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Indian Hotel Sector

Still Lodged in the High-Growth Zone

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- Initiating coverage — The Indian hotel sector looks poised for sustained earnings growth, over and above the record pace in the last two years. Increased business and leisure travel, strong room demand, and higher occupancies should sustain the sector's pricing power. We prefer Indian Hotels to EIH.
- Potential near-term catalysts — (1) Room demand is outpacing supply, resulting in higher average room rates and occupancies; (2) push into F&B, serviced apartments, and spas seen as improving profitability; (3) rising demand for budget and leisure hotels; and (4) enhanced overseas presence.
- Earnings CAGR of 30% in FY06-08E — A 10-13% CAGR in average room rates, higher occupancies of 76% should drive FY06E-08E revenue and earnings CAGRs of 15-18% and 30%, respectively. High operating leverage and a growing share of services should contribute to growth. The depreciating rupee is also positive, as forex revenues make up 50-60% of the sector's total revenues.
- Re-rating potential — The sector has lagged the Sensex significantly. Strong earnings growth visibility, improving capital efficiency and efforts to gain international presence should drive a re-rating of the Indian hotel sector.
- Indian Hotels a Buy, EIH a Hold — Indian Hotels leads in fast growing cities, has a strong brand franchise, enjoys pricing power, is expanding in the global markets, and is trading at attractive-looking valuations. EIH is a Hold for valuation reasons and the lack of clarity on its expansion plans.

Figure 1. Indian Hotels (TP Rs1410, ETR 26%)

Year to 31-Mar	Adj. EPS (Rs)	EPS Gr. (%)	P/E (x)	ROE (%)
FY04	12.5	124.1	90.1	5.3
FY05	25.5	103.8	44.2	9.7
FY06E	42.4	66.1	26.6	13.1
FY07E	64.0	51.1	17.6	17.1
FY08E	76.1	18.8	14.8	17.5

Source: Company Reports and Citigroup Investment Research; Note ETR – Expected total return

Figure 2. EIH (TP Rs620, ETR 7%)

Year to 31-Mar	Adj. EPS (Rs)	EPS Gr. (%)	P/E (x)	ROE (%)
2004	(1.3)	na	na	(0.8)
2005	5.6	na	na	2.9
2006E	19.2	241.8	30.4	10.0
2007E	31.0	61.9	18.8	14.2
2008E	38.2	23.1	15.2	15.4

Source: Company Reports and Citigroup Investment Research; Note ETR – Expected total return

See page 38 for Analyst Certification and important disclosures.

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Investment Case

Hotels look set for sustained growth

Favorable industry dynamics

The Indian hotel sector's profitability has increased sharply over the past two years, and we see no let-up on the horizon. India's economic growth is strong, business-tourist traffic is growing at a double-digit clip, business confidence index is at an all-time high, and FDI into the country is rising. The sector is enjoying strong pricing power, which, along with operating leverage, should drive the sector's earnings growth over the next two years. The rupee is also depreciating, which is positive because forex revenues make up 50-60% of the sector's total revenues. A 5% change in the value of the rupee would, on our estimates, alter earnings 7-9%.

Expect earnings CAGR of 30% in FY06-08

With room demand forecast to grow at a rate of 8-10% versus supply growth of 4-6% over the next two years, we expect an average room rate (ARR) CAGR of 10-13% in FY06-08 and a higher occupancy rate of 78% by FY08, from 73% today. This, along with a push into management contracts, budget hotels, spas and F&B outlets, should drive revenue and earnings CAGRs of 15-18% and 30% in FY06-08E, respectively. Furthermore, a growing presence in the international markets should help de-risk hotels' business models.

Long-term growth prospects should drive valuations up

The sector has underperformed the market significantly over the past month

The hotel sector has declined 24% over the past month, underperforming the market despite exhibiting strong growth potential. At current levels, the sector appears compelling and its low beta makes hotels look like good defensive plays. We expect hotels' strong earnings growth visibility and improving capital efficiency to drive a re-rating of the Indian hotel stocks. The Indian hotel sector is trading on 18x FY07E P/E, lower than regional peers' 22x P/E.

We prefer Indian Hotels to EIH

Our view on Indian Hotels is premised on its continued ARR growth, higher occupancies, subsidiaries' healthy profitability, multi-pronged growth strategy

We prefer Indian Hotels to EIH. Indian Hotels is India's largest hotel chain, owning the *Taj* luxury brand. Our view on Indian Hotels is premised on its continued ARR growth, high occupancies, subsidiaries' healthy profitability, multi-pronged growth strategy, and increased international presence. The stock at 17.6x FY07E P/E trades at discounts to domestic and regional peers, despite an earnings CAGR of 34% in FY06-08E, better liquidity and higher free float. We expect Indian Hotels' valuations to catch up with those of regional peers.

EIH a Hold largely for valuation reasons

EIH, the owner of *The Oberoi* brand and the second-largest hotel chain in India, has a strong profit growth outlook, on our estimates. But with the stock trading at an 18.8x FY07E P/E, we believe the upside is limited. While its rich real estate portfolio can be leveraged for growth, the lack of clarity on the scale of expansion is likely to impede the stock's re-rating. We thus recommend the stock as a Hold.

India's hotel sector is trading at 18x FY07E P/E, close to the low end of its historical range of 15-24x P/E

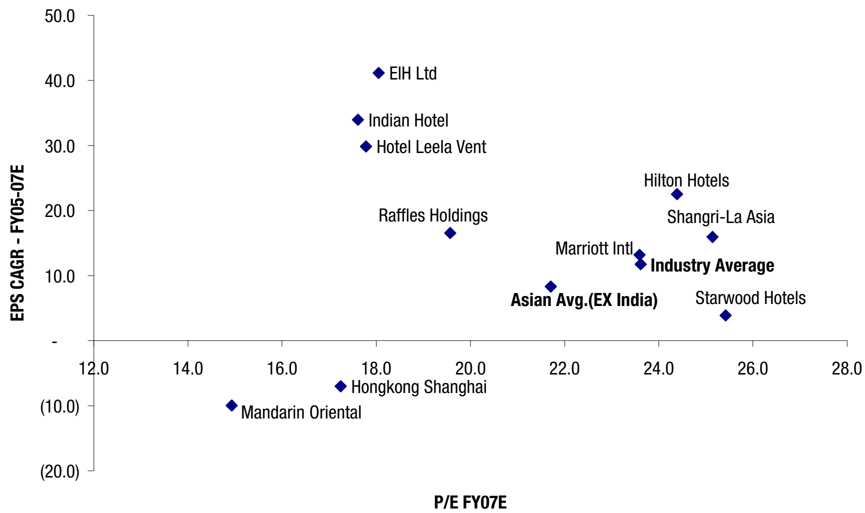
Sector Likely to Re-rate

India's hotel sector is trading at 18x FY07E P/E, close to the low end of its historical range of 15-24x P/E. In our view, the hotel sector should be viewed from a long-term perspective, given the difficulties in calling the sector's growth cycle and in moving in and out of hotel stocks.

India's hotel sector looks attractive vs. global and regional peers

When viewed against global peers, the Indian hotel sector looks attractive. The Indian hotel sector trades at a P/E of 18x FY07E, compared with global peers' 22.5x P/E and regional peers' 22x P/E. Given strong earnings and ongoing initiatives to increase international presence through acquisitions, management contracts and tie-ups with global companies, we see the sector's valuations catching up with those of global and regional peers. In particular, the sector should catch up with regional peers for the following reasons: (1) push into international markets through acquisitions, management contracts and tie-ups with global hotel chains (eg, Indian Hotels has bought The Pierre in New York, EIH has tied up with Hilton, and Asian Hotels with Hyatt); (2) an earnings CAGR of 30% over the next two years, on our estimates; and (3) improving capital efficiencies.

Figure 3. Global, Regional and Indian Hotel Industries' Valuation Matrix (2-yr EPS CAGR v/s FY07E PE)



Source: Company Reports and Citigroup Investment Research

Figure 4. Valuation Snapshot

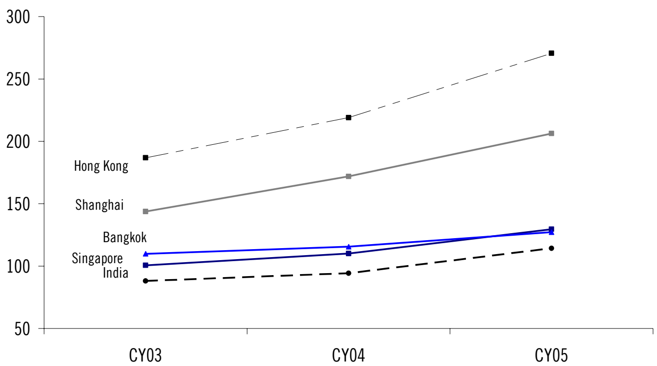
Name	Price (lc)	CIR rating	Bloomberg Ticker	Mkt Cap (US$m)	Sales (US$m)	PE (x)			EPS CAGR	EBITDA Mrg (%)	Price/Sales (X)	ROE (%)	ROCE (%)	P/BV (X)	EV/Ebidta (X)
						FY06/CY05	FY07E/ CY06	FY08E/ CY07							
Global Players															
Hilton Hotels	26.8	1M	HLT US Equity	10,288	3,218	29.3	24.4	19.5	22.5	33.2	3.2	13.7	4.3	3.6	11.7
Starwood Hotels	58.1	1M	HOT US Equity	12,613	4,907	24.7	25.4	22.9	3.9	25.3	2.6	10.5	4.3	2.4	12.8
Marriott Intl	36.0	1M	MAR US Equity	14,901	10,898	24.9	23.6	19.4	13.2	6.6	1.4	18.2	7.8	4.8	20.0
Accor SA	47.2	1M	AC FP Equity	12,892	9,488	25.8	20.6	18.0	19.6	15.1	1.4	9.0	2.7	2.3	10.5
Mill & Cop Htls	4.1	2M	MLC LN Equity	2,172	1,083	0.4	0.2	0.2	35.9	22.7	2.0	5.1	2.7	0.0	11.5
Asian Players															
SHANGRI-LA ASIA	14.8	NR	69 HK Equity	4,643	842	30.1	25.1	22.4	15.9	31.3	7.0	6.9	5.6	2.0	38.8
HONGKONG SHANGHA	8.3	NR	45 HK Equity	1,543	420	4.5	17.2	16.3	(7.0)	33.2	4.5	19.6	15.8	0.8	NA
RAFFLES HOLDINGS	0.7	NR	RHL SP Equity	912	208	25.9	19.6	19.0	16.6	4.7	2.6	46.8	41.1	1.1	NA
MANDARIN ORIENTAL	1.1	NR	MAND SP Equity	1,051	399	13.0	14.9	16.1	(10.0)	22.9	3.5	10.2	7.1	1.3	22.9
SHANGHAI JINGI-A	8.6	NR	600754 CH Equity	585	99	26.3	24.0	21.5	na	21.3	5.5	8.3	7.6	2.8	NA
Indian Players															
Indian Hotel	1,128.0	IM	IH IN Equity	1,471	408	26.6	17.6	14.8	34.0	27.7	3.6	13.1	8.6	3.5	15.2
EIH Ltd	582.0	2L	EIH IN Equity	643	181	28.8	18.1	14.5	41.2	33.0	3.6	10.0	9.2	3.8	13.7
HOTEL LEELA VENT	253.0	NR	LELA IN Equity	407	73	18.5	17.8	11.0	29.9	45.0	7.6	6.8	6.8	2.6	30.1
Global Peers						**24.9**	**22.5**	**19.1**	**15.3**	**19.0**	**2.0**	**12.7**	**4.8**	**3.2**	**14.0**
Asian Peers						**22.8**	**21.9**	**20.1**	**7.8**	**27.2**	**5.6**	**13.8**	**11.4**	**1.7**	**23.4**
Indian Peers						**25.9**	**17.8**	**13.7**	**35.0**	**34.3**	**4.7**	**9.4**	**7.8**	**3.4**	**18.7**

Source: Citigroup Investment Research, Bloomberg : Note - Prices in local currency as on 23 June 06

Indian hotels catching up with regional peers

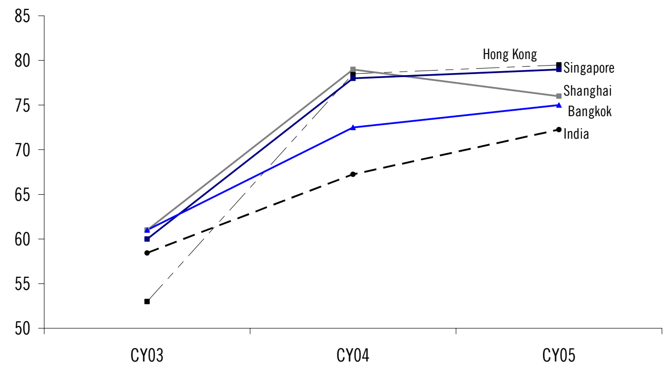
India's ARRs and occupancies are still below those in countries such as Thailand and China. As the Indian economy grows, we expect the gap to narrow. The region saw very low occupancy rates in 2003 amid the Sars outbreak. But from 2004 the region has seen a pick-up in occupancies, with India growing the fastest. Its occupancy rate rose five percentage points, to 72.3%, and ARRs grew 21% in 2005.

Figure 5. ARRs in the Region (US$ per Night)



Source: Jones Lang Salle Research, CRIS INFAC, Citigroup Investment Research

Figure 6. Occupancy Rates in the Region (%)



Source: Jones Lang Salle Research, CRIS INFAC, Citigroup Investment Research

Hotel valuation approach

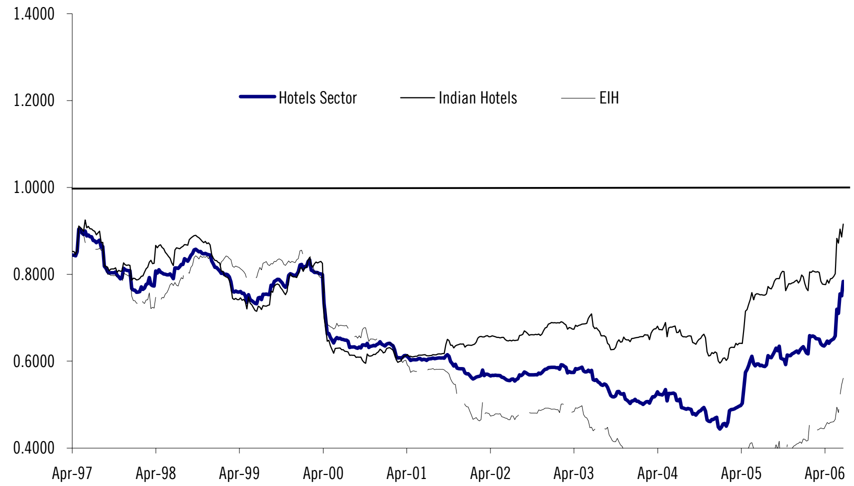
Asian hotels are in general valued on the basis of property value rather than operating results, unlike Indian hotels

Asian hotels are in general valued on the basis of property value rather than operating results, and they tend to trade at discounts to NAVs. With increasing demand for commercial property, hotel valuations are on the rise. Despite rapid growth in earnings and asset prices, the Indian hotel sector is trading at discounts to regional peers. If NAV were to be used to value Indian hotels, we believe their valuations would jump. Over the long term, like regional peers, Indian hotels may also be valued on NAV because more than 40% of the construction cost of a hotel is the cost of land (vs. less than 20% in major European and US cities). As such, the value of hotels in these markets is often viewed in terms of alternative uses of the property, rather than the fundamental operating performance of the hotel sitting on it. This, in our view, would be a function of a secular shift toward the regional property market. Demand for real estate is on the rise in India, and we are likely to see the premium component of hotel valuations expand in India.

A defensive sector — low beta

Hotel stocks have traditionally been low-beta. This, coupled with strong earnings growth visibility, makes us view the sector as a good defensive play in the current highly volatile market.

Figure 7. 5-year Weekly Rolling Beta — Sector, Indian Hotels and EIH



Source: Citigroup Investment Research

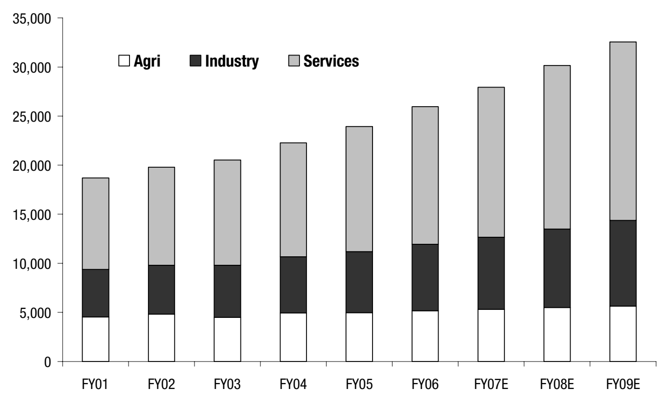
Prospects Look Robust for the Industry

Macro outlook conducive for growth

Business confidence index at an all-time high and business-tourist traffic to India growing at a double-digit rate

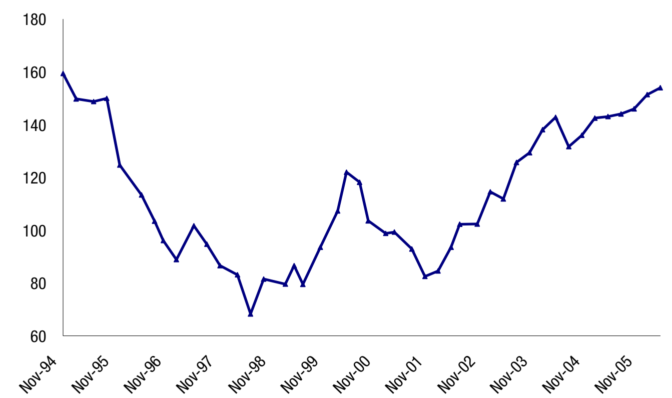
The primary driver of hotel demand is the business traveler, whose travel plans are intrinsically linked to the economic environment and remains the volatile component of traffic. International tourist traffic is another key traffic driver, and is the more stable component of demand. Both these drivers have picked up significantly over the past two years, and the outlook remains positive. The business confidence index is also near an all-time high and international tourist growth is robust. Our economist, Rohini Malkani, forecasts 7.6% GDP growth for FY07, over and above the 8.4% estimate for FY06.

Figure 8. Services Led GDP Growth



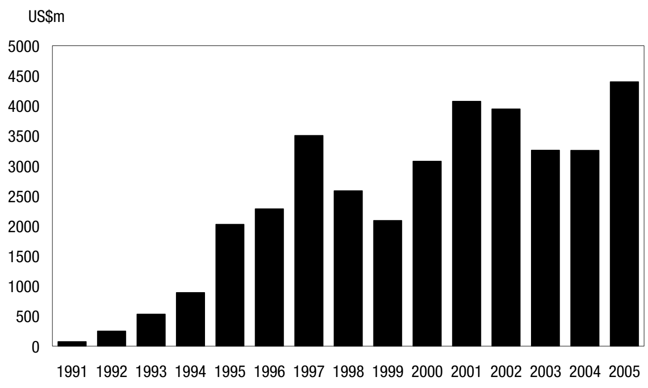
Source: Citigroup Investment Research

Figure 9. Business Confidence Index



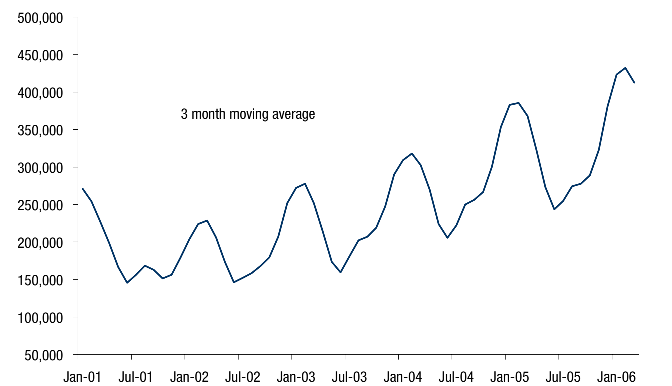
Source: Citigroup Investment Research

Figure 10. FDI Trend in India



Source: Citigroup Investment Research

Figure 11. International Tourist Arrivals – 3M Moving Average

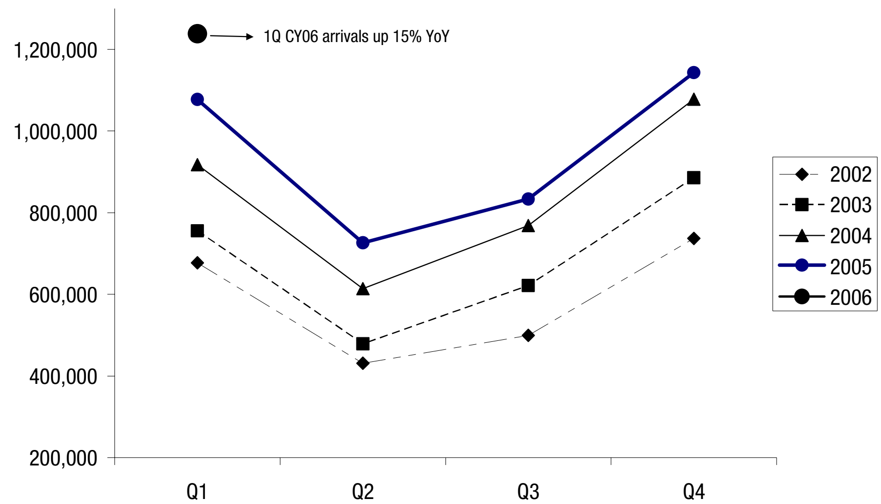


Source: CRIS INFAC

Business-leisure travel to India picking up

With forex revenues making up more than 50% of Indian hotels' total revenues, the fortunes of the hotel sector are linked to foreign tourist arrivals in India. Tourist arrivals into India grew at a CAGR of 7.6% over the past five years, and are showing signs of picking up along with the rise in business and leisure travel. We forecast tourist arrivals will grow at double-digit rates going forward. In April 2006, tourist arrivals grew 25% yoy. The highly seasonal nature of tourist arrivals is slowly giving way to a more even spread through the year, compared with the typical 60% of arrivals in the second half of each financial year. More than 90% of tourists visit India for leisure, which could be seen as a sign of the growth potential for hotels in tourist cities. No wonder, then, we are seeing increasing demand for good-quality hotels in smaller tourist destinations. The multiplier effect of such improvements should be substantial on the lodging sector.

Figure 12. Tourists Arrivals by Quarter

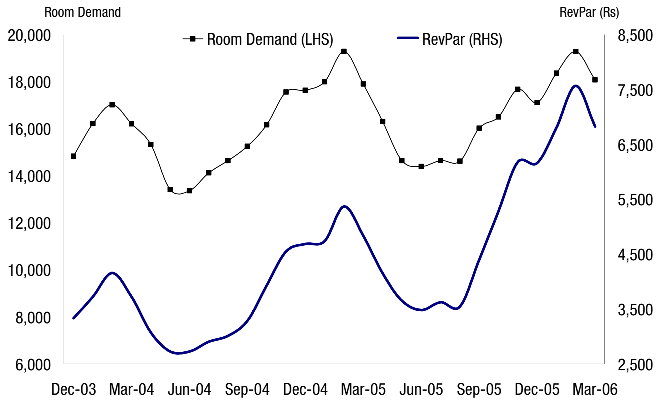


Source: Department of Tourism, CMIE

Operating environment improving

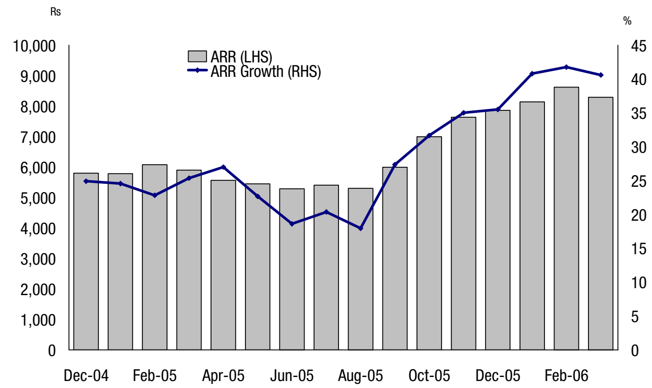
The operating environment for the hotels industry has improved over the past two years, with a sharp rise in room demand and limited room supply. This could drive further increases in ARRs, which have moved up 35%-plus over the past year. With occupancy rates in many cities already 75%-plus, we believe that revenue upside will be driven by ARRs. Based on our bottom-up analysis, the best growth potential lies in business destinations such as Mumbai, Delhi, Chennai, and Kolkata, and new cities such as Hyderabad and Pune where both occupancy and ARRs are on the rise. In leisure destinations — Jaipur, Goa and Agra — room demand is on the rise, primarily due to corporate meetings, conventions and exhibitions.

Figure 13. Room Demand and RevPar Trend (Units, Rupees)



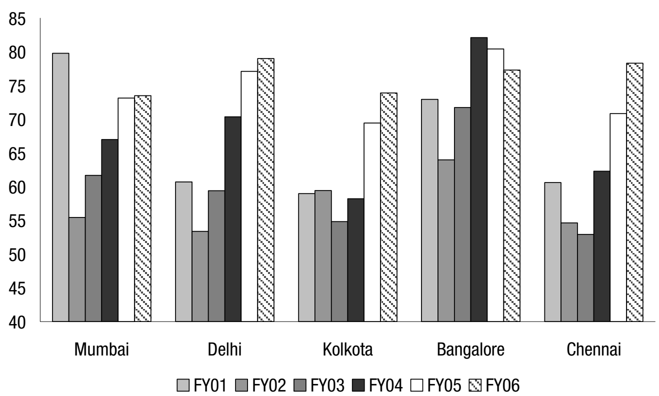
Source: CRIS INFAC

Figure 14. ARR Growth Trends (across 10 cities)



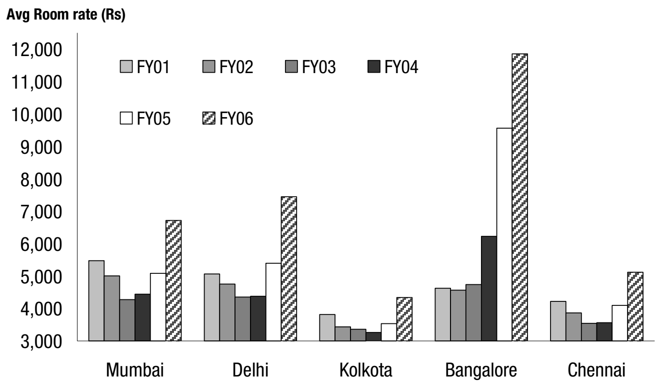
Source: CRIS INFAC

Figure 15. Key Cities (Occupancy tends)



Source: CRIS INFAC

Figure 16. Key Cities (ARR Trends)



Source: CRIS INFAC

Figure 17. Key Cities – Trends and Outlook

City	FY 06 OR (%)	FY06 ARR (Rs)	CIR Comments
South Mumbai	67.8	7,280	Steady demand growth as business travel increases. However, new supply in central Mumbai, as well as some impact from supply in North Mumbai could cap ARR growth
North Mumbai	79.2	6,149	Expected supply is likely to be soaked up by robust demand with increasing IT Enabled Services growth in the suburbs. ARR in the near term may increase marginally.
Delhi	79.6	7,369	Robust medium-term outlook. Demand picking up in both the business and leisure segments. With limited land available at reasonable prices we see little capacity coming in over the medium term. Delhi will likely remain short supplied, and the outlook for ARR and occupancy rates looks robust.
Bangalore	78.1	12,602	While demand should continue to increase, weekday occupancy levels are already at near 100%, which has seen a sharp rise in ARRs. In our view, ARRs are unlikely to move up significantly from these levels, despite demand growth, and should be limited to +10% from current levels.
Calcutta	75.0	4,510	Demand picking up in select pockets, driven by business demand. We expect ARRs to pick up selectively, especially around the new business district.
Chennai	79.4	5,231	With demand picking up from the IT sector, we believe Chennai ARRs and occupancy rates will increase in the medium term.
Hyderabad	85.0	6,562	Despite the significant increase in ARRs over the past year, we expect demand to be robust and hence ARR growth should continue on the back of higher real estate prices.
Pune	81.9	5,472	A fast growing IT Enabled Services destination and proximity to Mumbai should help Pune see growth in ARRs as well as occupancy rates.
Goa	66.4	4,995	Goa has seen robust demand and even in the off-season Jan–Mar 06 quarter occupancies have been healthy. We remain positive on Goa on the back of the boom in tourism – both local and international.
Jaipur	61.9	6,957	Steady occupancies; we expect ARRs to increase.

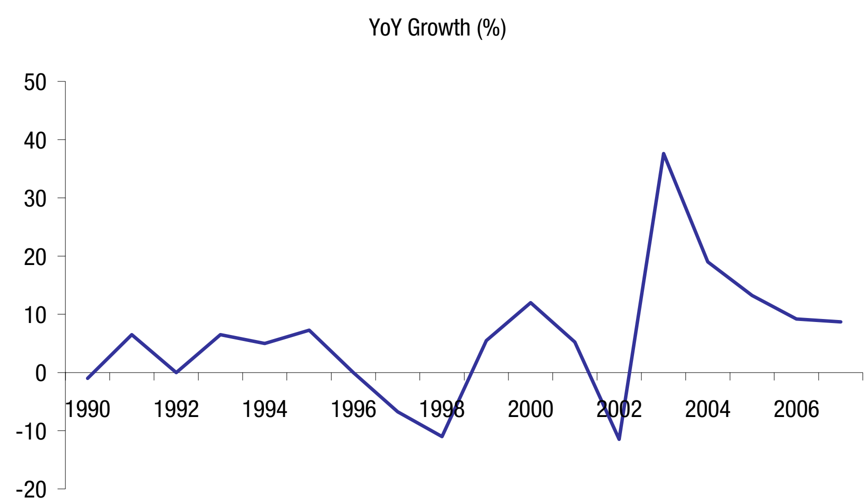
Source: Cris Infac, Citigroup Investment Research

Room demand outpacing supply

Room demand strong at 8-10% and supply growth at 4-6%

In the Indian hotel industry, room demand has been outpacing supply over the past two years, particularly in the premium segment. We expect the trend to continue. We see the gap between demand and supply increasing. Room demand will be strong at 8-10% against a supply growth rate of 4-6% over the next two years, based on our estimates. This equation would improve ARRs and occupancies, and thereby drive the industry's profitability amid high operating leverage. We expect the key markets of New Delhi, Mumbai, and Kolkata to experience higher ARRs because no additional supply is expected in the near term. New cities such as Hyderabad, Pune and Jaipur are also likely to be some of the fastest growing markets.

Figure 18. Demand Growth — 5-Star and 5-Star Deluxe Hotels (Percent, YoY)



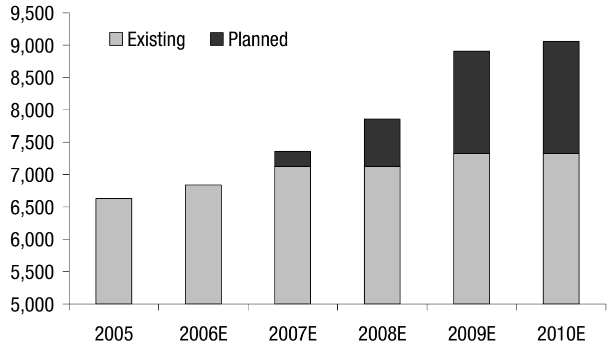
Source: CRIS-INFAC, Citigroup Investment Research

Supply growth to slow across key cities

Delhi and Mumbai appear best positioned with high ARRs and limited supply in the near term

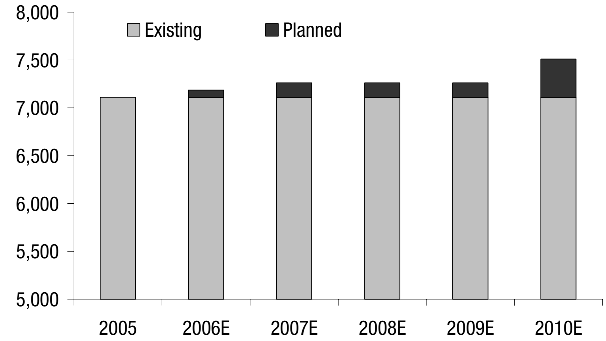
Rising room demand over the past four years has been absorbed in part by supply in key markets. Going forward, all the key markets are likely to see various degrees of slowdown in room supply. We see this increasing the pricing power of the hotel industry, particularly for established hotel chains such as Taj and Oberoi Group.

Figure 19. Mumbai Supply (No. of Rooms)



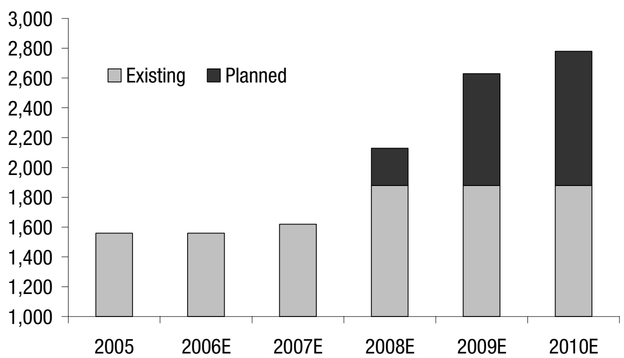
Source: CRIS INFAC

Figure 20. Delhi Supply (No. of Rooms)



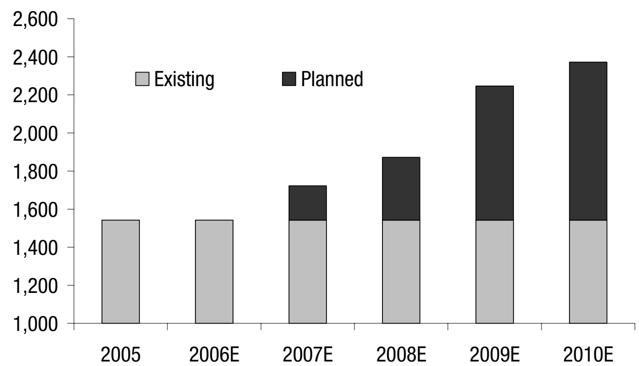
Source: CRIS INFAC

Figure 21. Bangalore Supply (No. of Rooms)



Source: CRIS INFAC

Figure 22. Chennai Supply (No. of Rooms)



Source: CRIS INFAC

Widening demand-supply gap creating a solid growth opportunity

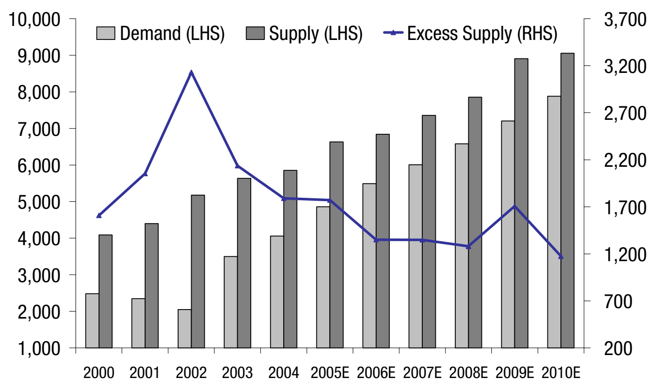
Demand–supply seems well matched in New Delhi and Mumbai

We have attempted to quantify the extent of oversupply in each market, given demand and supply estimates. The *New Delhi and Mumbai* markets appear to be best positioned for growth. Almost all new capacity is absorbed and room demand still outpaces supply, which we expect will slow. This, in our view, makes these markets most profitable. A large part of higher ARRs would flow toward increasing profits.

Bangalore and Chennai have been among the most profitable markets lately, primarily on strong ARR growth. With ARRs in Bangalore among the highest in the country, we see high ARRs and significant infusion of supply over 2008-10E impacting occupancies negatively. Chennai is also estimated to witness increased room supply. Such a rapid pace of room additions will likely result in surpluses; much of the new capacity would tend to erode some of the growth that one would have otherwise expected and would limit tariff increases above a certain level. The markets, however, are expected to grow on the back of increased business travel. The most recent data suggest that occupancies for these new properties are reasonable, and the hotels are generating fairly healthy ARRs.

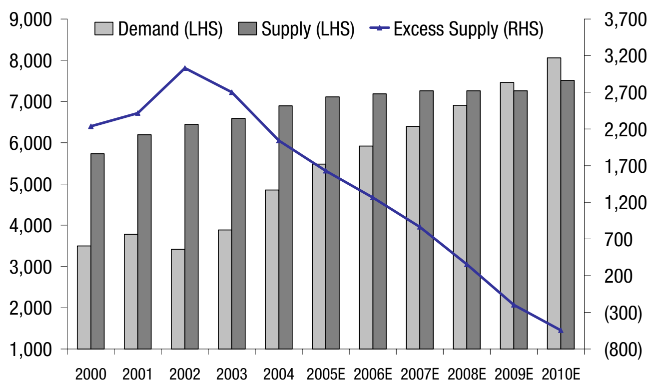
Hyderabad and Pune are the faster growing markets for hotels, with estimated demand growth of 10%-plus and occupancy rates at 80% levels. However, we expect occupancy rates to stall due to increased supply in these markets, but the outlook for ARRs remains firm given the strong demand. We see these cities as potential growth drivers going forward

Figure 23. Mumbai Demand-Supply Gap (North/South Mumbai)



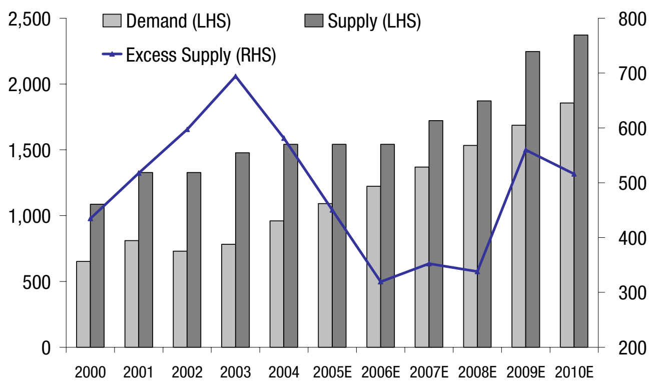
Source: CRIS INFAC

Figure 24. Delhi Demand-Supply Gap (No. of Rooms)



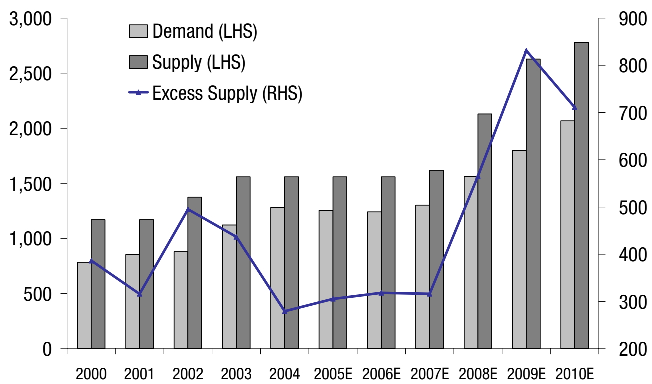
Source: CRIS INFAC

Figure 25. Bangalore Demand-Supply gap (No. of Rooms)



Source: CRIS INFAC

Figure 26. Chennai Demand-Supply gap (No. of Rooms)



Source: CRIS INFAC

ARR and occupancies on the rise

Growth in ARRs should continue going forward; expect an ARR CAGR of 10-13% over FY06-08

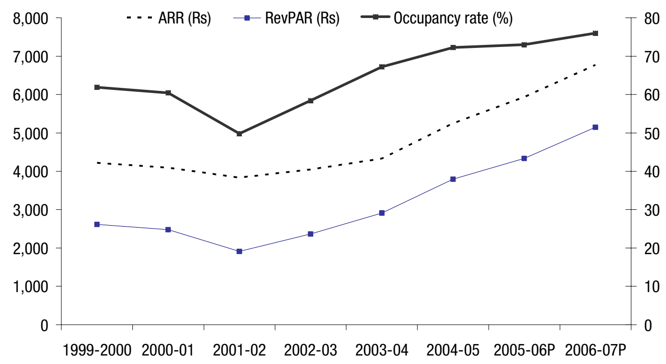
The Indian hotel ARRs grew at a healthy 11% CAGR over FY01-05, which we think will continue. Strong room demand outpacing supply in the key markets was a primary driver of ARR expansion. Although tariffs (US$125-175 per night) in Indian hotels are now internationally comparable, with the outlook for room demand strong and supply growth likely to be modest, we expect average ARRs to increase 10-13% per annum over the next two years.

In most of the saturated markets, hotel tariffs are holding up because hotels are not indulging in cut-throat pricing. While the demand-supply gap will ultimately determine ARRs, we believe the risk of ARRs falling further is limited, given the significant room demand and the lack of supply over the next two years.

We estimate a 2% average annual rise in occupancies over the next 2 years

Occupancy levels have also been improving over the last three years on the back of the improving macro environment. We expect the pace to accelerate going forward. We see increased room demand pushing occupancy rates from 72% in FY05 to 73% in FY06 and 76% in FY07E. These expectations, however, are extremely sensitive to factors such as epidemic outbreaks and travel warnings.

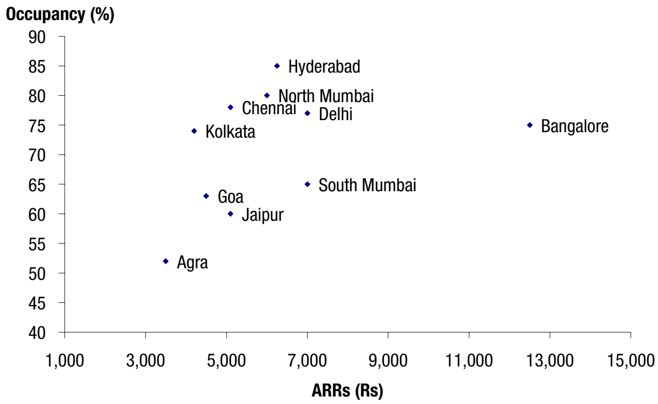
Figure 27. ARR and Occupancy Rates Trends



Source: CRIS INFAC, Citigroup Investment Research estimates

Note: ARRs are for the 10 cities, Occupancy Rate is for the whole country

Figure 28. City Wise — ARRs and Occupancy

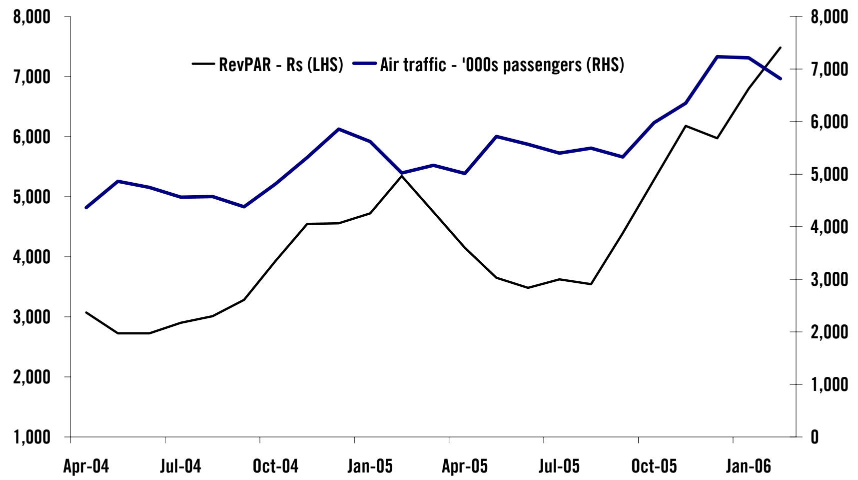


Source: CRIS INFAC, Citigroup Investment Research

Hotel industry performance linked to airline passenger traffic

There is a close link between the performance of the airline and hotel industries. Volume trends in the airline industry tend to be good indicators of the performance of the hotel industry. A large percentage of guests in hotels are airline passengers. High business confidence, increasing air connectivity between cities, rising passenger traffic from international airlines and domestic air traffic in India should bode well for the hotel industry.

Figure 29. Air Traffic vs. RevPARs



Source: CRIS INFAC, Airport Authority of India

Competitive scenario

Global players are making competition keen

Indian Hotels' 'Taj', EIH's 'Oberoi' and ITC's 'Welcome Group' continue to be the dominant chains in the Indian market. However, the scenario has changed significantly over the past five years. Competition has intensified, with global hotel chains having entered the market through owned properties, management contracts and joint-ventures with property owners/developers. With a favorable demand-supply scenario, the risk of ARRs falling appears limited. With Indian hotels' ARRs (tariffs of US$125-175 per night) now internationally comparable, new entrants resorting to cut-throat pricing cannot be ruled out.

Figure 30. Major Global Players Now Present in India

International Player	Main Indian Collaborator
Four Seasons	NONE
Marriott International	NONE
Orient Express Hotels	NONE
Le Meridian	NONE
Radisson	NONE
Shangri-La	NONE
Hilton	East Indian Hotels
Starwood H & R (Sheraton)	ITC Hotels
Hyatt International	Asian Hotels
Park Inn/ Park Plaza	Sarovar Park Hotels and Resorts
Bass Plc	Bharat Hotels

Source: Citigroup Investment Research

Indian Hotels (IHTL.BO)

A Growth Story; Initiate at Buy

Buy/Medium Risk	1M
Price (23 Jun 06)	Rs1,128.00
Target price	Rs1,410.00
Expected share price return	25.0%
Expected dividend yield	1.2%
Expected total return	**26.2%**
Market Cap	Rs65,886M US$1,432M

- Initiating at Buy (1M) — Indian Hotels, India's largest hotel chain, which owns the 'Taj' luxury brand, appears to be poised for rapid growth due to increasing business and leisure travel to India, with room demand outpacing supply. This is our top pick in the sector and we set our target price at Rs1,410 (22x FY07E P/E).

- Growth triggers — 1) A conducive macro environment should drive room demand – higher ARRs and occupancy rates; 2) A multi-pronged growth strategy – enhancing room inventory, forays into budget hotels, expanding service offering to spas, serviced apartments and F&B outlets, and taking an 'asset light' approach; 3) An increasing presence in international markets to de-risk the business model.

- We forecast an earnings CAGR of 34% — Growth in ARRs (10% CAGR), higher occupancy levels (76% by FY08E), healthy profitability of subsidiaries and JVs, and benefits of high operating leverage should drive a consolidated earnings CAGR of 34% over FY06E-08E. A depreciating rupee is positive for the company as 60% of revenues are earned in foreign currencies (we estimate that a 5% depreciation would lead to an earnings increase of 7-9% and vice versa).

- Looks attractive at 17.6x FY07E P/E — We see the stock's fall of 27% over the last month – which was significantly higher than for the broader markets, despite robust earnings growth – as an investment opportunity. With growth fundamentals intact, increasing liquidity for the stock, the company's strategy to de-risk its business model, and improving capital efficiency, we see valuations appreciating to catch up with those of regional peers, which trade at 22x 12-month forward P/E currently.

Statistical Snapshot

Year to 31 Mar	FY04	FY05	FY06E	FY07E	FY08E
Total Revenues	10,023	13,135	18,373	22,843	26,624
EBITDA	1,784	3,322	5,084	6,945	8,204
Margin (%)	*17.8*	*25.3*	*27.7*	*30.4*	*30.8*
Adj PAT	565	1,283	2,487	3,757	4,463
EPS (Rs)	12.5	25.5	42.4	64.0	76.1
EPS YoY Gr. (%)	na	103.77	66.12	51.07	18.77
P/E (x)	na	40.3	26.6	17.6	14.8
ROCE (%)	3.3	5.6	8.6	10.8	11.2
ROE (%)	5.3	9.7	13.1	17.1	17.5

Source: Company Reports and Citigroup Investment Research estimates.

Fiscal year end 31-Mar	2004	2005	2006E	2007E	2008E
Valuation Ratios					
P/E adjusted (x)	90.2	44.2	26.6	17.6	14.8
EV/EBITDA adjusted (x)	43.9	23.9	15.4	11.0	9.2
P/BV (x)	4.8	4.3	3.5	3.0	2.6
Dividend yield (%)	0.7	0.9	1.2	1.2	1.2
Per Share Data (Rs)					
EPS (adjusted)	12.52	25.54	42.39	64.05	76.07
EPS (reported)	15.96	25.56	42.39	64.05	76.07
BVPS	237.26	262.57	324.57	374.05	435.56
DPS	8.00	10.00	13.00	13.00	13.00
Profit & Loss (RsM)					
Net sales	10,023	13,135	18,373	22,843	26,624
Operating expenses	-9,117	-10,931	-14,563	-17,366	-20,096
EBIT	**906**	**2,204**	**3,810**	**5,477**	**6,528**
Net interest expense	-890	-1,356	-1,072	-903	-886
Non-operating/exceptionals	948	945	967	1,122	1,303
Pre-tax profit	**964**	**1,794**	**3,704**	**5,697**	**6,944**
Tax	-331	-721	-1,073	-1,758	-2,204
Extraord./Min.Int./Pref.div.	87	213	-144	-181	-278
Reported net income	**720**	**1,285**	**2,487**	**3,757**	**4,463**
Adjusted earnings	565	1,284	2,487	3,757	4,463
Adjusted EBIT	906	2,204	3,810	5,477	6,528
Growth Rates (%)					
EPS (adjusted)	124.1	103.9	66.0	51.1	18.8
EBIT (adjusted)	33.4	143.3	72.8	43.8	19.2
Sales	15.7	31.0	39.9	24.3	16.6
Cash Flow (RsM)					
Operating cash flow	**714**	**4,409**	**4,740**	**5,166**	**6,363**
Depreciation/amortization	878	1,117	1,274	1,468	1,677
Net working capital	983	1,059	130	-363	-189
Investing cash flow	**-2,385**	**-6,434**	**-3,189**	**-3,102**	**-3,484**
Capital expenditure	-2,586	-6,713	-3,404	-4,005	-3,707
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**6,644**	**-1,464**	**-5,645**	**-1,204**	**146**
Borrowings	7,001	-1,056	-5,072	-350	1,000
Dividends paid	-356	-407	-573	-854	-854
Change in cash	**4,973**	**-3,488**	**-4,095**	**860**	**3,025**
Balance Sheet (RsM)					
Total assets	**37,452**	**41,043**	**42,362**	**45,464**	**51,201**
Cash & cash equivalent	6,611	4,714	3,417	3,754	6,224
Net fixed assets	18,728	23,725	25,846	28,208	30,237
Total liabilities	**24,962**	**25,541**	**20,876**	**20,894**	**22,745**
Debt	20,750	19,693	14,622	14,272	15,272
Shareholders' funds	**12,489**	**15,502**	**21,486**	**24,570**	**28,456**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	17.8	25.3	27.7	30.4	30.8
ROE adjusted	5.3	10.7	15.4	18.3	18.8
ROIC adjusted	2.4	5.5	9.1	11.5	12.4
Net debt to equity	113.2	96.6	52.1	42.8	31.8
Total debt to capital	62.4	56.0	40.5	36.7	34.9

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Taj Group Hotel & Room inventory

Segments	Hotels	No. of rooms
Luxury	21	3590
Business	27	3496
Leisure	28	2096
Total	**76**	**9182**

Source: Company Reports

Company Description

Indian Hotels (IHC) is the largest hotel operator in India with a presence in the luxury, business and leisure hotel segments. It owns the 'Taj' brand and operates 76 hotels (9182 rooms) across India and some international locations. The company is looking to enter the budget hotel segment through its new brand 'Ginger', and make a foray into the adventure business with wildlife lodges. It already operates one budget hotel in Bangalore, and plans to expand these to more than 10 cities in FY07E, with and investment of Rs1bn. The company is also looking at expanding its presence in key overseas markets – the US, London, Australia, South Africa and the Middle-East – through acquisitions/ management contracts for growth. This apart, the company is exploring new revenue streams such as serviced apartments, Spas and F&B outlets. It is the hotel-sector flagship company of Tata Group, which holds a 30% stake.

Investment Thesis

We are initiating coverage on Indian Hotels (IHC) with a Buy (1M) rating and a 12-month target price of Rs1410 based on 22x FY07E P/E, which is on par with the valuations of regional peers. Our target price suggests 26% upside on a 12-month horizon. It is our top sector pick, as we believe it offers the best exposure to India's growing hospitality sector.

We expect a conducive macro environment to increase business and leisure travel traffic to India. This should trigger strong demand for hotel rooms, drive up occupancies and further increase ARRs (more than 31% growth in FY06), which we see as positive. Leveraging on its large room inventories across key growth cities, its premium brand positioning with 'Taj' and its leadership in domestic markets, we believe Indian Hotels is poised for growth. The following initiatives should de-risk the company's business model and further aid growth and profitability: 1) Forays into budget hotels; 2) Expansion of the company's service offering to spas, serviced apartments and F&B outlets; 3) Increasing focus on growth through management contracts; and 4) a greater presence in overseas markets. Given the above, and our base-case scenario of a depreciating rupee and benefits accruing from high operating leverage driving margins, we expect an earnings CAGR of 34% over FY06E-08E.

The stock has fallen 27% and significantly underperformed markets over the last month, despite robust earnings growth of 73% in FY06. This, in our view, provides an investment opportunity, with attractive looking valuations (at 17.6x FY07E P/E, at a discount to domestic peers). We see IHC's large room inventories in the key growth cities of Mumbai, Delhi, Chennai, Bangalore as the company's most valuable assets, providing it with a competitive advantage over its peers and significant pricing power to drive earnings growth. This apart, given its initiatives to de-risk its business model through an increased international presence and efforts to improve capital efficiencies, we expect valuations to appreciate to catch up with those of its regional peers, which trade at 22x 12-month forward P/E (despite offering lower growth).

Key Points

Improvements in operating environment - outlook remains strong

The operating environment for Indian Hotels (IHC) has improved over the last year, with a sharp rise in room demand and not much incremental supply likely over next two years. This could drive further increases in company's average room rates (ARRs), which have risen 31% over the past 12 months. With occupancy rates for the company's properties across metro cities already high at 75%, we believe that potential revenue upsides will be driven by ARRs. We have analyzed the operating environment in key metro cities, where the majority of the company's premium hotels are located. In our view, on a bottom-up analysis, the growth outlook is fairly strong for IHC's existing properties. We believe that the best growth potential is in Delhi (where the company has two properties), South Mumbai (where new supply is unlikely), and Bangalore (with the highest ARRs and where it plans to build a new hotel).

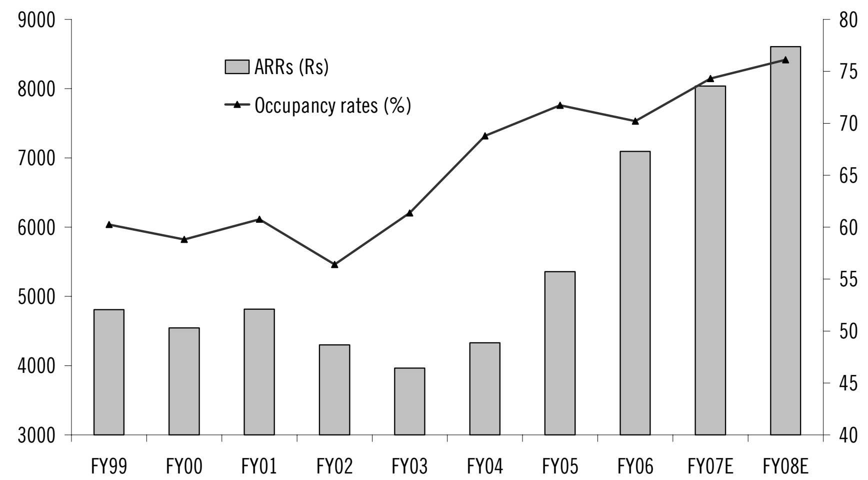
Higher ARRs and occupancies

ARR growth to continue – we expect an ARR CAGR of 10% over FY06-08E

The company is witnessing growth in ARRs and occupancies for the third consecutive year in FY06E, particularly in the luxury segment. With key properties renovated and low projected supply growth over next 12-15 months, we expect a 10% p.a. increase in ARRs over the next two years, and 76% higher occupancy rates by FY08E (vs. 70% currently) to contribute towards a revenue CAGR of 20% over FY06E-08E. The company's aggressive marketing campaign to cut its room rates by 50% for Leisure hotels (10% of room revenues) this summer is focused on increasing occupancy levels. This is a step forward in its strategy to reduce the seasonality for the business, which traditionally experiences higher ARRs and occupancy rates in second half of the year. We expect growth to be led by ARRs given that IHC is a well established hotel chain and the demand outlook for hotels is strong.

ARRs have doubled while ORs have improved from 70-75%

Indian Hotels – Standalone ARRs and occupancy rates



Source: Company Reports and Citigroup Investment Research estimates.

Multi-pronged business strategy

The company has a multi-pronged business strategy for growth:

a) Forays into Budget hotels with 'Ginger' (erstwhile 'IndiOne') to target the economy- and mid-market segment, which lacks organized players and is growing at healthy pace;

b) New service offerings – food and beverage (F&B) outlets, Spas and serviced apartments to broaden revenue streams;

c) A shift towards an 'Asset light' strategy focusing on franchise–type arrangements and management contracts, rather than the typical property owner and manager;

d) Leverage on growth opportunities in air-catering business (5% of consolidated revenues;30% EBITDA margins) through its 51:49 JV with SATS;

e) Grow its hotel franchise in international markets through the inorganic route; and

f) Up-gradation of the existing properties to counter rising competition.

This marks a shift from its hitherto organic growth-driven strategy. The focus is now on leveraging the Taj brand, and improving its product offering. We take a look at the individual components of this strategy.

Targeting growth in the budget hotel segment

'Ginger', IHC's brand for budget hotels, plans to open 10 hotels in next two years

The company is considering growth opportunities in the 'budget hotel' segment, and is planning to set up 10 such hotels across the country under the 'Ginger' brand. This venture is routed through a 100% subsidiary Roots Corporation, to differentiate it from the Taj brand. The first hotel in Bangalore (100 rooms, priced at less than Rs1000 per room) has already achieved occupancy levels of 85%-plus within the first year of operation, and our discussions with industry players suggest that the property is performing well for the company. These planned hotels would target the economy- and mid-market segment, which we see as a significant growth opportunity in India, given the lack of a large organized 'budget' hotel chain. The company is in process of rolling out 10 such hotels over next two years (six should be operational by Sept 2006), entailing an investment of Rs1bn. The hotels will have around 100 rooms per hotel priced around Rs1,000 per room (although prices could be increased to offset the rising costs of land). We see this as a positive move by the company and expect this business to contribute additional revenues and profits of Rs208m and Rs17m, respectively, in FY08E.

New service offerings to broaden revenue streams

F&B outlets, spas under the 'Jiva Grande' and serviced apartments are the new service offerings – drivers of incremental revenue and earnings. Several of the company's F&B outlets have been refurbished and re-launched with new concepts and cuisines. Its first luxury serviced apartment (Wellington Mews – 80 apartments) in South Mumbai has already achieved occupancy levels of 85%-plus within first year of operation and management plans to introduce something similar at Taj Land's End. On the Spas – it already has 18 'Jivas' in operation and plans to have these spas in all its 'Taj' properties over next three years. These initiatives will likely contribute towards the company's higher profitability.

"Asset-Light" Strategy – should drive profit growth and boost capital efficiency

Growth through JVs and management contracts leveraging off the 'Taj' brand

IHC has formulated a growth strategy that incorporates growth through management contracts and joint ventures by leveraging off the company's 'Taj' brand. This would allow the company to increase profitability with minimum investment, which could lead to a significant improvement in capital efficiencies from 5.6% in FY05 to 11.2% in FY08E. The company also plans to introduce a new price point hotel under the 'Gateway' brand – recently taken two new management contracts at Vijaywada and Surat. Today, IHC's revenues from management contracts have been a moderate 5% of operating income. We believe this is relatively low and will likely increase significantly, as most of the capacity additions going forward will be through joint ventures/management contracts.

Air catering JV - Increasing air traffic to propel growth

Aggressive expansion of flights into and from India, by both domestic and international airlines, has resulted in a surge in volumes of the air catering industry – given IHC's 51:49 joint venture with SATS, we believe it is likely to be one of the key beneficiaries of this rapid growth. We forecast this business will post a revenue CAGR of 25% over FY06E-08E, contributing towards the overall profitability of IHC.

Inorganic growth - The strategy in international markets

Aiming to gain a global profile through acquisitions, JVs and management contracts

IHC is seeking to plug gaps in its business model by taking the inorganic growth route in international markets. This is a move away from its organic growth approach and includes growth through acquisitions, joint ventures and management contracts. In our view, the company's objectives of this strategy are to have:

a) An established 'Taj' brand at some of key gateway international locations in the US, Europe, Australia, South Africa, Dubai and China;

b) A top-end brand in global markets, which is in line with its positioning in the domestic market; and

c) Diversification, given the company's current dependency on India (80% of FY06 consolidated revenues).

The company's recent acquisitions in the US and Australia, along with plans to enter South Africa, Dubai and Korea through alliances/JVs are a part of this international expansion strategy. The key details on the properties acquired/marketing alliances gained are:

A profitable property in NY - provides entry to the US

The Pierre, New York – is a luxurious property in New York with 201 guest rooms, including 52 suites. IHC was awarded the 30-year management contract to operate and manage the property in July 2005, taking it over from The Four Seasons. It has to pay an annual lease fee and plans to invest $35m to refurbish the property. Increasing room demand, higher ARRs of $515 (vs. $450 earlier) and improving occupancy rate of 77%-plus has made the property profitable. We see this property giving the company entry into the US markets with revenues and earnings of US$28.5m and US$0.76m, respectively, in the first year of operation.

Acquisition marks IHC's entry into Sydney. It is a profitable property in a rapidly growing market

BLUE, Woolloomooloo Bay, Sydney (erstwhile 'W') – is a five-year old, 100 room luxurious property at the Finger Wharf in Sydney's business district. IHC acquired this for A$36m from the Starwood Group in November 2005. It is a profitable property with occupancy rates of 65% and improving ARRs (est. A$500). This has given the company entry into Sydney, Australia's major travel hub and a company that looks set to grow rapidly. The property was acquired in January 2006, and, since no major details are available, we have not included this property in our consolidated estimates for FY07-08.

Marketing alliance with The Shilla Hotels & Resorts, Korea – The company's alliance with Shilla Hotels (an affiliate of the Samsung group) is for two properties in Seoul and Jeju. As part of the alliance, both companies will develop cross-promotional marketing activities and assist each other in exchanging sales leads across India and Korea – primarily to tap intra-Asia travel, which is growing rapidly. This is likely to contribute to incremental revenues and profits in FY08E, but we await further information before factoring it into our estimates.

Plans to add 550 rooms in South Africa

50:50 JV in South Africa, Taj International (SA) Pty – The plan is to add 550 rooms to the hotel chain in South Africa. Management estimates the total cost of the projects at US$180m. The company is exploring the feasibility of developing luxury hotels in Johannesburg, Durban and Cape Town. It plans to develop a 200-room, 40-serviced-apartment hotel in Durban Film City jointly with Developer Eurocape Inv Ltd. The proposed site is close to the International Convention Centre, and the cricket and football stadiums. In addition, IHC has recently signed a memorandum of understanding (MoU) with Melrose Arch Development Company to jointly develop a five-star hotel in Johannesburg's business district. Given the limited information, we have yet to factor this into our estimates.

Management contract for a luxury project in Dubai – The Taj group has entered into a 10-year management contract with UAE-based property developer ETA Star for its upcoming US$330m luxury hotel and residential complex to build on an artificial island located at Palm Jumeirah Crescent in Dubai. The hotel would be under the Taj Exotica and Spa brand; the apartments will be called The Grandeur Residences, and both are scheduled to be operational in 1Q09. This should enhance the company's presence in Dubai – a developing business hub in the Middle-East.

IHC is also exploring acquisition options in China, other parts of the Middle East and premium leisure resorts in Southeast Asia. We view IHC's international foray as a defensive strategy, providing the company a toehold in newer markets, and reducing its dependency on India. While we believe the company will be judicious about its acquisitions (as it has been in the past), the extent of capital commitment to additional investments towards this expansion will be crucial.

Up-gradation of properties to counter rising competition

IHC is investing significantly to upgrade its properties and F&B outlets (key properties in Mumbai and Bangalore that were renovated last financial year are now witnessing a pick-up in yields on account of these renovations) and more renovations and up gradations are in the pipeline. We view this as a step to counter rising competition and maintain leadership in India at a time when global peers are scaling their operations across the country.

Capex for growth

Per our estimates, the company has a capex plan of around Rs9.5bn for the next two years – mainly for enhancing room capacity (over 2000 rooms on the anvil) across the hotel chain, renovations and up-gradations of existing properties and acquisitions. The capex will likely be funded through a mix of internal cash flows, some proceeds of US$150m FCCB raised in February 2004 (conversion at Rs501.53 per share) and debt. However, with management's initiatives to reduce gearing and the FCCB conversion, we see the company's gearing falling from 1.1 in FY05 to 0.6 in FY06E. This, in our view, provides IHC the ability to leverage its balance sheet for raising additional resources at the appropriate time. We have not factored any likely acquisitions going forward into our forecasts.

New Properties / Management Contracts Roll-Out Plan

Within Indian Hotels	No. of Rooms	Expected Comm.
Falakuma, Hyderabad	60	Dec'07
ITPL, Bangalore	200	Dec'07
Taj Santacruz,Mumbai	175	Jun'08
Taj Coimbatore	200	Sept'08
Group expansions		
Ginger Budget hotels		
Haridwar	101	Mar'06
Bhubnshwar, Panjim,Pune		
Trivandrm,Mysore,Nashik	950	Mar'08
Pondi,Durgapur,Tirupur	(all inclusive)	(in phases)
Taj Wilderness Lodges		
Bandhavgarh,Pench,Kanha		
Panna, Corbett,Infinity	80	Mar'07
Corbett Jamun		
Taj GVK, Chennai	200	Sept'07
Fisherman Cove, Chennai	75	Dec'07
Management Contracts		
Taj Thimpu, Bhutan	65	Nov'06
Green Cove, Kovalam	25	Dec'07
Taj Langkawi, Malaysia	104	1Q2006
Gateway, Surat	132	1Q2006
Total No of Room additions	**2,367**	

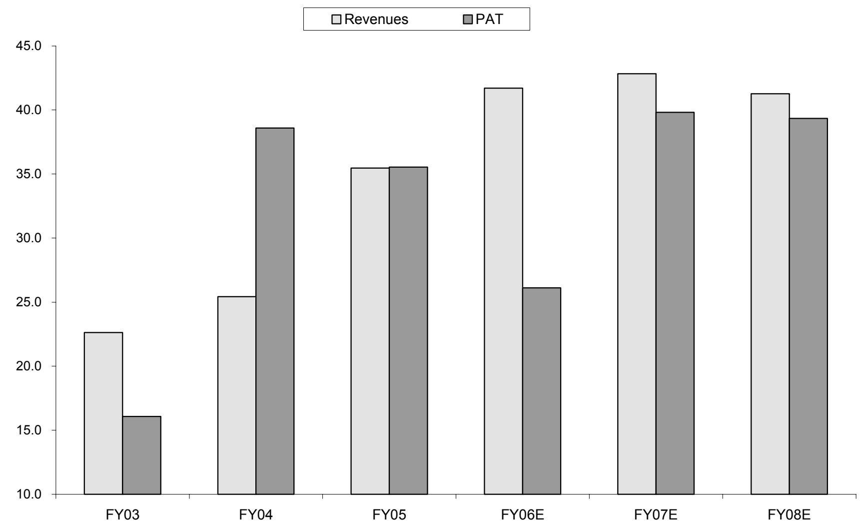
Source: Company Reports.

Financial analysis

Rising contributions from subsidiaries – we see consolidated earnings reflecting the company's true earnings growth potential

Given the increasing share of revenues and earnings from group companies, we have consolidated in our model the performance of subsidiaries, joint ventures and investment in associates. In our opinion, consolidated operations will largely reflect the company's true earnings potential. The company's strategy to grow in the hospitality sector through subsidiaries, joint ventures and investments in associate ventures has significantly strengthened its leadership in the sector.

Increasing Share of Subs, JVs, Asso. Cos Revenues & Earnings as % of Cons. Financials



Source: Company, Citigroup Investment Research estimates.

With the strong macro environment and tourist arrivals growing at double-digit rates, we see significant growth for room demand – positive for growth in ARRs and occupancy levels. IHC's earnings sensitivity to ARR and occupancy growth is high; however, initiatives to broaden revenue streams, increase thrust on management contracts, forays into domestic budget hotels and an expanding presence internationally have helped de-risk the company's business model.

Revenue and earnings expected to post 20% and 34% CAGRs, respectively, over FY06E-08E

We see continued growth in ARRs and higher occupancy levels for the company's key properties across metro cities given the low projected supply growth over next two years. Given potential margin expansion based on our expectations of: 1) 10% ARRs CAGR for next two years; 2) higher occupancy rates of 76% by FY08E (vs. 70% currently); and 3) healthy profitability of subsidiaries and JVs, along with benefits of high operating leverage, we estimate consolidated revenue and earnings CAGRs of 20% and 34%, respectively, over FY06E-08E. A depreciating rupee is also positive given that earnings are exchange rate sensitive; 60% of revenues are earned in foreign currencies (we estimate a 5% depreciation would decrease earnings by 7-9%, and vice versa).

This, along with company's initiatives towards an 'asset-light' strategy of growing through management contracts and new service offerings, should help improve overall ROCE from 8.6% in FY06E to 11.2% by FY08E.

Valuation

Our target price of Rs1410 is based on 22x FY07E P/E on par with the valuation multiples of regional peers and at a 23% premium to domestic peers. This implies an expected share price return of 26% on a 12-month horizon. The premium to domestic peers is attributed to the following: 1) IHC's advantage of having a large room inventory, while peers are still in the building phase; 2) the company's premium brand positioning with 'Taj' and its leadership in domestic markets; 3) our expectation of strong earnings growth; and 4) increased presence in international markets.

We use P/E as our primary valuation methodology, as this captures the company's strong earnings growth potential. The stock is currently trading at what we think are attractive valuations of 17.6x FY07E P/E, after its fall of 27% and significant underperformance vs. the domestic markets over the last month, despite earnings growth of 73% in FY06E. This is towards the mid-cycle of its 3-year historical range of 13.5-22x P/E. We believe IHC's large room inventories in key growth cities are valuable assets, providing the company with significant pricing power, which should drive margins and an earnings CAGR of 34% over FY06E-08E. In addition, given management's initiatives to de-risk the company's business model through increased international presence and efforts to improve capital efficiencies, we estimate that valuations will appreciate to the upper end of the share's historical P/E range and closer to those of its regional peers (such as the Shangri-La, Raffles and the Mandarin Oriental), which are trading at 22x P/E for December 2006E, per consensus estimates.

For our secondary valuation we use EV/EBITDA. In our view, IHC could trade at the high end of its 3-year historical EV/EBITDA range of 8-12.5x given the improving business mix and what we expect to be rising profitability. We assign a target multiple of 12.5x EV/EBITDA, which is at a premium to the industry average of 11.5x (for the same reasons as above). Based on this, our fair value is Rs1300, which is in line with our target price of Rs1410.

Risks

We rate Indian Hotels Medium Risk based on our quantitative risk rating system, which measures the stock volatility over a 260-day period.

Company-specific risks to our target price include:

1) Bird-flu hitting India, which would be bad for sentiment in the hotel sector. Increased news flow of this spreading in India could adversely impact travelers' plans to India, and, hence, room demand and our assumptions on ARR and occupancy growth rates;

2) Any delay in the roll out of 'indiOne' hotels and planned room increases, which could reduce potential revenue growth (we forecast a revenue CAGR of 20% over FY06-08);

3) The company overpaying for hotel acquisitions in international markets given management's push to expand its brand franchise in global markets, which could put a strain on cash flows and adversely impact ROCEs; and

4) Any slowdown in economic activity, which could lead to lower hotel room demand.

Income Statement, 2004-2008 (Rupees in Millions)

Year to 31 March	2004	2005	2006E	2007E	2008E
Revenues from IHC	6,683	8,476	10,843	13,058	15,635
Revenues from Subsidiaries	3,340	4,659	7,530	9,785	10,988
Net Sales	**10,023**	**13,135**	**18,373**	**22,843**	**26,624**
Growth (%)	*15.7*	*31.0*	*39.9*	*24.3*	*16.6*
EBITDA	**1,784**	**3,322**	**5,084**	**6,945**	**8,204**
Growth (%)	*-71.7*	*86.2*	*53.0*	*36.6*	*18.1*
Margin (%)	***17.8***	***25.3***	***27.7***	***30.4***	***30.8***
Depreciation	878	1,117	1,274	1,468	1,677
Interest Cost	890	1,356	1,072	903	886
Non-op Income	550	546	403	354	387
PBT	566	1,395	3,140	4,929	6,029
Share of PBT from Subsidiaries (%)	*4*	*15*	*13*	*31*	*32*
Extraordinary Income/(Expenses)	239	2	-	-	-
Less:Prov for Taxes	283	602	904	1,528	1,929
Less: Minority Interest of Subsidiaries	(87)	(213)	144	181	278
Add: Share of and Associates	111	278	394	537	641
Net Income (Reported)	720	1,285	2,487	3,757	4,463
Net Profit (recurring)	**565**	**1,284**	**2,487**	**3,757**	**4,463**
Growth (%)	*124.1*	*127.2*	*93.7*	*51.1*	*18.8*

Source: Company Reports and Citigroup Investment Research

Balance Sheet, 2004-2008 (Rupees in Millions)

Year to 31 March	2004	2005	2006E	2007E	2008E
Gross fixed assets	**23,853**	**30,592**	**33,987**	**37,817**	**41,522**
Less: Depreciation	5,125	6,867	8,141	9,608	11,285
Net fixed assets	18,728	23,725	25,846	28,208	30,237
Investments	4,321	4,571	4,785	4,411	4,578
Cash & bank balances	6,611	4,714	3,417	3,754	6,224
Loans & advances	3,317	3,374	3,536	3,696	4,105
Other Current Assets	1,324	1,289	1,458	2,139	2,923
Total Current assets	11,252	9,377	8,411	9,589	13,252
Current liabilities	2,065	2,473	3,080	3,590	4,243
Provisions	1,066	1,885	1,615	1,463	1,733
Total current liabilities	3,131	4,358	4,695	5,052	5,976
Net current assets	8,121	5,019	3,717	4,537	7,276
Goodwill on Consolidation	2,701	2,855	2,910	2,905	2,825
Total assets	**33,872**	**36,170**	**37,257**	**40,062**	**44,915**
Secured Debt	11,039	13,438	12,438	12,338	13,588
Unsecured Debt	9,711	6,256	2,184	1,934	1,684
Total debt	**20,750**	**19,693**	**14,622**	**14,272**	**15,272**
Equity share capital	451	503	587	587	587
Reserves & surplus	10,204	12,655	18,455	21,358	24,966
Total shareholders' funds	**10,655**	**13,158**	**19,041**	**21,944**	**25,553**
Deft Tax and Others	683	1,018	1,150	1,220	1,188
Minority Interest	1,784	2,300	2,445	2,626	2,903
Total liabilities	**33,872**	**36,170**	**37,257**	**40,062**	**44,915**

Source: Company Reports and Citigroup Investment Research

Cash Flow, 2004-2008 (Rupees in Millions, Percent)

Year to 31 March	2004	2005	2006E	2007E	2008E
Reported Net Income	719.90	1,285.00	2,487.15	3,757.39	4,462.83
Add Depreciation & Amortizations	798	1,742	1,274	1,468	1,677
Less other non-operational/non cash items	(699)	304	(126)	(103)	(142)
Operating Cash Flow Pre WC Changes	819	3,331	3,635	5,122	5,997
Change in Working Capital	983	1,059	130	(363)	(189)
Net Cash flow from Operations	1,802	4,389	3,764	4,758	5,808
Net Capex	(2,586)	(6,713)	(3,404)	(4,005)	(3,707)
Free Cash Flow	(784)	(2,324)	360	753	2,101
Cash flow from Investments	200.80	279.40	215.00	902.80	223.09
Cash flow from Financing Activities	6,409	1,046	-1,665	-1,209	66
Extraordinaries	238.9	-898	-207	-110	80
Total Increase/Decrease in Cash	**6,065**	**-1,897**	**-1,297**	**337**	**2,470**
Opening Cash and Bank Balance	**547**	**6,611**	**4,714**	**3,417**	**3,754**
Closing Cash and Bank Balance	**6,612**	**4,715**	**3,417**	**3,754**	**6,224**

Source: Company Reports and Citigroup Investment Research

Key Assumptions

Year to 31 March	2004	2005	2006E	2007E	2008E
Avg. ARR	4,330	5,355	7,094	8,039	8,605
ARR YoY Gr. (%)	9	24	32	13	7
Avg. Occupancy (%)	69	72	70	74	76
Revenue from Subsidiaries (%)	33.3	35.5	41.0	42.8	41.3
F&B / total inc. from ops (%)	41.7	39.9	37.5	39.0	39.0

Source: Company Reports and Citigroup Investment Research

Hold/Low Risk	2L
Price (23 Jun 06)	Rs581.80
Target price	Rs620.00
Expected share price return	6.6%
Expected dividend yield	0.9%
Expected total return	**7.4%**
Market Cap	Rs30,483M
	US$663M

EIH Ltd (EIHO.BO)

Rich Assets, but Rich Valuations Limit Upside; Initiate at Hold

- Initiating coverage — We initiate coverage on EIH (owners of 'The Oberoi' brand and the second largest hotel chain in India) with a Hold (2L) rating and a target price of Rs.620, based on 20x FY07E PE, an 18% premium to the sector average, but at a discount to market leader Indian Hotels.

- What drives premium valuations and why the discount? — We attribute the premium to: 1) Luxury brand positioning in the hotel segment; 2) rich real estate portfolio, which could be leveraged for growth; and 3) rapid earnings CAGR of 41% over FY06E-08E, amongst the highest in the sector. However, the discount is a function of Indian Hotels' market leadership, offering scale and a stronger business model.

- Catalysts for growth — 1) Concentration in key metros with strong growth outlook for ARRs and occupancies; 2) Tie-up with Hilton, US providing access to worldwide customer network; 3) Leverage on 'Vilas' for capturing strong growth in tourist traffic into India; and 4) Growth through management contracts and more services – F&B outlets, spas, air catering. Rupee depreciation would be earnings positive.

- Capex on anvil, but more clarity awaited — EIH has a significant capex plan over the next two years. However, we await more clarity on the overall scale of expansion and funding method. We have currently built in capex of Rs.2.4bn over FY06-08E.

- Upside limited; Initiate at Hold (2L) — With the stock down 18% over the last month, we see upside potential to EIH's current valuations of 18.8x FY07E PE given rapid earnings growth forecasts and our positive view on the sector. However, upside appears limited at 7% given the lack of clarity on EIH's scale of expansion – this with liquidity concerns would hinder the stock's re-rating, in our view.

Statistical Snapshot

Year to 31 Mar	FY04	FY05	FY06E	FY07E	FY08E
Total Revenues	4,751	6,066	8,135	10,051	11,902
EBITDA	604	1,327	2,686	3,446	3,934
Margin (%)	*12.7*	*21.9*	*33.0*	*34.3*	*33.1*
Adj PAT	(69)	294	1,004	1,625	2,001
EPS (Rs)	(1.3)	5.6	19.2	31.0	38.2
EPS YoY Gr. (%)	NA	NA	241.8	61.9	23.1
P/E (x)	NA	NA	30.4	18.8	15.2
ROCE (%)	1.6	4.9	9.2	11.3	12.3
ROE (%)	(0.8)	2.9	10.0	14.2	15.4

Source: Company Reports and Citigroup Investment Research

Fiscal year end 31-Mar	2004	2005	2006E	2007E	2008E
Valuation Ratios					
P/E adjusted (x)	nm	103.9	30.4	18.8	15.2
EV/EBITDA adjusted (x)	61.1	28.6	14.0	10.6	9.1
P/BV (x)	3.7	3.6	3.1	2.7	2.3
Dividend yield (%)	0.5	0.7	1.7	0.9	1.3
Per Share Data (Rs)					
EPS (adjusted)	-1.31	5.61	19.16	31.02	38.19
EPS (reported)	-1.31	4.74	37.31	31.02	38.19
BVPS	159.47	160.45	189.22	216.46	248.58
DPS	3.00	4.00	10.00	5.00	7.50
Profit & Loss (RsM)					
Net sales	4,751	6,066	8,135	10,051	11,902
Operating expenses	-4,618	-5,229	-5,943	-7,138	-8,598
EBIT	**133**	**837**	**2,192**	**2,913**	**3,305**
Net interest expense	-534	-922	-1,039	-770	-652
Non-operating/exceptionals	447	589	587	343	419
Pre-tax profit	**46**	**504**	**1,740**	**2,487**	**3,071**
Tax	-208	-228	-720	-833	-1,028
Extraord./Min.Int./Pref.div.	93	-28	935	-28	-42
Reported net income	**-69**	**248**	**1,955**	**1,625**	**2,001**
Adjusted earnings	-69	294	1,004	1,625	2,001
Adjusted EBIT	133	837	2,192	2,913	3,305
Growth Rates (%)					
EPS (adjusted)	-387.7	526.6	241.8	61.9	23.1
EBIT (adjusted)	198.3	529.3	161.9	32.9	13.4
Sales	12.2	27.7	34.1	23.6	18.4
Cash Flow (RsM)					
Operating cash flow	**505**	**463**	**2,671**	**2,136**	**2,648**
Depreciation/amortization	471	490	495	532	629
Net working capital	57	-353	222	-21	17
Investing cash flow	**-1,562**	**-777**	**-975**	**-728**	**-1,484**
Capital expenditure	-1,859	-324	-886	-860	-1,552
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**2,553**	**490**	**-705**	**-820**	**-888**
Borrowings	2,269	628	-1,218	-616	-445
Dividends paid	-157	-210	-524	-262	-393
Change in cash	**1,495**	**175**	**990**	**588**	**275**
Balance Sheet (RsM)					
Total assets	**20,968**	**21,222**	**21,729**	**22,527**	**23,826**
Cash & cash equivalent	1,165	969	1,105	1,359	1,533
Net fixed assets	15,410	15,379	15,770	16,098	17,021
Total liabilities	**11,843**	**12,759**	**11,768**	**11,093**	**10,682**
Debt	9,000	9,628	8,410	7,794	7,349
Shareholders' funds	**9,124**	**8,462**	**9,962**	**11,435**	**13,144**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	12.7	21.9	33.0	34.3	33.1
ROE adjusted	-0.8	3.5	11.0	15.3	16.4
ROIC adjusted	-0.5	3.6	8.4	11.7	12.4
Net debt to equity	85.9	102.3	73.3	56.3	44.3
Total debt to capital	49.7	53.2	45.8	40.5	35.9

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Company Description

EIH is the second largest hotel operator in India catering primarily to the premium segment. The group, through subsidiaries and associates, operates 20 hotels (estimated 3,000 rooms) under 'The Oberoi' and 'Trident' brands across India – 'The Oberoi' positioned in the luxury segment and 'Trident' targets the high quality mid-price segment. The company has a strategic alliance with Hilton, UK (now Hilton Corporation, US) for international marketing of group properties in India, co-branding its Trident Hotels as 'Trident Hilton' and re-branding the Oberoi Towers, Mumbai as Hilton Towers in India. Its luxurious properties cater to both business and leisure travelers. With rapid growth in room demand the company plans to expand presence with new properties in growth cities and through management contracts. It is the flagship company of Oberoi Group, which hold a 46% stake.

Investment Thesis

We initiate coverage on EIH with a Hold/Low risk rating (2L) and a 12-month target price of Rs620, which implies limited upside of 7% return on a 12-month horizon. This is based on a PE of 20x FY07E earnings, premium to sector valuations of 17x PE, but at a 10% discount to our target multiple (22x) assigned to market leader Indian Hotels, which offers scale and a stronger business model.

Robust economic growth increased business and leisure travel feeding strong demand for hotel rooms would drive up occupancies and ARRs. EIH's key hotels are concentrated in Delhi, Mumbai and Bangalore (82% of FY06E room revenues). These markets have a strong growth outlook for ARRs and occupancies; we believe the company will be a key beneficiary. However, lack of presence in upcoming growth markets - Hyderabad, Pune and Goa need to be addressed to de-risk the business model. Marketing and co-branding alliance with Hilton International, US will provide it with access to Hilton's worldwide customer network and should translate into higher ARRs and occupancies across properties. Initiatives to grow through management contracts and enhance services like air catering, spas should further drive growth and profitability. While more clarity is awaited on the company's scale of expansion and methods for funding, we see ARR CAGR of 11% and higher occupancy levels of 72% primarily driving earnings CAGR of 41% over FY2006-08E. Depreciating rupee would also be positive given the sensitivity to earnings, as 52% of revenues are earned in forex (we estimate that 5% depreciation would lead to an earnings increase of 7-9%, and vice versa).

With the stock down 18% over last month, we see upside potential in EIH's current valuations of 18.8x FY07E PE given rapid earnings growth forecasts, stock trading cum bonus (1:2 announced recently) and our positive view on the sector. However, lack of clarity on EIH's scale of expansion and liquidity issues in the stock are likely to hinder price performance and a re-rating. Thus, we are initiating coverage with a Hold (2L) rating.

Key Points

Concentration in key metros

EIH's hotel properties are concentrated in growth markets of Delhi, Mumbai and Bangalore (82% of FY06E room revenues) – cities experiencing rapid room demand, widening demand-supply gap and the highest ARRs and occupancy levels across the country. We see this as an inherent trigger for the company's growth in ARRs and occupancies in the future. However, this can adversely impact its performance in situations of economic downturn. Further lack of presence in upcoming growth markets like Hyderabad, Pune and leisure destinations like Goa need to be addressed to de-risk its business model.

Strategic alliance with Hilton, US

EIH has a strategic alliance with Hilton International, UK (now Hilton Corporation, US) for marketing of group properties in India, co-branding Trident Hotels (held through associate company EIH Associated and Indus Hotels) as 'Trident Hilton' and re-branding the Oberoi Towers, Mumbai as Hilton Towers for a period of 15-years. Hilton will be entitled to a franchise fee, varying between 3-5% of the gross room revenue, while EIH should benefit from access to Hilton's worldwide customer network, higher ARRs and occupancies across properties should improve the company's competitive position.

Growth in tourist traffic – positive for 'Vilas' properties

EIH's luxurious properties know as 'Vilas' (13% of FY06 room revenues) across India's key tourist destination – Udaipur, Agra, Jaipur, Shimla should benefit from the 'Incredible India' campaign to increase tourism in India. We see double digit growth in tourist traffic driving up EIH's ARRs by 12% over FY06-08E and improving occupancy levels to 50% levels over the next two years compared to the 45% levels today. The re-branding exercise of the 'Vilas' hotels as 'Oberoi' and initiatives to re-furbish properties should also translate into higher ARRs. Plans to expand in new locations – Palace hotel in Madhya Pradesh and a hotel in Goa, is in the pipeline. This should increase EIH's share of leisure hotels room revenues from 13% in FY06E to 17% by FY08E.

Enhance revenue streams

EIH is also looking to enhance revenue streams - expand F&B outlets (34% of FY06E revenues) and spas across properties. The company has already opened three new F&B outlets, 'Three-sixty degree' and 'Travertino' in Delhi and 'Tiffin' in Mumbai and also refurbished and re-launched 'The Polo Club' in Bangalore with new concepts and cuisines. Additionally its air-catering revenues are growing at 20%-plus and plans to increase services in more airports to take advantage of the increasing air traffic. We believe all these initiatives will further aid growth and profitability.

Group properties restructured

Restructuring of group properties between EIH and EIH Associated Hotels (EIH holds 24% stake) has resulted in the transfer of EIH's two hotels The Oberoi Cecil, Shimla and Trident, Hilton, Bhubaneshwar to EIH Associated Hotels for a consideration of Rs.700mn (Rs.10mn 4% Redeemable Non-cumulative preference shares and Rs.690mn 6% Debentures). Additionally, Indus Hotels (EIH holds 50% stake) having four Trident Hilton properties in Jaipur, Udaipur, Agra and Cochin will be merged (ratio not known) with EIH Associated Hotels. This will consolidate the group's Trident-Hilton properties under EIH Associated Hotels and enable it to take advantage of rapid growth in high quality mid-price hotels in second cities. We see these initiatives improving EIH's organization structure, contribute towards a higher share of profits from associate companies and drive consolidated earnings CAGR of 41% over FY06E-08E.

Rich real estate portfolio

The company has a rich portfolio of real estate in key growth cities like Delhi, Bangalore, Goa, Agra and North Mumbai. With demand for real estate on the rise (given the strong macro economic outlook) and property prices spiraling, we see hidden real estate value in EIH's assets. This would significantly lower the company's capital cost for setting up new luxury hotels in progress in these cities compared to peers and provide it with a competitive advantage.

Capex in pipeline, but more clarity awaited

The company has a significant capex plan for developing new properties, renovating and upgrading existing hotels, F&B outlets over the next two years. It has an upcoming 450-room hotel in North Mumbai (scheduled to open in FY08-09) and plans to have new luxurious properties in Bangalore, Goa and a Vila in 'Khajuraho', a great tourist location. Additionally EIH is looking to renovate and upgrade its properties and F&B outlets to counter rising competition from global peers scaling up presence in the country. While we have currently built in a capex of Rs.2.4bn over FY06E-08E (primarily for the new hotel in Mumbai and renovations of properties), more clarity is awaited on the company's overall scale of expansion and methods for funding the same.

Growth through management contract and joint venture route

EIH plans to leverage the luxurious 'The Oberoi' brand and experience in operating hotels for growth through management contracts and the joint venture route in India and overseas. This would avoid capital intensive investments, increase profitability and significantly improve capital efficiencies. The company's initiative to acquire a management contract for operating the 136 room Trident Hilton hotel, Gurgaon (outskirts of Delhi) is a step in this direction, in our view. Presently, revenues from management contracts are low but we expect this to increase significantly – new additions in Hyderabad and Noida near Delhi are on the cards and will be through management contracts.

Financial analysis

Given EIH's strategy to grow through subsidiaries, joint ventures and associate ventures, we have consolidated in our model the performance of its subsidiaries and associate companies – key companies being: 1) Mumtaz Hotels Ltd (managing Oberoi Amarvilas); 2) Mashobra Resort Ltd (Wildflower Hall, Shimla in Himalayas); 3) EIH Associated Hotels; and 4) Indus Hotels Corporation. In our opinion, its consolidated operations will largely reflect its true earnings potential.

EIH's focus on luxury business hotels and concentration in key metros (Delhi, Mumbai) has led to growth in ARRs and occupancies for the third consecutive year in FY06E. Increasing room demand and low projected supply growth in these markets over the next 12-15months and growing tourist traffic should maintain this trend. We expect ARR CAGR of 11% over FY06-08E and higher occupancy rates of 72% by FY08E (vs. 65% currently) to contribute towards healthy room revenue growth of 18% CAGR over the next two years. Factoring in initiatives to broaden revenue streams – more F&B outlets, spas, air catering services – we expect revenue CAGR of 21% over FY06-08E. Building in this revenue growth, thrust on higher occupancy levels across properties, providing the company with increased operating leverage and higher operating margins, we estimate rapid earnings growth of 41% pa over FY06-08E.

Valuation

Our 12-month price target of Rs620 is based on 20x FY07E, placing it at a premium to sector valuations of 17x PE, but at a 10% discount to our target multiple (22x) assigned to Indian Hotels, the market leader offering larger scale and a stronger business model. The premium is attributed to the following: 1) Premium positioning with 'The Oberoi' brand in luxury hotel segment; 2) rapid earnings CAGR of 41% over FY06-08E amongst the highest in the sector, on our estimates; and 3) rich real estate portfolio, which in our view is undervalued and provides a competitive advantage, in a scenario of spiraling real estate prices.

We use P/E as our primary valuation tool, as this captures the rapid earnings growth potential. With the stock down 18% over the last month, we see upside potential in EIH's current valuations of 18.8x FY07E PE (towards the mean of its historical trading range over last two years of 16-22x), given rapid earnings growth forecasts, stock trading cum bonus (1:2 announced recently), and our positive view on the sector. However, lack of clarity on EIH's scale of expansion and methods for funding are likely to hinder price performance and a re-rating.

We have also used EV/EBITDA as a secondary valuation method – the stock is trading at 10.7x FY07E EV/EBITDA towards the lower-end of its historical valuation range over last two years of 10-13.5x EV/EBITDA. Factoring the strong growth outlook, we believe EIH can trade at the mean of its historical cycle valuations, and we set a target multiple of 11.5x, which would give a fair value of Rs620.

Risks

We rate EIH Low Risk based on our quantitative risk rating system that measures the stock volatility over a 260-day period.

The main company specific upside risks include:

1. More clarity on scale of capex plans and methods to fund the same, would further improve earnings growth visibility

2. Developments on strengthen ties with alliance partner Hilton for growing presence in India and overseas would be viewed positively and could drive valuations

3. Sale of non-core assets, such as excess land would result in unlocking of real estate value and increase cash flows for expansion

The main downside risks facing the company include:

1. Bird-flu hitting India would be bad sentiment for the hotel sector – adversely impacting travel plans into India – hence room demand and our assumptions on ARR and occupancy growth rates

2. EIH has little cushion for unforeseen events. Travel warnings, or outbreaks of any epidemic (e.g SARS in South Asia in FY03) would adversely impact foreign travel and impact growth leading to lower hotel room demand

3. Any high priced acquisitions in the domestic or international markets could constrain cash flows and return ratio's going forward.

If any of these risk factors plays out, EIH's share price will likely have difficulty attaining our target price.

Income Statement, FY04-08E (Rupees in Millions)

Year to 31 Mar	FY04	FY05	FY06E	FY07E	FY08E
Standalone Revenues	4,450	5,555	7,564	9,110	10,804
Subsidiaries Revenues	300	511	571	941	1,098
Total Revenues	**4,751**	**6,066**	**8,135**	**10,051**	**11,902**
YoY Growth (%)		*28%*	*34%*	*24%*	*18%*
EBITDA	**604**	**1,327**	**2,686**	**3,446**	**3,934**
Margin (%)	*12.7%*	*21.9%*	*33.0%*	*34.3%*	*33.1%*
Depreciation & Amortization	(517)	(567)	(495)	(532)	(629)
Other income	618	714	537	271	318
EBIT	**706**	**1,474**	**2,729**	**3,185**	**3,622**
Interest income(expense)	(534)	(922)	(1,039)	(770)	(652)
Profit before tax	**172**	**552**	**1,690**	**2,415**	**2,970**
Tax	(245)	(242)	(705)	(811)	(998)
Profit after tax	**(74)**	**310**	**985**	**1,603**	**1,972**
Min Int & Share of Ass	5	(16)	19	22	29
Adj PAT	**(69)**	**294**	**1,004**	**1,625**	**2,001**
Extra-ordinary Items	0	(45)	951	0	0
Reported Net Income	**(69)**	**248**	**1,955**	**1,625**	**2,001**

Source: Company Reports and Citigroup Investment Research

Balance Sheet, FY04-08E (Rupees in Millions)

Year to 31 Mar	FY04	FY05	FY06E	FY07E	FY08E
Source of Funds					
Equity Share Capital	524	524	524	524	524
Reserves	7,831	7,883	9,390	10,817	12,500
Net Worth	8,355	8,406	9,914	11,341	13,024
Pref Share Capital	700	0			
Def. Tax Liability	1,077	1,144	1,050	946	760
Minority Interest	69	56	48	94	120
Long Term Debt	7,846	8,857	7,920	7,370	6,770
Short Term Debt	1,154	771	490	424	579
Total Debt	9,000	9,628	8,410	7,794	7,349
Capital Employed	**19,201**	**19,234**	**19,422**	**20,175**	**21,253**
Application of Funds					
Gross Block	16,544	16,835	18,587	19,837	21,689
Depreciation	3,218	3,573	4,067	4,599	5,229
Net Fixed Assets	13,326	13,262	14,520	15,238	16,461
Capital WIP	2,084	2,117	1,250	860	560
Investments	2,391	1,937	1,848	1,980	2,047
Inventories	350	413	545	653	744
Sundry Debtors	642	801	1,098	1,256	1,309
Other Current Assets	1,630	1,982	1,650	1,450	1,510
Cash and Bank	546	710	817	1,090	1,195
Current Assets	3,167	3,906	4,111	4,450	4,758
Current Liabilities	(1,767)	(1,988)	(2,307)	(2,353)	(2,573)
Net Current Assets	1,400	1,918	1,803	2,097	2,185
Total Net Assets	**19,201**	**19,234**	**19,422**	**20,175**	**21,253**

Source: Company Reports and Citigroup Investment Research

Cash Flow Statement, FY04-08E (Rupees in Millions)

Year to 31 Mar	FY04	FY05	FY06E	FY07E	FY08E
Adj PAT	(69)	248	1,955	1,625	2,001
Depreciation	517	567	495	532	629
Changes in working capital	57	(353)	222	(21)	17
Gross cash flow	**505**	**463**	**2,671**	**2,136**	**2,648**
Net capital expenditure	(1,859)	(324)	(886)	(860)	(1,552)
Free cash flow	**(1,354)**	**139**	**1,785**	**1,276**	**1,096**
Net investments	296	(453)	(89)	132	68
Non-recurring items	0			0	0
Other items	(1247)	61	153	(257)	(220)
Net change in Debt	2269	628	(1218)	(616)	(445)
Cash available for div.	(36)	375	631	535	498
Dividends paid	(157)	(210)	(524)	(262)	(393)
Equity issued	117	0	0	0	0
Inc/(dec) in net cash	(76)	165	107	273	105

Source: Company Reports and Citigroup Investment Research

Key Assumptions

Year to 31 Mar	FY04	FY05	FY06E	FY07E	FY08E
Avg. ARR	*5,130*	*6,689*	*8,436*	*9,879*	*10,452*
ARR YoY Gr. (%)	*1.0*	*30.4*	*26.1*	*17.1*	*5.8*
Avg. Occupancy (%)	*61*	*65*	*65*	*71*	*72*
Revenue from Subsidiaries (%)	*na*	*8.4%*	*7.0%*	*9.4%*	*9.2%*
F&B / total inc. from ops (%)	*36%*	*38%*	*34%*	*34%*	*33%*

Source: Company Reports and Citigroup Investment Research

Analyst Certification Appendix A-1

I, Ashish Jagnani, research analyst and the author of this report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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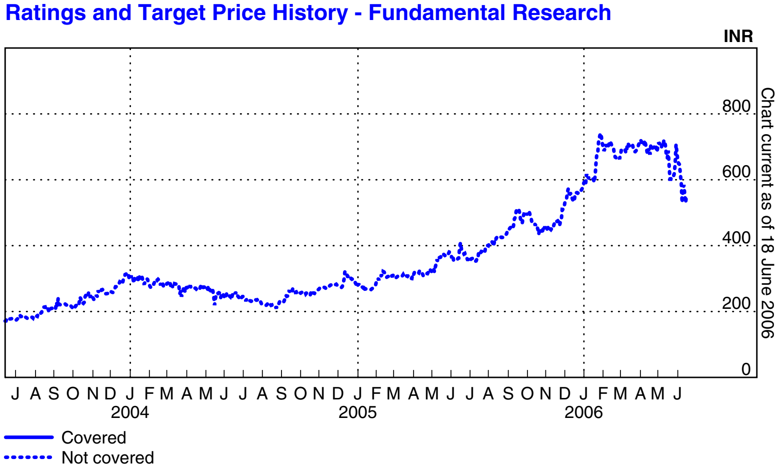
Ratings and Target Price History - Fundamental Research



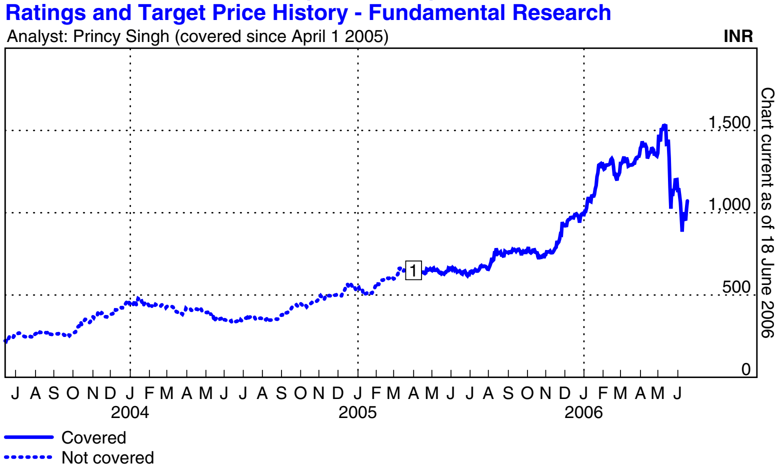
#	Date	Rating	Target Price	Closing Price

*Indicates change.

Indian Hotels Co Ltd (IHTL.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Princy Singh (covered since April 1 2005)



#	Date	Rating	Target Price	Closing Price
1:	1 Apr 05	3L	548.00	633.85

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