



Economy News

- ▶ India's exports in October, 2008 dipped by 12.1% and stood at \$12.82 bn, as against \$14.58 bn in the same month last year, when they had risen by nearly 50%. In rupee terms, India's export registered a growth of 8.2% and stood at Rs 623.87bn for the month. With imports outpacing exports, the trade deficit grew by 61.25% to \$10.53 bn, compared to \$6.53 bn in the corresponding month of the previous year. (BS)
- ▶ In USA, the National Bureau of Economic Research has said that, the U.S. has been in a recession since December 2007. The NBER said that the deterioration in the labor market throughout 2008 was one key reason why it decided to state that the recession began last year (money.cnn.com).
- ▶ The Organisation of Petroleum Exporting Countries will cut its December production by a "good amount," its secretary general Abdalla Salem El-Badri told reporters today. (BS)
- ▶ World economic growth will slow to 1% in 2009 from 2.5% this year as the financial crisis bites and the global economy may even contract if stimulus packages prove too little too late, a UN report said. (FE)
- ▶ Expressing confidence in India despite the Mumbai terror attacks, global private equity investor Actis today said it will invest \$1bn (over Rs.50bn) in the country in the next 3-4 years. The firm, which has raised \$2.9 bn for investing across emerging markets, said it is still positive on the Indian growth story. (ET)

Corporate News

- ▶ **Nagarjuna Constructions** has got six orders aggregating Rs 4.8bn for infrastructure related works. The company has secured Rs 1.2bn order for constructing a hotel in Hyderabad. (BL)
- ▶ The sharp fall in commercial vehicle (CV) sales has forced **Tata Motors** to again shut its Pune plant for six days this month. The CV plant will be out of action from December 5 to 7 and again from December 26 to 28. With this development, the plant would be shut for 12 days in total during this calendar year, which is happening for the first time at Tata Motors' Pune plant in the last 10 years (BS).
- ▶ **Air India** is all set to reduce fuel surcharge on all domestic flights by Rs.400 from tomorrow, making it the first airline to slash fares after a substantial cut in jet fuel prices. (BS)
- ▶ **Mahindra & Mahindra** has said that it could cut down productions and temporarily shut plants due to slowdown in sales in domestic as well as overseas markets. (ET)
- ▶ Automobile sales of **Maruti Suzuki** declined 24.3% in November this year compared to sales in the same month last year, a company statement said here Monday. The company sold 52,711 vehicles in November this year as compared to 69,699 in the like period a year ago. (ET)
- ▶ **Bajaj Auto** has reported a 37% decline in motorcycle sales during November at 131,681 units against 209,876 units last year. Total two wheeler sales also saw a similar drop of 37% at 132,421 units against 211,600 units in the corresponding month last year. (BS)

Equity

	1 Dec 08	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	8,840	(2.8)	(9.7)	(39.0)
NIFTY Index	2,683	(2.6)	(7.0)	(38.3)
BANKEX Index	4,466	(3.9)	(10.9)	(36.4)
BSET Index	2,534	(1.0)	(11.5)	(35.9)
BSETCG INDEX	6,145	(3.8)	(12.4)	(48.2)
BSEOIL INDEX	5,533	(1.5)	(10.7)	(42.9)
CNXMcap Index	3,260	(1.5)	(7.0)	(43.0)
BSESMCAP INDEX	3,298	(0.2)	(12.4)	(52.1)
World Indices				
Dow Jones	8,149	(7.7)	(12.6)	(29.4)
Nasdaq	1,398	(9.0)	(18.8)	(40.9)
FTSE	4,065	(5.2)	(7.1)	(27.4)
Nikkei	8,397	(1.4)	(6.6)	(36.5)
Hangseng	14,109	1.6	(3.5)	(35.9)

Value traded (Rs cr)

	1 Dec 08	% Chg - Day
Cash BSE	2,895	22.3
Cash NSE	8,392	(14.0)
Derivatives	32,155	(28.5)

Net inflows (Rs cr)

	28 Nov 08	% Chg	MTD	YTD
FII	419	(196)	-	(51,754)
Mutual Fund	606	95	-	14,147

FII open interest (Rs cr)

	28 Nov 08	% Chg
FII Index Futures	6,087	6.3
FII Index Options	9,886	1.6
FII Stock Futures	8,577	(2.0)
FII Stock Options	31	72.5

Advances / Declines (BSE)

	1 Dec 08	A	B	S	Total	% total
Advances	57	718	170	945	44	
Declines	148	777	193	1,118	53	
Unchanged	-	48	13	61	3	

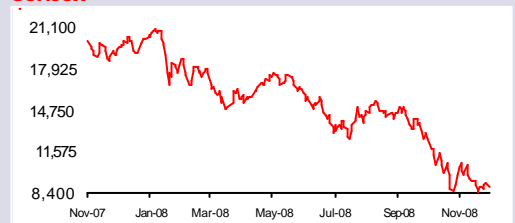
Commodity

		1 Dec 08	1 Day	1 Mth	3 Mths
Crude (NYMEX)	(US\$/BBL)	48.8	(0.9)	(28.0)	(55.5)
Gold (US\$/OZ)		769.0	(6.0)	6.9	(3.8)
Silver (US\$/OZ)		9.3	(10.0)	(4.5)	(28.0)

Debt / forex market

	1 Dec 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.13	7.17	7.52	8.58
Re/US\$	50.29	50.11	48.65	44.17

Sensex



EVENT UPDATE

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INDIAN HOTELS COMPANY LTD (IHCL)

PRICE: Rs.40
TARGET PRICE: Rs.52

RECOMMENDATION: REDUCE
FY10E P/E: 6.2x

Mumbai attacks: A setback for Indian hospitality sector in short term

- ❑ We believe the recent tragic events at Hotel Taj Mahal and Trident (Oberoi) in Mumbai will be a setback for Indian hospitality sector in the near-to-medium term;
- ❑ The sector is likely to see a cascading effect of reduced foreign travel to India on top of an already declining business from worldwide economic slowdown;
- ❑ Taj Mahal Palace & Towers, the key property of IHCL in Mumbai and one of the focal points of the attack, will lose some revenues since the property, which suffered extensive damage, may need to remain shut partly for restoration;
- ❑ For IHCL, we lower price target at Rs.52 (Rs.113 earlier) as we cut earnings and target multiples, mainly driven by potential revenue loss due to the attack, deteriorating macro and expected decline in foreign tourists inflow in near-to-medium term;
- ❑ We downgrade stock to REDUCE from our earlier BUY recommendation, on expectations of under-performance in near to medium term;
- ❑ The earnings downgrade is based on our assumptions. We will review the same as and when more information is available from the management.

Summary table

(Rs mn)	FY08	FY09E	FY10E
Revenues	29,660	30,528	33,649
Growth (%)	16.8	2.9	10.2
EBITDA	9,393	7,479	9,926
Growth (%)	24.4	(20.4)	32.7
EBITDA margin (%)	31.7	24.5	29.5
Net profit	4,633	3,611	5,215
Growth (%)	(4.1)	1.7	44.4
Net Margin (%)	12.0	11.8	15.5
EPS (Rs)	6.8	4.9	6.5
Growth (%)	7.5	(28.3)	33.6
DPS (Rs)	1.9	1.5	1.5
RoE (%)	21.2	12.9	13.1
RoCE (%)	16.2	9.7	11.0
EV/Sales (x)	3.5	1.1	0.7
EV/EBITDA (x)	11.1	4.7	2.3
P/E (x)	5.9	8.2	6.2
P/BV (x)	3.9	0.9	0.7

Source: Company, Kotak Securities - Private Client Research

Mumbai attacks: A setback for hospitality sector

We believe the terrorists attack at Hotel Taj Mahal Palace & Towers (a key property of IHCL) and Oberoi & Trident Tower (a key property of EIH) in Mumbai last week will be a setback for Indian hospitality sector in the near-to-medium term. The sector is likely to see a cascading effect of reduced foreign travel to India on top of an already declining business from worldwide economic slowdown. However, we expect the hotels and the respective companies to get back to normalcy in the medium to long term.

Tourist inflow dropped in 2001 and 2002 after 9/11 attack in New York

The foreign tourist arrivals into India had dropped by 5-6% in 2001 and 2002 after the terrorist attack at World Trade Towers in New Yorks in 2001. Foreign tourist arrivals dropped from 2.65mn in 2000 to 2.54mn in 2001 and 2.38mn in 2002. We believe the attacks at India's top 5-star luxury hotels may have the similar kind of impact on tourist arrivals.

Indeed governments in Australia, New Zealand, Britain, France, Canada and the US have issued travel advisories to their citizens considering travel to India. We believe such written communications, which make travel-related insurance valueless, will impact tourist flow to India significantly in the near-term.

Significant damage to hotel properties; Restoration may take up about one year's time

Taj Mahal Palace & Towers and Oberoi & Trident towers in Mumbai were the focal points of attacks. We expect these properties to lose some revenues since these properties, which suffered extensive damages, may need to remain shut partly for restoration work, which may take a year's time. However, the cost of restoration is not quantifiable yet. We also have not taken the cost of restoration work into our estimates, which may be significant.

In case of Hotel Taj Mahal, the terrorists holed up in the heritage wing (also known as the Old Taj) for over 50 hours and reportedly caused extensive damage to the interiors of the property.

Loss of revenues ahead of peak season due to rise in booking cancellations

The attacks came just ahead of what are normally peak occupancy months for the country's hotels-especially high-end ones, as international and domestic visitors head to India in the holiday season centered around Christmas and new year celebrations and running well into January because of pleasant weather. We believe that hotels will lose revenues in the near term mainly because of sharp decline in tourists' arrivals and increasing cancellations of booking for events, conferences, sports activities etc.

We expect 6.5% and 20.7% revenue and earning CAGR over FY08-10E

We have fine-tuned our revenue and earning estimate for FY09 and FY10 on account of recent tragic event. We now expect 6.5% and 20.7% consolidated revenue and earning CAGR over FY08-10E. In FY09, we expect revenue growth of 2.9% to Rs.30.5bn and net profit de-growth of 3.6% to Rs.3.02bn while in FY10 we expect revenue growth of 10.2% to Rs.33.6bn and net profit growth of 51% to Rs.4.56bn. We expect consolidated EPS of Rs.4.9 and Rs.6.5 in FY09E and FY10E, respectively. We believe that ensuing quarters will witness weakness in earnings due to sharp decline in occupancy led by terrorist attack and deteriorating macro scenario. In our estimates we have not taken cost of restoration work for damaged property due to lack of clarity, which could be significant in FY09 and FY10.

Focus on asset-light strategy and brand building

IHCL is leveraging its brand and service quality record for securing franchises and management contracts with a view to expand presence without much investment. At present, the company operates about 15% of total room inventory (10291 rooms) through management contracts. IHCL plans to add around 6000 rooms inventory in the next three years of which around 40% will be through management contracts. We believe the company will be able to leverage its international presence to win more management contracts, which should enable it to become asset-light. Further, the company explains its approach of making investment in overseas markets like US to become a serious player in the market and establish and promote Taj brand to get the new management contracts.

Aggressive scale-up plans for budget hotels

IHCL sees strong growth opportunities in the 'budget hotel' segment, and has aggressive plans to set up 30 such hotels in Tier-II and Tier-III cities across the country under the 'Ginger' brand over the next three years. These hotels would target the economy and mid-market segment in business and religious destinations, which we see as a significant growth opportunity in India, given the lack of a large organized 'budget' hotel chain. The theme of budget hotels is to build standard 100-rooms hotels with no frills and self-service concept but better service quality and luxury feel priced between Rs.1000-1500 per room/night. At present, the company is running around 15 Ginger hotels with room inventory of 1500 rooms. We view 'Ginger' as a positive move for the company and expect this business to break-even by FY09.

Overseas properties likely to break-even by FY09-10

IHCL's subsidiary companies registered revenues growth of 22.4% to Rs.11.38bn in FY08 as compared to Rs.9.31bn in FY07. The subsidiaries constitute around 38% of consolidated revenues. However, the profitability of these companies is under strain mainly due to properties in the USA, which incurred losses. IHMS Inc. (the US subsidiary), which contributed 34% of subsidiary revenues, recorded losses in FY08 to the tune of Rs.1.28bn while its UK property St James Court (18% of FY08 subsidiary revenue) posted lower growth in profitability. We believe that overseas properties in combined should break-even by FY09-10.

IHCL had completely shut down its New York property The Pierre for renovation from January 1, 2008. It will spend about US\$80mn of the renovation of Pierre and will be re-opened on March 1, 2009. Consequent to the closure of rooms for renovation, the company had incurred an expenditure of Rs.541mn as employee severance cost during the year. After the renovation, IHCL expect sharp improvement in occupancy and ARR to US\$850-900/per room night from current US\$550-600/per room night. Further, the company has started running global loyalty program to attract the customers. We believe any improvement in the financial performance of these international properties could boost overall profitability.

Valuations & recommendation

- We believe industry trends will turn weak in the near term on account of the recent terrorist attacks and deteriorating macro;
- We have fine-tuned our revenue and earning estimate for FY09 and FY10 on account of recent tragic event. We now expect 6.5% and 20.7% consolidated revenue and earning CAGR over FY08-10E. In our estimates we have not taken cost of restoration work for damaged property due to lack of clarity, which could be significant in FY09 and FY10;
- We expect consolidated EPS of Rs.4.9 (Rs.6.2 earlier) and Rs.6.5 (Rs.7.5 earlier) in FY09E and FY10E, respectively. In our EPS calculation we have considered the rights issues which the company has completed recently.
- The stock has corrected significantly in recent time mainly due to the unfavorable macro economics which led the slowdown in hotel industry;
- We lower price target at Rs.52 (Rs.113 earlier) as we cut earnings and target multiples, mainly driven by potential revenue loss due to terrorist attack, deteriorating macro and expected decline in foreign tourists inflow in near-to-medium term;
- At current markets price Rs.40, the stock is trading at 8.2x FY09 and 6.2x FY10 earning estimates;
- We remove IHCL from our preferred stock in hotel sector. We downgrade stock to **REDUCE** from our earlier BUY recommendation because of the expected slowdown in the near to medium term.

We recommend REDUCE on Indian Hotels Company with a price target of Rs.52

Key risks and concerns

- Prolonged economic slowdown may adversely impact occupancy and ARR growth
- Any delay in execution of its new hotels in Chennai, Pune, and Hyderabad, which would push back growth estimates and dampen sentiment on the stock
- Any delay in the roll-out of 'Ginger' hotels and planned room increases
- Lengthening pay-back period beyond our estimates in case of hotels acquisitions in international markets given management's push to expand its brand franchise in global markets.

Bulk Deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
1-Dec	Ahlcon Paren	Bikramjeet Ahluwalia	B	600,000	17.25
1-Dec	Ahlcon Paren	Ahluwalia Contracts India Ltd.	S	600,000	17.25
1-Dec	Atul Ltd.	Finflow Investment Pvt Ltd	B	883,607	41.97
1-Dec	Atul Ltd.	SBI MF Ac Magnum Tax Gain Sch 93	S	800,000	42.00
1-Dec	Kailash Fico	Maxilla Financial Services Pvt	B	100,000	22.95
1-Dec	Pantal Retai	Deutsche Securities Mauritius Limited	S	762,940	232.00
1-Dec	Prajay Eng S	Swiss Finance Corporation Mauritius Ltd	B	358,322	18.50
1-Dec	Prajay Eng S	Macquarie Bank Limited	S	274,629	18.50
1-Dec	Prakash Ind.	Merrill Lynch Cap Mkts Espana S.A. S.V.	B	600,000	38.00
1-Dec	RFL Internat	Sanjaybhai S Shah Huf	S	50,000	0.81
1-Dec	RFL Internat	Minalbhai L.Shah Huf	S	50,000	0.81
1-Dec	RFL Internat	Dhaval Rameshbhai Shah	S	50,000	0.81
1-Dec	Saboo Sod Ch	Sharda C Pujara	B	48,000	8.38
1-Dec	Saboo Sod Ch	Hardik M. Mithani	B	103,010	7.99
1-Dec	Sanguine Md	Dwarkesh Restaurant Pvt Ltd	B	75,500	6.63
1-Dec	Sayaj Hotels	Dhananjaya Money Mgmt Ser P Ltd	B	100,126	43.90

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
GAIL India	201	2.6	1.0	1.9
TCS	564	0.9	0.8	3.0
BPCL	366	3.1	0.6	1.1
Losers				
BHEL	1,270	(6.6)	(7.1)	2.4
Reliance Ind	1,109	(2.2)	(6.4)	6.4
Bharti Airtel	651	(3.0)	(6.2)	4.6

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
2-Dec	Tata Steel to announce consolidated half-year earnings

Source: Bloomberg

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