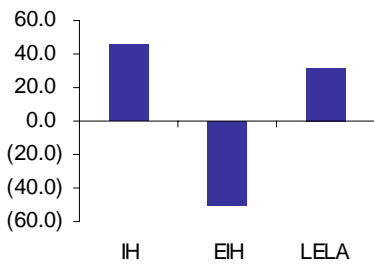


Hotels - 'Expensive: Stay Away'

1-yr performance (%) vs. Sensex



Source: India Infoline Research

Major business destinations have shown marked improvement in occupancies in Q2 FY10 which has continued in the first two months of H2. Although, as expected, room rates have not picked up in the busy H2 and are unlikely to improve materially on qoq basis in Q4. Moreover, companies we spoke to maintain that any hike in ARR's would be absorbed only if occupancy sustains at current levels. A robust domestic economy has contributed to increased room demand but, in our view, unless foreign arrivals improve, ARR growth would be difficult to come by.

We tweak EPS estimates and raise target price on the back of improved occupancies and flat ARR assumption in FY11. The three coverage companies are trading above their respective 5-yr average EV/EBIDTA, which is unjustified in our view. **SELL.**

Occupancies on the mend in H2

Major business locations have shown a 100-900bps qoq jump in occupancies in Q2 FY10 which has continued in first two months of H2. For instance, Hyderabad and Chennai have both witnessed at least 5-10ppts rise in occupancies since September. Average occupancies in Delhi have also improved ~500bps in the busy season so far. Rising room occupancies has at least allayed concerns on the strength of domestic recovery even as foreign demand remains tepid at best.

ARRs may not revive till foreign demand picks up

Key leisure markets of Goa and, to an extent, South Mumbai have not seen business ramp up evident in Hyderabad and Delhi. Weakness in foreign arrivals (down 7% yoy in Jan-Oct' 09) is the chief reason in our view, for such a relatively sub par performance. Companies we spoke to maintain that room rates may not inch up till foreign demand revives, since domestic travelers may not be willing to absorb such hikes.

Stocks trading above 5-yr avg EV/E; Retain SELL

We raise our EPS estimates for IH/EIH/LELA by 28%/3%/6% in FY11 on the back of 200-500bps higher occupancies and flat ARR's yoy for most cities (vs. earlier expectation of slight decline). Volume growth would partially offset weak ARR's led by Indian Hotels (~1,150 rooms on consolidated basis), EIH (Trident BKC, 440 rooms) and Hotel Leela (Delhi and Chennai properties in CY10).

However, current stock valuations factor in ARR growth seen in FY08 which is unlikely in our view. All the three coverage stocks are trading above their respective 5-yr average EV/EBIDTA which compels us to retain our SELL rating on the sector.

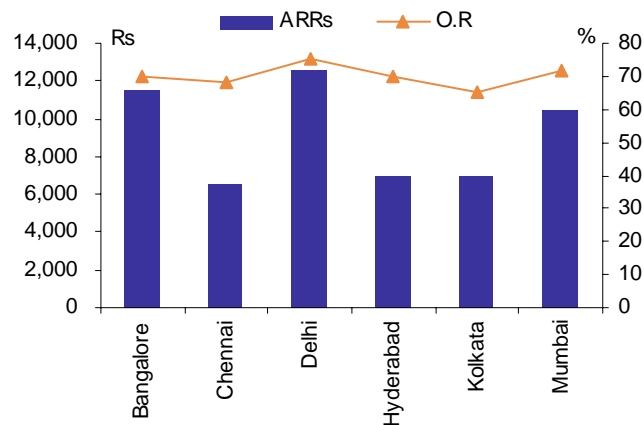
Valuation summary

Company	Reco	CMP (Rs)	TP (Rs)	EPS (Rs)		P/E (x)		EV/EBIDTA (x)		P/BV (x)	
				FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
Indian Hotels	SELL	89	62	1.3	1.9	65.9	46.5	23.7	17.8	2.0	2.0
EIH	SELL	138	90	2.8	4.7	49.2	29.0	24.8	16.3	3.7	3.4
Hotel Leela	SELL	41	21	1.7	2.4	24.0	16.9	38.3	27.6	0.8	0.8

Source: Companies, India Infoline Research

Occupancies above 65% since Sep' 09

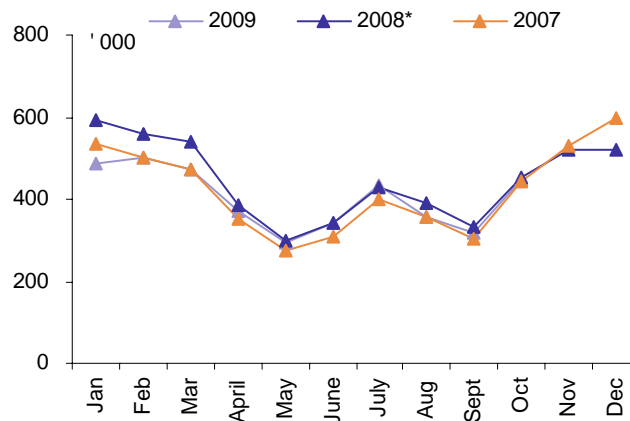
Luxury hotel occupancies in most cities are higher by at least 5-10ppts since Sep' 09...



Source: India Infoline Research

Tourist arrivals down 7% in Jan-Oct' 09

...but ARR may remain essentially flat yoy in FY10 for our coverage universe on weak foreign arrivals



Source: Ministry of Tourism

* Provisional

Volume growth to partly compensate for weak room rates

We expect weakness in room rates to persist in H2, while that for FY11 may be essentially flat. However, volume growth through a mixture of own and subsidiary expansions may partly offset depressed ARR. For instance, both Indian Hotels and EIH would benefit from reopening of their respective Mumbai properties. In addition, EIH has launched its 440-room Trident property in BKC, Mumbai (with est. FY11 room revenues of ~Rs1.2bn).

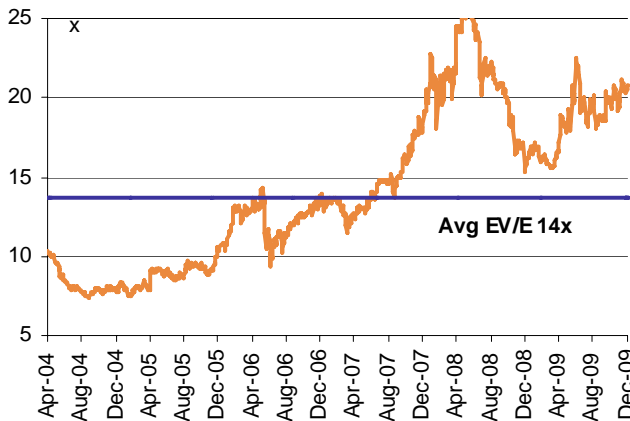
Volume growth to partly offset weak tariffs in FY11; LELA to open two properties in CY10

Indian Hotels to add ~1,150 rooms in current fiscal

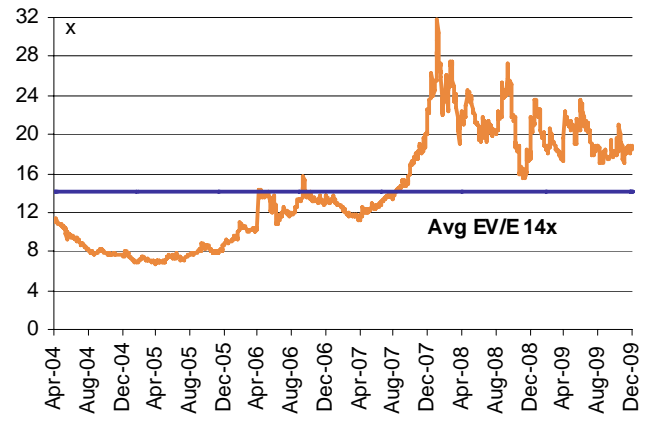
Owned/Group property	Date	Rooms
IHCL		
Taj Lands End	Launched in Oct' 09	120
Taj Falaknuma Palace, Hyd	Feb' 10	60
Taj Group		
Taj Palace, Capetown	Dec' 09	172
Fishcove expansion, Chennai	Dec' 09	64
Ginger Hotels - 2 cities	Launched	164
Ginger Hotels - 3 cities	Ongoing	304
Mgmt contract		
Vivanta by Taj, Panjim	Launched	170
Vivanta by Taj, Bekal	Mar' 10	72

Source: Company, India Infoline Research

IH trading above its 5-yr average EV/E...

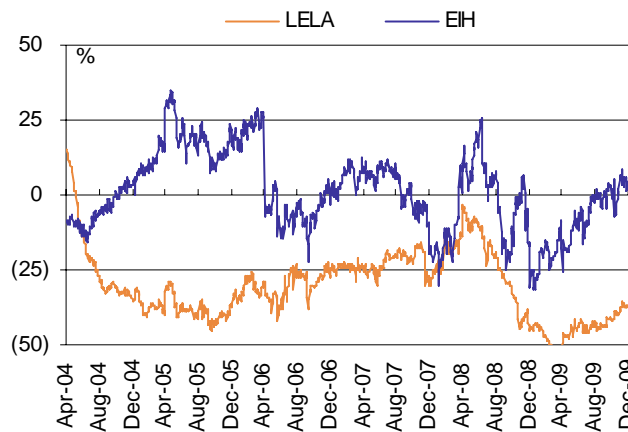


...so too is EIH



Source: Company, India Infoline Research

IH EV/E premium/ (discount) to EIH, LELA



Source: Company, India Infoline Research

FY11 revision summary

Rs mn	Indian Hotels			EIH			Hotel Leela		
	Revised	Earlier	% change	Revised	Earlier	% change	Revised	Earlier	% change
Revenues	32,766	30,552	7.2	14,245	13,810	3.1	4,853	4,702	3.2
PAT	1,385	1,075	28.9	1,862	1,809	2.9	923	880	4.9
EPS (Rs)	1.9	1.5	27.6	4.7	4.6	3.0	2.4	2.3	6.3

Source: Company, India Infoline Research

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

Published in 2009. © India Infoline Ltd 2009

This report is for the personal information of the authorised recipient and is not for public distribution and should not be reproduced or redistributed without prior permission.

The information provided in the document is from publicly available data and other sources, which we believe, are reliable. Efforts are made to try and ensure accuracy of data however, India Infoline and/or any of its affiliates and/or employees shall not be liable for loss or damage that may arise from use of this document. India Infoline and/or any of its affiliates and/or employees may or may not hold positions in any of the securities mentioned in the document.

The report also includes analysis and views expressed by our research team. The report is purely for information purposes and does not construe to be investment recommendation/advice or an offer or solicitation of an offer to buy/sell any securities. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time without notice.

Investors should not solely rely on the information contained in this document and must make investment decisions based on their own investment objectives, risk profile and financial position. The recipients of this material should take their own professional advice before acting on this information.

India Infoline and/or its affiliate companies may deal in the securities mentioned herein as a broker or for any other transaction as a Market Maker, Investment Advisor, etc. to the issuer company or its connected persons.

India Infoline Ltd. One India Bull Center, Jupiter Mill Compound, 841, Senapati Bapat Marg, Nr, Elphinstone Road, Lower Parel (W), Mumbai 400 013.

For Research related queries, write to: Amar Ambani at amar@indiainfoline.com or research@indiainfoline.com
For Sales and Account related information, write to customer care: info@5pmail.com or call on 91-22 4007 1000