RESULTS REVIEW

Share Data

Market Cap	Rs. 48.72 bn
Price	Rs. 67.35
BSE Sensex	14,785.74
Reuters	IHTL.BO
Bloomberg	IH IN
Avg. Volume (52 Week)	0.43 mn
52-Week High/Low	Rs. 93.0 / 34.0
Shares Outstanding	723.41 mn

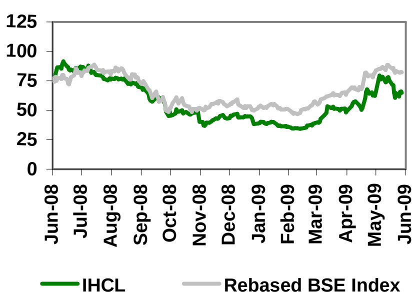
Valuation Ratios (Consolidated)

Year to 31 March	2010E	2011E
EPS (Rs.)	2.3	3.3
+/- (%)	268.1%	42.9%
PER (x)	29.1x	20.4x
EV/ Sales (x)	2.8x	2.5x
EV/ EBITDA (x)	14.3x	12.2x

Shareholding Pattern (%)

Promoters	30
FIIs	17
Institutions	25
Public & Others	28

Relative Performance



Indian Hotels Company Ltd. — Sell

Weakness in operating performance likely to persist

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). As a result, its consolidated revenues declined 8.0% yoy in FY09, closely in line with our estimates, while EBITDA margin plunged 976 bps yoy. While we expect some improvement in the occupancy levels going forward, weakness in ARRs is expected to continue. We maintain our Sell rating with a revised target price of Rs. 61 per share.

Likely improvement in occupancies, ARRs to fall further: Foreign tourist arrivals declined by ~3.0% yoy to 5.1 mn in FY09. The fourth quarter, which is usually the strongest quarter in a year, exhibited a weak performance with IHCL's revenue per available room (RevPAR) witnessing a 36.0% yoy drop. This pulled down IHCL's average occupancy levels and ARRs for the full year by 7.0% and 1.6%, respectively. We expect occupancies to improve from the present level of 64% to 67% in FY10; however, ARRs are likely to dip further by 8–9% in FY10 as we believe that IHCL would not be able to capitalise on the peak season revision of ARRs to its usual extent this year owing to the weak macroeconomic situation globally.

Margin pressure likely to persist: The hotel business is a fixed cost–heavy business; thus, industry down-cycles have been seen to result in sharp declines in operating margins. Likewise, for IHCL, the prevailing pressures on ARRs and occupancies have resulted in a sharp drop in its operating margins, a scenario that is likely to continue unabated in the next few quarters. Thus, we expect EBITDA margin to fall further by 90 bps in FY10 to 19.9%.

Valuation: An improvement in the global macroeconomic sentiments and the return of the UPA government to power has resulted in a confidence boost for the investors. While the stock has shown some strength over the last couple of months, we continue to remain cautious on the industry prospects. Our DCF-based fair value estimate of Rs. 61 reflects a potential downside of 9.4% from the current market price. Hence, we maintain our Sell rating.

Key Figures (Standalone)

Quarterly Data	Q4'08	Q3'09	Q4'09	YoY%	QoQ%	FY08	FY09	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	5,576	4,303	4,182	(25.0%)	(2.8%)	17,645	16,196	(8.2%)
Adj. EBITDA	2,484	1,392	1,165	(53.1%)	(16.3%)	7,016	4,886	(30.4%)
Adj. Net Profit	1,378	737	312	(77.4%)	(57.7%)	3,665	2,531	(30.9%)
Margins(%)								
EBITDA	44.5%	32.4%	27.9%			39.8%	30.2%	
NPM	24.7%	17.1%	7.4%			20.8%	15.6%	
Per Share Data (Rs.)								
Adj. EPS	2.3	1.0	0.4	(81.2%)	(57.7%)	6.1	3.5	(42.4%)

Result Highlights

Revenues decline

- For Q4'09, the standalone revenues (including the estimated claim of Rs. 855 mn for loss of profit from the Taj Mahal Palace & Tower, Mumbai) plunged 25.0% yoy to Rs. 4,182 mn. While occupancy levels dipped to 64% compared with 82% during the same period last year, ARRs nosedived 18.1% yoy to Rs. 10,374.
- During FY09, IHCL's standalone revenues declined by 8.2% yoy to Rs. 16,196 mn, on account of a drop in occupancy rates by 7.0% to 66% and in ARRs by 1.6% to Rs. 10,504.

	Q4'08	Q4'09	FY08	FY09
Occupancy	82%	64%	73%	66%
ARR	12,660	10,374	10,674	10,504
RevPAR	10,430	6,662	7,842	6,905

Source: Company data

Poor operating performance

- Standalone EBITDA margin for Q4'09 witnessed a sharp fall from 44.5% in Q4'08 to 27.9% in Q4'09, primarily due to the increase in the fixed cost burden owing to the declining revenues.
- For FY09, the standalone EBITDA margin fell 959 bps to 30.2%.

Net profit nosedives

- IHCL's adjusted net profit witnessed a sharp fall of 77.4% yoy to Rs. 312 mn during Q4'09.
- For FY09, IHCL's adjusted net profit declined by 30.9% yoy to Rs. 2,531 mn. The Company has made pension payments of Rs. 62 mn to kins of the expired staff at the Taj Mahal Palace & Tower (TMPT), Mumbai. IHCL also incurred a foreign exchange loss of Rs. 222 mn. The net effect of the above was a 38.0% yoy decline in the reported net profit to Rs. 2,340 mn.

Other Updates

- The Board of Directors recommended a dividend of Rs. 1.20 per share (120%) for FY09.
- IHCL acquired control of Hotel Sea Rock in North Mumbai for Rs. 6.8 bn in June 2009.
- The Pierre, New York, which closed down for complete renovation in December 2007 is expected to re-open fully in August 2009.
- The Company expects to fully re-open the terrorist-hit, 106-year-old TMPT in Mumbai by the end of 2009 or in January, 2010.

Expansion Plans

Despite the weak macroeconomic environment. IHCL has continued to move forward with its expansion plans, although with some deferments in a few projects.

Forthcoming Supply in FY10

Hotel	Rooms	Expected completion
IHCL		
Taj Falaknuma Palace, Hyderabad	60 rooms	Dec-09
Yeshwantpur	331 rooms	Feb-10
Taj Lands End Expansion, Mumbai	120 rooms	Sep-09
Taj Group		
Pierre renovation (IHMS Inc.)	184 rooms	Jun-09
Taj Palace, Cape Town (Taj International SA)	172 rooms	Dec-09
Fishcove Expansion, Chennai (Oriental Hotels Ltd.)	64 rooms	Oct-09
Ginger hotels – 5 cities (Roots Corporation Ltd.)	468 rooms	
Management Contract		
Taj Residency, Panjim	164 rooms	Launched
Gateway, OMR, Chennai	159 rooms	Jan-10
Vivanta by Taj, Bekal	72 rooms	Mar-10

Source: Company data

Valuation

We have calibrated our estimates to account for a likely improvement in occupancy levels to 67% in FY10 and to 70% in FY11. However, we remain cautious on the industry prospects and believe that ARRs will continue to be under pressure over the next few quarters.

IHCL's stock is currently trading at a forward P/E of 29.1x FY10 earnings and at a price-to-book multiple of 1.5x. Our DCF-based fair value estimate of Rs. 61 per share reflects a potential downside of 9.4% from the current market price; hence, we maintain our Sell rating on the stock.

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	29,461	33,878	12.3%
Adj. EBITDA	7,205	8,920	5,583	5,858	6,844	10.7%
Adj. Net Profit	3,703	3,776	455	1,673	2,391	129.3%
Margins(%)						
EBITDA	28.7%	30.5%	20.8%	19.9%	20.2%	
NPM	14.8%	12.9%	1.7%	5.7%	7.1%	
Per Share Data (Rs.)						
Adj. EPS	6.1	6.3	0.6	2.3	3.3	129.3%
PER (x)	23.7x	17.9x	NM	29.1x	20.4x	

Sensitivity Analysis of the Fair Value Estimate

DCF Sensitivity Analysis

Terminal growth	Cost of Capital (WACC) 8.1%	8.6%	9.1%	9.6%	10.1%
4.0%	67	53	43	34	27
4.5%	81	64	51	40	32
5.0%	99	77	61	48	38
5.5%	124	95	74	58	46
6.0%	161	119	91	71	56

Source: Indiabulls research

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