

RESULT UPDATE

MID CAP

Share Data

Reuters code	EIHO.BO
Bloomberg code	EIH IN
Market cap. (US\$ mn)	1,063
6M avg. daily turnover (US\$ mn)	0.8
Issued shares (mn)	393
Target price (Rs)	96

Performance (%)	1M	3M	12M
Absolute	4	9	51
Relative	7	3	(21)

Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs.)	2.2	3.5
+/- (%)	(49.2)	59.0
PER (x)	58.2	36.6
PBV (x)	4.2	3.9
Dividend/Yield (%)	0.6	0.9
EV/Sales (x)	8.0	5.6
EV/EBITDA (x)	21.8	16.3

Major shareholders (%)

Promoters	46
FII's	3
MF's	1
BFSI's	13
Public & Others	37

Financial highlights

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Sales	2,342	1,560	(33.4)	4,705	3,058	(35.0)	9,624	7,605	(21.0)	10,784	41.8
Other operating income	–	–	–	–	–	–	1,974	2,033	3.0	1,136	(44.1)
EBITDA	638	82	(87.1)	1,347	74	(94.5)	3,973	2,795	(29.6)	3,749	34.1
EBITDA Margin (%)	27.2	5.3	–	28.6	2.4	–	34.3	29.0	–	31.4	–
Other Income	176	164	(7.0)	371	856	130.6	498	547	10.0	602	10.0
Interest	(196)	(239)	21.5	(377)	(458)	21.5	(953)	(1,064)	11.7	(1,087)	2.1
Depreciation	(131)	(152)	15.9	(265)	(300)	13.4	(749)	(885)	18.2	(1,046)	18.1
PBT	487	(145)	(129.7)	1,077	172	(84.0)	2,769	1,394	(49.7)	2,219	59.2
Tax	(174)	48	(127.7)	(384)	(78)	(79.6)	(1,074)	(530)	(50.7)	(843)	59.2
Adjusted PAT	313	(96)	(130.8)	693	94	(86.4)	1,699	864	(49.2)	1,374	59.0
EPS (Rs)	0.8	(0.2)	(130.8)	1.8	0.2	(86.4)	4.3	2.2	(49.2)	3.5	59.0

Note: Quarterly numbers are standalone. FY10E other operating income includes Rs 1 bn as insurance claim for loss of profits due to business interruptions.

EIH

Maintain Underperformer

Price: Rs 128

BSE Index: 16,283

29 October 2009

2QFY10 Result – Lower RevPARs affect profitability

Net sales decline of 33% to Rs 1.6 bn was better than our expectations. Despite curtailment in operating costs, decline of 35% in RevPARs led to 22% contraction in the EBITDA margins to 5%. The company reported a net loss of Rs 97 mn for the quarter.

Continuing weakness in business demand led to lower room rents and occupancies during the quarter. Although the current year is expected to remain subdued, with the likely improvement in demand in the coming quarters and a 36% increase in room inventory from its new Trident property and the re-opening of Oberoi property in Mumbai, we expect strong profit growth in FY11E. However, to factor in the sharp reduction in the RevPARs and a delay in the commissioning of 440-room Trident property, we are revising our estimates downwards by 45% for FY10E and 27% for FY11E and maintain our Underperformer rating on the stock with a target price of Rs 96, valuing it at 13x (earlier 12x) our FY11E EBITDA estimates. We value EIH at a higher multiple than the market leader Indian Hotels, as EIH stands better placed with a pure domestic portfolio, low debt on books and its premium properties. We currently lack clarity on the likely promoter stake sale and believe a possible acquisition trigger could provide significant upsides in future.

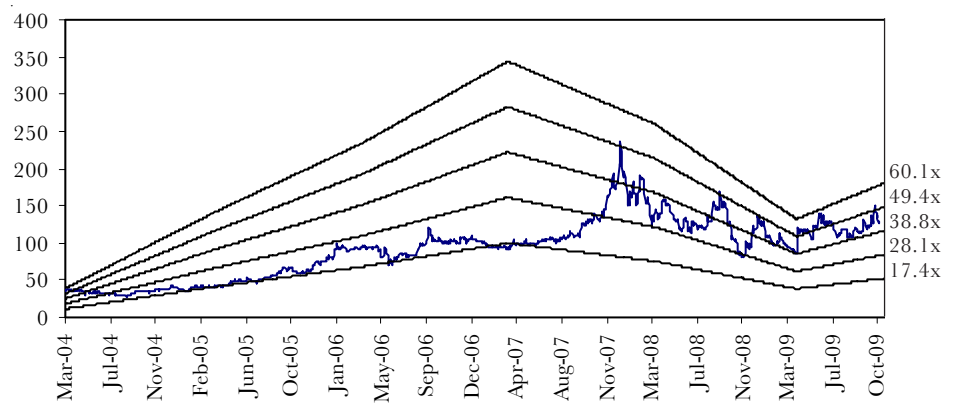
Highlights

- Occupancy rates declined by 658 bps to 52% while, room rents declined by 26% for the quarter. F&B revenues declined by 25% to Rs 649 mn during the quarter.
- Printing press division reported a decline of 6% with a PBIT loss of Rs 91 mn.
- The management has indicated a delay in the opening of the Trident property at BKC, Mumbai due to the delay in operating licences and now expects the opening of this property in December 2009. The Oberoi property in South Mumbai is expected to open in 4QFY10.

Revision in Estimates

(Rs mn)	FY10E			FY11E		
	Old	New	Variance (%)	Old	New	Variance (%)
Sales	9,676	7,605	(21.4)	13,279	10,784	(18.8)
EBITDA	3,945	2,795	(29.1)	4,495	3,749	(16.6)
EBITDA margin (%)	33.6	29.0	-	31.2	31.4	-
PAT	1,562	864	(44.7)	1,885	1,374	(27.1)
EPS (Rs)	4.0	2.2	(44.7)	4.8	3.5	(27.1)

PER Band



Source: B&K Research

Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Net sales	11,620	9,624	7,605	10,784
<i>Growth (%)</i>	15.7	(17.2)	(21.0)	41.8
Operating expenses	(7,719)	(7,625)	(6,843)	(8,172)
Operating profit	3,901	1,999	762	2,612
Other operating income	902	1,974	2,033	1,136
EBITDA	4,803	3,973	2,795	3,749
<i>Growth (%)</i>	20.7	(17.3)	(29.6)	34.1
Depreciation	(653)	(749)	(885)	(1,046)
Other income	423	498	547	602
EBIT	4,574	3,722	2,458	3,305
Interest paid	(904)	(953)	(1,064)	(1,087)
Pre-tax profit	3,670	2,769	1,394	2,219
(before non-recurring)				
Non-recurring items	(34)	0	0	0
Pre-tax profit	3,636	2,769	1,394	2,219
(after non-recurring)				
Tax (current + deferred)	(1,400)	(1,074)	(530)	(843)
Net profit (before Minority	2,236	1,695	864	1,375
Interest, Pref. Dividend, etc.)				
Minority interests	(21)	5	(0)	(1)
Reported PAT	2,215	1,699	864	1,374
Adjusted net profit	2,249	1,699	864	1,374
<i>Growth (%)</i>	46.9	(24.4)	(49.2)	59.0

Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash & Marketable securities	460	784	548	939
Other current assets	3,354	4,571	3,727	4,791
Investments	2,510	2,659	2,659	2,659
Net fixed assets	19,871	22,191	22,956	23,060
Other non-current assets	0	26	0	0
Total assets	26,195	30,230	29,889	31,449
Current liabilities	3,038	3,215	2,722	3,190
Total debt	9,314	11,409	11,599	11,899
Other non-current liabilities	1,102	1,210	1,210	1,210
Total liabilities	13,454	15,834	15,531	16,299
Share capital	786	786	786	786
Reserves & surplus	11,722	13,339	13,300	14,092
Less: Misc. expenditure	(17)	(1)	(0)	(0)
Shareholders' funds	12,491	14,124	14,086	14,878
Minorities interests	250	272	272	272
Total equity & liabilities	26,195	30,230	29,889	31,449
Capital employed	23,157	27,015	27,167	28,258

Note: FY10E other operating income includes Rs 1 bn as insurance claim for loss of profits due to business interruptions.

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	3,636	2,769	1,394	2,219
Depreciation	653	749	885	1,046
Change in working capital	(10)	(793)	571	(780)
Total tax paid	(1,267)	(966)	(530)	(843)
Cash flow from oper. (a)	3,012	1,758	2,320	1,641
Capital expenditure	(3,047)	(2,870)	(1,650)	(1,150)
Change in investments	683	(149)	0	0
Others	(246)	(182)	1	0
Cash flow from inv. (b)	(2,610)	(3,201)	(1,649)	(1,150)
Free cash flow (a+b)	402	(1,443)	670	491
Debt raised/(repaid)	13	2,095	190	300
Dividend (incl. tax)	(644)	(834)	(562)	(368)
Others	3	507	(534)	(31)
Cash flow from fin. (c)	(628)	1,767	(907)	(100)
Net change in cash (a+b+c)	(226)	324	(236)	391

Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	5.7	4.3	2.2	3.5
Growth	46.9	(24.4)	(49.2)	59.0
Book NAV/share (Rs)	26.3	30.6	30.6	32.6
Dividend/share (Rs)	1.8	1.2	0.8	1.2
Dividend payout ratio	37.1	33.1	42.6	40.2
Tax	38.5	38.8	38.0	38.0
EBITDA margin	38.4	34.3	29.0	31.4
EBIT margin	36.5	32.1	25.5	27.7
RoCE	20.5	14.8	9.1	11.9
Net debt/Equity	69.5	73.8	77.0	72.3

Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	22.4	29.6	58.2	36.6
PCE	17.3	20.5	28.8	20.8
Price/Book	4.9	4.2	4.2	3.9
Yield (%)	1.4	1.0	0.6	0.9
EV/Net sales	5.2	6.3	8.0	5.6
EV/EBITDA	12.7	15.3	21.8	16.3

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	19.4	17.7	11.4	12.7
Asset turnover	0.5	0.3	0.3	0.4
Leverage factor	2.1	2.1	2.1	2.1
Return on equity (%)	18.7	12.5	6.0	9.3

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 3. **UNDERPERFORMER:** 0 to -25%
 4. **SELL:** Potential downside of < -25% (absolute returns)
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