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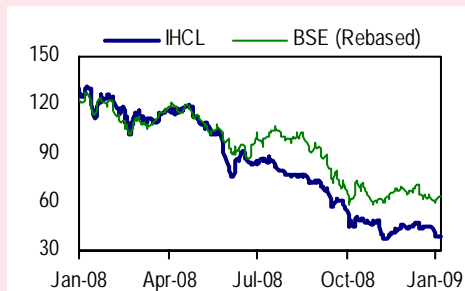
STOCK DATA

Market Cap	Rs27bn
Book Value per share	Rs34
Eq Shares O/S (F.V. Rs.10)	724mn.
Median Vol (12 mths)	1.07mn(BSE+NSE)
52 Week High/Low	Rs145/ 36
Bloomberg Code	IH@IN
Reuters Code	IHTL.BO

STOCK PERFORMANCE (%)

	1M	3M	12M
Absolute	(9.9)	(14.9)	(70.0)
Relative	(7.0)	(9.8)	(41.1)

STOCK PRICE PERFORMANCE



Indian Hotels Co. Ltd. (IHCL) revenues declined 12% YoY to ~Rs4.6bn in Q3FY09. This was on account of the terrorist attacks on its flagship property, Taj Mahal Palace & Tower in Mumbai, in Nov'08.

Incidence of fixed payroll and maintenance costs resulted in OPM plunging 1,130bps to 36%, while op. profits fell 32% YoY to Rs1.9bn. Benefits accruing by way of higher dividend income from trade investments were wiped out by extraordinary charges of Rs119mn on account of provisioning of forex loss and gratuity for kin of slain employees. As a result, net profits fell 38% to Rs839mn.

● **Occupancy rates plummet across India**

The uncertainty in the days following the attacks on Mumbai, followed by the negative travel advisories issued by several countries resulted in occupancy rates plummeting at all of IHCL's properties across the country, thereby impacting all major revenue streams viz. rooms, food & beverages (F&B) and management fees.

● **Taj Mahal Palace to be re-opened in phases in CY09**

IHCL re-opened the Taj Mahal Tower (~268 rooms) along with 7 restaurants in its Palace wing in Dec'08. The company intends to re-commission rooms and shops in the Palace wing in phases, over CY09.

● **Adequate insurance cover for structural damage and loss-of-profit**

IHCL accounted for Rs264mn in Q3FY09 as preliminary claims towards structural damage incurred at the Taj Mahal Palace and Tower. It is finalising the amount for overall claims towards structural damage and loss-of-profits incurred for the duration of shutdown and expects to complete the same in Q4FY09.

● **Grim outlook for the industry**

The deteriorating economic scenario coupled with poor liquidity have resulted in severe curtailment of discretionary spending at the enterprise and individual level. Softening occupancies and lower F&B revenues not only pose a challenge for revenues and cash flows, but also put in doubt IHCL's ability to aggressively ramp up inventory as new projects are typically undertaken with a debt equity mix of 3:1.

VALUATIONS AND RECOMMENDATION

At the CMP of Rs39, the stock trades at a P/E of 9.1x. Despite trading at attractive levels at the lowest end of its 5 year trailing P/E band, we are concerned about the business environment in the immediate future and its impact on IHCL's cash flows as it balances out the loss in pricing power with capex commitments. We downgrade our recommendation on the stock to 'SELL' with a price target of Rs31.

KEY FINANCIALS (STANDALONE)

Rs mn	Yr Ended (March)				
	2006	2007	2008	2009E	2010E
Net Sales	11,162	15,446	17,645	16,032	16,321
YoY Gr (%)	31.7	38.4	14.2	(9.1)	1.8
Op Profits	3,115	5,615	7,016	4,882	5,827
Op. Marg (%)	21.4	27.9	36.4	39.8	30.5
Net Profits	1,838	3,224	3,774	2,533	3,105
Eq Capital	584	603	603	723	723

KEY RATIOS

	Yr Ended (March)				
	2006	2007	2008	2009E	2010E
Dil. EPS (Rs)	2.3	4.1	4.8	3.2	3.8
ROCE (%)	12.5	21.3	23.1	14.4	13.3
RONW (%)	12.9	18.3	19.7	10.2	8.7
P/E (x)	15.4	8.8	7.5	11.2	9.1
EV/Sales (x)	2.3	1.9	1.8	1.8	1.9
EV/EBIDT (x)	7.3	4.6	4.1	5.1	4.9

Estimate Changes

Rs mn	FY09			FY10		
	Previous	Revised	% Ch.	Previous	Revised	% Ch.
Net Sales	18,865	16,032	(15.0)	21,166	16,321	(22.9)
Op. Profit	7,546	4,882	(35.3)	8,826	5,827	(34.0)
Net Profit	3,557	2,533	(28.8)	4,423	2,966	(32.9)
Diluted EPS	4.5	3.2	(28.8)	5.6	3.8	(32.9)

Financial Results for the quarter & nine months ended 31 December 2008 (Standalone)

Particulars (Rs mn)	Quarter Ended			Nine Months Ended			Year Ended
	31/12/08	31/12/07	Gr %	31/12/08	31/12/07	Gr %	31/03/08
Net Sales	4,566	5,206	(12.3)	12,014	12,077	(0.5)	17,645
Total Expenditure	2,911	2,760	5.5	8,292	7,545	9.9	10,629
Materials	287	358	(19.8)	894	909	(1.6)	1,282
Staff Cost	986	764	29.0	2,746	2,214	24.0	3,098
Fuel and Power	242	218	11.2	752	695	8.2	923
License Fees	266	317	(16.2)	715	699	2.3	1,037
Other expenditure	1,130	1,102	2.5	3,185	3,029	5.2	4,288
Operating profit	1,656	2,447	(32.3)	3,721	4,532	(17.9)	7,016
Other Income	220	65	238.8	747	437	71.1	586
PBIDT	1,875	2,512	(25.3)	4,468	4,968	(10.1)	7,602
Interest	215	239	(10.0)	675	723	(6.6)	943
Depreciation	229	211	8.7	658	631	4.4	854
PBT	1,431	2,061	(30.6)	3,135	3,615	(13.3)	5,805
Provision for current tax	456	705		862	1,218		1,944
Provision for FBT	18	11		43	31		46
Provision for deferred tax	-	-		-	-		41
Net Profit before extra-ord items	957	1,346	(28.9)	2,231	2,367	(5.7)	3,775
Extra-ordinary Items	(119)	-		(273)	59		-
Net Profits	839	1,346	(37.7)	1,958	2,426	(19.3)	3,775
Equity Capital (F.V. Rs 1)	723	603		723	603		603
Reserves (excl. rev. res.)	-	-		-	-		19,563
EPS for the period (Rs)	1.2	2.2		2.7	4.0		6.3
Book Value (Rs)	-	-		-	-		33.4
OPM (%)	36.3	47.0		31.0	37.5		39.8
NPM (%)	21.0	25.8		18.6	19.6		21.4
Exp. (% of Net Sl.)							
Raw materials (adj.)	6.3	6.9		7.4	7.5		7.3
Staff costs	21.6	14.7		22.9	18.3		17.6
Power fuel and light	5.3	4.2		6.3	5.8		5.2
License Fees	5.8	6.1		6.0	5.8		5.9
Other expenses	24.7	21.2		26.5	25.1		24.3

Income Statement	2005	2006	2007	2008	2009E	2010E
Revenues	8,476	11,162	15,446	17,645	16,032	16,321
<i>Growth (%)</i>	<i>27.4</i>	<i>31.7</i>	<i>38.4</i>	<i>14.2</i>	<i>-9.1</i>	<i>1.8</i>
Total Expenditure	6,660	8,046	9,831	10,629	11,149	10,494
Operating Profit	1,817	3,115	5,615	7,016	4,882	5,827
Interest & dividend income	256	387	742	586	897	500
EBIDT	2,073	3,502	6,357	7,602	5,779	6,327
(-) Interest	318	204	719	943	875	1,060
(-) Depreciation	568	659	914	854	888	489
PBT & extraordinary items	1,187	2,639	4,724	5,805	4,016	4,777
Extra-ordinary Items	230	81	23	-	(273)	-
PBT & extraordinary items	1,417	2,720	4,746	5,805	3,743	4,777
(-) Tax provision	358	882	1,523	2,031	1,210	1,672
Net Profits	1,058	1,838	3,224	3,774	2,533	3,105
<i>Growth (%)</i>	<i>74.5</i>	<i>73.7</i>	<i>75.4</i>	<i>17.1</i>	<i>-32.9</i>	<i>22.6</i>
Fully diluted Eq. sh. O/s (mn no)	502.5	584.1	602.9	602.9	723.5	723.5
Book Value (Rs)	22.5	29.4	29.8	33.8	40.5	42.5
Basic EPS (Rs)	2.1	3.1	5.3	6.3	3.5	4.3
Diluted EPS (Rs)	1.5	2.5	4.5	5.2	3.5	4.3

Balance Sheet	2005	2006	2007	2008	2009E	2010E
<i>Equity Share Capital</i>	503	584	603	603	723	723
<i>Share Application Money</i>	-	-	-	200	-	-
<i>Reserves & Surplus</i>	10,818	16,578	17,384	19,563	28,552	29,994
Net worth	11,321	17,162	17,987	20,366	29,276	30,717
Total Debt	10,520	5,807	9,572	11,578	13,736	13,236
Deferred Tax liability	824	801	1,354	1,379	1,379	1,379
Capital Employed	22,664	23,770	28,913	33,322	44,391	45,332
Fixed Assets	8,822	8,920	14,716	16,371	18,356	20,867
Net current assets	5,583	4,402	516	1,306	10,179	7,610
Long Term Deposits	2,173	3,857	4,039	5,856	5,856	5,856
Investments	6,070	6,566	9,628	9,776	10,000	11,000
Misc exp.	17	26	14	15	-	-
Total Assets	22,664	23,770	28,913	33,322	44,391	45,332

Cash Flow Statement	2005	2006	2007	2008	2009E	2010E
PBT & extra-ordinary items	1,417	2,720	4,746	5,805	3,743	4,777
Depreciation	568	659	914	854	888	489
Interest & dividend inc.	(230)	(200)	(328)	(200)	(897)	(500)
Interest paid	166	204	719	943	875	1,060
Misc Exp W/off & Other Adj	15	(20)	(206)	(62)	15	-
Tax paid	(50)	(933)	(1,126)	(2,071)	(1,210)	(1,672)
(Inc) / Dec in working capital	(4,411)	(43)	485	(526)	(5,317)	256
Cash from operations	(2,526)	2,387	5,205	4,743	(1,903)	4,410
Net capital expenditure	(1,334)	(843)	(1,902)	(2,569)	(2,874)	(3,000)
Net investments	116	(152)	(5,543)	(641)	(224)	(1,000)
Interest recd	323	439	598	270	897	500
Decr. In Preliminary Exp	-	461	3,298	-	-	-
Cash from investing activities	(896)	(95)	(6,847)	(2,941)	(2,201)	(3,500)
Issue of eq. shares	-	-	-	-	121	-
Share Premium	-	-	-	-	8,320	-
Change in debt	(1,162)	(561)	(642)	1,959	2,158	(500)
Dividend paid	(407)	(596)	(958)	(895)	(1,664)	(1,664)
Interest paid	(576)	(445)	(1,003)	(1,011)	(875)	(1,060)
Cash from financing activities	(2,145)	(1,602)	(2,603)	53	8,060	(3,224)
Inc/Dec. in cash	(5,566)	689	(4,245)	1,856	3,955	(2,314)

Key Ratios	2005	2006	2007	2008	2009E	2010E
OPM (%)	21.4	27.9	36.4	39.8	30.5	35.7
ROACE (%)	6.9	12.5	21.3	23.1	13.6	14.1
ROANW (%)	10.5	12.9	18.3	19.7	10.2	10.4
Sales/Total Assets (x)	0.4	0.5	0.5	0.5	0.4	0.4
Debt:Equity (x)	0.9	0.3	0.5	0.6	0.5	0.4
Current Ratio (x)	2.7	2.2	1.1	1.3	2.9	2.4
Debtors (days)	30	26	30	28	27	32
Inventory (days)	108	100	87	92	85	85
Creditors (days)	64	56	68	50	70	70
Net working capital (days)	74	70	48	70	42	47
EV/Sales (x)	3.3	2.3	1.9	1.8	1.8	1.9
EV/EBIDT (x)	13.3	7.3	4.6	4.1	5.1	4.9
P/E (x)	26.7	15.4	8.8	7.5	11.2	9.1
P/BV (x)	1.7	1.3	1.3	1.2	1.0	0.9

T E A M

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