RESULTS REVIEW

Share Data

Market Cap	Rs. 88.5 bn
Price	Rs. 146.80
BSE Sensex	19,079.64
Reuters	IHTL.BO
Bloomberg	IH IN
Avg. Volume (52 Week)	0.5 mn
52-Week High/Low	Rs.161/115.05
Shares Outstanding	602.9 mn

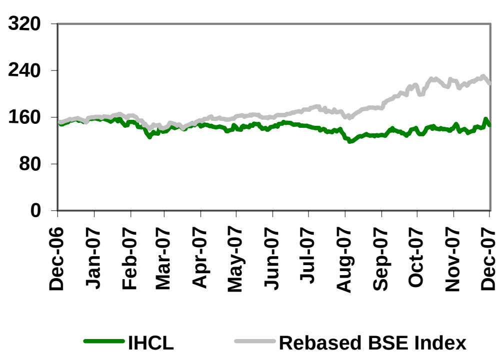
Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	7.7	9.5
+/- (%)	29.1%	23.2%
PER (x)	19.0x	15.4x
EV/ Sales (x)	3.5x	2.9x
EV/ EBITDA (x)	12.0x	9.9x

Shareholding Pattern (%)

Promoters	29
FIIs	23
Institutions	22
Public & Others	25

Relative Performance



Indian Hotels Company Ltd. Buy

Better cost control leads to improved operating performance

Indian Hotels (IHCL) reported a strong growth of 15.7% yoy in net sales to Rs. 3,414 mn. EBITDA margin, boosted by lower employee costs and a decline in other expenses, improved 420 bps. Net profit at Rs. 532.4 mn recorded a jump of 16% yoy, though it was capped by higher interest expenses and taxes.

With the planned addition to the room inventory, IHCL seeks to capture the buoyancy in the Indian hospitality sector. The Company intends to expand its global presence to enhance its brand equity and reduce its dependence on India. Going forward, the Company expects an increased contribution from sale of food & beverages (F&B), management contracts, and other services.

We expect the revenue to be driven by higher Average Room Rates (ARRs) and increased room inventory. Factors such as better control over costs and greater revenue from management contracts are likely to have a positive impact on the operating margins in the near term. However, international acquisitions and the renovation of ‘The Pierre’, New York in Jan’08 may adversely affect the net profit margins.

At the current market price, the stock is trading at a P/E of 19x and 15.4x FY08E and FY09E, respectively. We maintain Buy with a target price of Rs. 160.

Key Figures (Standalone)

Quarterly Data	Q2'07	Q1'08	Q2'08	YoY%	QoQ%	H1'07	H1'08	YoY%
(Figures in Rs mn, except per share data)								
Net Sales	2,950	3,465	3,414	15.7%	(1.5%)	5,843	6,879	17.7%
EBITDA	730	1,096	989	35.4%	(9.8%)	1,613	2,085	29.2%
Net Profit	459	548	532	16.0%	(2.8%)	853	1,080	26.6%
Margins(%)								
EBITDA	24.8%	31.6%	29.0%			27.6%	30.3%	
NPM	15.6%	15.8%	15.6%			14.6%	15.7%	
Per Share Data (Rs.)								
EPS	0.8	0.9	0.9	16.0%	(2.8%)	1.4	1.8	26.6%

Result Highlights

The Company has shifted to rupee tariff since Sep'07 to offset the impact of rupee appreciation

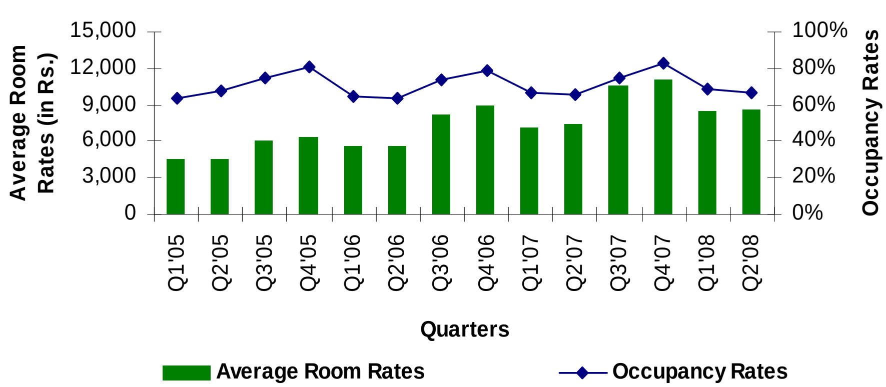
Driven by a strong growth in F&B (13.6% yoy), buoyancy in other operational income (16.7% yoy), and higher room sales, revenue increased 15.7% yoy to Rs. 3,414 mn. Room sales increased 17% yoy led by higher ARRs. The occupancy rates for H1'08 was stable at 68%. The growth in revenue was partially offset by the softening of dollar against the rupee, which impacted the ARRs during July-August. Consequently, IHCL adopted a universal rupee tariff across its properties in India since Sep'07.

Operating margins improved on account of decline in employee costs and other expenses

EBITDA increased 35.4% yoy to Rs. 989 mn. EBITDA margin gained 4.2% yoy to 29%, owing to a decline in the cost of raw materials, employee costs, and other expenses as a percentage of net revenue.

Interest expense climbed 64.4% yoy on account of the full utilization of the FCCB funds for the acquisition of Taj Boston and the incremental debt, raised for the acquisition of Campton Place.

Net profit grew 16% yoy to Rs. 532.4 mn. However, the effective tax rate increased during the quarter as compared to the corresponding quarter of the preceding year. This was because the latter had included higher dividend income and one-off profit on sale of investments.



Key Events

The BOD approved two rights issues to raise Rs. 22-23 bn to fund the Company's capex plans

- The Board of Directors approved two concurrent rights issues. The Company will offer equity shares (of the face value of Re. 1 each) to the shareholders in the ratio of 1:5 at Rs. 70 per share. The Company will also come out with a rights issue of 3 year 6% non-convertible debenture (NCD) of the face value of Rs. 100 in the ratio of 1 NCD for every 10 shares held. Each NCD will have a detachable warrant, exercisable within 12 months of allotment, giving the holders a right to purchase one share of the Company for Rs. 130-150.

Objects of the Rights Issues

Particulars	Rs. in mn
Funding of the capital expenditure for the following properties:	
Setting up new properties:	
Taj Surya Coimbatore	770.0
Taj Residency Yeshwantpur, Bangalore	1,600.0
Expansion Projects at the Existing Properties:	
Taj Lands Ends, Mumbai	763.0
Investments in the Subsidiaries:	
Domestic Subsidiaries - Roots Corporation Ltd	1,200.0
International Subsidiaries - The Pierre, New York	2,200.0
Repayment of Debt	4,000.0
Funding of the replacement/ renovation Capex	1,700.0
Total	**12,233.0**

- The US-based hotel chain Orient Express, in which IHCL holds an 11.01% stake, turned down, for the second time, a proposal from the Company for a strategic alliance.

Key Risks

Moderation of average room rate, increased competition, risks associated with management contracts, and those accompanied by international expansions are the major threats which may adversely affect the Company's earnings potential.

Outlook

IHCL diversifying its revenue stream with a thrust on strengthening international presence and enhancing brand equity

In line with the buoyancy in the tourism sector, Indian Hotels continues to ramp up its owned room inventory and rooms owned through subsidiaries and joint ventures. The Company intends to strengthen its presence in the domestic as well as overseas market with plans to add 3,809 rooms to its owned room inventory and rooms owned through subsidiaries and joint ventures and also bring 2,439 rooms into its fold through management contracts. The Company seeks to reduce its dependence on India, position its brand 'Taj', and build a conspicuous presence in the global hospitality scene. Moreover, we believe an increasing thrust on budget hotels, spas, and serviced apartments would not only help the Company to service the requirements of clients of different budget groups but would also make it less prone to the seasonality, which is associated with the hospitality sector.

Going forward, we expect the revenue to be driven by higher ARRs, and greater contribution from F&B and management contracts. Consequently, we believe that EBTDA margins will improve with a better control over cost. However, international acquisitions and the renovation of 'The Pierre", New York in Jan'08 may have an adverse effect on the net profit margins.

At the current market price, the stock is trading at P/E of 19x and 15.4x FY08E and FY09E, respectively. We maintain Buy with a target price of Rs. 160.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY07-09E)
Net Sales	13,135	18,373	25,063	31,371	37,333	22.0%
EBITDA	3,339	5,097	7,219	9,192	11,125	24.1%
Net Profit	1,294	2,483	3,606	4,657	5,738	26.1%
Margins(%)						
EBITDA	25.4%	27.7%	28.8%	29.3%	29.8%	
NPM	9.9%	13.5%	14.4%	14.8%	15.4%	
Per Share Data (Rs.)						
EPS	2.6	4.3	6.0	7.7	9.5	26.1%
PER (x)	24.5x	31.9x	24.5x	19.0x	15.4x	

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