our rating from Buy to Hold.

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