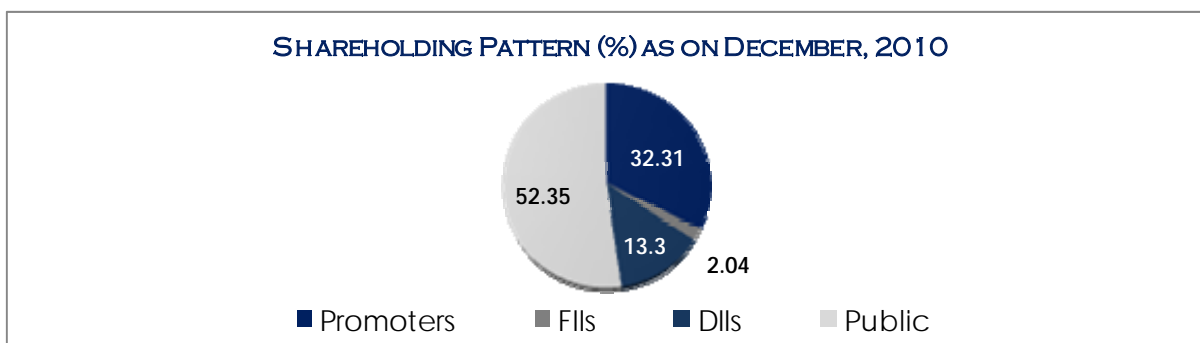


INVESTOR'S DELIGHT – Comparative study on EIH and Indian Hotels Ltd.

COMPANY	EAST INDIA HOTELS (EIH) LTD.
NSE Code	EIHOTEL
BSE Code	500840
FV	Rs. 2
Equity Capital (Rs. in mn)	785.9* (As on Dec, 2010 – Prior to rights issue)
Post Rights Issue – Equity Capital (Rs. in mn)	1,143.1
Market Capitalization (Rs. in mn)	46,867
CMP	Rs. 82.5
Target price	Not rated



ABOUT THE COMPANY

Incorporated in 1949, East India Hotels (EIH) was promoted by the Oberoi group of companies. The Oberoi group was founded in 1934. It owns and is engaged in the management of luxury hotels and cruisers across six countries under the 'Oberoi' and 'Trident' brands.

Hotels owned and managed by EIH Ltd.

Name	Location
The Oberoi	Mumbai
The Oberoi	New Delhi
The Oberoi	Bangalore
The Oberoi Grand	Kolkata
The Oberoi Udaivilas	Udaipur
The Oberoi Vanyavilas	Ranthambore
Trident	Nariman Point, Mumbai
Trident	Bandra – Kurla Complex, Mumbai



Hotels owned through Subsidiary/Associate companies and managed by EIH Ltd.

Name	Location
The Oberoi Amarvilas	Agra
The Oberoi Rajvilas	Jaipur
Wildflower Hall (An Oberoi Resort) Resort)	Himalayas
The Oberoi Cecil	Shimla
The Oberoi	Sahl Hasheesh
The Oberoi	Bali
The Oberoi	Lombok
The Oberoi	Mauritius
Trident	Chennai
Trident	Agra
Trident	Jaipur
Trident	Udaipur
Trident	Cochin

The company is also present in other allied businesses like cruise liners, travel agency 'Mercury Travels', flight catering and aircraft charter services.

KEY DEVELOPMENTS IN Q4FY11 – RIGHTS ISSUE

The company issued right issue of 178.6 mn shares on a rights basis to its existing equity shareholders aggregating to ~Rs.11.6 bn.

Rights Entitlements: Five equity shares for every 11 equity shares held by the equity shareholders as on the Record date.

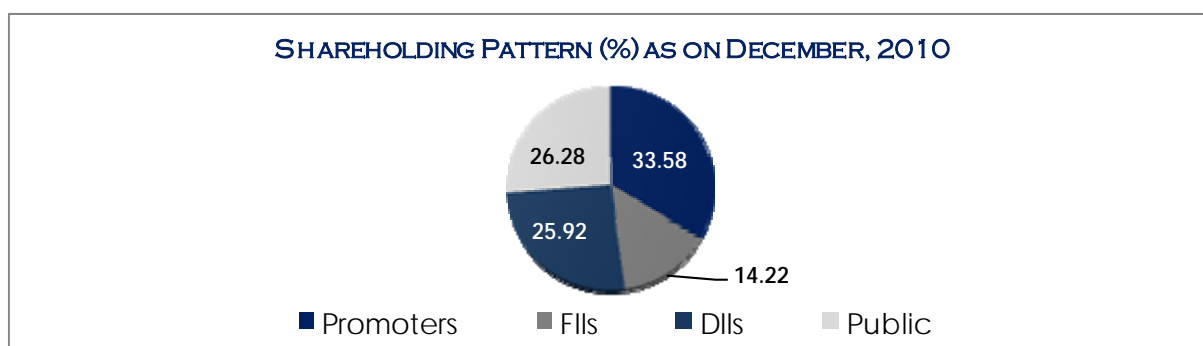
Issue price: Rs. 65 per equity share including a premium of Rs. 63 per equity share.

RIL and Max group's – Mr. Analjit Singh have applied to EIH rights issue: Mukesh Ambani led group Reliance Industries Ltd. (RIL) and chairman of Max group – Mr. Analjit Singh applied to the rights issue of EIH. Prior to rights issue, Mr. Analjit Singh held four percent, RIL held 14.8% in EIH. Prior to rights issue and 'ITC' held 14.99% stake.

Outlook – Fundamentals to improve, a play on expected corporate developments

Rights issue to improve the quality of Balance Sheet: Out of the total proceeds of rights issue, the company would use Rs. 8 bn for debt repayment during FY12E, which would result in interest saving of ~Rs. 500 mn. The rights issue will result in equity dilution of over 45%, however, net impact on EPS would be positive from FY12 onwards as the company would be saving on debt. At CMP, the stock is available at 56% discount to the price at which Mukesh Ambani's Reliance Group bought the shares from the promoters. We believe, EIH is a play on the corporate development front. In case its existing promoters ITC or Reliance decide to increase their shareholding in the group, that will trigger a mandatory open offer as per SEBI guidelines, which may provide upsides.

COMPANY	INDIAN HOTELS LTD.
NSE Code	INDHOTEL
BSE Code	500850
FV	Re. 1
Equity Capital (Rs in mn)	759.5
Market Capitalization (Rs in mn)	61,633
CMP	Rs. 81.15
Target Price	Rs. 97
Upside	19.5%



ABOUT THE COMPANY

Incorporated by the Tata Group, the company opened its first property, The Taj Mahal Palace Hotel, Mumbai in 1903. It has presence across all segments of the hospitality industry viz., luxury, premium, mid market through its brands like Taj, Vivanta, Gateway and Ginger. The company has the largest presence in South Asia through its ~12,200 rooms (103 hotels) across India and international markets like Sri Lanka, Maldives, Malaysia, Australia, UK and USA.

Steady performance in Q3FY11, improved show in 9MFY11

Revenues witnessed yoy growth of 15%. This was mainly on account of higher occupancies and improved Average Room Rentals (ARRs). On the OPM front, the company registered a decline of 500 bps, owing to higher employee costs and other expenses. Increase in retirement benefit liabilities and restoration of salaries and bonuses lead to increase in employee costs by 28.9% in Q3FY11. Expenses related to launch of its two hotel properties in Hyderabad and Mumbai led to yoy increase of 18.1 in operating expenses.

PAT turned positive to Rs. 503 mn on a standalone basis in Q3FY11, after loss in the previous quarter. 9MFY11 revenues clocked 18% yoy growth, attributable to improved occupancy levels of 64% and improvement in ARR's by 700bps to touch Rs. 8,975. We believe, with improved tourist inflows due to

ongoing ICC Cricket World Cup and upcoming Indian Premier League, occupancy levels are expected to improve.

Occupancy levels (%) – Location wise

Particulars	9MFY11	9MFY10
South Mumbai	53	58
North Mumbai	65	64
Delhi	70	67
Bangalore	63	54
Chennai	63	54
Hyderabad	60	56
Kolkata	68	63
Goa	62	60

Source: Company

9MFY11 operational trends

Particulars	9MFY11	H1FY11	9MFY10
Occupancy (%)	64%	62%	61%
ARR (Rs.)	8,975	7,968	8,422

Source: Company

Expansion plans

The company plans to add 2,600 rooms by December, 2013. The company has given a standalone capex guidance of Rs.3 bn for FY12E.

Hotels in pipeline

Particulars	No. of rooms	Indicative timeline	Company
Vivanta			
Vivanta by Taj, Srinagar	88	May, 2011	Management contract
Vivanta by Taj, Coimbatore	180	July, 2011	OHL
Vivanta by Taj, Gurgaon	200	September, 2011	Management contract
Vivanta by Taj, Shahdhra, Delhi	180	September, 2011	Management contract
Vivanta by Taj, Begumpet, Hyderabad	175	October, 2011	Taj GVK
Vivanta by Taj, Coorg	62	October, 2011	IHCL JV
Vivanta by Taj, Dwarka	250	April, 2012	IHCL
Vivanta by Taj, Nagpur	255	December, 2013	Management Contract
Vivanta by Taj, Pondicherry	60	April, 2013	Management Contract
Gateway			
Gateway, Shahdhara, Delhi	300	September, 2011	Management Contract
Gateway, Kolkata	200	December, 2011	Management Contract
Gateway, Raipur	119	February, 2012	Management Contract
Gateway, Gondia	54	August, 2012	BHL
Gateway, Shirdi	119	December, 2012	Management Contract
Gateway, Banerghatta	209	April, 2013	OHL
International			
Taj Palace Temple of Heaven, China	45 (Phase I)	March, 2012	Management Contract
Taj Tangiers, Morocco	60	December, 2012	Management Contract
Total rooms in pipeline	2,556		

Source: Company

Preferential allotment to Tata Sons Ltd. in Q3FY11

In Q3FY11, the company raised Rs. 4.98 bn. The company allotted 36 mn equity shares of the face value of Re. 1 to Tata Sons Ltd. at a premium of Rs. 102.64 per share. In addition to this, 48 mn warrants were issued to Tata Sons, with an option to subscribe to one ordinary share Face value – Re. 1 each at a premium of Rs.102.64 per share for every warrant held. The option shall be exercisable after April 1, 2011, but not later than 18 months from the date of issue of warrants. The funds would be utilized for reducing its interest burden, by repaying debt.

Recovery in International business

The company's portfolio of international properties is witnessing gradual recovery.

IHCL: International portfolio trends

Particulars	Occupancy (%)		ARR (US\$)	
	9MFY11	9MFY10	9MFY11	9MFY10
Pierre, New York	61%	38%	629	688
Taj, Boston	67%	56%	266	266
San Francisco	73%	66%	255	249
London	84%	87%	264	236
Sydney	75%	71%	192	181

Source: Company

OUTLOOK ON EIH AND INDIAN HOTELS

Comparative analysis

Particulars	EIH	Indian Hotels
CMP (Rs.)	82	81
OPM (%) – 9MFY11	19.6	20.5
PAT (%) – 9MFY11	(0.35)	4
ROE (%) – FY10*	4.75	(5)
Debt/Equity (x) – FY10*	1.03	1.75
Consensus FY12E – EPS (Rs.)	2.2	4.4
P/E (based on consensus FY12E EPS)	37x	18x

Note: * - Based on consolidated figures

We believe the occupancy rates of EIH and Indian Hotels would improve on account of Ongoing ICC Cricket World Cup and upcoming cricket event – 'Indian Premier League, leading to high tourist inflows. With expected improved tourist inflows, we believe, occupancy rates would improve and touch peak levels of ~75-80%. On the valuation front, EIH looks expensive as compared to Indian Hotels.

We prefer Indian Hotels over EIH because of the following reasons:

- Indian Hotels has much larger presence in India and other countries as compared to EIH. It would be in a better situation to capitalize on the opportunities presented.
- ARR's would improve on account of higher occupancy rates as its hotels are located in prominent locations.
- Addition of new properties would help in improvement of bottomline.
- The stock is valued cheap, as compared to EIH. At CMP, the stock trades at a P/E of 18x at consensus FY12E EPS of Rs. 4.4 whereas EIH is valued at 37x at consensus estimated FY12 EPS.

We recommend a **'BUY'** on Indian Hotels Ltd. with a target price of Rs.97 (22x at estimated consensus FY12 EPS)



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