

RESULT UPDATE ✓

East India Hotels (EIH)

WHAT'S CHANGED...

PRICE TARGET.....	Changed to Rs 75 from Rs 81
EPS (FY09E).....	Changed to Rs 3.3 from Rs 3.2
EPS (FY10E).....	Changed to Rs 4.6 from Rs 5.1
RATING.....	Unchanged

Current Price Rs 98	Target Price Rs 75
Potential upside -24%	Time Frame 12 months

UNDERPERFORMER

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Peak season turns out to be lean season...

East India Hotels (EIH) declared its Q3 results with a 21.2% decline the in topline and a 54% decline in the bottomline. The results were largely impacted due to the economic slowdown and terror attacks at its premium hotel properties (Trident & Oberoi) in Mumbai, from which EIH derives nearly 43-45% of its total revenues.

Highlight of the quarter

EIH came out with its Q3 results, which were in line with our expectations. The company reported net sales and PAT of Rs 254.9 crore and Rs 33.3 crore, respectively, as against our expected net sales and PAT of Rs 263 crore and Rs 30.4 crore. The sales and PAT both declined by 21.2% and 54.0% YoY, respectively. This de-growth was mainly on account of a sharp decline in foreign tourist arrivals (FTAs) in the past three to four months lead by the global economic slowdown. This has been further aided by the recent terror attacks at its hotel properties (Trident and Oberoi) in Mumbai. Post terror attacks, both these properties were shut down for restoration works. While the Trident re-opened on December 21, the Oberoi is expected to re-open by the end of Q3FY10. However, on a quarterly basis, its net sales and PAT both increased marginally by 3.3% and 6.3%, respectively.

Valuations

We are further revising our earnings estimates for FY09E and FY10E downwards to account for the weak demand outlook, going forward. Also, the expected date of re-opening of Oberoi Hotels has been extended from our previous estimates of Q1FY10 to Q3FY10. The same have been factored into our FY10E estimates. Hence, we have arrived at a revised target price of Rs 75 using the DCF methodology. We continue to maintain our **UNDERPERFORMER** rating on the stock.

Stock data....

Market Cap.	Rs.3,850.9 Crore
Debt (FY08)	Rs.931.4 Crore
Cash (FY08)	Rs.45.9 Crore
EV	Rs.4736.4 Crore
52 week H/L	194-73
Equity capital	Rs.78.6 Crore
Face value	2.00
MF Holding	1.00%
FII Holding	3.5%

Price performance (%)

	1M	3M	6M	12M
EIH	-7.7	5.6	-10.2	-44.2
Indian Hotels	5.7	-28.8	-49.1	-68.7
Leela	-3.0	-29.6	-35.8	-72.1

Exhibit 1: Key Financials

Rs. Crore	Q3FY09A	Q3FY09E	Q3FY08	Q2FY09	YoY Gr. (%)	QoQ Gr. (%)	YTD FY09	FY09E	FY10E
Net Sales	254.9	263.0	323.3	246.7	-21.2	3.3	737.8	1047.7	1223.0
EBIDTA	87.1	55.6	139.9	76.3	-37.7	14.2	234.3	309.8	344.9
EBIDTA Margin (%)	34.2	21.2	43.3	30.9	-21.0	10.5	31.8	29.6	28.2
Depreciation	14.0	14.2	10.8	13.1	29.4	6.6	40.5	70.9	78.5
Interest	22.3	19.5	21.3	19.6	4.5	13.3	59.9	80.1	85.6
Other Income/Extraordinary item	3.0	30.0	3.5	5.2	-16.1	-42.7	27.7	42.2	81.2
Reported Net Profit	33.3	30.4	72.4	31.3	-54.0	6.3	102.6	130.6	180.5
EPS (Rs)	0.9	0.8	1.8	0.8	-53.9	6.7	2.6	3.3	4.6
Valuation									
PE (x)	-	-	-	-	-	-	-	29.5	21.3
Target PE (x)	-	-	-	-	-	-	-	22.6	16.3
EV to EBIDTA (x)	-	-	-	-	-	-	-	15.3	13.7
Price to book (x)	-	-	-	-	-	-	-	2.5	2.3
RoNW (%)	-	-	-	-	-	-	-	9.9	10.8

Source: Company, ICICIdirect.com Research

Result analysis

Closure of Trident and Oberoi, post terror attacks

Apart from the global economic slowdown, profitability of EIH has been directly impacted by the recent terror attacks at both its properties (i.e. Trident and Oberoi) in Mumbai. Post-terror attacks, both these properties, which contribute nearly 43-45% of EIH's total revenues, were shut down for restoration work. While Trident (541 rooms) reopened from December 21, Oberoi (327 rooms) is expected to re-open by December 2009. This terror event also had a severe impact on growth of foreign tourist arrivals (FTAs). FTAs growth for December declined 9% YoY for the first time. The combined effect of these two has led to a 17.4% decline in its net sales to Rs 254.9 crore as against net sales of Rs 308.6 crore last year.

Restoration cost, loss on business interruption, not to impact profitability

Both of EIH's properties (Trident and Oberoi) are insured against loss due to business interruption and damage. These two extraordinary items will not impact its profitability, going forward. During the current quarter, the company has also received the first instalment of Rs 25 crore for restoration works from its insurance company. We have considered this under the head "Other Income" in our Q3 estimates. However, looking at its other incomes head, it seems EIH must have created a separate account for insurance claims as a balance sheet item. Hence, we would not see any major increase in its repairs and maintenance or other operating expenses in the coming quarters.

Margin to remain under pressure on bleak outlook

The operating margin has declined sharply by 910 bps YoY to 34.2% due to a sharp decline in sales. However, its total expenditure declined by 8.5% YoY. This was mainly on account of a decline in raw material cost and other costs, which declined 25.8% and 14.3%, respectively while, employee and power cost rose 4.8% and 1.4%, respectively. Despite the management's effort to control total costs, its margin is expected to remain under pressure, going forward. This is on account of the increase in room supply over the last year and at the same time the bleak demand outlook for hotel rooms, going forward in the wake of the global economic slowdown.

Valuations

We are further revising our earnings estimates for FY09E and FY10E downwards to account for the weak demand outlook, going forward. Also, the expected date of re-opening of Oberoi Hotels has been extended from our previous estimates of Q1FY10 to Q3FY10 and the same has been factored in our FY10E estimates. Hence, we have arrived at a revised target price of Rs 75 using the DCF methodology. We continue to maintain our **UNDERPERFORMER** rating on the stock.

Exhibit 2: Valuation table

	Sales (Rs Cr)	Sales Growth (%)	EPS (Rs)	EPS Growth (%)	PE (x)	EV/EBIDTA (x)	RoNW (%)	RoCE (%)
FY08	1158.0	15.3	5.6	12.2	17.4	11.9	17.7	15.1
FY09E	1047.7	-9.5	3.3	-41.1	29.5	15.3	9.9	10.4
FY10E	1223.0	16.7	4.6	38.2	21.3	13.7	10.8	10.5

Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe

Exhibit 3: Valuation Matrix

EIH					Sales (Rs Cr}	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)
Idirect Code	EIH	CMP	98	FY08	1158.0	5.6	17.4	11.9	17.7	15.1
		Target	75	FY09E	1047.7	3.3	29.5	15.3	9.9	10.4
MCap (Rs Cr)	3,850.9	Upside (%)	-23%	FY10E	1223.0	4.6	21.3	13.7	10.8	10.5
Hotel Leela					Sales (Rs Cr}	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)
Idirect Code	HOTLEE	CMP	18	FY08	514.6	4.0	4.5	10.5	16.1	8.3
		Target	17	FY09E	477.4	2.0	8.9	12.5	10.6	6.9
MCap (Rs Cr)	680.1	Upside (%)	-6%	FY10E	531.0	2.5	7.3	11.5	7.4	4.5
Kamat Hotels					Sales (Rs Cr}	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)
Idirect Code	KAMHOT	CMP	35	FY08	147.6	2.1	2.1	4.1	17.2	19.2
		Target	29	FY09E	127.3	0.5	70.0	6.5	0.5	10.3
MCap (Rs Cr)	46.2	Upside (%)	-17%	FY10E	136.7	9.7	3.6	5.8	11.3	11.8
Viceroy Hotels					Sales (Rs Cr}	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)
Idirect Code	PALHEI	CMP	22	FY08	107.9	2.2	10.2	17.9	3.8	3.1
		Target	29	FY09E	126.3	1.5	15.0	16.7	2.1	2.4
MCap (Rs Cr)	93.3	Upside (%)	32%	FY10E	244.8	3.2	6.9	10.9	5.3	3.7

*EV/E= EV/EBITDA

Source: Company, ICICIdirect.com Research

Peer Valuation

Exhibit 4: Valuation Matrix

	CMP	TP	Ratings	M Cap	EPS			P/E (x)			EV/EBIDTA (x)			ROCE			ROE		
				Rs Cr.	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E
EIH	98	75	UP	3850.9	5.6	3.3	4.6	17.4	29.5	21.3	11.9	15.3	13.7	15.1	10.4	10.5	17.7	9.9	10.8
Indian Hotels*	39	NA	NA	2821.3	6.9	4.6	5.1	5.6	8.6	7.7	6.5	7.1	6.0	NA	NA	NA	17.3	10.0	6.9
Hotel Leela	18	17	H	680.1	4.0	2.0	2.5	4.5	8.9	7.3	10.5	12.5	11.5	8.3	6.9	4.5	16.1	10.6	7.4
Taj GVK*	43	NA	NA	269.6	11.3	12.5	14.3	3.8	3.5	3.0	2.7	2.4	2.0	NA	NA	NA	32.2	28.4	26.0
Viceroy Hotels	22	29	P	93.3	2.2	1.5	3.2	10.2	15.0	6.9	17.9	16.7	10.9	3.1	2.4	3.7	3.8	2.1	5.3
Kamat Hotels	35	29	UP	46.2	16.7	0.5	9.7	2.1	70.0	3.6	4.1	6.5	5.8	19.2	10.3	11.8	17.2	0.5	11.3

Source: Company, ICICIdirect.com Research

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