

Company

31 July 2009 | 8 pages

Indian Hotels (IHTL.BO)

 Equity

Sell: Poor 1QFY10

- 1Q, much below estimates** — Standalone revenues fell 24% YoY while reported net profit declined 73% YoY. Excl'd ext. income of Rs433m (profit on sale of investment of Rs388m and forex gain of 45m), IHC reported a loss of Rs269m for 1QFY10. The loss would be higher, but for its insurance claim of Rs225m.
- Sharp decline in EBITDA margin** — 1QFY10 EBITDA margin declined 18.8ppts YoY and 15.7ppts QoQ to 12.1% likely on account of lower occupancy. Further, while revenues declined substantially, employee expenses remained flat
- What's new?** — 1) Plans to add 1,794 rooms in FY10 of which one property (mngt contract), Vivanta in Goa, has already been launched. 2) IHC has agreed to acquire a controlling stake in Sea Rock hotel for Rs6.8bn and proposes to demolish the existing hotel and undertake a new development which will fully integrate it with IHC's Land's End hotel. 3) The Pierre in New York was soft launched after completion of renovation in Jun'09 and will be fully reopened by end Aug'09; a lot is contingent on the profits from this property.
- Key headwinds** — 1) Given the global slowdown, overseas properties, particularly in the US, may report losses which will adversely impact consolidated profits. 2) High debt levels (~46bn as at Mar'09) and resulting high interest cost will likely be a drag on profits. 3) Any provision made for sharp erosion in investment of US\$260m for 9.3% stake in Orient Express, now worth US\$64m, will be negative.
- Maintain Sell** — While the stock has increased 38% in the past three months, largely in-line with performance of the sensex, we expect weak earnings over the next two quarters, on account of lower occupancies and ARRs, to weigh on stock performance.

Sell/High Risk	3H
Price (30 Jul 09)	Rs69.00
Target price	Rs62.00
Expected share price return	-10.1%
Expected dividend yield	1.7%
Expected total return	-8.4%
Market Cap	Rs49,915M US\$1,034M

Price Performance (RIC: IHTL.BO, BB: IH IN)



Statistical Abstract

Year to	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
31 Mar							
2007A	3,703	6.14	44.2	11.2	2.0	18.6	2.3
2008A	4,130	5.71	-7.1	12.1	1.6	15.7	2.2
2009E	640	0.89	-84.5	78.0	1.6	2.0	1.7
2010E	3,196	4.42	399.2	15.6	1.4	9.5	1.7
2011E	3,954	5.46	23.7	12.6	1.3	10.5	1.7

Source: Powered by dataCentral

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Fiscal year end 31-Mar	2007	2008	2009E	2010E	2011E
Valuation Ratios					
P/E adjusted (x)	11.2	12.1	78.0	15.6	12.6
EV/EBITDA adjusted (x)	8.9	7.3	11.5	8.7	7.0
P/BV (x)	2.0	1.6	1.6	1.4	1.3
Dividend yield (%)	2.3	2.2	1.7	1.7	1.7
Per Share Data (Rs)					
EPS adjusted	6.14	5.71	0.89	4.42	5.46
EPS reported	6.14	4.90	0.17	4.42	5.46
BVPS	34.78	43.87	42.69	49.93	54.28
DPS	1.60	1.50	1.20	1.20	1.20
Profit & Loss (RsM)					
Net sales	25,062	29,200	27,119	34,037	38,538
Operating expenses	-19,464	-21,956	-23,163	-28,150	-31,470
EBIT	5,598	7,244	3,955	5,887	7,068
Net interest expense	-1,222	-2,024	-2,305	-2,491	-2,356
Non-operating/exceptionals	1,726	1,252	190	1,911	1,930
Pre-tax profit	6,102	6,472	1,840	5,307	6,642
Tax	-2,198	-2,700	-1,558	-1,990	-2,539
Extraord./Min.Int./Pref.div.	-201	-227	-158	-121	-149
Reported net income	3,703	3,545	125	3,196	3,954
Adjusted earnings	3,703	4,130	640	3,196	3,954
Adjusted EBITDA	7,205	8,920	5,838	7,845	9,200
Growth Rates (%)					
Sales	36.4	16.5	-7.1	25.5	13.2
EBIT adjusted	46.9	29.4	-45.4	48.8	20.1
EBITDA adjusted	41.7	23.8	-34.5	34.4	17.3
EPS adjusted	44.2	-7.1	-84.5	399.2	23.7
Cash Flow (RsM)					
Operating cash flow	5,959	4,302	-1,533	5,347	4,337
Depreciation/amortization	1,607	1,676	1,883	1,958	2,132
Net working capital	325	-1,282	-3,835	-66	-2,036
Investing cash flow	-11,838	-19,005	-12,743	-2,809	-2,071
Capital expenditure	-12,746	-16,012	-13,956	-4,197	-4,354
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	4,653	13,036	10,576	-9,642	-1,744
Borrowings	5,542	14,117	11,792	-8,670	-772
Dividends paid	-889	-1,080	-1,215	-972	-972
Change in cash	-1,226	-1,666	-3,700	-7,104	522
Balance Sheet (RsM)					
Total assets	52,426	77,533	87,085	84,702	87,163
Cash & cash equivalent	1,772	7,576	7,500	6,898	6,658
Accounts receivable	2,048	2,079	2,080	2,611	3,062
Net fixed assets	35,566	38,800	45,931	42,326	44,548
Total liabilities	28,701	42,977	53,219	45,484	44,652
Accounts payable	2,801	2,602	2,972	3,730	4,329
Total Debt	20,551	34,668	46,460	37,790	37,018
Shareholders' funds	23,725	34,556	33,866	39,218	42,511
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	28.7	30.5	21.5	23.0	23.9
ROE adjusted	18.6	15.7	2.0	9.5	10.5
ROIC adjusted	9.6	10.6	4.8	7.3	8.4
Net debt to equity	79.2	78.4	115.0	78.8	71.4
Total debt to capital	46.4	50.1	57.8	49.1	46.5

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Figure 1. Indian Hotels 1QFY10 Results Summary

Rs in Millions	4QFY09	1QFY10	1QFY09	YoY	QoQ
Net Sales	4182.2	2848.8	3769.1	-24%	-32%
Total Expenditure	3017.1	2503.7	2602.4	-4%	
EBITDA	1165.1	345.1	1166.7	-70%	-70%
Margin	27.9%	12.1%	31.0%		
Interest	229.4	376	234.6	60%	64%
Other Income	122.4	91.1	211	-57%	-26%
Depreciation	285.6	250.6	202.6	24%	-12%
PBT	772.5	-190.4	940.5	-120%	-125%
Total Tax	378.4	78.3	267.7	-71%	-79%
PAT before Extraordinary	394.1	-268.7	672.8		-168%
Add: Extra-ordinary Items	11.6	433.1	-60.1		
PAT after Extraordinary	382.5	164.4	612.7	-73%	-57%

Source: Company, Citi Investment Research and Analysis

Indian Hotels

Company description

Indian Hotels (IHC) is the largest hotel operator in India with a presence in the luxury, business and leisure hotel segments. It owns the 'Taj' brand and operates 97 hotels (11,546 rooms) across India and international locations. It is looking to enter the budget hotel segment through its new brand 'Ginger', and make a foray into the adventure business with wildlife lodges. It already operates eleven budget hotels, and plans to add 35 in the next few years with an investment of Rs4-6bn. The company is also looking to expand overseas through acquisitions/management contracts. Other new revenue streams being explored include serviced apartments, spas and F&B outlets. IHC is the hotel-sector flagship company of Tata Group, which holds a 29% stake.

Investment strategy

We rate Indian Hotels Sell/High Risk with a target price of Rs62. Our rating is based on 1) downside risks to earnings for IH's domestic business as occupancy levels correct and RevPARs decline across cities on the back of uncertain demand conditions; 2) limited visibility on recovery of overseas losses with ongoing global slowdown, particularly in the US (~18% of sales); and 3) sharp erosion in investments of Orient Express, which is still to be recognized. Our target multiple of 14x factors in improved liquidity and a preference for asset plays such as hotel stocks in the current environment. However given that the stock is already trading at rich valuations and risks of earnings disappointment are high, we recommend a Sell/High Risk rating.

Valuation

Our target price of Rs62 is based on 14x FY10E P/E as we forecast muted earnings growth on account of lower occupancy and ARR's with a slowdown in business and tourist traffic. Our target multiple of 14x is at a 20% discount to the current Sensex P/E multiple and in line with 5-yr trough valuations of 14x.

Risks

We rate IHC High Risk, based on our quantitative risk rating system, which tracks historical 260-day share price volatility. We also rate it High Risk in light of low earnings visibility and our cautious view on the sector in the current environment. Upside risks to our investment thesis and target price are: 1) faster than expected re-opening of damaged Mumbai properties. 2) Higher than expected profitability of overseas properties. 3) Better than anticipated occupancy. 4) Greater than expected delay in anticipated new room supply.

Appendix A-1

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Indian Hotels (IHTL.BO)

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Fundamental Research

Analyst: Ashish Jagnani

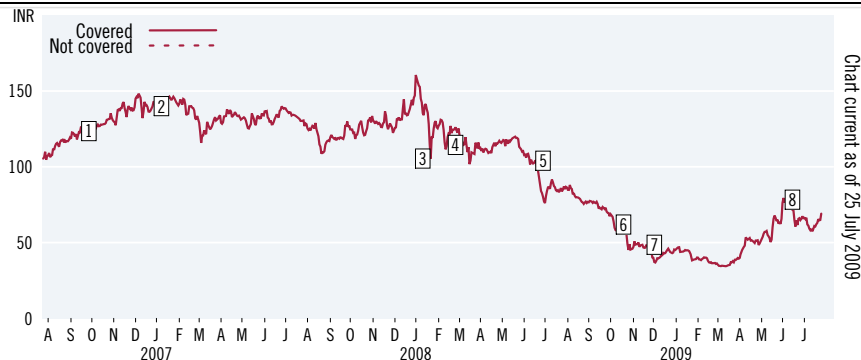


Chart current as of 25 July 2009

Date	Rating	Target Price	Closing Price
1 27-Sep-06	*1L	*154.78	126.53
2 8-Jan-07	1L	*172.28	140.04
3 10-Jan-08	1L	*164.91	135.38
4 26-Feb-08	1L	*179.00	126.10
5 27-Jun-08	1L	*105.00	80.20
6 20-Oct-08	*1M	*76.00	59.25
7 2-Dec-08	*2H	*47.00	37.15
8 14-Jun-09	*3H	*62.00	75.40

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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