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SECTOR RESEARCH

Hotels & Hospitality

Blooming 'Incredible India'

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Summary

The growth in the hotel industry is expected to boom as both domestic and international tourism will also be boosted by events such as the Commonwealth Games, the ICC World Cup, Formula One.

The year 2009-10 was not a good year for the Hotel Industry, but rising occupancies could now boost revenues and profits. The current growth of Indian Hospitality Industry is 12 per cent which is expected to rise to at least 20 per cent over the next few years

The growth in the hotel industry is expected to blossom as both domestic and international tourism will also be boosted by events such as the Commonwealth Games, the ICC World Cup and the Formula One over the next one year.

Exhibit: Final Picks

Name Of Hotel	CMP	TARGET
Indian Hotels Company Limited	103.25	128.76
Royal Orchids Hotels Limited	84.95	109.90
Mahindra Holidays & Resorts India Ltd.	484.05	619.20

Source:Kredent Research Advisors

Indian Hotel Industry

Big events help to bring tourists. The Common Wealth Games 2010 in October in Delhi, ICC Cricket World Cup in February 2011 and the Formula One is expected to boost Domestic and Foreign Tourist Arrivals.

The Common Wealth Games 2010 in Delhi, Cricket World Cup in February 2011 and the Formula 1 is expected to boost Foreign Tourist Arrivals.

Common Wealth Games 2010 (CWG 2010): CWG 2010 is a remarkable event in the history of India. It is not only a significant matter for sports but also for tourism industry in India. Hence, it will also benefit the Hotel Industry.

- According to an official estimates, CWG 2010 will attract around 2 million foreign tourists and 3.5 million tourists from different part of India alone.
- According to ASSOCHAM, CWG 2010 will bring an estimated 10 million international foreign tourists in 2010.
- It is expected that there will be a high rise in the number of international passengers from 25 million last year to 45 million by 2010 and the number of foreign tourists is also expected to rise from 4.43 per cent to 10 per cent.
- A point worthy of note is that a Tourist will not only visit Delhi, but will also visit other cities in India, thereby benefiting the Tourism and Hotel Industry of the country as a whole. Therefore, hotel companies having pan-India presence will profit largely.

Cricket World Cup: Cricket is considered a religion in India. The event is sure to attract large number of foreign and domestic Tourists.

- In a country as small as the West Indies, the approximate numbers of tourists were 65000 to 100000, during the Cricket World Cup in 2007. India, being a larger, more developed and more attractive tourist destination is expected to attract much more tourists.
- The addition to stadium capacities will further benefit the Tourism and Hotel Industry, as more spectators will travel.

Formula One: An opportunity that could give a major boost to India's motor sports by hosting its inaugural Formula 1 race in Oct 2011. The event is sure to attract huge number of Domestic and Foreign Tourists, which will strengthen the Tourism and Hotel Industry. The expectation is justified through the example of the Bahrain Grand Prix which began hosting the ace recently.

- The race was a real windfall for hotels. Most hoteliers increase the room rates significantly during the event. Still, Rooms are sold out in most hotels.
- During the year a guest pays €114 to €251 per room, but during the race the prices rises to €352 to €838.

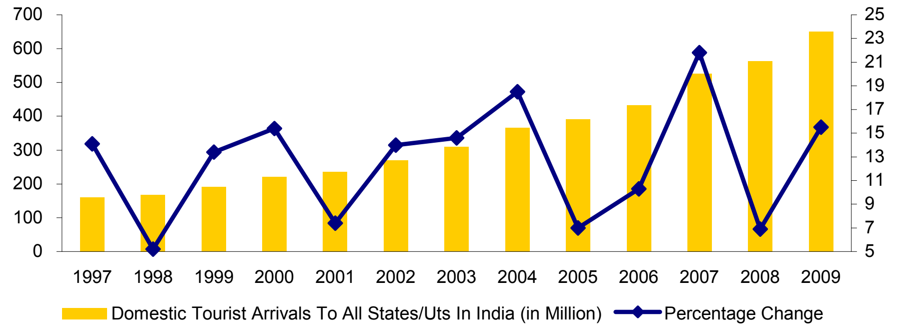
Other Demand Drivers In The Industry

Facilitating Environment: The positive outlook of strong GDP growth, improving infrastructure, the 'Incredible India' campaign and the recently launched '*Atithi Devo Bhavah*' (ADB) campaign has improved the outlook for tourist arrival in the country and the hotel industry is expected to be the major beneficiary. Even domestic tourism is gaining momentum. Rising disposable incomes, cheaper airfares and better connectivity would continue to increase the demand for rooms. A distinct growth in

Strong GDP growth, the recently launched 'Atithi Devo Bhavah' campaign and growth in Domestic Tourists are sending positive signals to the hotel industry

domestic tourists can be observed from the exhibit below.

Exhibit: Trend in Domestic Tourist Arrivals To All States/Uts In India (1997-2009)



Source: Ministry of Tourism, Kredent Research Advisors

Holiday Season: The months of November to February, has always seen a rise in Tourists arrivals, be it Foreign or Domestic. The exhibit below shows the growth in the influx of foreign tourists during the period of November to February.

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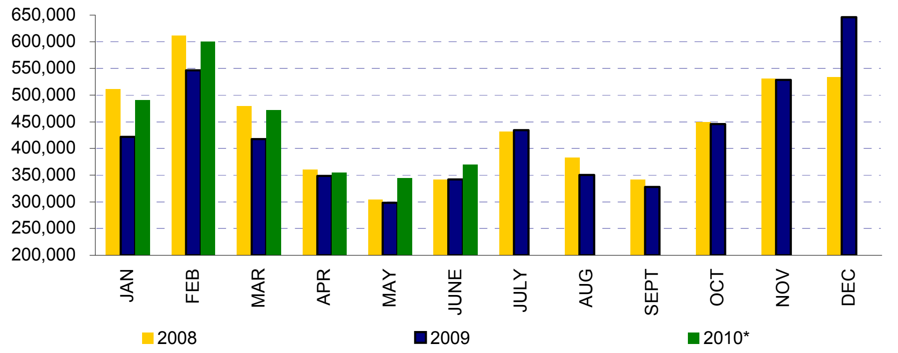
Exhibit: Monhly Foreign Tourist Arrivals

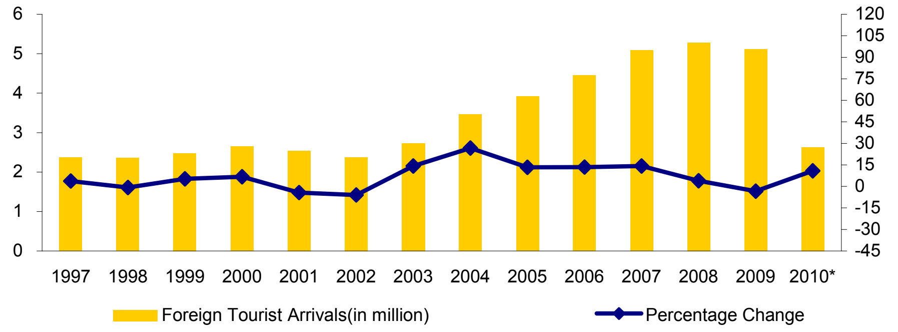


Source: Ministry Of Tourism, Kredent Research Advisors, * From Jan to June Figures

Growth in Foreign Tourist Arrivals (FTA): The growth of FTA from December 2009 is encouraging. The exhibit below illustrates this. The year 2010 is limited to the period from January to June.

After the slowdown due to the 26/11 Mumbai Terrorist attacks, the growth of FTA from December 2009, is extremely encouraging.

Exhibit: Trend in Foreign Tourist Arrivals (1997-2010)



Source: Ministry of Tourism, Kredent Research Advisors, * 2010 figures are for Jan to June

The Business Traveller: This segment includes corporates, both domestic and foreign who travel to and fro for business purposes. While the senior executives usually stay in 5 star hotels, the middle level executives, who are much larger in number, stay in the budget hotels.

The Leisure Traveller: Could either be a foreigner or a domestic traveller whose primary purpose of visit is holiday or site seeing. The business offered by this segment is highly seasonal and tends to peak in the September to March period.

Location and Market Positioning are integral to the success of a hotel property

Site and Location: This can be considered the most critical factor in determining the success of a hotel property. Issues like distance from the Central Business District (for metro hotels) and connectivity (access to roads, proximity to airports) assume importance.

Market Positioning: Hotel positioning according to the target guest segment is very important.

Government Initiative: According to the Consolidated FDI Policy, released by DIPP, Ministry of Commerce and Industry, Government of India, the government has allowed 100 per cent foreign investment under the automatic route in the hotel and tourism related industry.

Foreign Tourist Arrivals: As per the press release by the Ministry of Tourism, a growth of 9.9 per cent was registered in February 2010 over February 2009 in terms of Foreign Tourist Arrivals.

Structure of the Industry

Hotels in India are broadly classified into 7 categories (five star deluxe, five-star, four star, three star, two star, one-star and heritage hotels) by the Ministry of Tourism, Government of India, based on the general features and facilities offered. The ratings are reviewed every five years

Premium and Luxury Segment: This segment comprises the high-end 5-star deluxe and 5-star hotels, which mainly cater to the business and upmarket foreign leisure travellers and offer a high quality and range of services.

Mid-Market Segment: This segment comprises 3 and 4 star hotels, which cater to the average foreign and domestic leisure traveller, middle level business travellers. It offers most of the essential services of luxury hotels without the high costs since the tax component of this segment are lower compared with the premium segment.

Budget Segment: These comprise 1 and 2 star hotels referred to as ‘Budget Hotels’. These categories do not offer as many facilities as the other segments but provide inexpensive accommodation to the highly price-conscious segment of the domestic and foreign leisure travellers.

Heritage Hotels: In the past four decades, certain architecturally distinctive properties such as palaces and forts, built prior to 1950, have been converted into hotels. The Ministry of Tourism has classified these hotels as heritage hotels.

Others: At any point in time, applications for classification are usually pending with the Ministry of Tourism because of which such properties remain unclassified.

Risks

General economic conditions: Hotel business in general is sensitive to fluctuations in the economy. The hotel sector may be unfavourably affected by changes in global and domestic economies, changes in local market conditions, reduced international and local demand for hotel rooms, competition in the industry, government policies and regulations, fluctuations in interest rates and foreign exchange rates

Heavy Dependence on India: A significant portion of most hotel’s revenues are realised from its Indian operations, making it susceptible to domestic socio-political and economic conditions.

Competition from International Hotel Chains: The Indian subcontinent, South East Asia and Asia Pacific with high growth rates have become the focus area of major international chains. These entrants are expected to intensify the competitive environment. The success of Indian hotels will be dependent upon its ability to compete with them. Aman Resorts, Shangri-la Hotels, Four Seasons Hotels and The Hilton group are some of the international players that are at various stages of establishing presence in India.

Stages of Selection

We selected all the 61 companies listed on the NSE and BSE in the hotel sector. Thereafter, companies that were either suspended from trading or were loss-making for the previous financial year, were eliminated

Step – 1

We selected all the 61 companies listed on the NSE and BSE in the hotel sector. Thereafter, companies that were either suspended from trading or were loss-making for the previous financial year were eliminated.

Step – 2

Out of the 61 companies listed, 21 were eliminated due to suspension or they were loss-making in the previous financial year.

On the rest 39 companies, based on our financial parameters, ratio analysis was carried out. Hence, 16 companies were short-listed on the basis of highest points, pan-India presence and brand equity

Step - 3

On the basis of location advantages and the room rates, the 16 companies were analysed.

For Location:

- 1 Point was awarded each, for presence in North or South or East or West. Further, an additional 1 bonus point each was awarded for presence in Mumbai, Delhi, Agra, Goa and also 1 bonus point was awarded for Pan-India presence.

For Average Daily Rate Per Room:

- 1 point each was awarded for presence in luxury, mid and economical segment.
- Luxury segment was above Rs.7,000, Mid-segment was between Rs.4,000 and Rs.7,000 and Economical segment was Rs.4.000 and less

Based on our financial parameters, we carried out ratio analysis of the 39 companies that survived the first stage elimination

Exhibit: Ratio Analysis Result

Company	PBIDTM	EBITM	PATM	ROA	ROE	ROCE	NSG	EBITDAG	EBITG	PATG	EG	D/E	CR	IC	Total
Advani Hotels & Resorts Ltd.	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1
Asian Hotels (North) Ltd.	1	1	1	0	1	1	1	1	1	1	1	1	1	0	12
Benares Hotels Ltd.	0	1	1	1	1	1	1	1	1	1	1	1	0	0	11
Best Eastern Hotels Ltd.	0	0	1	1	1	1	1	1	1	1	1	1	0	0	10
Bhagwati Banquets & Hotels Ltd.	0	1	1	0	0	0	1	1	1	1	1	1	0	0	8
Bharat Hotels Ltd	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1
Blue Coast Hotels Ltd.	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1
CHL Ltd	0	1	1	1	1	1	0	0	0	0	0	1	0	0	6
Cindrella Hotels Ltd.	0	0	0	0	0	0	1	0	1	0	0	1	0	0	3
Country Club (India) Ltd.	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1
EIH Associated Hotels Ltd.	1	1	0	0	0	0	0	1	1	0	0	0	0	0	4
EIH Ltd.	1	1	1	0	1	1	0	1	1	1	1	1	0	0	10
Fomento Resorts & Hotels Ltd.	1	1	1	1	1	0	0	0	0	0	0	0	0	1	6
Gandhinagar Hotels Ltd.	1	0	0	0	0	0	0	0	0	0	0	0	0	1	2
Graviss Hospitality Ltd.	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1
Hotel Leela Venture Ltd.	1	0	0	0	0	0	0	0	0	0	0	0	0	0	1
Howard Hotels Ltd.	0	0	0	0	0	0	1	1	1	0	1	1	0	0	5
HS India Ltd.	1	1	0	0	0	1	0	1	1	0	0	1	0	0	6
India Tourism Devp. Corpn. Ltd.	0	0	0	0		0	0	0	0	0	0	1	0	0	1
Indian Hotels Company Ltd.	1	1	0	0		0	0	1	1	0	0	1	1	0	6
Ishwar Bhuvan Hotels Ltd.	0	0	1	1	1	1	1	1	1	1	1	1	0	0	10
Jaypee Hotels Ltd.	1	1	1	1	1	1	1	1	1	1	1	1	0	0	12
Jindal Hotels Ltd.	0	0	0	1	1	1	1	1	1	1	1	1	0	0	9
Kamat Hotels (India) Ltd.	1	1	0	0	0	0	0	1	1	0	0	0	0	0	4
Mac Charles (India) Ltd.	1	1	1	1	0	1	0	0	0	0	0	1	0	1	7
Mahindra Holidays & ResortsLtd.	1	1	1	1	1	1	1	1	1	1	1	0	0	1	12
Nicco Parks & Resorts Ltd.	0	0	0	1	1	1	1	1	1	1	0	1	0	0	8
Oriental Hotels Ltd.	1	1	0	0	0	0	0	0	0	0	0	1	1	0	4
Ras Resorts & Apart Hotels Ltd.	0	0	0	0	0	0	1	0	0	0	0	1	0	0	2
Reliable Ventures India Ltd.	1	1	1	1	1	0	1	1	1	1	1	1	0	1	12
Royal Orchid Hotels Ltd.	1	1	1	1	0	0	1	0	0	0	0	1	1	1	8
Royale Manor Hotels & Inds. Ltd.	1	1	1	1	1	1	1	0	0	0	0	1	0	0	8
Savera Industries Ltd.	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1
Sinclairs Hotels Ltd.	1	1	1	0	0	0	1	1	1	1	1	1	0	0	9
Suave Hotels Ltd.	0	0	0	0	0	0	0	0	0	0	0	1	1	1	3
Taj GVK Hotels & Resorts Ltd.	1	1	0	1	1	1	0	1	0	0	1	1	0	0	8
UP Hotels Ltd.	0	0	1	1	1	1	0	0	0	1	1	1	0	1	8
Velan Hotels Ltd.	0	0	0	0	1	1	1	1	1	1	1	1	0	0	8

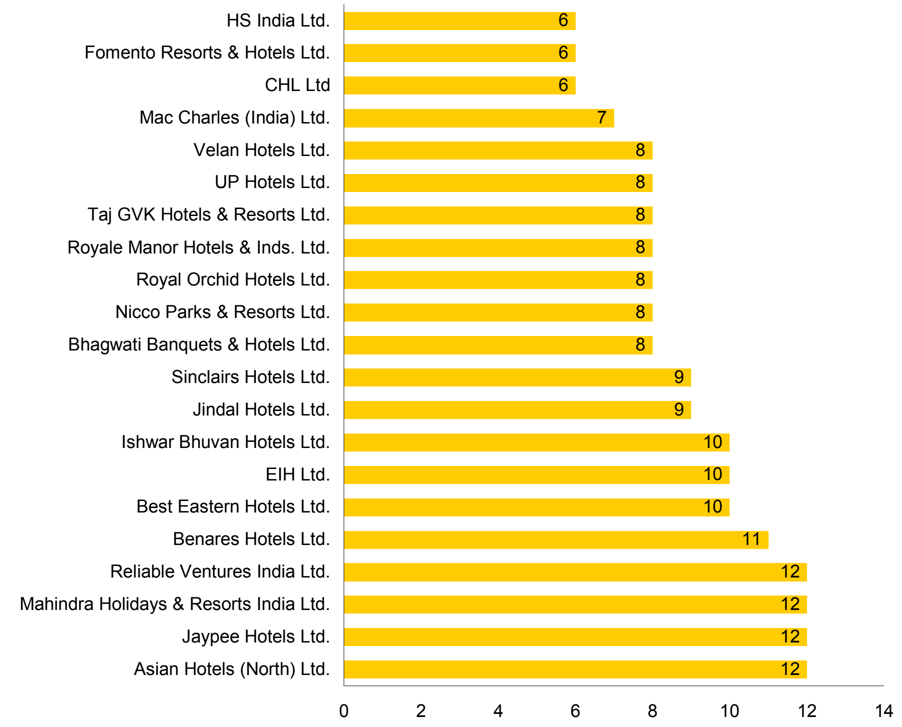
Source: Kredent Research Advisors

Note: 0 means the ratio below industry average and 1 menas ratio is above industry average

Note: CR - Current Ratio, DE-Debt-equity ratio, IC-Interest coverage ratio, ROCE - Return on Capital Employed, ROA - Return on Assets, ROE - Return on Equity, NSG -Net Sales Growth, EBITDAM - EBITDA Margin, EBITG - EBITDA Growth, EBITM- EBIT Margin, EBITG- EBIT Growth, PATM - PAT Margin, PATG - PAT Growth, EG-EPS Growth, PBIDTM-Profit Before Interest Depreciation Tax Margin

On the basis of location advantages and the room rates, the 16 companies were analysed

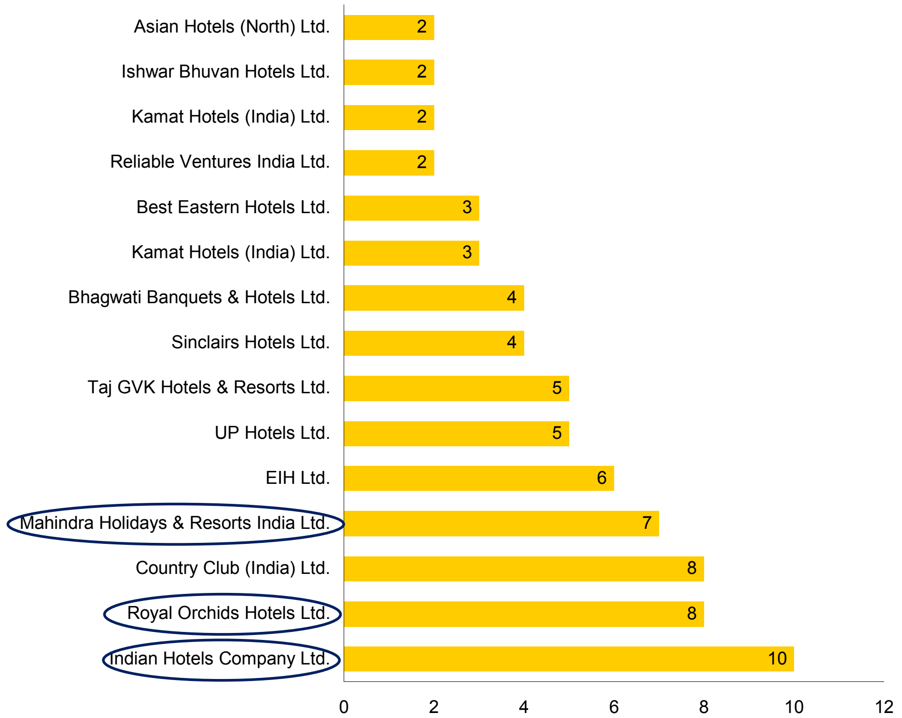
Exhibit: Ratio Analysis Scoreboard



Source: Kredent Research Advisors

Out of 16 companies, we finally came down to 3 companies

Exhibit: Final Selection Scoreboard



Source: Kredent Research Advisors

BUY

Price (Rs): 103.25

Target (Rs): 128.76

Indian Hotels Company Limited

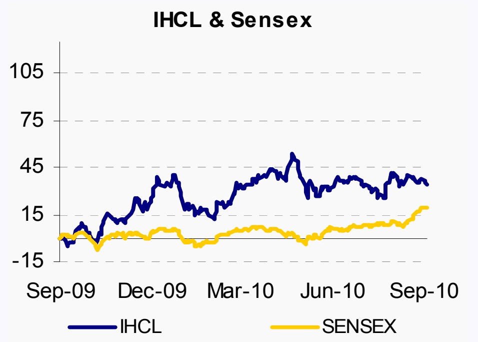
September 28, 2010

INITIAL COVERAGE REPORT

STOCK INFO

Listing	NSE/BSE
Bloomberg	IH IN
Reuters	IHTL.BO
Sensex (August 27, 2010)	20,117.38
Market cap (Rs mn)	74,770.91
Free float (percent)	69.72
Average last six month vol.	1348.54
52 week H/L (Rs)	118.35/70.05
Beta	1.0097
Face value (Rs)	1

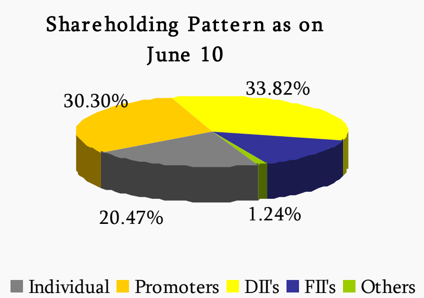
RELATIVE PERFROMANCE



KEY RATIOS

EPS (Rs) (TTM)	1.94
BV (Rs)	37.21
Price/Earning (x)	53.22
Price/BV (x)	2.77
Dividend yield (percent)	0.1

SHAREHOLDING PATTERN



The Indian Hotels Company Limited (IHCL) and its subsidiaries are collectively known as Taj Hotels Resorts and Palaces. It recognized as one of Asia's largest and finest hotel company which comprises of more than 60 hotels in 45 locations across India with an additional 15 international hotels in the Malaysia, United Kingdom, United States of America, Bhutan, Sri Lanka, Africa, the Middle East and Australia

Investment Rationale

- IHCL's strength lies in its brand equity and in its market share. It has captured 25 per cent of the market share in the hotel industry and is the largest player in the market.
- IHCL is planning to list its two-star economy budget hotel chain Ginger Hotels. Hence, the funds collected will strengthen the company's financials to expand and would lead to value unlocking for the existing shareholders
- IHCL plans to add ten properties, domestically and internationally. It plans to spend Rs 9590 million on new hotel projects over the next two to three years as the company plans to have 144 hotels in 18 countries in the next two years. This will strengthen their market presence, boost revenues and gain market share.
- IHCL plans to raise its room rates this year. Occupancy has also bounced back smartly in the last two quarters. Hence, the revenue will be pushed in an upwardly direction
- IHCL is into catering, hotels and various other businesses like spas, educational institute, and travel agency. Hence, it de-risks its business model

Key Risks

- The Company has a portfolio of foreign currency debt, in respect of which it faces exposure to fluctuations in currency as well as interest rate risks

Exhibit: Key Financials *Figures in Millions*

Particulars	FY2007	FY2008	FY2009	FY2010
Total Income	**26554.00**	**30767.70**	**16195.70**	**14732.90**
PAT	**3703.10**	**3549.80**	**2340.30**	**1531.00**
PAT Margins (%)	13.95	11.54	14.45	10.39
Diluted EPS	**6.14**	**5.89**	**3.28**	**2.12**
P/E (x)	7090.90	8811.80	3942.20	2761.70
P/BV (x)	4.87	3.53	1.12	2.58
Debt / Equity Ratio (x)	0.52	0.56	0.58	0.99
ROE (%)	21.07	18.51	9.21	5.34
EV/EBITDA (x)	1.01	1.01	3.57	5.79

Source: Company Data, Kredent Research Advisors

Company Background

IHCL owned Taj Hotels Resort and Palaces comprises more than 60 hotels in 45 locations across India with an additional 15 international hotels

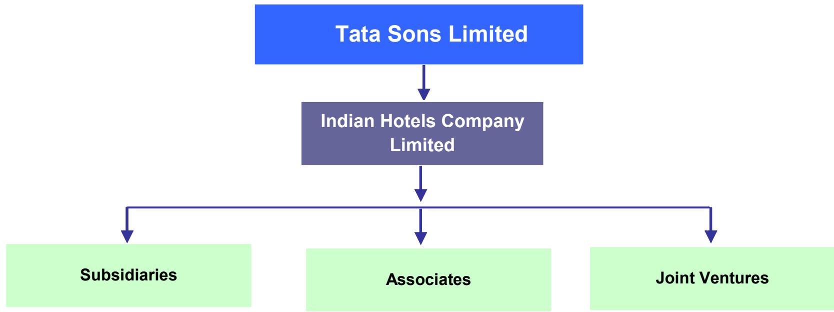
IHCL owned Taj Hotels Resort and Palaces comprises more than 60 hotels in 45 locations across India with an additional 15 international hotels in the Malaysia, United Kingdom, United States of America, Bhutan, Sri Lanka, Africa, the Middle East and Australia. The Indian Hotels Company Limited engages in hoteliering and air catering business. Further, it also engages in the food processing and investing activities. It operates luxury residences, wildlife lodges, and spas.

Product Range

IHCL operate in the luxury, premium, mid-market and value segments of the market

- **Taj:** (luxury full-service hotels, resorts and palaces) is the flagship brand for the world's most discerning travellers seeking authentic experiences. Eg, Taj Exotica, Taj Safaris.
- **Upper Upscale Hotels:** (full-service hotels and resorts) provide a new generation of travellers a contemporary and creative hospitality experience.
- **The Gateway Hotel:** (upscale/mid-market full service hotels and resorts) is a pan-India network of hotels and resorts that offers business and leisure travellers a hotel designed, keeping the modern nomad in mind.
- **Ginger:** (economy hotels) is IHCL's revolutionary concept in hospitality for the value segment. Intelligently designed facilities, consistency and affordability are hallmarks of this brand targeted at travellers who value simplicity and self-service.
- **JIVA SPAS**: Jiva Spas a unique concept, which brings together the wisdom and heritage of the Asian and Indian Philosophy of Wellness and Well-being.
- **TAJ AIR:** IHCL operates Taj Air, a luxury private jet operation with state-of-the-art Falcon 2000 aircrafts designed by Dassault Aviation, France; and Taj Yachts, two 3-bedroom luxury yachts which can be used by guests in Mumbai and Kochi, in Kerala.
- **TAJ SATS AIR CATERING LTD.:** IHCL also operates Taj Sats Air Catering Ltd., the largest airline catering service in South Asia, as a joint venture with Singapore Airport Terminal Services, a subsidiary of Singapore Airlines. It caters to over 26 international and domestic airlines, and is the leader in the Indian flight catering market.
- **IIHM:** IHCL has been operating the Indian Institute of Hotel Management, Aurangabad since 1993. The institute offers a three-year diploma, designed with the help of international faculty and has affiliations with several American and European programmes.
- **INDITRAVEL PVT LTD.:** Inditravel was formed in 2002, post the acquisition of the 18 year old agency Stallion Travel Services Pvt. Ltd. by The Indian Hotels Company Limited. Headquartered in Mumbai, with branches in 34 locations across India, Inditravel is a professionally managed travel agency providing total travel management solutions. It provides services such as International and domestic Air-Ticketing, Car Rentals, Visas, Hotel Bookings.

Exhibit: Corporate Holding Structure



Source: Company Data, Kredent Research Advisors

Subsidiaries

Exhibit: Domestic & International Subsidiaries

Domestic	International
Taj International Limited (South Africa)	International Hotel Management Services Inc.
Tifco Holdings Limited	Taj International Hotels (H.K.) Limited
KTC Hotels Limited	St.James Court Hotel Limited
United Hotels Limited	Chietain Corporation N V
Taj SATS Air Catering Limited	IHMS(Australia) Pty Limited
Rots Corporation Limited	IHMS (Restaurants) Pty Limited
Residency Foods and Beverages Limited	Apex Hotel Management Services Pte. Ltd
Innovative Foods Limited	IHOCOBV
	IHMS(HK) Limited
	Taj International Hotels Limited
	Samsara Properties Limited

Source: Company Data, Kredent Research Advisors

Joint Ventures

Exhibit: Domestic & International Joint VenturesJoint Ventures

Domestic	International
Taj Madras Flight Kitchen Pvt.Ltd	Taj Asia Ltd.
Taj Karnataka Hotels & Resorts Ltd.	Taj Asia (Thailand) Ltd.
Taj GVK Hotels & Resorts Ltd.	Taj International Hotels(South Africa) (Pty) Ltd.
Taj Safaris Ltd.	

Source: Company Data, Kredent Research Advisors

Business Associates

Exhibit: Domestic & International Business Associates

Domestic	International
Ideal Ice & Cold Storage Company Limited	Taj Lanka Resorts Limited
Benares Hotels Limited	Taj Lanka Hotels Limited
Taida Trading and Industries Limited	
Indtravel Private Limited	
Piem Hotels Limited	
Oriental Hotels Limited	
Taj Madurai Limited	
Taj Trade and Transport Limited	
Taj Enterprises Limited	

Source: Company Data, Kredent Research Advisors

Investment Rationale

High Brand Equity and Market Share

IHCL's Taj brand commands high brand equity. It is a renowned brand all over the world. Foreign Tourists will be acquainted with the brand. Further, its pan-India presence will promote brand loyalty.

IHCL has 25 per cent market share. It is the largest player in the market. In every brand, in that market segment that IHCL compete in, they are the best, second best, or worst, third best.

Ginger Hotels IPO

IHCL is planning to list its two-star economy budget hotel chain Ginger Hotels (Roots Corporation Ltd) on stock exchanges as part of the company's expansion plans. Currently IHCL has 21 Ginger hotels and targets to expand it to 80 hotels over the next five years

Diversified Expansions

IHCL plans to spend Rs 9,590 million on new hotel projects over the next two to three years. The company plans to have 144 hotels in 18 countries

IHCL plans to spend Rs 9,590 million on new hotel projects over the next two to three years as the company plans to have 144 hotels in 18 countries. New properties will be added such as, Taj Exotica in Doha, and one in The Palms. A property in Ras al Khaimah, Marrakesh and Tangiers, three projects in Egypt, all greenfield, one in the British Virgin Islands, across from Sir Richard Branson's islands, Necker Island and Mosquito Island.

IHCL is also in the process of building a new hotel and convention centre – Sea Rock – in Bandra Kurla Complex (BKC) in Mumbai and is opening a hotel in Cape Town, South Africa. The company is to set up the new Vivanta properties at Gurgaon, Dwarka and Shahdara in Delhi, Yeshwantpur (Bangalore), Begumpet (Hyderabad), Bekal (Kerala), Srinagar, Madikeri (Coorg) and Coimbatore. And, Gateway hotels would come up at Chennai, Delhi and Kolkata, Raipur and Jalandhar (in 2011). The restoration of Falaknuma Palace, another addition to thr Company's Luxury Collection, is nearing completion. The palace hotel is expected to open in October, 2010.

Boost To Revenues

Improvement in Occupancy Ratios and plans to raise room rates is expected to boost revenues

Tata Group-controlled IHCL plans to raise its room rates this year. Occupancy has bounced back smartly in the last two quarters. Room rates had gone down in the last few years. However, since, occupancy is now picking up, room rates would follow. During Q1 FY 11, most key markets showed an improvement in demand with growth in occupancies. With a 64 percent occupancy capacity, IHCL will be able to boost their revenues with the upcoming events, such as Common Wealth Games in Delhi, the holiday season and The Cricket World Cup early next year.

Diversified Business Model

IHCL is into catering, hoteliering and various other businesses. IHCL caters to different market segments, hence, catering to a larger and more diverse customer

IHCL is into catering, hoteliering and various other businesses like spas, educational institute, travel agency. IHCL caters to the different market segments, hence, catering to a larger and more diverse customer base. The brands of IHCL-Taj, The Gateway Hotel, Ginger caters to the upscale, mid-segment and economic segment respectively.

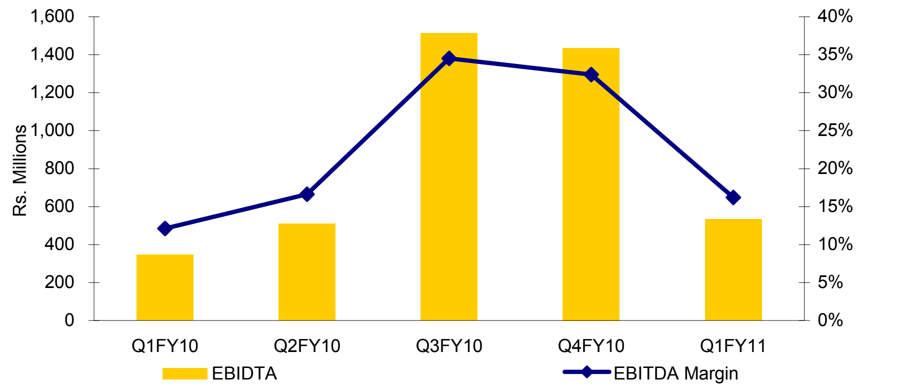
base

Quarterly Result Analysis

For the quarter ended June 2010, IHCL reported a 15.40 percent y-o-y increase and 25.85 percent q-o-q decline in total income to Rs.3,287.40 million as against Rs.2,848.80 million reported a year ago. The increase in the sales y-o-y was mainly attributable to overall improvement in the economy and robust demand. The net profit for the quarter was down 79.74 percent y-o-y and 94.39 percent down q-o-q to Rs.33.30 million as compared to Rs.164.40 million reported a year ago. The decline in the profit was on account of non-recurring profit earned on the sale of investments last financial year

The increase in the sales y-o-y was mainly attributable to overall improvement in the economy and robust demand

Exhibit: Trend in EBITDA & EBITDA Margin



Source: Company, Kredent Research Advisors

Exhibit: Profit & Loss Account (Quarterly) *Figures in Millions*

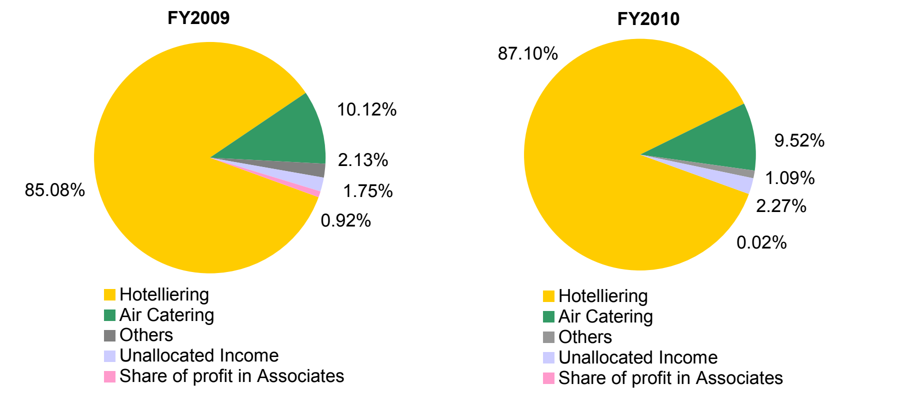
Particulars	Q1FY11	Q1FY10	Q4FY10	%Chg (y-o-y)	%Chg (q-o-q)
Total Income	**3,287.40**	**2,848.80**	**4,433.40**	**15.40**	**(25.85)**
Total Expenditure	2,753.40	2,503.70	2,998.40	9.97	(8.17)
EBITDA	**534.00**	**345.10**	**1,435.00**	**54.74**	**(62.79)**
EBITDA Margin (%)	*16.24*	12.11	32.37	*413.0bps*	*-1612.4bps*
Depreciation	254.40	250.60	278.50	1.52	(8.65)
EBIT	**279.60**	**94.50**	**1,156.50**	**195.87**	**(75.82)**
EBIT Margin (%)	*8.51*	3.32	26.09	*518.8bps*	*-1758.1bps*
Other Income	60.60	91.10	84.90	(33.48)	(28.62)
Interest	340.10	376.00	332.90	-9.55	2.16
PBT & Extraordinary Items	**0.10**	**(190.40)**	**908.50**	**(100.05)**	**(99.99)**
PBT Margin (%)	*0.00*	-6.68	20.49	*668.7bps*	*-2048.9bps*
Extraordinary Items	42.00	433.10	0.00	(90.30)	-
Profit before Tax & Extraordinary Items	42.10	242.70	908.50	(82.65)	(95.37)
Tax	8.80	78.30	314.70	(88.76)	(97.20)
Profit After Tax but before Minority Interest	33.30	164.40	593.80	(79.74)	(94.39)
Profit After Tax (PAT)	33.30	164.40	593.80	(79.74)	(94.39)
PAT Margin (%)	1.01	5.77	13.39	*-475.8bps*	*-1238.1bps*
Diluted EPS	0.05	0.23	0.83	(78.26)	(93.98)

Source: Company Data, Kredent Research Advisors

Segmental Revenue Analysis

Contribution from Hoteliering has increased from 85.08 percent in FY09 to 87.10 percent in FY10. The share of Air Catering reduced from 10.12 percent in FY09 to 9.52 percent in FY10.

Exhibit: Segmental Revenue Contribution

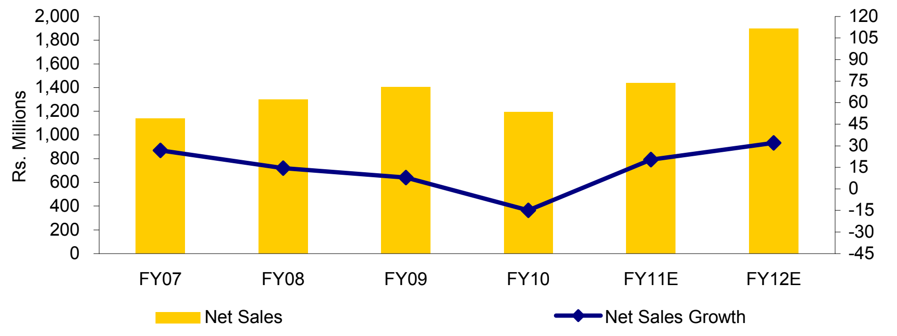


Source: Company, Kredent Research Advisors

Performance of the Company

Revenue & Revenue Growth

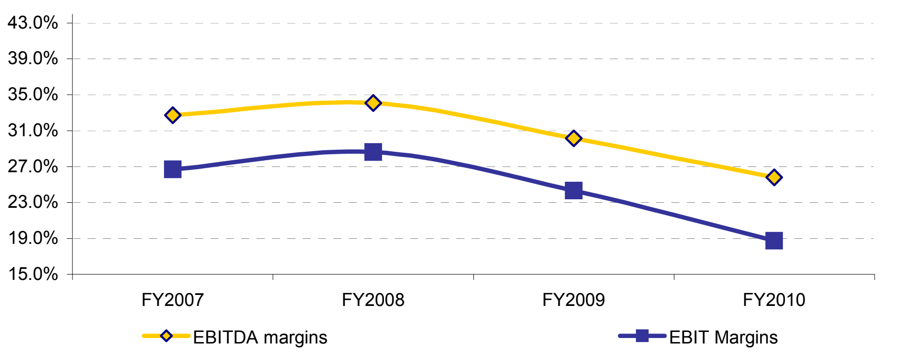
Exhibit: Trend in Net Sales & Net Sales Growth



Source: Company, Bloomberg Estimates, Kredent Research Advisors

EBITDA & EBIT Margins

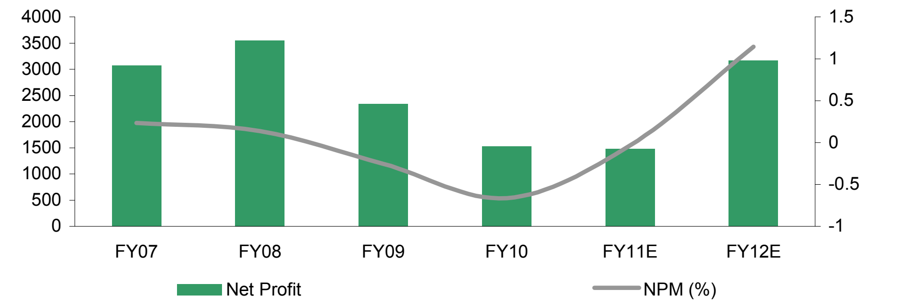
Exhibit:Trend in EBITDA and EBIT Margins



Source: Company, Kredent Research Advisors

Net Profit & NPM Margin

Exhibit: Trend in Net Profit & NPM



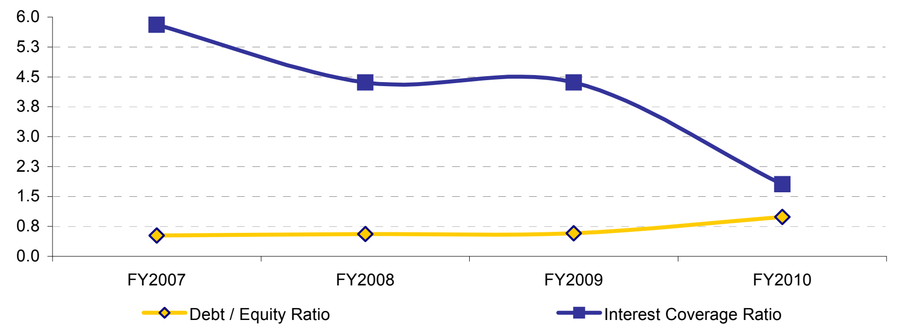
Source: Company Data, Bloonberg Estimates, Kredent Research Advisors

IHCL profit after tax (PAT) for the financial year ended FY10 decreased due to increase in expenses

Debt / Equity Ratio (D/E) & Interest Coverage Ratio (ICR)

Due to the large-scale capex and expansion plans, IHCL's debt-equity structure increased

Exhibit: Debt Equity Ratio and Interest Coverage Ratio



Source: Company, Kredent Research Advisors

Financials

IHCL's revenue's for the financial year ended FY10, decreased by 9.03 percent y-o-y to Rs.14,732.90 million as compared to Rs.16,195.70 million reported a year ago. However, it must be noted that the decrease in FY09 was far greater at 47.36 percent. IHCL profit after tax (PAT) for the financial year ended FY10 decreased by 34.58 percent y-o-y to Rs.1,531 million as compared to Rs.2,340.30 million reported in FY2009. Increase in expenses can be cited a reason to the dip in PAT. However, with the economy reviving, upcoming events, and the expected rise in Foreign Tourist Arrivals, the numbers are looking to improve.

The return ratios for the financial year ended FY10 also declined owing to increasing expense margins, lower revenues

The return ratios for the financial year ended FY10 also declined owing to increasing expense margins, lower revenues. Return on equity (ROE) has declined sharply by 42 percent y-o-y in FY2010 to 5.34 percent. Owing to the large-scale capex and expansion plans, IHCL's debt-equity structure increased from 0.58 times in FY09 to 0.99 times in FY10

Exhibit: Key Financials *Figures in Millions*

Particulars	FY2007	FY2008	FY2009	FY2010
Total Income	**26,554.00**	**30,767.70**	**16,195.70**	**14,732.90**
Growth (%)	-	15.87	-47.36	-9.03
EBITDA	**8,697.30**	**10,487.60**	**4,886.10**	**3,802.70**
EBITDA Margin (%)	32.75	34.09	30.17	25.81
EBIT	7,090.90	8,811.80	3,942.20	2,761.70
EBIT Margin (%)	26.70	28.64	24.34	18.75
PBT	5,869.40	6,788.60	3,907.40	1,670.10
Tax	2,166.30	2,469.80	1,282.70	651.50
PAT	**3,703.10**	**3,549.80**	**2,340.30**	**1,531.00**
PAT Growth (%)	-	-4.14	-34.07	-34.58
PAT Margins (%)	13.95	11.54	14.45	10.39
Diluted Earning Per Share (EPS)	**6.14**	**5.89**	**3.28**	**2.12**
EPS Growth (%)	-	-4.07	-44.31	-35.37
Book Value Per Share (BVPS)	29.96	31.81	35.14	39.65
P/E (x)	23.77	19.05	12.03	48.23
P/BV (x)	4.87	3.53	1.12	2.58
Interest Coverage Ratio (x)	5.81	4.36	4.36	1.81
Net Debt / Equity Ratio (x)	0.52	0.56	0.58	0.99
Current Ratio (x)	1.12	1.29	1.99	0.95
ROE (%)	21.07	18.51	9.21	5.34
ROA (%)	14.74	13.41	6.33	4.37
EV/EBITDA (x)	1.01	1.01	3.57	5.79
EV/Total Income (x)	0.33	0.34	1.08	1.50

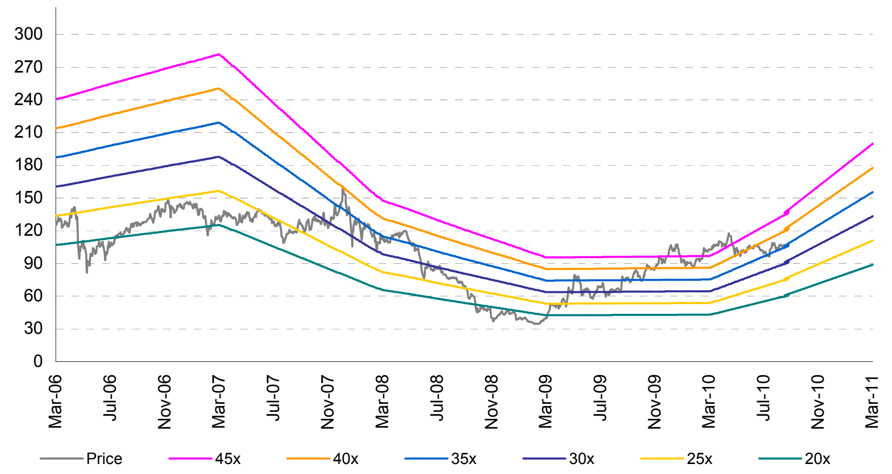
Source: Company Data, Kredent Research Advisors

Valuation

Historically, over the last five years the company has traded at an average price earning multiple (P/E) of over 28.62x. Moreover, on an average it has also traded at a one year forward P/E band of 25-30x given its strong five year earning's CAGR of around 7.66 percent. As per Bloomberg estimates, IHCL earnings for FY11 and FY12 is expected to grow at 1 percent and 107 percent to Rs.2.15/share and Rs.4.44/share respectively. Hence, given the expected growth rate of 107 percent FY12, we believe market to assign a forward P/E of around 29x with an EPS of over 4.4/share. Therefore, we arrive at a 6 month price target of Rs.128.76/share, reflecting an upside potential of 24.71 percent from current levels.

Price Earning (P/E) Band

Exhibit: One Year Forward P/E Band



Source: Company Data, Bloomberg Estimates, Kredent Research Advisory

We arrive at a 6 month price target of Rs.128.76/share, reflecting an upside potential of 24.71 percent from current levels. So, we rate IHCL a 'Buy' seeing its potentiality going forward

KREDENT RESEARCH ADVISORS

INITIAL COVERAGE REPORT

BUY

Price (Rs): 84.95

Target (Rs): 109.90

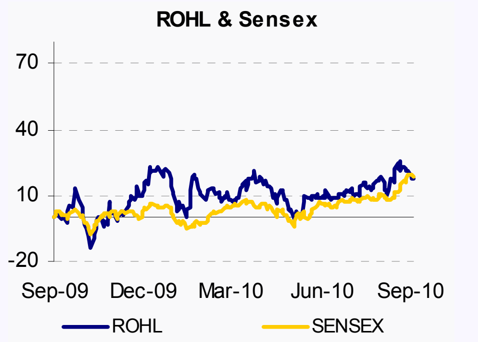
Royal Orchids Hotel Limited

September 28, 2010

STOCK INFO

Listing	NSE/BSE
Bloomberg	ROHL IN
Reuters	ROYL.BO
Sensex (August 27,2010)	20,117.38
Market cap (Rs mn)	2,310
Free float (percent)	52.75
Average last six month vol.	50,550
52 week H/L (Rs)	94/60.10
Beta	0.8119
Face value (Rs)	10

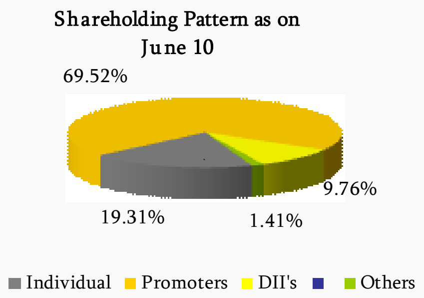
RELATIVE PERFROMANCE



KEY RATIOS

EPS (Rs) (TTM)	3.31
BV (Rs)	73.91
Price/Earning (x)	25.66
Price/BV (x)	1.14
Dividend yield (percent)	0.02

SHAREHOLDING PATTERN



Royal Orchid Hotels Limited (ROHL) was incorporated in 1986. The company operates 13 business and leisure hotels in seven cities. The company clocked a turnover of Rs 1400 million in the previous financial year and hopes to gross a turnover of Rs 2000 million this year.

Investment Rationale

- Royal Orchids Group has occupied a unique position in the continent of Asia - a green hotel - environmentally sensitive - right from brick to paper
- The company has a unique strategy and emphasis on low set up cost through combination of ownership and asset light properties (Leased) leading to higher returns
- To convey the brand spirit and strengthen the brand equity, ROHL operates under different brand names, namely, Royal Orchid, a five-star hotel, Royal Orchid Central, a four-star hotel, Royal Orchid Galaxy, a three-star leisure property and serviced apartments under the brand name Suites
- Orchids Group plans to take their hotel count to 20 by next financial year from the existing 13. The group will invest around Rs 5,000 million to increase footprint in tier-I, tier-II and tier-III cities, hence, it looks to expand and de-risk it's business model
- ROHL board approved a proposal to raise funds up to Rs 1,500 million. This money could be raised either by issue of non-convertible debentures (NCDs) or preferential convertible share warrants, through qualified institutional placement (QIP) basis or otherwise
- Royal Orchid Hotels Ltd has acquired a 74 percent stake in Powai-based Amartara Hospitality Pvt Ltd, with which it plans to set up a four-star business hotel

Key Risks

- The company derives a majority of its revenues from Bengaluru. This city accounts for over 50 percent of its total revenue share. Hence, any major event in this location would have a major impact on its revenues over the medium term

Exhibit: Key Financials *Figures in Millions*

Particulars	FY2007	FY2008	FY2009	FY2010
Total Income	**1137.02**	**1300.25**	**1401.59**	**1192.74**
PAT	**352.57**	**322.74**	**199.93**	**69.75**
PAT Margins (%)	31.01	24.82	14.26	5.85
Diluted EPS	**12.95**	**11.85**	**7.34**	**2.56**
P/E (x)	16.00	7.75	5.59	29.88
P/BV (x)	3.59	1.47	0.61	1.04
Debt / Equity Ratio (x)	0.13	0.10	0.32	1.04
ROE (%)	22.44	18.95	10.90	3.48
EV/EBITDA (x)	9.97	4.36	3.52	16.04

Company Background

ROHL operates 13 business and leisure hotels in seven cities. It offers 987 rooms, with a mixture of Royal Suites to Budget ones

The Company along with its subsidiaries, joint venture and associate companies, as of now, offer 987 rooms, with a mixture of Royal Suites to Budget ones, across popular destinations in India such as Goa, Jaipur, Mysore, Bangalore, Hyderabad and Pune. At present, the company has a total of 1,100 rooms, comprising four major brands: Royal Orchid, a five-star hotel, Royal Orchid Central, a four-star hotel, Royal Orchid Galaxy, a three-star leisure property and serviced apartments under the brand name Suites in Bangalore, Pune, Ahmedabad, Jaipur, Mysore and Goa. The company plans to add 1,200 more rooms by the next financial year.

Properties

Exhibit: Properties of Royal Orchid Hotels

Name Of Hotel	Location	Rates
Royal Orchid Central Grazia	Mumbai	3,500-,5500
Royal Orchid Central	Bangalore	6,600-20,000
Royal Orchid Central	Jaipur	3,600-8,000
Royal Orchid Brindavan Garden	Mysore	5,000-6,500
Royal Orchid Central	Pune	6,700-12,000
Royal Orchid Beach Resort-Galaxy	Goa	3,900-6,000
Royal Orchid Central	Ahmedabad	3,500-12,000
Royal Orchid Metropole	Mysore	4,500-8,000
Hotel Royal Orchid	Bangalore	4,750-15,000
Ramada	Bangalore	3,750-7,250
Royal Orchid Resort	Bangalore	4,500-6,000
Royal Orchid Golden Suite	Pune	6,000-10,500
Royal Orchid Suites	Bangalore	2,850-9,250

Source: Company Data, Kredent Research Advisors

Investment Rationale

Unique Positioning And Strategy

Positioning of the property is an important aspect too. Royal Orchids Group has occupied a unique position in the continent of Asia - a green hotel - environmentally sensitive. It has been proved that 87 percent of international travelers do patronize green hotels. Thus, ROHL tied up with an International Firm- HVS ECO SERVICES of - HVS INTERNATIONAL, NEW YORK who were hired to undertake - specific environmental programmes, designed to lower operating costs and increase revenues and evaluate the hotel's environmental performance in various areas. The company was awarded the prestigious 'ECOTEL' Certification' by HVS ECO SERVICES, USA, which is the hall mark of environmentally sensitive hotels. The Hotel thus, becomes the first hotel in Asia to obtain the coveted certification.

The Hotel is the first hotel in Asia to obtain the coveted certification of being an environmentally sensitive hotel from HVS ECO SERVICES, USA

The company has a unique strategy and emphasis on low set up cost through combination of ownership and asset light properties (Leased) leading to higher returns. The company covers all the aspects of Hospitality Industry like Rooms, Catering, Restaurants, Bars, etc and has a tie up with Wyndham Hotel Group for Ramada brand of hotels.

Capex Plan augurs well going forward

Orchids Group plans to take their hotel count to 20 by next financial year from the existing 13. The group will invest around Rs 5,000 million to increase footprint in tier-I, tier-II and tier-III cities**.**

Following is the capex schedule under different brands:

Hotel Royal Orchid: The Five-Star brand of the Orchid Group plans to start the following hotels:

- 230 key Hotel Royal Orchid, Hyderabad (2010)
- 160 key Hotel Royal Orchid, Jaipur (2010)
- 150 key Hotel Royal Orchid, Dar Es Salaam, Tanzania (2011)

The group will invest around Rs 5000 million to increase footprint in tier-I, tier-II and tier-III cities, to take it's total hotel count to 20, from the existing 13

Royal Orchid Central: The Four-Star brand of the Orchid Group plans to start the following hotels:

- 135 key Royal Orchid Central, Hospet (September, 2010)
- 108 key Royal Orchid Central, Shimoga (August, 2010)
- 250 key Royal Orchid Central, Mumbai (2011)

Royal Orchid Suites: Royal Orchid Suites is successfully operating in Bangalore and Pune. It is the Service-Apartment brand of Orchids Group. It plans to start the following:

- 100 key Royal Orchid Suites, Hyderabad (2011)

Royal Orchid Resort:

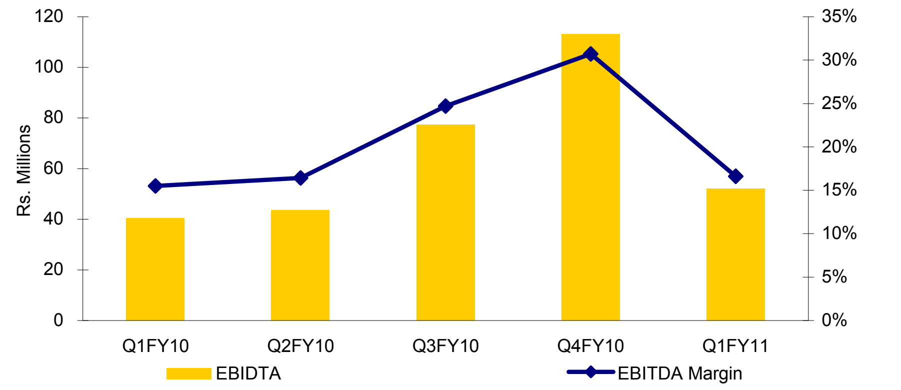
- 60 key Royal Orchid Resort, Mussoorie (August, 2010)

Quarterly Result Analysis

For the quarter ended June 2010, ROHL reported a 20.93 percent y-o-y increase and 14.87 percent q-o-q decline in total income to Rs.313.16 million as against Rs.258.96 million reported a year ago. The net profit for the quarter was up a phenomenal 524.52 percent y-o-y and 58.12 percent q-o-q decline to Rs.10.06 million as compared to Rs.1.61 million reported a year ago. The growth in the profit was on account of increase in the other income.

The growth in the profit q-o-q was on account of increase in the other income.

Exhibit: Trend in EBITDA & EBITDA Margin



Source: Company, Kredent Research Advisors

Exhibit: Profit & Loss Account (Quarterly) *Figures in Millions*

Particulars	Q1FY11	Q1FY10	Q4FY10	%Chg (y-o-y)	%Chg (q-o-q)
Total Income	**313.16**	**258.96**	**367.85**	**20.93**	**(14.87)**
Total Expenditure	261.07	218.82	254.81	19.31	2.46
EBITDA	**52.09**	**40.14**	**113.04**	**29.78**	**(53.92)**
EBITDA Margin (%)	*16.63*	15.50	30.73	*113.5bps*	*-1409.7bps*
Depreciation	34.17	28.61	40.35	19.43	(15.32)
EBIT	**17.92**	**11.53**	**72.69**	**55.49**	**(75.35)**
EBIT Margin (%)	*5.72*	4.45	19.76	*127.2bps*	*-1403.9bps*
Other Income	11.83	3.20	3.99	269.82	196.49
Interest	19.42	14.43	29.52	34.61	(34.23)
PBT & Extraordinary Items	**10.33**	**0.30**	**47.16**	**3355.52**	**(78.09)**
PBT Margin (%)	*3.30*	0.12	12.82	*318.4bps*	*-952.1bps*
Profit before Tax & Extraordinary Items	10.33	0.30	47.16	3355.52	(78.09)
Tax	8.03	5.24	23.14	53.18	(65.29)
Profit After Tax but before Minority Interest	2.30	-4.94	24.02	(146.54)	(90.42)
Minority Interest	7.76	6.56	0.00	18.38	-
Profit After Tax (PAT)	10.06	1.61	24.02	524.52	(58.12)
PAT Margin (%)	3.21	0.62	6.53	*259.1bps*	*-331.8bps*
Diluted EPS	0.37	0.06	1.46	516.67	(74.66)

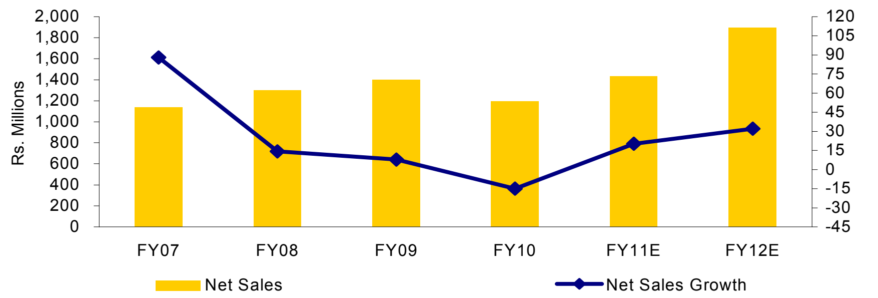
Source: Company Data, Kredent Research Advisors

Performance of the Company

Revenue & Revenue Growth

ROHL's revenues decreased in FY10 owing to unfavourable economic situations which affected the entire hotel industry.

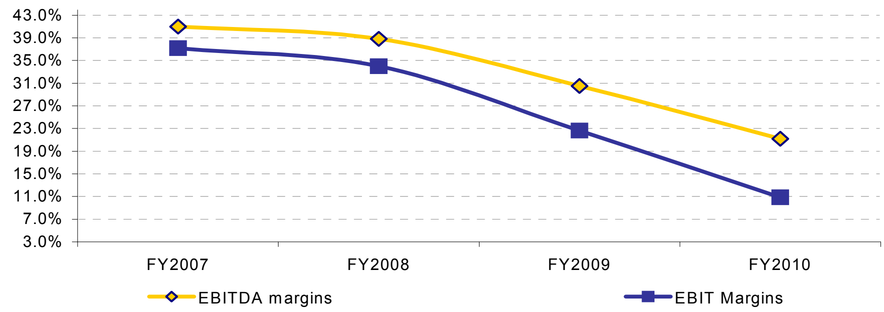
Exhibit: Trend in Net Sales & Net Sales Growth



Source: Company, Bloomberg Estimates, Kredent Research Advisors

EBITDA & EBIT Margins

Exhibit:Trend in EBITDA and EBIT Margins

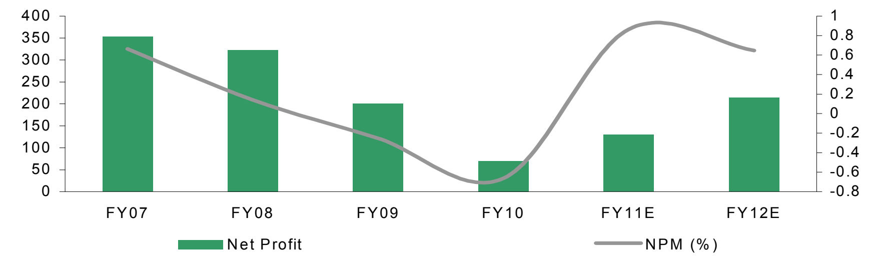


Source: Company, Kredent Research Advisors

Net Profit & NPM Margin

Net Profit for the financial year ended FY10 declined due to rising interest expenses

Exhibit: Trend in Net Profit & NPM

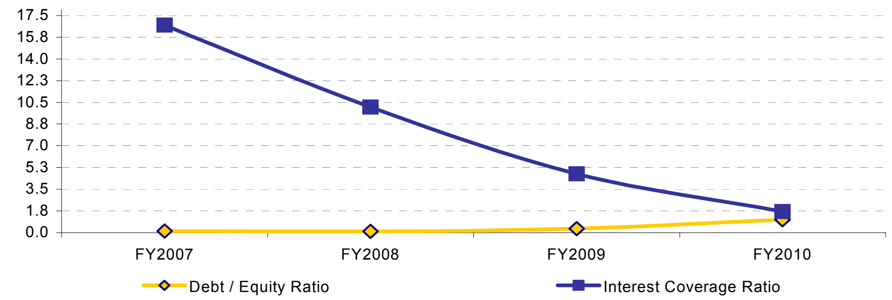


Source: Company Data, Bloonberg Estimates, Kredent Research Advisors

The Debt/Equity ratio of the company increased in FY10. Hence, Interest Coverage Ratio fell

Debt / Equity Ratio (D/E) & Interest Coverage Ratio (ICR)

Exhibit: Debt Equity Ratio and Interest Coverage Ratio



Source: Company, Kredent Research Advisors

Financials

ROHL's revenue for the financial year ended FY10, decreased by 14.90 percent y-o-y to Rs. 1,192.74 million as compared to Rs.1,401.59 million reported a year ago, owing to unfavourable economic situations which affected the entire hotel industry. ROHL profit after tax (PAT) for the financial year ended FY10 has declined by 65.11 percent y-o-y to Rs.69.75 million as compared to Rs.199.93 million reported in FY2009 owing to rising interest expenses.

The return ratios for the financial year ended FY10, declined on account of declining financial performance of the company. Return on equity (ROE) has declined to 7.32 percent in FY2010 from 10.90 percent in FY2009 due to lower total income, rising interest commitments and shrinking net profit margins. The Debt/Equity ratio increased from 0.32 times in FY09 to 1.04 times in FY10, on account of large capex

Return on equity declined on account of lower total income, rising interest commitments and shrinking net profit margins

Exhibit:Key Financials *Figures in Millions*

Particulars	FY2007	FY2008	FY2009	FY2010
Total Income	**1137.02**	**1300.25**	**1401.59**	**1192.74**
Growth (%)	-	14.36	7.79	-14.90
EBITDA	**466.79**	**505.32**	**428.04**	**253.00**
EBITDA Margin (%)	41.05	38.86	30.54	21.21
EBIT	422.81	442.45	317.12	129.29
EBIT Margin (%)	37.19	34.03	22.63	10.84
PBT	502.07	466.08	281.63	88.60
Tax	149.50	119.04	81.35	39.29
PAT	**352.57**	**322.74**	**199.93**	**69.75**
PAT Growth (%)	-	-8.46	-38.05	-65.11
PAT Margins (%)	31.01	24.82	14.26	5.85
Diluted Earning Per Share (EPS)	**12.95**	**11.85**	**7.34**	**2.56**
EPS Growth (%)	-	-8.49	-38.06	-65.12
Book Value Per Share (BVPS)	57.70	62.55	67.35	73.63
P/E (x)	16.00	7.75	5.59	29.88
P/BV (x)	3.59	1.47	0.61	1.04
Interest Coverage Ratio (x)	16.71	10.12	4.73	1.70
Net Debt / Equity Ratio (x)	0.13	0.10	0.32	1.04
Current Ratio (x)	5.88	3.30	5.00	5.81
ROE (%)	22.44	18.95	10.90	3.48
ROA (%)	17.54	15.96	9.88	2.88
EV/EBITDA (x)	9.97	4.36	3.52	16.04
EV/Total Income (x)	4.09	1.69	1.08	3.40

Source: Company Data, Kredent Research Advisors

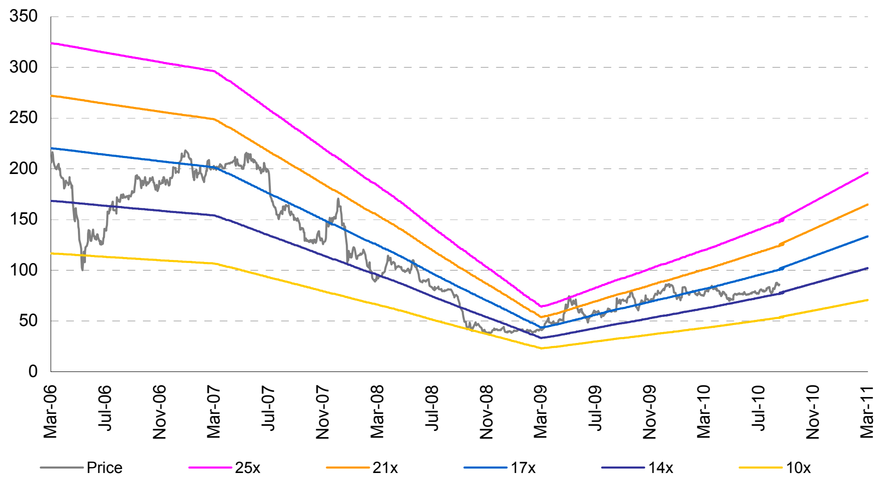
Valuation

Historically, over the last five years the company has traded at an average price earning multiple (P/E) of over 15.86x. Moreover, on an average it has also traded at a one year forward P/E band of 14-17x. As per Bloomberg estimates, ROHL earnings for FY11 and FY12 is expected to grow at 88 percent and 64 percent to Rs.4.80/share and Rs.7.85/share respectively. Hence, given the expected growth rate of 88 percent in FY11, followed by 64 percent in FY12, we believe market to assign a forward P/E of around 14x with an EPS of over 7.85/share. Therefore, we arrive at a 6 month price target of Rs.109.90/share, reflecting an upside potential of 29.37 percent from current levels.

We arrive at a 6 month price target of Rs.109.90/share, reflecting an upside potential of 29.37 percent from current levels. So, we rate ROHL a 'Buy' seeing its potentiality going forward

Price Earning (P/E) Band

Exhibit: One Year Forward P/E Band



Source: Company Data, Bloomberg Estimates, Kredent Research Advisory

KREDENT RESEARCH ADVISORS

BUY
Price (Rs): 484.05
Target (Rs): 619.20

Mahindra Holidays And Resorts India Limited

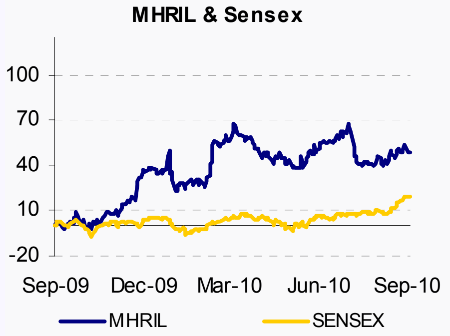
September 28, 2010

INITIAL COVERAGE REPORT

STOCK INFO

Listing	NSE/BSE
Bloomberg	MHRL IN
Reuters	MAHH.BO
Sensex (August 27,2010)	20,117.38
Market cap (Rs mn)	40,770
Free float (percent)	16.91
Average last six month vol.	33,300
52 week H/L (Rs)	574/320.10
Beta	0.8048
Face value (Rs)	10

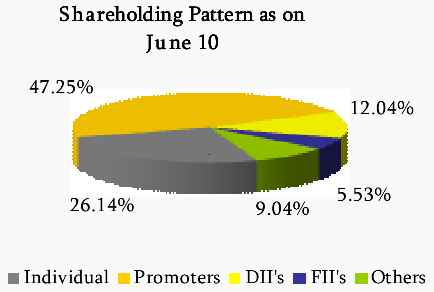
RELATIVE PERFROMANCE



KEY RATIOS

EPS (Rs) (TTM)	11.58
BV (Rs)	53.85
Price/Earning (x)	41.80
Price/BV (x)	8.99
Dividend yield (percent)	0.01

SHAREHOLDING PATTERN



Mahindra Holidays & Resorts India Ltd.(MHRIL) is a part of the Rs. 3,35,000 million Mahindra Group, which is one of India's leading Industrial Houses. MHRIL is a leading player in the leisure hospitality industry- offering quality holidays designed for the discerning and differentiated needs of families

Investment Rationale

- The Timeshare Industry in India in which MHRIL operates has been growing at 15 percent on a compounded rate. It has been proved to be a 'Recession-Free' segment. Timeshare Industry is also known as Vacation ownership industry. MHRIL commands approximately 72 percent market share in the Vacation Ownership Industry and is the only branded player with a successful track record.
- For its future growth, the focus of the MHRIL is to expand its presence both in terms of geography and the socio-economic segments that it addresses. The Company is planning to foray into the budget resorts category.
- Club Mahindra membership is an economical product, providing access to over 4600+ resorts across over 90 countries. The product is a great value for money, and is unique to the company.
- Mahindra Holidays & Resorts is planning to launch four new products during FY11, which will widen customer base, and attract greater revenue.

Key Risks

- A large portion of membership fees is paid in instalments giving rise to the risk of individual default

Exhibit: Key Financials *Figures in Millions*

Particulars	FY2007	FY2008	FY2009	FY2010
Total Income	**2412.90**	**3771.90**	**4410.37**	**5200.11**
PAT	**419.30**	**836.20**	**797.12**	**1170.60**
PAT Margins (%)	17.38	22.17	18.07	22.51
Diluted EPS	**-**	**-**	**10.18**	**14.18**
P/E (x)	-	-	-	38.40
P/BV (x)	-	-	-	4.41
Debt / Equity Ratio (x)	0.08	0.14	0.03	0.01
ROE (%)	70.49	76.47	16.30	11.26
EV/EBITDA (x)	-0.04	0.09	-0.05	22.93

Source: Company Data, Kredent Research Advisors

Company Background

Mahindra Holidays & Resorts India Ltd.(MHRIL) is a part of the Mahindra Group. The Group has interests in various sectors such as Automotive, Auto Components, Farm Equipment, Trade & Financial Services, Infrastructure and Information Technology. Mahindra & Mahindra has a successful track record as the Market Leader in each Sector.

Mahindra Holidays & Resorts India Ltd. is a part of the Mahindra Group. It is a leading player in the leisure hospitality industry

MHRIL is a leading player in the leisure hospitality industry. Started in 1996, the company's flagship brand 'Club Mahindra Holidays', today has a fast growing customer base of over 79,000 members and 23 beautiful Resorts at some of the most exotic spots in India and abroad. It has changed the face of India holidays, by delivering unique holiday experiences for Indian families at attractive price points. The company has created a significant and growing business out of domestic tourism. Over the last decade, MHRIL have established themselves as market leaders in the family holidays business. The company have followed a two pronged strategy – rapidly increasing its bouquet of resorts to provide more variety in holidaying options and enhancing its service levels to its members to provide delight at every point of interaction.

Exhibit: Properties of MHRIL *Figures in Millions*

Name Of Hotel	Location	No.Of Rooms	Rates	Category
Club Mahindra Varca Beach Resort	Goa	206	4,500-11,500	5 Star
Club Mahindra Valley Resort	Binsar	53	4,200-6,300	3 Star
Club Mahindra Kodagv Valley Resort	Coorg	187	6,000-8,800	5 Star
Club Mahindra Snowpeaks,Manali	Manali	33	4,650-5,250	3 Star
Club Mahindra Lakeview Munnar	Munnar	112	6,300-12,000	5 Star
Hotel Palace Heights	Dharamshala	23	3,800-7,500	4 Star
Club Mahindra Backwater Retreat Ashatmudi	Ashtamudi	-	5,500-12,500	5 Star
Club Mahindra Dancing Waters	Nainital	31	-	-

Source: Company Data, Kredent Research Advisors

Investment Rationale

Expansion Strategy

The focus of the Company plans to expand its presence both in terms of geography and the socio-economic segments that it addresses

For its future growth, the Company is actively looking at newer markets and designing innovative products to suit the needs of specific consumer segments. In fact, moving sales and marketing beyond the top metropolitan and Tier I cities by strengthening its sales and distribution network through a combination of the Company's own offices and its franchisees has been an important focus area for the Company during the year During 2010-11, the focus of the Company plans to expand its presence both in terms of geography and the socio-economic segments that it addresses. Company is planning to foray into the budget resorts category. The company has so far focused on upper middle class. It is also planning to invest around Rs 2,500 million in increasing its inventory by around 500 rooms

Unique Product

A Club Mahindra membership gets you access to over 4,600+ resorts across over 90 countries. Holidaying abroad is made extremely economical – a simple nominal exchange fee paid for in Indian rupees gets you holiday accommodation for the entire family

The Company is actively looking at newer markets and designing innovative products to suit the needs of specific consumer segments.

Launch Of New Services To Widen Customer Base

MHRIL is planning to launch four new products during FY11 under premium, uber-premium and budget categories which will widen customer base and will further drive the growth of the company. These comprise a camping product (tented accommodation), a membership product for senior citizens, another for the high-income group and a deeded product. Deeded product is a fractional ownership product of high-end villas aimed at high networth individuals in close proximity to Mahindra's existing resorts. The company will ensure that there is a product offering across different age and income segments

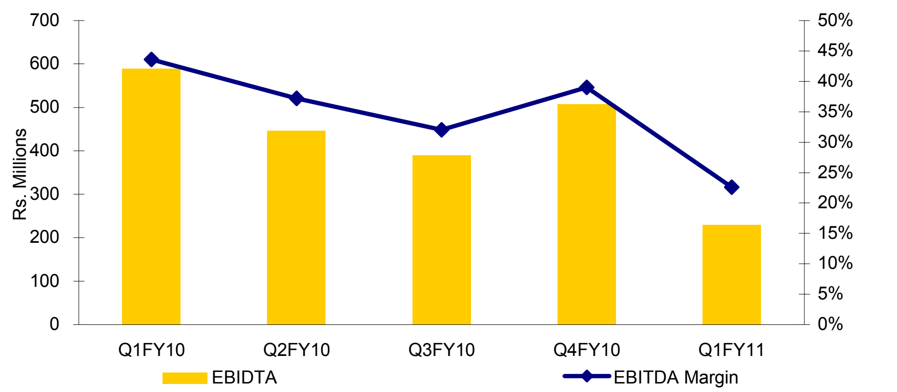
In the uber-premium category, under a timeshare perpetuity-basis, around eight to 12 people could own the villas for an upfront amount and a regular maintenance fee. The first such gated community will come up at Coorg in Karnataka in the next financial year

Quarterly Result Analysis

The decrease in the sales was mainly attributable to the decrease in membership additions

For the quarter ended June 2010, MHRIL reported a 24.78 percent y-o-y decrease and 21.84 percent q-o-q decline in total income to Rs.1,017.76 million as against Rs.1,353.06 million reported a year ago. The decrease in the sales y-o-y was mainly attributable to the decrease in membership additions by 35 percent y-o-y. The net profit for the quarter was down 60.61 percent y-o-y and 58.74 percent down q-o-q to Rs.132.91 million as compared to Rs.337.46 million reported a year ago. The decline in the profit was on account of lower total income and the rising percentage of expenses as a percentage of sales, which increased from 56.45 percent in Q1FY09 to 77.38 percent in Q1FY10.

Exhibit: Trend in EBITDA & EBITDA Margin



Source: Company, Kredent Research Advisors

The decline in the net profit-q-o-q was on account of lower total income and the rising percentage of expenses as a percentage of sales

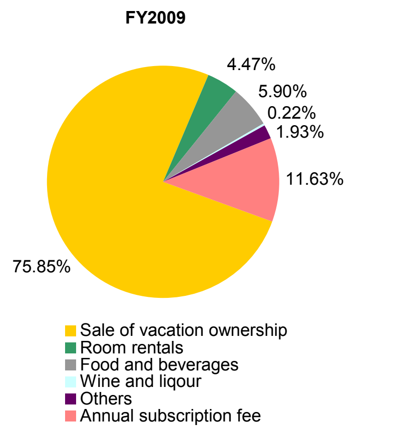
Exhibit: Profit & Loss Account (Quarterly) *Figures in Millions*

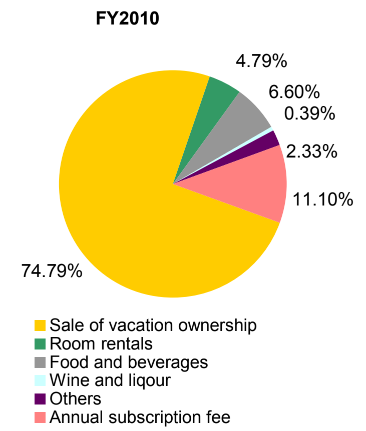
Particulars	Q1FY10	Q1FY09	Q4FY10	%Chg (y-o-y)	%Chg (q-o-q)
Total Income	**1017.76**	**1353.06**	**1302.21**	**-24.78**	**-21.84**
Total Expenditure	787.49	763.86	794.56	3.09	-0.89
EBITDA	**230.27**	**589.20**	**507.65**	**-60.92**	**-54.64**
EBITDA Margin (%)	*22.62*	43.55	38.98	*-2092.1bps*	*-1635.9bps*
Depreciation	46.46	47.31	51.27	-1.80	-9.39
EBIT	**183.81**	**541.89**	**456.38**	**-66.08**	**-59.72**
EBIT Margin (%)	*18.06*	40.05	35.05	*-2198.9bps*	*-1698.6bps*
Other Income	21.01	5.78	19.60	263.44	7.24
Interest	7.19	17.01	11.09	-57.76	-35.23
PBT & Extraordinary Items	**197.64**	**530.66**	**464.88**	**-62.76**	**-57.49**
PBT Margin (%)	*19.42*	39.22	35.70	*-1980.1bps*	*-1628.0bps*
Extraordinary Items	-	-	-	-	-
Profit before Tax & Extraordinary Items	197.64	530.66	464.88	-62.76	-57.49
Tax	64.73	193.20	142.73	-66.50	-54.65
Profit After Tax but before Minority Interest	132.91	337.46	322.15	-60.61	-58.74
Minority Interest	-	-	-	-	-
Profit After Tax (PAT)	132.91	337.46	322.15	-60.61	-58.74
PAT Margin (%)	13.06	24.94	24.74	*-1188.1bps*	*-1167.9bps*
Diluted EPS	1.58	4.31	3.82	-63.34	-58.64

Source: Company Data, Kredent Research Advisors

Segmental Revenue Analysis

Exhibit: Segmental Revenue Contribution



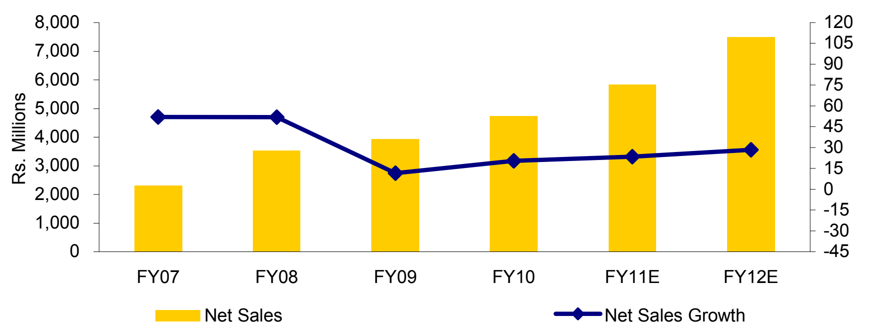


Source: Company, Kredent Research Advisors

Performance of the Company

Revenue & Revenue Growth

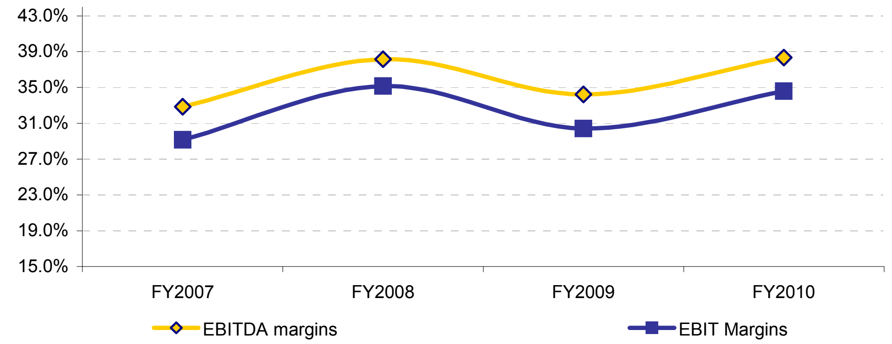
Exhibit: Trend in Net Sales & Net Sales Growth



Source: Company, Bloomberg Estimates, Kredent Research Advisors

EBITDA & EBIT Margins

Exhibit:Trend in EBITDA and EBIT Margins

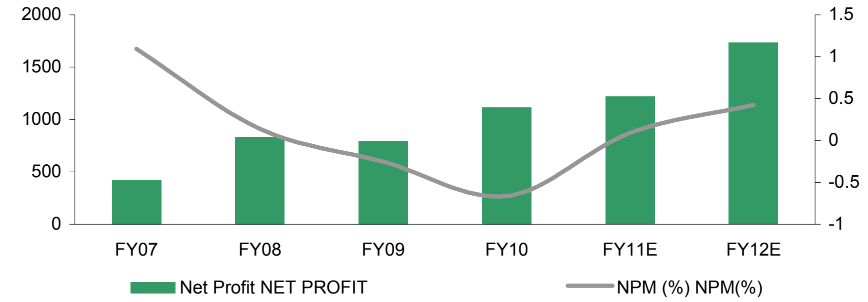


Source: Company, Kredent Research Advisors

Net Profit & NPM Margin

Exhibit: Trend in Net Profit & NPM

The phenomenal growth is Net Profit is justified due to the growth in total income and decrease in total expenditure as a percentage of sales

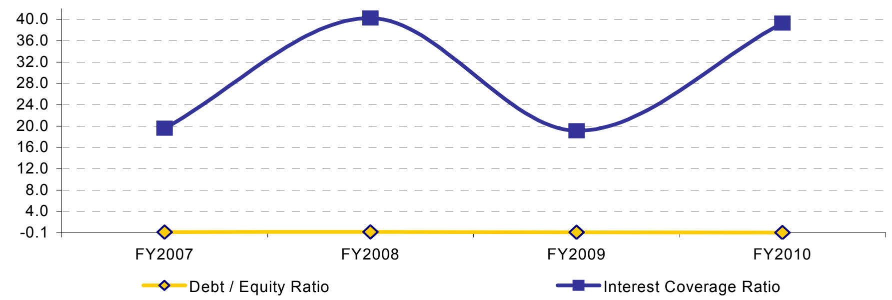


Source: Company Data, Bloonberg Estimates, Kredent Research Advisors

Debt / Equity Ratio (D/E) & Interest Coverage Ratio (ICR)

Exhibit: Debt Equity Ratio and Interest Coverage Ratio

Due to IPO Listing, MHRIL's debt-equity structure decreased even though there were large-scale capex and expansion plans



Source: Company, Kredent Research Advisors

Financials

MHRIL's revenue's for the financial year ended FY10, increased by 17.91 percent y-o-y to Rs.5,200.11 million as compared to Rs.4,410.37 million reported a year ago. MHRIL profit after tax (PAT) for the financial year ended FY10 increased sharply by 46.85 percent y-o-y to Rs.1,170.60 million as compared to Rs.797.12 million reported in FY2009. The phenomenal growth is justified due to the growth in total income, decrease in total expenditure as a percentage of sales from 65.76 percent FY09 to 61.64 percent in FY10 and reduction in interest payments by 34.79 percent y-o-y.

Return on equity (ROE) has declined owing to the IPO Listing

Return on equity (ROE) has declined from 16.30 percent in FY09 to 11.26 percent owing to the IPO Listing. Inspite of large-scale capex and expansion plans, MHRIL's debt-equity structure decreased from 0.03 times in FY09 to 0.01 times in FY10, mainly due to IPO Listing

Exhibit: Key Financials *Figures in Millions*

Particulars	FY2007	FY2008	FY2009	FY2010
Total Income	**2412.90**	**3771.90**	**4410.37**	**5200.11**
Growth (%)	-	56.32	16.93	17.91
EBITDA	**792.70**	**1439.90**	**1510.05**	**1994.64**
EBITDA Margin (%)	32.85	38.17	34.24	38.36
EBIT	704.00	1326.90	1341.71	1799.01
EBIT Margin (%)	29.18	35.18	30.42	34.60
PBT	668.00	1293.90	1282.20	1765.89
Tax	245.70	455.60	485.05	595.21
PAT	**419.30**	**836.20**	**797.12**	**1170.60**
PAT Growth (%)	-	99.43	-4.67	46.85
PAT Margins (%)	17.38	22.17	18.07	22.51
Diluted Earning Per Share (EPS)	**-**	**-**	**10.18**	**14.18**
EPS Growth (%)	-	-	-	39.29
Book Value Per Share (BVPS)	-	-	-	123.42
P/E (x)	-	-	-	38.41
P/BV (x)	-	-	-	4.41
Interest Coverage Ratio (x)	19.56	40.21	19.08	39.24
Net Debt / Equity Ratio (x)	0.08	0.14	0.03	0.01
Current Ratio (x)	5.25	6.12	5.13	4.02
ROE (%)	70.49	76.47	16.30	11.26
ROA (%)	10.76	14.00	9.60	9.70
EV/EBITDA (x)	-0.04	0.09	-0.05	22.93
EV/Total Income (x)	-0.01	0.03	-0.02	8.80

Source: Company Data, Kredent Research Advisors

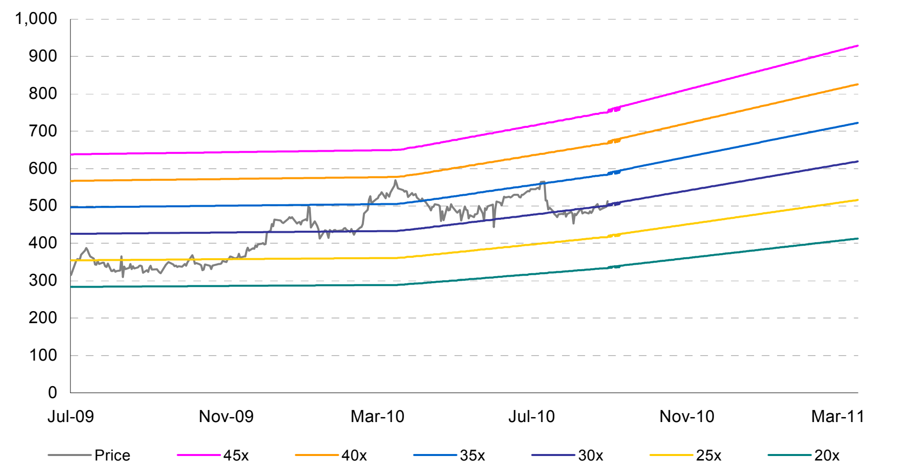
Valuation

Historically, over the last two years (since its listing) the company has traded at an average price earning multiple (P/E) of over 35.x. Moreover, on an average it has also traded at a one year forward P/E band of 25-40x given its strong three year earning's CAGR of around 40.81 percent. As per Bloomberg estimates, MHRIL earnings for FY11 and FY12 is expected to grow at 2 percent and 45 percent to Rs.14.44/share and Rs.20.64/share respectively. Hence, given the expected growth rate of 45 percent FY12, we believe market to assign a forward P/E of around 30x with an EPS of over 20.64/share. Therefore, we arrive at a 6 month price target of Rs.619.20/share, reflecting an upside potential of 27.92 percent from current levels.

We arrive at a 6 month price target of Rs.619.20/share, reflecting an upside potential of 27.92 percent from current levels. So, we rate MHRIL a 'Buy' seeing its potentiality going forward

Price Earning (P/E) Band

Exhibit: One Year Forward P/E Band



Source: Company Data, Bloomberg Estimates, Kredent Research Advisors

DISCLOSURES

RATINGS DEFINITION

BUY	Analyst value of the stock is > 20% from the current market price
HOLD	Analyst value of the stock is between +20% and -20% from the current market price
REDUCE	Analyst value of the stock is < -20% from the current market price

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