

RESULT UPDATE ✓

# Indian Hotels (INDHOT)

## WHAT'S CHANGED...

PRICE TARGET.....	Unchanged
EPS (FY10E).....	Unchanged
EPS (FY11E).....	Unchanged
RATING.....	Changed to HOLD from OUTPERFORMER

<b>Current Price</b> Rs 72.5	<b>Target Price</b> Rs 77
<b>Potential upside</b> 6.2%	<b>Time Frame</b> 12 months

**HOLD**

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## Demand slowdown continues...

Indian Hotels (IHCL) came out with a disappointing set of numbers for Q1FY10. Its revenues and EBITDA both declined 24.4% YoY and 70.4%, respectively due to persistent slowdown in demand for hotel rooms. Subdued occupancies and drop in ARRs led to a 1890 bps YoY decline in the operating margin. However, with the help of exceptional income of Rs 38.7 crore, the company managed to report positive net profit for the quarter. It reported net profit of Rs 16.4 crore, a decline of 73.2% YoY and 56.3% QoQ.

## Highlight of the quarter

IHCL reported net sales of Rs 284.9 crore that declined by 24.4% YoY and 31.9% QoQ. Its net sales also included Rs 22.5 crore towards claims for loss of profit for business interruption of Taj Mahal Palace caused by 9/11 terrorist attacks. With a sharp revenue drop, the margin also fell sharply. Its operating margin declined by 1890 bps YoY and 1580 bps QoQ to 12.1%. During the quarter, the company earned profit of Rs 38.8 crore on sale of its investments that helped it to report positive net profit of Rs 16.4 crore for the quarter.

## Stock data....

Market Cap.	Rs.5,244.7 Crore
Debt (FY09)	Rs.4,646 Crore
Cash (FY09)	Rs.252 Crore
EV	Rs.9,638.7 Crore
52 week H/L	90.0-34.0
Equity capital	Rs.72.3 Crore
Face value	1.00
MF Holding	4.6%
FII Holding	14.9%

## Valuations

We expect the demand weakness to continue over the short-term. However, with an expected demand revival lead by an improvement in the economy and re-opening of the US property "The Pierre" in August 2009 and the Mumbai property "The Taj Mahal Palace" heritage wing in December 2009 we expect net sales to pick up gradually from H2FY10. At the CMP of Rs 72.5, the stock is trading at 13.4x and 10.6x its FY10E and FY11E EV/EBITDA, respectively. We feel this is close to its fair valuations taking into consideration the current financial performance. We are maintaining our target price of Rs 77 per share. We are changing our rating from OUTPERFORMER to **HOLD**.

## Price performance (%)

	1M	3M	6M	12M
IHCL	5.8	71.5	51.0	-21.4
EIH	10.4	45.9	0.3	9.5
Hotel Leela	6.3	73.7	67.8	-11.5

## Exhibit 1: Key Financials

Rs. Crore	Q1FY10	Q1FY09	Q4FY09	YoY Gr. (%)	QoQ Gr. (%)	FY09*	FY10E*	FY11E*
Net Sales	284.9	376.9	418.2	-24.4	-31.9	2,686.4	2,958.5	3,508.1
EBITDA	34.5	116.7	116.6	-70.4	-70.4	558.3	717.6	911.7
EBITDA Margin	12.1	31.0	27.9	-60.9	-56.6	20.8	24.3	26.0
Depreciation	25.1	20.3	28.6	23.7	-12.3	188.3	200.6	240.9
Interest	37.6	23.5	22.9	60.3	63.9	230.5	224.2	223.9
Other Income/Extr.	9.1	21.1	12.2	-56.8	-25.6	70.5	74.0	77.7
Net Profit	16.4	61.3	37.6	-73.2	-56.3	12.5	258.3	382.2
EPS (Rs)	0.2	0.8	0.5	-73.2	-56.3	0.2	3.6	5.3
Valuation								
PE (x)	-	-	-	-	-	-	19.9	13.4
Target PE (x)	-	-	-	-	-	-	21.6	14.6
EV to EBITDA (x)	-	-	-	-	-	-	13.3	10.3
Price to book (x)	-	-	-	-	-	-	1.4	1.3
RoNW (%)	-	-	-	-	-	-	7.1	9.5
RoCE (%)	-	-	-	-	-	-	7.1	8.8

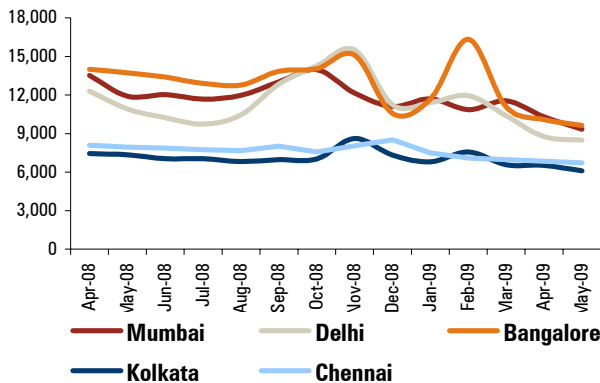
\*Represents consolidated figures

Source: Company, ICICIdirect.com Research

## Revenues decline on slowdown in tourist traffic

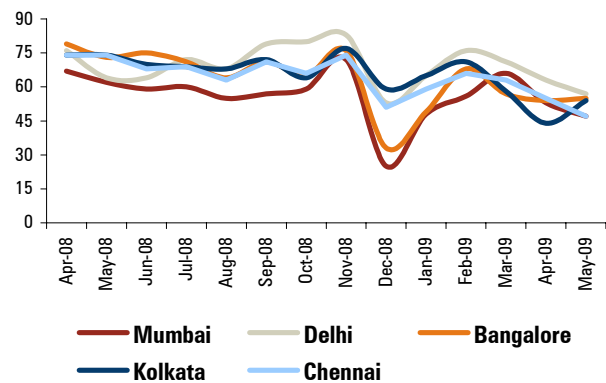
The company reported a 31.9% decline in its standalone net sales to Rs 284.9 crore against net sales of Rs 418.2 crore in the last quarter. This was mainly lead by continued weakness in demand for hotel rooms. As a result, average room rates (ARRs) showed a sharp correction of over 12% QoQ.

**Exhibit 2: ARR trends (Last one year)**



Source: CRIS INFAC, ICICIdirect.com Research

**Exhibit 3: Occupancy levels (Last one year)**

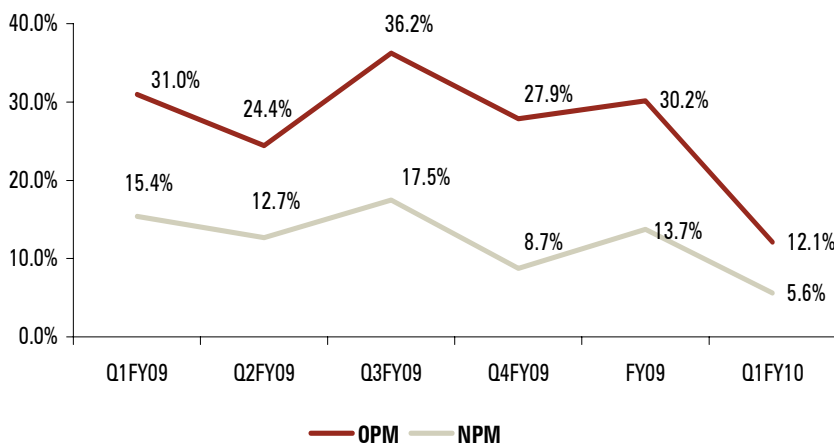


Source: CRIS INFAC, ICICIdirect.com Research

## Margins continue to move downwards

Operating and net profit margins continued to move southwards due to persistent weakness in demand for hotel rooms. The total operating cost declined 17% QoQ. On the other hand, sales de-grew 31.7%. This resulted in an overall reduction of 1580 bps in its operating margin to 12.1%. Among the total cost components, employee cost, licence fees and other costs declined by 22.5%, 27.3% and 16.4%, respectively.

**Exhibit 4: Movement in margins (QoQ)**



Source: Company, ICICIdirect.com Research

### Pierre to re-open by Aug '09, Taj Heritage wing to open by Dec '09

IHCL had completely shut down its New York property 'The Pierre' for renovation in January 1, 2008. It spent about US\$80 million on the renovation of Pierre. The company had also incurred an expenditure of Rs 54 crore as employee severance cost during the year. This put further pressure on its bottomline. We expect this hotel to re-open from August 2009 with expected ARR of ~US\$700-750/per room night from the erstwhile US\$550-600/per room night. This, in turn, should boost the revenue growth in FY10E and FY11E. In addition, we expect the Taj Heritage wing in Mumbai to re-open from December 2009 onwards. Earlier, this was completely shut down post terror attack on 26/11. Hence, we expect the re-opening of both these prestigious hotels to provide a boost to revenue growth by 2.5% and 5.4% in FY10E and FY11E, respectively.

### Valuations

We expect the demand weakness to continue over the short-term. However, with the expected demand revival led by improvement in the economy and re-opening of US property "The Pierre" in August 2009 and the Mumbai property "The Taj Mahal Palace" heritage wing in December 2009 we expect net sales to pick up gradually from H2FY10. At the CMP of Rs 72.5, the stock is trading at 13.4x and 10.6x its FY10E and FY11E EV/EBITDA, respectively. We feel this is close to its fair valuations taking into consideration the current financial performance. We maintain our target price of Rs 77 per share. We are changing our rating from OUTPERFORMER to **HOLD**.

#### Exhibit 5: Valuation table

	Sales (Rs Cr)	Sales Growth (%)	EPS (Rs)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
<b>FY09</b>	2686.4	-8.0	0.2	-96.5	420.9	17.3	0.4	4.7
<b>FY10E</b>	2958.5	10.1	3.6	1972.8	20.3	13.4	7.1	7.1
<b>FY11E</b>	3508.1	18.6	5.3	48.0	13.7	10.6	9.5	8.8

Source: Company, ICICIdirect.com Research

## ICICIdirect.com Coverage Universe

### Exhibit 6: Valuation Matrix

IHCL					Sales (Rs Cr}	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)
Idirect Code	INDHOT	CMP	72.5	FY09	2686.4	0.2	420.9	17.3	0.4	4.7
		Target	77.0	FY10E	2958.5	3.6	20.3	13.4	7.1	7.1
MCap (Rs Cr)	5,244.7	Upside (%)	6%	FY11E	3508.1	5.3	13.7	10.6	9.5	8.8
EIH					Sales (Rs Cr}	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)
Idirect Code	EIH	CMP	115.0	FY09	1057.3	4.3	27.5	14.2	12.5	14.6
		Target	93.0	FY10E	1106.6	3.7	32.4	16.7	9.8	11.9
MCap (Rs Cr)	4,695.8	Upside (%)	-19%	FY11E	1324.4	5.8	20.5	13.5	14.0	15.3
Hotel Leela					Sales (Rs Cr}	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)
Idirect Code	HOTLEE	CMP	33.5	FY09	459.8	3.8	10.7	18.8	14.7	4.7
		Target	31.0	FY10E	411.8	1.1	30.3	22.1	5.0	3.7
MCap (Rs Cr)	1312.9	Upside (%)	-7%	FY11E	503.5	1.5	21.7	17.3	4.8	4.6
Taj GVK Hotels					Sales (Rs Cr}	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)
Idirect Code	TAJGVK	CMP	121.0	FY09	238.2	8.4	12.8	8.0	19.5	14.4
		Target	107.0	FY10E	229.5	5.7	18.8	9.8	11.7	9.9
MCap (Rs Cr)	752.4	Upside (%)	-12%	FY11E	259.6	7.1	15.2	8.6	12.7	9.6
Kamat Hotels					Sales (Rs Cr}	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)
Idirect Code	KAMHOT	CMP	54.0	FY09	123.1	4.1	13.2	8.5	8.8	6.9
		Target	64.0	FY10E	118.0	0.4	120.9	8.8	0.4	7.1
MCap (Rs Cr)	71.3	Upside (%)	19%	FY11E	138.8	4.8	11.2	7.7	4.0	7.5
Viceroy Hotels					Sales (Rs Cr}	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)
Idirect Code	PALHEI	CMP	32.5	FY09	103.0	1.6	20.4	22.5	2.7	2.3
		Target	29.0	FY10E	97.1	0.4	91.5	24.0	0.6	1.8
MCap (Rs Cr)	137.8	Upside (%)	-11%	FY11E	134.9	1.7	19.0	16.6	2.8	2.7

\*EV/E - EV/EBITDA

Source: Company, ICICIdirect.com Research

## Peer Valuation

### Exhibit 7: Valuation Matrix

	CMP	Ratings	M Cap Rs Cr.	EPS			P/E (x)			EV/EBITDA (x)			ROCE			ROE		
				FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
ElH	119.5	UP	4695.8	4.3	3.7	5.8	27.5	32.4	20.5	14.2	16.7	13.5	14.6	11.9	15.3	12.5	9.8	14.0
Indian Hotels	72.5	H	5244.7	0.2	3.6	5.3	420.9	20.3	13.7	17.3	13.4	10.6	4.7	7.1	8.8	0.4	7.1	9.5
Hotel Leela	34.8	H	1312.9	3.8	1.1	1.5	9.1	31.5	22.5	18.8	22.1	17.3	4.7	3.7	4.6	14.7	5.0	4.8
Taj GVK	120.0	H	752.4	8.4	5.7	7.1	14.3	20.9	16.9	8.7	10.8	9.4	14.4	9.9	9.6	19.5	11.7	12.7
Viceroy Hotels	32.5	H	137.8	1.6	0.4	1.7	20.4	91.5	19.0	22.5	24.0	16.6	2.3	1.8	2.7	2.7	0.6	2.8
Kamat Hotels	54.0	P	71.3	4.1	0.4	4.8	13.2	120.9	11.2	8.5	8.8	7.7	6.9	7.1	7.5	8.8	0.4	4.0

H= HOLD, UP= UNDERPERFORMER, OP= OUTPORFORMER, P=PERFORMER, UR=UNDER REVISION.

Source: Company, ICICIdirect.com Research

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**Performer (P):** Between 10% and 20%;

**Hold (H):**  $\pm 10\%$  return;

**Underperformer (U):** -10% or more;

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