

RESULTS REVIEW

Share Data

Market Cap	Rs. 54.36 bn
Price	Rs. 75.15
BSE Sensex	16,886.43
Reuters	IHTL.BO
Bloomberg	IH IN
Avg. Volume (52 Week)	0.47 mn
52-Week High/Low	Rs. 82.0 / 34.0
Shares Outstanding	723.41 mn

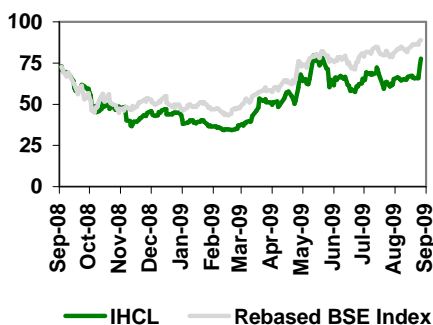
Valuation Ratios (Consolidated)

Year to 31 March	2010E	2011E
EPS (Rs.)	3.5	5.1
+/- (%)	457.1%	45.4%
PER (x)	21.5x	14.7x
EV/ Sales (x)	3.2x	2.8x
EV/ EBITDA (x)	13.9x	11.4x

Shareholding Pattern (%)

Promoters	30
FII's	15
Institutions	25
Public & Others	30

Relative Performance



Indian Hotels Company Ltd.

Buy

Regaining lost grandeur

Indian Hotels Company Ltd. (IHCL) succumbed to the pressures emanating from the declining tourist inflows and the consequent plunge in occupancy rates and average room rates (ARRs) in Q1'10. As a result, its standalone revenue declined 30.4% yoy during the period. At the same time, the EBITDA margin also plunged to 4.6%. While we expect a weakness in ARR's to continue, the improvement in the occupancy levels in the coming quarters coupled with the new capacity addition will help the Company to maintain its top-line growth. Accordingly, we have revised our target price to Rs. 90 and upgraded our rating to Buy from Sell.

Likely improvement in occupancies: Tourist arrivals in June 2009 and July 2009 witnessed a marginal growth of 0.2% and 0.7%, respectively. We believe this trend is likely to continue in the rest of the financial year on the back of the festive season and an expected increase in business tourists due to the improving macroeconomic outlook. We expect occupancies to improve to ~70% in FY10; however, ARR's are likely to be under pressure in FY10 owing to the addition of new capacity coupled with lower demand.

EBITDA margin expected to increase slightly: The hotel business is a high fixed-cost business. Thus, industry down-cycles have been seen to result in sharp declines in the operating margins. However, we expect a 249 bps yoy increase in the consolidated EBITDA margin to ~23% in FY10, as compared to 20.8% in FY09, due to an expected recovery in the occupancy rates in the coming quarters.

Valuation: Our DCF-based fair value estimate of Rs. 90 reflects a potential upside of 20.3% from the current market price. Hence, we have upgraded our rating of the stock from Sell to Buy.

Key Figures (Standalone)

Quarterly Data:	Q1'09	Q4'08	Q1'09	YoY%	QoQ%	FY08	FY09	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	3,769	4,182	2,624	(30.4%)	(37.3%)	17,645	16,196	(8.2%)
Adj. EBITDA	1,167	1,429	120	(89.7%)	(91.6%)	7,016	4,886	(30.4%)
Adj. Net Profit	656	388	(447)	NM	NM	3,665	2,531	(30.9%)
Margins(%)								
EBITDA	31.0%	34.2%	4.6%			39.8%	30.2%	
NPM	17.4%	9.3%	(17.0%)			20.8%	15.6%	
Per Share Data (Rs.)								
Adj. EPS	0.9	0.5	(0.6)	NM	NM	6.1	3.5	(42.4%)

Result Highlights

Revenues decline

- For Q1'10, the standalone revenues plunged 30.4% yoy and 37.3% qoq to Rs. 2,623.6 mn, as 287 rooms in the Palace wing of Taj Mahal Palace & Tower, Mumbai, had to be closed down and also due to significantly lower occupancy rates and room rents during the period. During the period, the occupancy rates and room rents have negatively impacted the Company's top line largely due to the global economic crisis, followed by the Mumbai terrorist attacks, and now the swine flu pandemic. In Q1'10, the Company has recognised a claim of Rs. 225.2 mn for business interruption (for Taj Mahal Palace & Tower, Mumbai) as it has sufficient insurance cover for the loss of profit for up to 12 months from the date of interruption.

Poor operating performance

- In Q1'10, IHCL's standalone EBITDA witnessed a sharp fall by 89.7% yoy to Rs. 119.7 mn, despite a considerable decline in the raw material cost and license fee. At the same time, the Company's EBITDA margin also declined significantly to 4.6% in Q1'10, as against 31% in Q1'09, primarily due to the increase in the fixed-cost burden owing to the declining revenue.

Net profit nosedives

- The Company reported an adjusted net loss of Rs. 446.8 mn in Q1'10, as compared to the Rs. 655.7 mn in Q1'09. Meanwhile, the Company's reported net profit declined by 73.2% yoy to Rs. 164.4 mn during the period. The positive reported net profit is mainly due to a non-recurring profit on the sale of investments amounting to Rs. 387.7 mn and an exchange gain of Rs. 45.4 mn in Q1'10.

Other Updates

- Taj Lands End reinstates its leadership position in North Mumbai with the introduction of 125 new rooms comprising 107 Taj Club rooms and 18 suites, increasing the inventory to 493 rooms.
- The Pierre, New York, which closed down for complete renovation in December 2007, re-opened on June 1, 2009.

- The Company expects to fully re-open the terrorist-hit, 106-year-old Taj Mahal Palace & Tower in Mumbai by the end of 2009 or in January, 2010.

Expansion Plans

IHCL has continued to move forward with its expansion plans, although with some deferments in a few projects. The Company has added 468 new rooms (including management contracts) in the current financial year, and another 1326 new rooms will be added to the inventory by the end of this financial year.

Forthcoming Supply in FY10

Hotel	Rooms	Expected completion
IHCL		
Taj Falaknuma Palace, Hyderabad	60	Dec-09
Yeshwantpur	331	Feb-10
Taj Group		
Taj Palace, Cape Town (Taj International SA)	172	Dec-09
Fishcove Expansion, Chennai (Oriental Hotels Ltd.)	64	Oct-09
Ginger hotels – 5 cities (Roots Corporation Ltd.)	468	
Management Contract		
Gateway, OMR, Chennai	159	Jan-10
Vivanta by Taj, Bekal	72	Mar-10

Source: Company data

Outlook

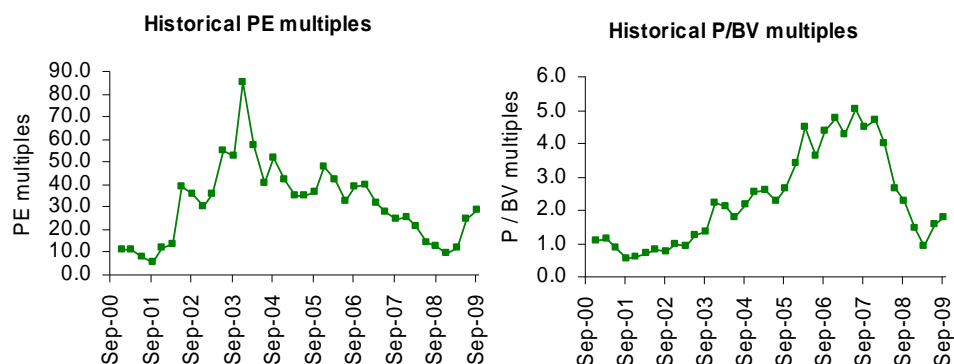
The Indian Hotel industry has been hit by declining tourist arrivals because of the global financial crisis, followed by the Mumbai terrorist attacks and now the swine flu pandemic. However, there are some bright spots amidst the gloom. The World Travel and Tourism Council estimates (in its August update) that the decline in tourist inflows has moderated, led by Asia-Pacific and America. Some of these signs are visible in India's tourist arrivals too. Tourist arrivals in June 2009 and July 2009 witnessed a marginal growth of 0.2% and 0.7%, respectively. We believe that this trend is likely to continue in the rest of the financial year on the back of the festive season and an expected increase in business tourists due to the improving macroeconomic outlook. Further, a visible recovery is expected at the end of FY11 owing to the 2010 Commonwealth Games in the country and an expected recovery in the world economy.

While demand has dropped significantly in the recent periods, the availability of new rooms has gone up, despite a liquidity crunch and the shortage of funds. Most of the large hotel chains responded to earlier high-growth periods by adding new capacity during the past few years. IHCL added 1,176 rooms in FY09 and will add about 1,800 new rooms in FY10. Other hotel chains, too, have new properties under construction. Thus, even if tourist arrivals pick up in the near future, we expect the pressure on room rents to persist in the near term.

Valuation

We have calibrated our estimates to account for a likely improvement in the occupancy levels to ~70% in FY10 and to ~73% in FY11. However, we believe that ARR's will continue to be under pressure over the next few quarters.

IHCL's stock is currently trading at a forward P/E of 21.5x FY10 earnings and at a price-to-book (P/BV) multiple of 1.7x. We also believe that the Company's P/E as well as P/BV multiples are trading at very lower levels compared to its historical performance as indicated in the charts below. Further, our DCF-based fair value estimate of Rs. 90 per share reflects a potential upside of 20.3% from the current market price. Hence, we have upgraded our rating of the stock from Sell to Buy.



Source: Prowess, Indiabulls research

Sensitivity Analysis of the Fair Value Estimate

DCF Sensitivity Analysis						
Cost of Capital (WACC)						
		7.9%	8.4%	8.9%	9.4%	9.9%
Terminal growth	4.0%	97	80	66	55	46
	4.5%	115	94	77	64	53
	5.0%	140	112	90	74	61
	5.5%	175	136	108	87	71
	6.0%	228	170	131	104	84

Source: Indiabulls research

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	31,328	36,379	16.4%
Adj. EBITDA	7,205	8,920	5,583	7,291	8,834	25.8%
Adj. Net Profit	3,703	3,776	455	2,533	3,683	184.6%
Margins(%)						
EBITDA	28.7%	30.5%	20.8%	23.3%	24.3%	
NPM	14.8%	12.9%	1.7%	8.1%	10.1%	
Per Share Data (Rs.)						
Adj. EPS	6.1	6.3	0.6	3.5	5.1	184.6%
PER (x)	23.7x	17.9x	62.6x	21.5x	14.7x	

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