NEUTRAL

Price	**Rs127**
Target Price	**-**
Investment Period	**-**

Stock Info

Sector	Hotels
Market Cap (Rs cr)	793
Beta	0.8
52 Week High / Low	135 / 35
Avg. Daily Volume	58405
Face Value (Rs)	2

BSE Sensex	16,781
Nifty	4,987

BSE Code	532390
NSE Code	TAJGVK
Reuters Code	TAJG.BO
Bloomberg Code	TAJG@IN

Shareholding Pattern (%)	
Promoters	75.0
MF / Banks / Indian FIs	7.7
FII / NRIs / OCBs	3.1
Indian Public / Others	14.2

Abs.	3m	1yr	3yr
Sensex (%)	16.7	23.2	36.6
TAJGVK (%)	70.2	56.7	(44.9)

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Pricey growth

*TAJGVK is a joint venture between Indian Hotels Co Ltd (IHCL) and the Hyderabad-based GVK group. It operates in Hyderabad, Chandigarh and Chennai, and has five properties operational, with around 900 rooms. As the economic revival gathers steam, we expect tourist arrivals to increase from 2QFY2010E, which will directly benefit the hospitality industry. Moreover, TAJGVK is on an asset-light expansion strategy to strengthen its grasp on the Hyderabad market. On its EV/Room of Rs1cr, which is in line with the per-room average construction cost, we believe that the stock is fairly priced. Moreover, IHCL, the industry leader, currently has an EV/Room of Rs1.2cr, which makes the risk-reward unattractive for an investment in TAJGVK. Although we remain positive on the industry, considering TAJGVK's valuations at this juncture, **we Initiate coverage with a Neutral rating on the stock.***

- **Strengthening its foothold in the Hyderabad market:** TAJGVK is the market-leader in the Hyderabad market, where it has a share of 29% in premium-segment rooms. In order to strengthen its foothold further and to tap mid-market room demand, the company is coming up with a 189-room property in Begumpet. It also plans to add service apartments and retail space in its existing Taj Krishna property. We believe that TAJGVK would emerge as a prime beneficiary in Hyderabad, after the expansion.
- **Diversification strategy to de-risk the business model:** In FY2008, 78% of the TAJGVK's room inventory was located at Hyderabad. To diversify its presence, the company came up with Taj Mount Road in Chennai, in December 2008. With this, it has toned down Hyderabad's concentration to 59% of the total room inventory in FY2009. It is also planning to enter Bangalore and is exploring the possibility of entering the mid-market segment through tie-ups with IHCL's 'Ginger'. We believe that this strategy will prove beneficial in the long-run, as it would reduce an over-exposure in the Hyderabad market.
- **Asset-light strategy to keep the balance-sheet healthy:** TAJGVK is adding 189 rooms at its Begumpet property, using an asset-light strategy. This would require a lower capital outlay as compared to a green-field expansion and we expect the company's debt-equity ratio to be at a comfortable level of 0.56x in FY2011E, which provides TAJGVK with adequate room to plan further expansions, without hampering its balance sheet quality.

Key Financials

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	**257**	**237**	**224**	**275**
% chg	*6.0*	*(7.8)*	*(5.8)*	*22.9*
Net Profit	**70**	**53**	**30**	**41**
% chg	*9.5*	*(25.1)*	*(43.8)*	*38.3*
EPS (Rs)	**11.2**	**8.4**	**4.7**	**6.5**
EBITDA Margin (%)	47.0	42.4	34.4	37.2
P/E (x)	11.3	15.1	26.8	19.4
RoE (%)	30.2	19.5	10.1	12.5
RoCE (%)	35.1	20.9	12.7	15.3
P/BV (x)	3.4	2.9	2.7	2.4
EV/Sales (x)	3.3	3.9	4.2	3.5
EV/EBITDA (x)	7.1	9.3	12.3	9.3
EV/Room (Rs cr)	1.0	1.0	1.1	1.1

Source: Company, Angel Research

Company Background

TAJGVK has operations in Hyderabad, Chandigarh and Chennai, with five properties and around 900 rooms

TAJGVK Hotels and Resorts Ltd is a joint venture company between Indian Hotels Co Ltd (IHCL), a Tata group company, and the Hyderabad-based GVK Group. The joint venture was formed in the year 1999-2000 to introduce IHCL as a Strategic Investor-cum-operating-alliance for enhancing services and for improving overall operations. The GVK group is a diversified business conglomerate, with a major focus on infrastructure and a secondary focus on hospitality. IHCL is one of the leading players in India's hospitality space, with more than 11,000 hotel rooms. Under the terms of the JV, the GVK group owns the hotel properties, while the management part is taken care of by IHCL, under the 'Taj' brand, thereby capitalising on the strengths of both the entities.

Property-wise Details

Currently, the company has operations in Hyderabad, Chandigarh and Chennai, and has five properties operational, with around 900 rooms. The company enjoys the position of being a market leader in Hyderabad.

Exhibit 1: TAJGVK - Existing Properties

Name	Location	Star rating	No. of rooms
Taj Krishna	Hyderabad	5D	260
Taj Deccan	Hyderabad	5	151
Taj Banjara	Hyderabad	5	122
Taj Chandigarh	Chandigarh	5D	149
Taj Mount Road	Chennai	5D	215

Source: Company, Angel Research; Note: D refers to Deluxe Properties

The Chennai property got operational recently, in December 2008, at a capital outlay of around Rs170cr. With a view to expanding its footprint further, the company has also bought a 6.5 acre plot in Bangalore. Apart from this, it has also identified various other locations like Jaipur, Kodaikanal and Amritsar for its future expansions. Additionally, the company has also planned additions of around 180 rooms in its existing property, Taj Deccan, a block of 43-room service apartments at Taj Krishna, and the addition of nearly 190 rooms at Begumpet, through the opening of a new hotel under management contracts.

Industry Outlook

Indian Hotel Industry

The contribution of travel and tourism to India's GDP is expected to rise to US $187.3bn by 2019

The Hotel industry in India was on a dream run during CY2004-08, with Occupancy rates (ORs) and Average Room Rates (ARRs) rising steadily due to the demand for rooms outstripping their supply. However, in the past year, the Indian as well as the global economy witnessed a very high degree of uncertainty and volatility. Currently, India's share in the global tourism industry is just 1.2%, at US $67.3bn. Meanwhile, the contribution of travel and tourism to the domestic GDP is expected to be at 6% (US $67.3bn) in 2009, and is estimated to rise to US $187.3bn by 2019.The domestic tourism industry has a huge untapped potential, considering its land-mass, the diversity of its various locales and a roaring economy, which attract all types of tourists.

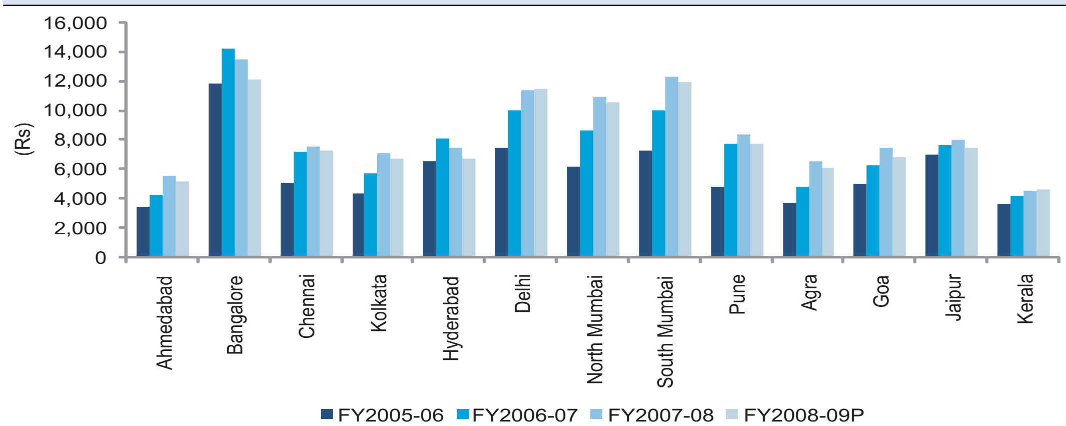
According to the Travel and Tourism Competitiveness Report, 2009, brought out by the World Economic Forum, India is ranked 11th in the Asia-Pacific region and 62nd overall in a list of 133 assessed countries in 2008, up three places since 2007. In terms of travel, India stands ninth in the index of the relative cost of access (ticket taxes and airport charges) to international air transport services, having among the lowest costs in the world. India also ranks second in medical tourism.

Dynamics across major regions

92% of the total premium room demand falls in India's major cities

The major cities in India can be differentiated into Leisure destinations and Business destinations. Places like Mumbai, Bangalore, Kolkata, Chennai, Delhi, Hyderabad, Pune, Ahmedabad and the NCR region primarily attract business travelers, due to the dominant corporate presence in these cities. Places like Agra, Jaipur, Goa and Kerala fall under the category of leisure destinations; since they attract the maximum tourist traffic, many hotel players already have a presence, or plan to expand their presence, in these cities, due to a continuous surge in the demand for rooms. Out of the estimated 31,408 premium rooms in India in FY2008, 29,048 rooms, or 92% of the total, fall in these major cities. With the demand for rooms outstripping their supply, the hotel players were on a dream-run over the past four to five years, helping them in garnering higher ORs and ARRs.

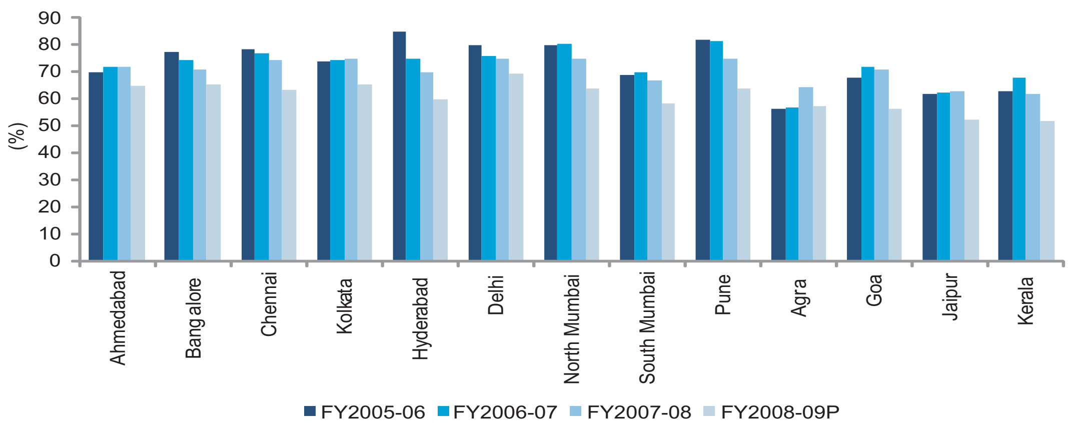
Exhibit 2: ARR Trends across major cities



Source: Crisil Research, Angel Research

Moreover, factors like the increased awareness about India as an attractive tourist destination, government initiatives, robust economic growth, an increase in average income levels and a change in the spending patterns of Indians, contributed towards increasing tourist movement across India, from foreign and domestic travelers. However, this demand started declining in the latter half of CY2008, mainly due to the global economic slowdown, followed by the Mumbai terrorist attacks. This resulted in ORs and ARRs falling sharply across cities. However, with Foreign Tourist Arrival (FTA) trends improving from the months of June and July 2009, we expect the demand to improve in the coming months.

Exhibit 3: Occupancy Trends across major cities



Source: Crisil Research, Angel Research

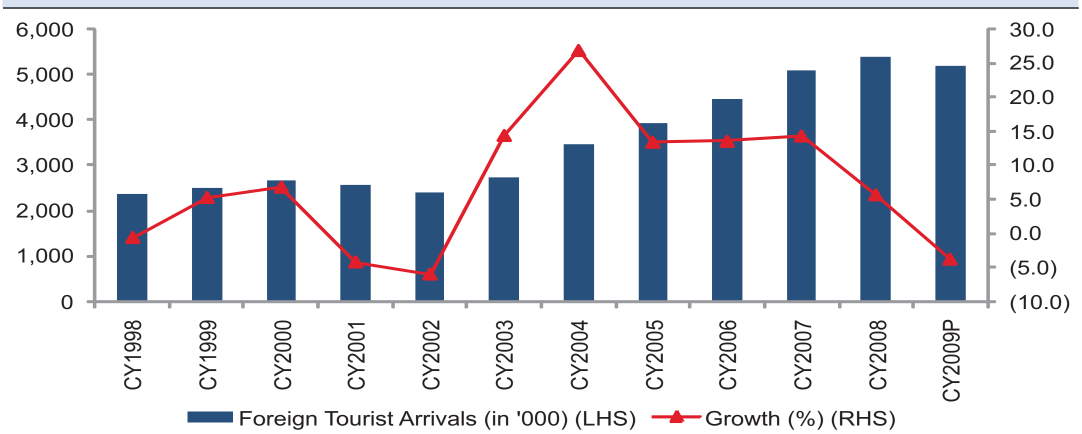
Demand-Supply Analysis: Over-supply concerns exaggerated

Premium room demand expected to witness a CAGR of 11.2% over FY2010-13E

We expect premium room demand in India to rise by a CAGR of 11.2% over FY2010-13E

Currently, India has 1,10,000 hotel rooms across all categories, according to the Ministry of Tourism's estaimtes. In contrast to this, there are more than 4.3mn rooms in the US, and almost 74,000 in New York City alone. Foreign tourist arrivals have been rising at a CAGR of 13.7% over CY2004-07 and the same trend is likely to continue in the future. This, coupled with the likelihood of India emerging as a global economic power, should boost the demand for rooms in the future. However, we believe that the current downturn, which began from the second half of CY2008, has led to temporary demand destruction.

Exhibit 4: Demand Driver - FTAs and Growth rates (CY1998-2009P)



Source: Ministry of Tourism, Angel Research

We expect the industry to undergo a tough phase in FY2010E, although some sort of recovery in tourist traffic can be expected from 2HFY2010. We expect the demand growth to normalise from FY2011E. As per industry sources, the growth in the Indian economy is expected to drive the demand for rooms at a CAGR of 10-12% in the next three to five years. On a historical basis, the industry has witnessed a volume growth in premium room demand at a CAGR of 10.1% over FY2002-08E. Considering the latest signs of economic revival and since India is expected to emerge out of the current crisis at a faster pace, we estimate the demand for premium-segment rooms to witness a CAGR of 11.2% over FY2010-13E.

Premium Room Supply expected to witness a CAGR of 10% over FY2010-13E

We expect premium room supply in India to rise by a CAGR of 10% over FY2010-13E

Over FY2004-08, the total room supply in India, across all classes of hotels, witnessed a CAGR of 5.7%. During the same period, the supply of premium rooms witnessed a CAGR of 4.4%. Considering the expansion plans announced by several players in the recent past, it is feared that the industry may witness oversupply issues in the near future, and this would tone down the ARRs and occupancy levels of hotel players. As per Crisil estimates, the supply over the period FY2009-13E is estimated to witness a CAGR of 19%, with the number of rooms likely to rise from ~30,000 rooms in FY2009E to ~60,000 rooms in FY2013E. The major chunk of this increase in the room supply is estimated in FY2013E, a rise of 43%; over FY2010-13E, the supply growth is estimated to witness a CAGR of 13.4%.

Exhibit 5: Supply projections - Premium rooms

Destinations	FY2009P	FY2010E	FY2011E	FY2012E	FY2013E	CAGR (%)
Business	22,066	24,722	28,135	33,422	49,880	23
Leisure	7,908	8,460	8,922	9,277	11,230	9
Total	29,974	33,182	37,057	42,699	61,110	19

Source: Crisil Research, Angel Research; Note: Supply projections are for the major cities in India

However, due to the global meltdown, the tight liquidity conditions and a downturn in the industry, it is understood that many players have delayed their roll-out plans. Considering the changed scenario, we estimate the supply in FY2013E to rise by 11%. On an overall basis, we estimate the supply to witness a CAGR of 10% over FY2009-13E.

Occupancy Rates to witness uptrend; ARRs may follow

In order to gain clarity on the probable occupancy levels, we have considered three different supply scenarios. In all the three cases, we have assumed that the demand will witness a CAGR of 11.2% over FY2010-13E.

Base-Case Scenario:

We believe that, in the most likely scenario, demand will witness a CAGR of 11.2%, while supply will rise by 10%, over FY2010-13E

In this scenario, we have assumed the most likely demand-supply situation going ahead. We have assumed that Demand will witness a CAGR of 11.2%, while supply will witness a CAGR of 10%, over FY2010-13E. On this assumption, we foresee occupancy levels to climb back to 70% levels by FY2013E, thereby helping the industry in restoring its growth trajectory.

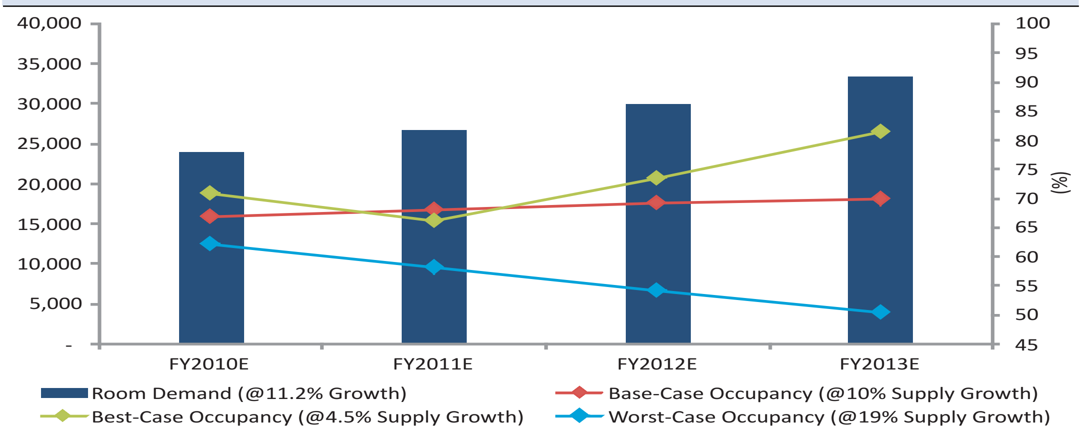
Best-Case Scenario:

Over FY2004-08, the total room supply in India, across all classes of hotels, witnessed a CAGR of 5.7%. During the same period, the supply of premium rooms witnessed a CAGR of 4.4%. In our Best-Case scenario, we have assumed the demand growth as above, while we have assumed that supply will witness the historical CAGR of 4.5%. On this assumption, we foresee occupancy levels to surge to 81% levels by FY2013E. We expect this scenario to be less likely in the future.

Worst-Case Scenario:

Under this scenario, we have assumed the Crisil estimates of supply witnessing a CAGR of 19%. On this assumption, we foresee occupancy levels to significantly decline to 51% levels by FY2013E, thereby severely affecting the profitability of hotel players. We expect this scenario to be highly improbable in the future, on the back of cancellations and delays.

Exhibit 6: Occupancy levels: Sensitivity Analysis



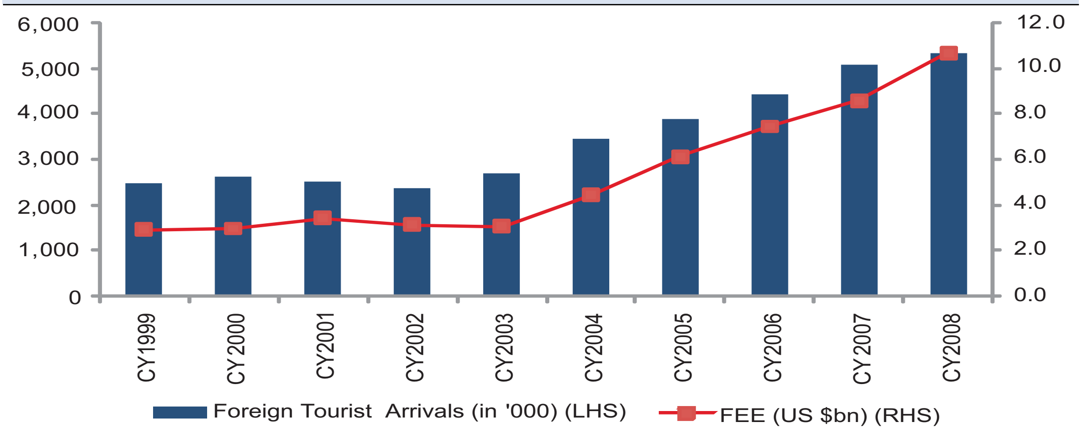
Source: Crisil Research, Angel Research

Growth Drivers for the Hospitality industry

Foreign Tourist Arrival (FTA) trend recovering from its lows

During the year FY2009, the Indian tourism industry had to cope with terrorism and with the global economic downturn. This slammed the brakes on a decade of phenomenal growth in international arrivals (CY1998-2007), which was driven by the successful '*Incredible India*' marketing campaign and steady improvements in the tourism infrastructure.

Exhibit 7: FTAs and Foreign Exchange Earnings (FEE) (CY1999-2008)

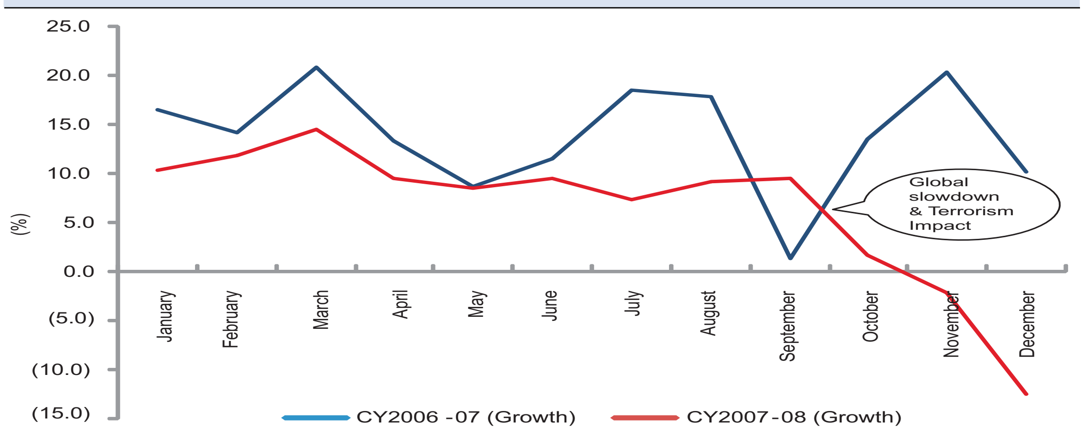


Source: Ministry of Tourism, Angel Research

FTA growth has declined significantly, owing to the terrorist attacks and the economic slowdown

For the Indian hospitality industry, CY2008 began on a reasonably optimistic note; however, the sentiment reversed completely by the end of the year. Tourism demand slowed significantly after September 2008, due to dire global economic conditions. This, coupled with the terrorist attacks in November 2008 in Mumbai, added to the concerns of the hospitality industry. Travelers from the USA, Great Britain, France, Canada, Australia and the Netherlands comprise a majority of the tourist arrivals in India, and all these countries have already advised their people to be vigilant while visiting the country. After the terrorist attacks, the industry recorded cancellations as high as 20%, particularly in the western region of the country. The FTA growth declined significantly in October 2008, registering a marginal rise of 1.8% yoy (13.6% in October 2007). The decline continued in the remaing part of the year, with FTAs posting a de-growth of 2.1% and 12.5% in November and December 2008, respectively, thereby ending CY2008 with a 5.6% growth (against 14.3% in CY2007).

Exhibit 8: Impact of economic slowdown and terrorist attacks on FTAs



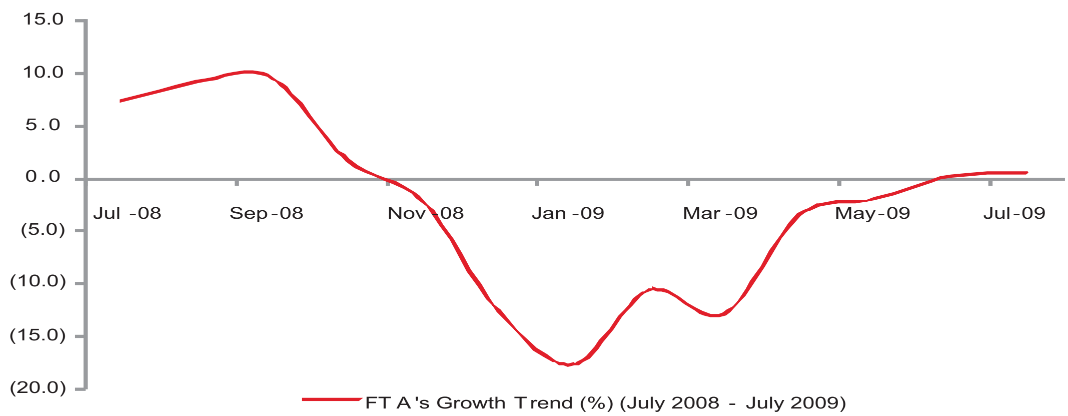
Source: Ministry of Tourism, Angel Research

We expect the recovery in FTAs to speed up over the coming months

The scenario turned even bleaker for the hospitality industry in CY2009, with FTAs declining by 11% during Jan-May 2009, as against a growth of 11% in the comparable period of the previous year. Over the period of October 2008 to May 2009, FTAs declined by 8.3% yoy. However, with the effects of the global meltdown easing out and with economic activity picking up, the declining trend of FTAs seems to have been arrested in June and July 2009, as there has been a marginal growth of 0.2% and 0.6% yoy during the two months, respectively.

We expect the recovery in FTAs to speed up over the coming months, on the back of improving economic activity and the upcoming tourist season in India.

Exhibit 9: FTAs on the path to recovery



Source: Ministry of Tourism, Angel Research

Economic growth leading to shrinking seasonality

India is the second fastest growing economy in the world, resulting in increased business activity across the country. This has resulted in an increase in business travelers, both domestic and foreign. In addition to domestic business travelers, the number of domestic leisure travelers is also increasing, because of the overall increase in income levels of Indians. The ORs of domestic business travelers in premium segment hotels is mainly dependent on corporate profitability, and during a downturn, companies normally curtail their accommodation budgets. Although the business traffic has reduced due to the global economic slump, going ahead, we expect it to be back on track, as India is expected to be among the fastest recovering nations from the current turmoil.

Business travel is less seasonal in nature, and helps in reducing the seasonal characteristics of the industry

Such an increase in the number of business travelers, both domestic and foreign, is a good sign as far as the seasonality of the industry is concerned. This is because the industry's premium segment is largely dependent on foreign tourist inflows, which are generally seasonal in nature; due to the summer and the monsoon seasons, the tourist arrivals in April-September are lower than those in October-March. However, business travel is less seasonal in nature, and helps in reducing such seasonal characteristics of the industry.

Future Outlook

The Hospitality sector is expected to rise to US $275bn in the next ten years

Given the significant deterioration in Travel and Tourism activity through the second half of CY2008 and the bleak macroeconomic forecast for CY2009, WTTC expects the Travel and Tourism GDP to contract by 3.6% in 2009, and further expects it to remain weak in 2010, with only marginal growth. Within this, travel and tourism investments, and corporate travel are expected to be the hardest hit. Residents' travel and tourism spending is likely to be the least affected, but even here a decline of 2.75% is projected for 2009, despite some substitution of domestic travel for foreign travel. The expected rise in demand over the next two to three years would be largely due to factors such as India's popularity as a tourist destination, its strong economic fundamentals, a continued interest from multinationals, and a steady growth in domestic travelers (both business and leisure). However, the Hospitality sector is expected to rise to US $275bn in the next ten years. We expect the industry to undergo a tough phase in CY2009, though some sort of recovery in tourist traffic can be expected from 2HCY2009E. The financials of the hotel players are likely to remain subdued in FY2010E and to start recovering from FY2011E, as the weak demand would hamper ARRs and ORs.

Investment Arguments

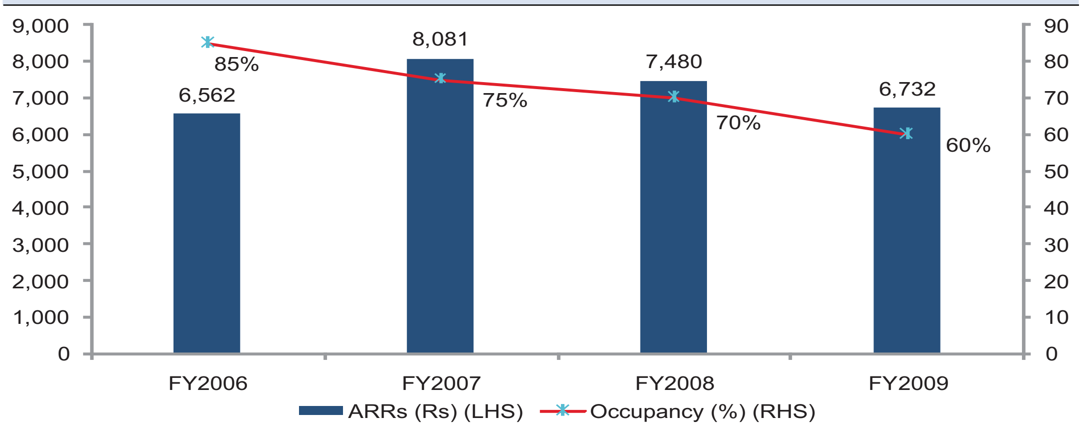
Strengthening its foothold in the Hyderabad market

TAJGVK is the market-leader in the Hyderabad market, where it has a share of 29% in premium-segment rooms. In order to strengthen its foothold further and to tap mid-market room demand, the company is coming up with a 189-room property in Begumpet. It also plans to add service apartments and retail space in its existing Taj Krishna property. We believe that TAJGVK would emerge as a prime beneficiary in Hyderabad, after the expansion.

Hyderabad Market Snapshot

Hyderabad is well known for the IT/ITES, pharmaceutical and biotech sectors. It is primarily a business destination, with around 60% of the business travelers representing foreign companies and the rest from within India itself. The city has witnessed robust economic growth in the recent past, due to several reform and infrastructure developments, which has translated into a healthy business for hotels. Many software companies, call centers and Business Process Outsourcing (BPO) firms were set up in the recent past, transforming Hyderabad into a knowledge-based city. Other initiatives like the development of a financial district at Khanmet village, together with the proposed 'Fan City', near Shamshabad, will further drive economic growth in the coming years.

Exhibit 10: Hyderabad ARRs and Occupancy Rates



Source: Crisil Research, Angel Research

3-star rooms constitute ~54% of the total; premium segment rooms constitute ~31% of the total, and are dominated by TAJGVK

The Hyderabad hospitality market has around 5,900 rooms across different categories, and the market is skewed toward 3-star category rooms, which have the highest concentration at ~54% of the total inventory. Premium segment rooms constitute ~31% of the total, and are dominated by TAJGVK. By FY2011E, the total room addition in the premium segment is likely to be ~800 rooms. Recently, ARRs and ORs in the city have taken a hit, mainly due to the subdued business environment of the IT/ITES segment, on which Hyderabad has a high dependence. During the period of April-June 2009, ARRs in the city have declined by 12.5% as compared to the corresponding period last year. Occupancies have declined from 68% in April-June 2008, to 46% in April-June 2009. Although the long-term prospects for the city remain positive, we expect the hotel players in the city to witness pressures in terms of ARRs and ORs in the near-term.

TAJGVK: Consolidating in Hyderabad

Around 60% of TAJGVK's room inventory situated in Hyderabad, and is the leader, with a market share of 29%

TAJGVK has a predominant presence in the Hyderabad market, with around 60% of its room inventory situated in the city in FY2009; it is also the market-leader, with a market share of 29%, in terms of the number of rooms in the premium segment. All of its three properties in Hyderabad have been positioned across the main business centers, and each one of them targets different class of tourists:

Premium Class (Taj Krishna): Taj Krishna is a 260-room flagship property of the company. This hotel caters to the premium class and offers facilities like a ballroom and banquet services, for conferences and marriages.

Leisure and Business Classes (Taj Deccan): Located in Hyderabad's elite Banjara Hills, this hotel contains 151 rooms and caters to both leisure and business travelers alike. It is conveniently located 30km from the Rajiv Gandhi International Airport and 5km from the railway station. The tariff rates offered by this property are lower by around 20-25% than those in Taj Krishna.

Business Class (Taj Banjara): This property is primarily targeted towards business travelers and has a room inventory of a 122 rooms. The property is based on leased land, and has the unique feature of having a private lake. The tariff rates offered by this property are the lowest among the company's three properties in Hyderabad.

TAJGVK has chalked out a Rs155cr asset-light expansion plan to expand in Hyderabad

With a view to further strengthening its presence in Hyderabad and to diversify its offerings, the company has chalked out a Rs155cr asset-light expansion plan:

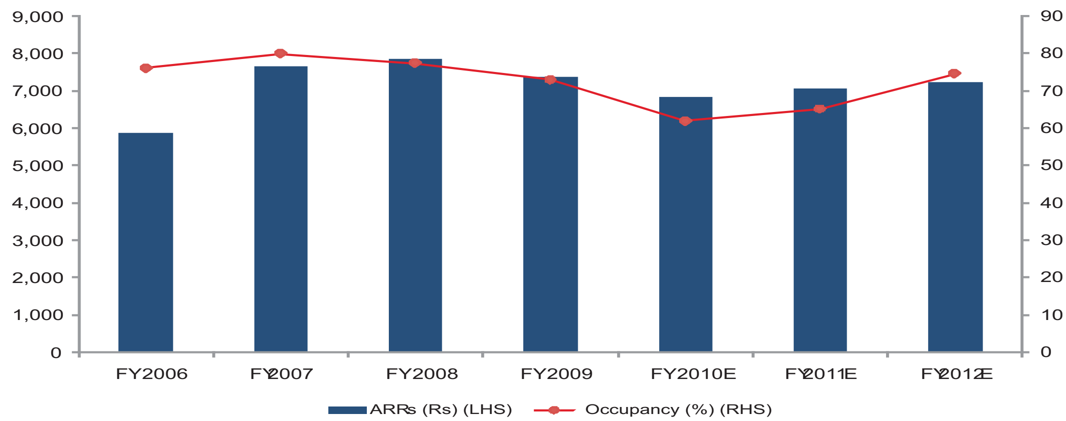
Begumpet property to target the mid-segment category: TAJGVK is adopting an asset-light strategy for its 189-room Begumpet property. Under this arrangement, the owner of the land would be responsible for putting up the structure, while TAJGVK would be doing the interiors. The project would require a capital outlay of Rs80cr for making the interiors, and is expected to get operational in 2HFY2011E. The company plans to target the mid-segment business category through this property. We have factored in this expansion in our FY2011E estimates.

Expansion at its existing Taj Krishna property: TAJGVK is proposing the construction of 43 service apartments, with a 7,000sq.ft. spa and an additional car-parking facility at the existing premises of Taj Krishna, at an estimated cost of Rs75cr. The project is expected to be completed in two years. The company also plans to construct a ~15000sq.ft. shopping arcade in the Taj Krishna, and the same would be leased out to premium-end players. TAJGVK expects to garner revenue of Rs5-6cr from the lease-out; however, we have not factored these developments into our estimates.

ARR and OR snapshot

Although we expect the ARRs for TAJGVK's Hyderabad properties to decline by 7% in FY2010E, we expect the recovery trend to start from FY2011E, registering a rise of 3%. On the OR front, we estimate a fall from 73% in FY2009 to 62% in FY2010E, and a subsequent recovery to 65% in FY2011E.

Exhibit 11: ARRs and Occupancy Trends - Hyderabad properties



Source: Company, Angel Research

Diversification strategy to de-risk the business model

TAJGVK has expanded into Chandigarh and Chennai to develerage its Hyderabad-based presence

In FY2008, Hyderabad constituted 78% of TAJGVK's total room inventory, and contributed 82% of the total revenues. The rest was contributed by the company's 149-room property in Chandigarh, which got operational in FY2006. In order to diversify its presence, to de-risk its business model and to tap new geographies, the company came up with Taj Mount Road in December 2008, a 215-room property in Chennai. With this, it has toned down Hyderabad's concentration to 59% of the total room inventory in FY2009. We expect Taj Mount Road to contribute ~18% and Taj Chandigarh to contribute ~18% of the total revenues in FY2011E, thereby bringing down Hyderabad's revenue contribution to ~65%.

Chandigarh Market Snapshot

TAJGVK's 150-room property is the only one in Chandigarh's premium segment

Chandigarh has an estimated inventory of 800 rooms, with Taj Chandigarh's 150-room property being the only one in the premium segment. Some of the world's major hotel chains are moving in to tap the hospitality boom in Chandigarh. Carlson Hotels Worldwide Asia Pacific has announced its plans to set up a hotel at Zirakpur - this is an indication of how the city has caught the fancy of the hospitality sector. The estimated total investment being made in hotel projects in Chandigarh could be anywhere around Rs1,000cr. Developers like Uppal's Projects are planning to develop a 5-star hotel in Sector 35, in association with JW Marriott, which involves an estimated cost of around Rs250cr.

Chandigarh, which until a few years ago was only considered as a gateway for Jammu and Kashmir, Himachal Pradesh, Punjab and Haryana, is being developed as a tourist destination, with the efforts of the Chandigarh Industrial and Tourism Development Corporation Ltd (CITCO) and the district administration. With Chandigarh having been placed on the tentative list of World Heritage Sites by the UNESCO, becoming India's first such city, it is most likely to get an added fillip in its efforts to promote the tourism and hospitality sector.

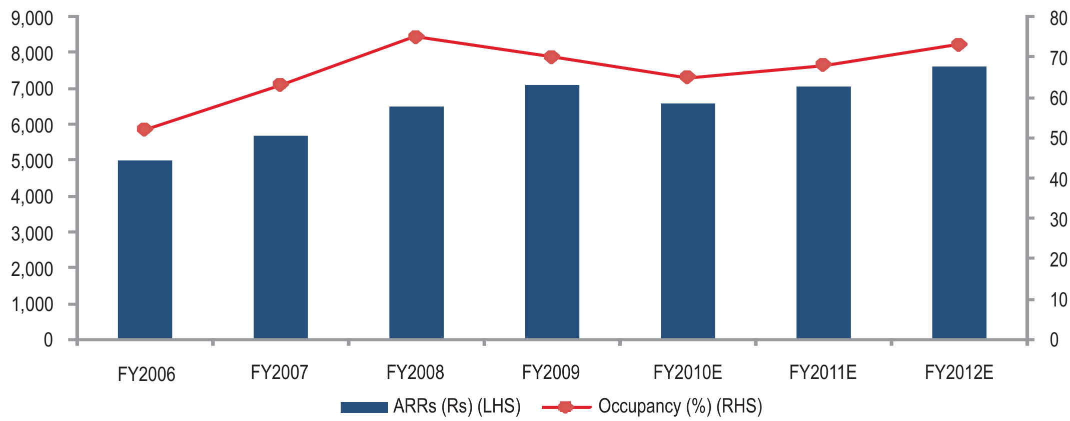
Taj Chandigarh - Overview

Taj Chandigarh, a 5-star rated property, is located near Sector 17, the city's prime business and shopping area, at a comfortable 30-minutes drive from the airport and a 15-minutes drive from the railway station. The property got operational in FY2006, and is designed to suit both business and leisure travelers, with 149 rooms. The property also include several restaurants, and bar and banqueting facilities; its ballroom has the capacity to accommodate 350 guests.

ARR and OR snapshot

We expect the ARRs for Taj Chandigarh to decline by 7% in FY2010E, and to grow by 7% in FY2011E. Moreover, we estimate the ORs to fall from 70% in FY2009 to 65% in FY2010E, and to recover to 68% in FY2011E.

Exhibit 12: ARRs and Occupancy Trends - Taj Chandigarh



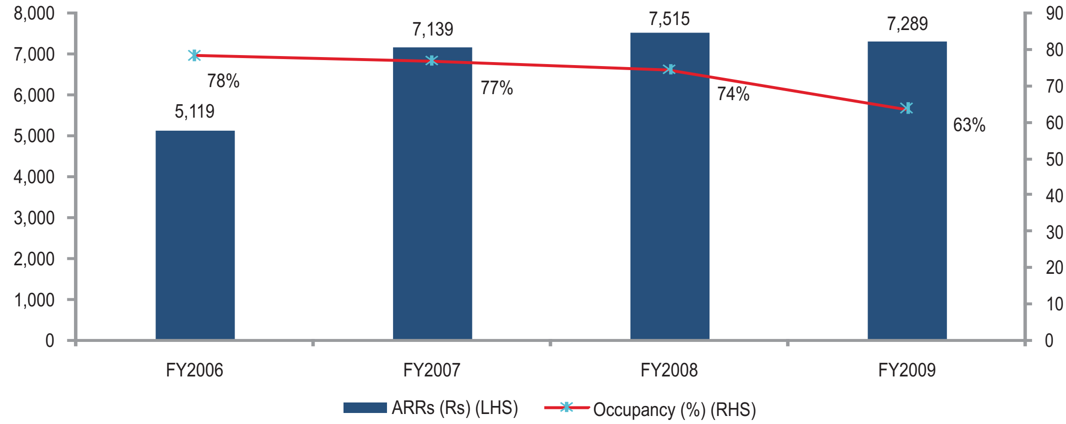
Source: Crisil Research, Angel Research

Chennai Market Snapshot

Although the long-term prospects remain positive in Chennai, we expect ARR and OR pressures in the near-term

Chennai is mainly a business destination, with a high presence of the IT/ITES industry, followed by the auto industry. The Chennai market has around 7,600 rooms across different categories, out of which premium segment rooms constitute around 25%. The competition in Chennai is likely to intensify in the near future due to new properties getting operational. TAJGVK opened its new property, Taj Mount Road, in December 2008. Recently, ARRs and occupancy levels in the city have taken a hit, mainly due to the subdued business environment of the IT/ITES segment. During April-June 2009 ARRs in the city have declined by 17.4% over the comparable period of last year, while occupancies have declined from 68% in April-June 2008 to 52% in April-June 2009. Though the long-term prospects for the city remain positive, we expect the hotel players in the city to witness pressures in terms of ARRs and ORs in the near-term.

Exhibit 13: ARRs and Occupancy Trends - Chennai



Source: Crisil Research, Angel Research

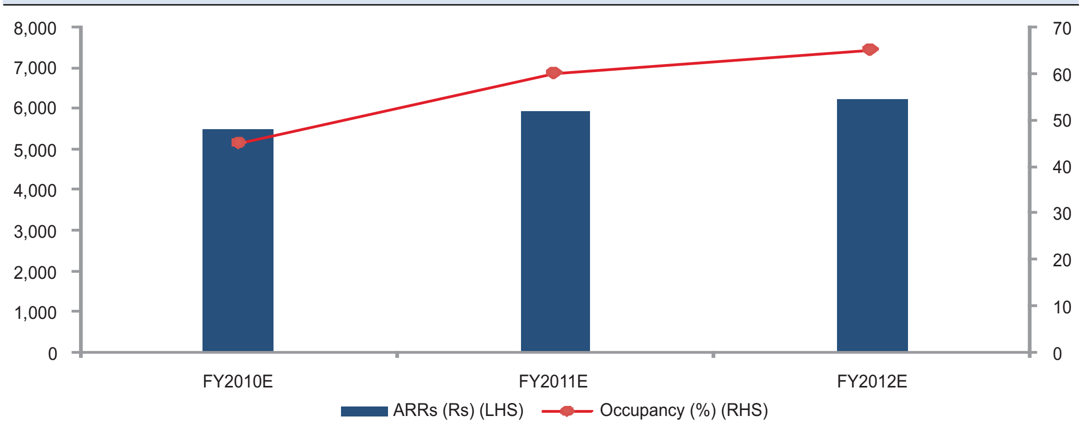
Taj Mount Road, Chennai - Overview

Taj Mount Road is located in the heart of Chennai, off the famous Mount Road, in close proximity to the city's Central business District (CBD). The property got operational in December 2008 and has 215 rooms. The property is mainly targeted towards business travelers. Taj Mount Road is categorised as a premium business hotel, and thereby does not conflict with the interests of three other properties of IHCL that are located in Chennai. Since the operations of the property are still in their early phase, we expect the occupancy levels to be low in FY2010E and to gradually pick-up from FY2011E.

ARR and OR snapshot

We estimate that the ARRs for Taj Mount Road will decline by 8% in FY2010E and rise by 8% in FY2011E. Since operations at this property commenced in December 2008, the ORs were low initially, at 25%; however, we expect occupancies to rise to 45% in FY2010E and to 60% in FY2011E.

Exhibit 14: ARRs and Occupancy Trends - Taj Mount Road



Source: Company, Angel Research

Other initiatives

The company is diversifying into the Bangalore market

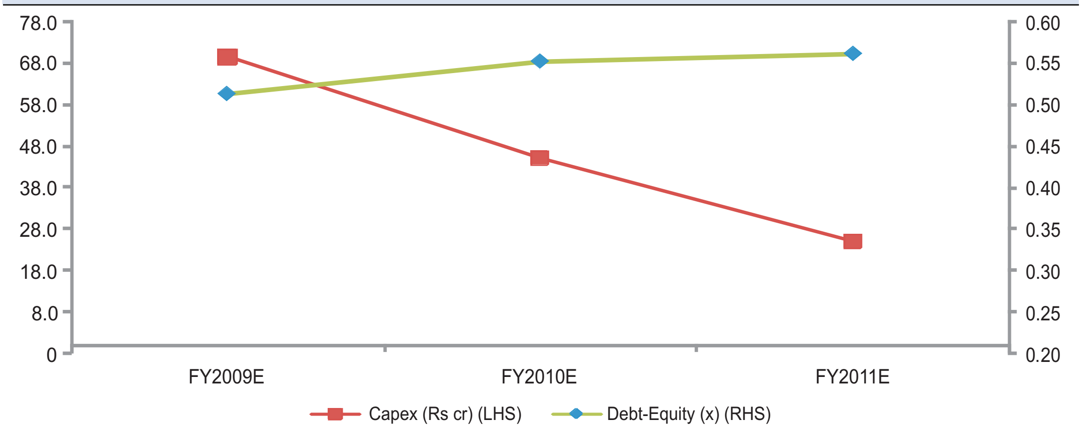
TAJGVK is also planning to enter the Bangalore market, and has already purchased a 6.5 acre plot in the city. Moreover, the company is also exploring the possibilities of entering the mid-market segment through a tie-up with IHCL's 'Ginger' brand of hotels. We believe that this diversification strategy will prove beneficial in the long-run, as it would help in lowering the company's exposure to Hyderabad.

Asset-light strategy to keep the balance-sheet healthy

TAJGVK's asset-light expansion strategy will boost its balance sheet quality

TAJGVK is adding 189 rooms to its inventory through its Begumpet property, using an asset-light strategy. Moreover, the company is also expanding the existing Taj Krishna capacity. We believe that this expansion strategy will be fruitful for the company, as it would require a lower capital outlay as compared to a green-field expansion, thereby protecting its balance-sheet from getting loaded by debt. Post-expansion, we expect the company's debt-equity ratio to be at a comfortable level of 0.56x in FY2011E. Such low debt on its books provides TAJGVK with adequate room to fund its future expansions, without hampering its balance sheet quality.

Exhibit 15: Debt-Equity Ratio v/s Capex



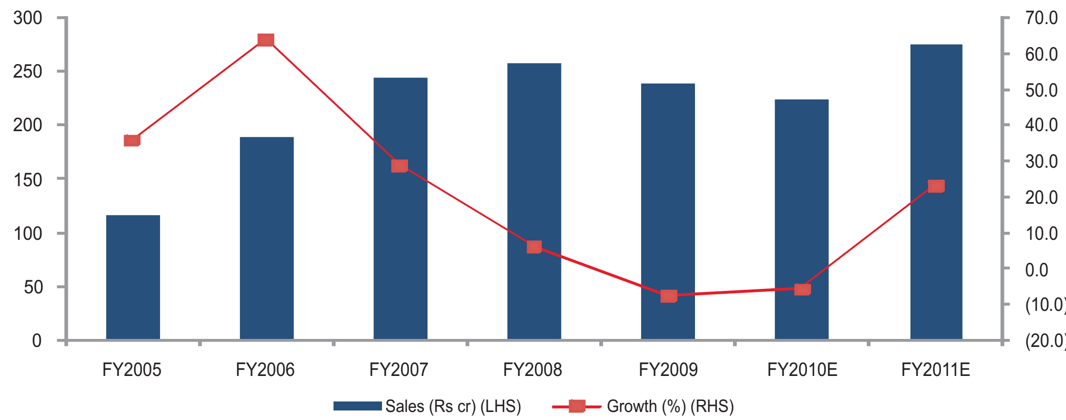
Source: Company, Angel Research

Financial Outlook

FY2010E to remain a trough year for Revenues; Recovery expected from FY2011E

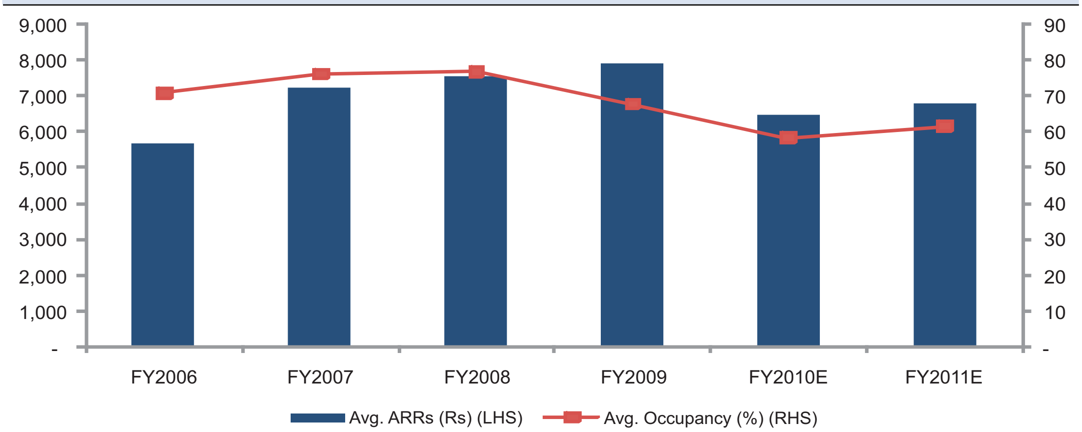
The global economic meltdown, along with the terrorist attacks in India, has affected the hospitality industry, and the hotel players are facing the heat through lower ARRs and ORs. During FY2005-09, TAJGVK witnessed a CAGR of 30.6% in its sales, mainly due to the economic growth resulting in robust demand. As the hotel has a dominant presence in the business destination Hyderabad, we expect its top-line growth to be subdued over FY2009-11E, thereby witnessing a CAGR of 7.6%. We expect FY2010E to be sluggish in top-line terms, and expect the effect of the recovery to be witnessed in FY2011E.

Exhibit 16: Net Sales Growth Trend



Source: Company, Angel Research

Exhibit 17: Overall ARR and Occupancy Trends

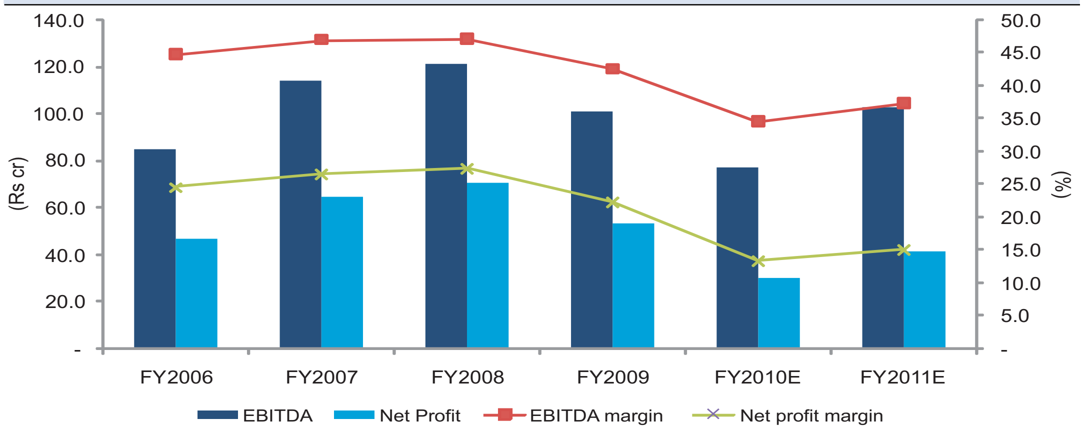


Source: Company, Angel Research

Margins to start recovering in FY2011E

Due to the fixed cost structure of the hotel business, players benefit significantly in the up-cycle of ARRs and Occupancies, while margins erode faster in the down-cycle. During FY2006-08, TAJGVK witnessed robust EBITDA margins within a range of 44-47%. However, with the slowdown in demand after 2HFY2009, the EBITDA margins of TAJGVK contracted, and ended FY2009E with a 457bp decline, from 47% in FY2008 to 42.4% in FY2009. Going ahead, we expect such EBITDA margin contraction to continue in FY2010E, while some recovery could be witnessed in FY2011E, on a yoy basis. TAJGVK's net profit margins are also expected to be under pressure in FY2010E and FY2011E, mainly due to the higher interest and depreciation burdens lurking from its Chennai property, which became operational in December 2008.

Exhibit 18: EBITDA and Net Profit Trends



Source: Company, Angel Research

Concerns

Dependence on Hyderabad: The company derives a majority of its revenues from its three hotels in Hyderabad - this city accounts for ~77% of TAJGVK's total revenues. Hence, any major downturn in this location would have a severe impact on the company's revenues.

Delays in execution of projects: Since our future revenue projections are based on new room additions, any further delays in upcoming properties would impact revenue estimates and, consequently, affect the profitability.

Rising terrorist activities: The travel and tourism industry is highly sensitive to risks arising from terrorist activities. In the past, attacks on the Parliament and bomb blasts across some of the key metro cities badly affected tourist sentiment. A recent example is the 26/11 terror attack at the Taj Mahal Hotel and the Hotel Trident in Mumbai. After this attack, foreign tourist arrivals (FTAs) to India have reduced drastically; it recorded negative growth for three consecutive months since November 2008. Hence, such terror attacks make travel, especially leisure travel, more difficult, resulting in delays/cancellations by tourists.

Outbreak of epidemics: The tourism industry is highly susceptible to the outbreak of epidemics, such as the ongoing swine flu in certain parts of the World. In 2002, there was an outburst of the SARS epidemic, which impacted the tourism industry in some Asian Countries.

Outlook and Valuation

Given the significant deterioration in Travel and Tourism activity after the second half of CY2008 and the bleak macro-economic forecast, we expect the industry to witness tough times in the near-term. However, positive signals of tourist arrivals and signs of economic revival are visible in India in Q2FY2010. We believe that the industry will overcome the rough phase slowly, as economic activity pertaining specifically to the service industry picks up and benefits cities like Hyderabad and Chennai, where TAJGVK has a sound presence. We expect TAJGVK's performance to remain subdued in FY2010E and expect the financials to recover in FY2011E. Moreover, TAJGVK is on an asset-light expansion strategy to strengthen its grasp on the Hyderabad market, and has also been diversifying into the Chennai and Chandigarh markets.

At the CMP, TAJGVK trades at a P/E of 19.4x and at an EV/EBITDA of 9.3x, on its FY2011E estimates. Considering that the stock has mostly traded in an EV/EBITDA band of around 5x on the lower side, and 9x on the higher side, we believe it to be fairly valued on this parameter. On its EV/Room of Rs1cr, which is in line with the company's per-room average construction cost, we believe that the stock is fairly priced. Moreover, IHCL, the industry leader, currently has an EV/Room of Rs1.2cr, which makes the risk-reward unattractive for an investment in TAJGVK. Although we remain positive on the industry as a whole, considering TAJGVK's valuations at this juncture, **we recommend a Neutral rating on the stock.**

Profit and Loss Statement

Rs crore

Y/E March	FY2008	FY2009	FY2010E	FY2011E
Net Sales	**257**	**237**	**224**	**275**
% chg	*6.0*	*(7.8)*	*(5.8)*	*22.9*
Total Expenditure	136	137	147	173
EBITDA	**121**	**101**	**77**	**102**
(% of Net Sales)	*47*	*42*	*34*	*37*
Other Income	2	1	1	1
Depreciation & Amortisation	12	14	19	23
Interest	3	7	14	17
PBT	**108**	**82**	**45**	**63**
(% of Net Sales)	*42.1*	*34.4*	*20.3*	*22.8*
Tax	38	29	16	22
(% of PBT)	*35.0*	*35.4*	*34.5*	*34.5*
PAT	**70**	**53**	**30**	**41**
% chg	*9.5*	*(25.1)*	*(43.8)*	*38.3*
(% of Net Sales)	*27.4*	*22.2*	*13.3*	*14.9*
Extraordinary Item	-	(0.6)	-	-
Adj PAT	**70**	**53**	**30**	**41**
% chg	*9.4*	*(24.2)*	*(44.3)*	*38.3*
(% of Net Sales)	*27.3*	*22.5*	*13.3*	*14.9*

Balance Sheet

Rs crore

Y/E March	FY2008	FY2009	FY2010E	FY2011E
SOURCES OF FUNDS				
Equity Share Capital	12.5	12.5	12.5	12.5
Reserves & Surplus	220	258	281	315
Shareholders Funds	**233**	**271**	**294**	**328**
Total Loans	74	139	162	184
Deferred Tax Liability	9	12	12	12
Total Liabilities	**316**	**422**	**468**	**524**
APPLICATION OF FUNDS				
Gross Block	269	463	535	626
Less: Acc. Depreciation	76	89	108	131
Net Block	**193**	**374**	**427**	**494**
Capital Work-in-Progress	139	69	45	25
Investments	**-**	**-**	**-**	**-**
Current Assets	50	33	48	69
Current Liabilities	67	55	54	66
Net Current Assets	**(17)**	**(23)**	**(6)**	**3**
Misc. Exp.	**2**	**2**	**2**	**2**
Total Assets	**316**	**422**	**468**	**524**

Cash Flow Statement

Rs crore

Y/E March	FY2008	FY2009	FY2010E	FY2011E
Profit before tax	108	82	45	63
Depreciation	12	14	19	23
Change in Working Capital	-	(13)	(2)	10
Direct taxes paid	38	29	16	22
Cash Flow from Operations	**82**	**80**	**50**	**55**
Inc./ (Dec.) in Fixed Assets	62	112	28	48
Free Cash Flow	**20**	**(32)**	**22**	**7**
Inc./ (Dec.) in Investments	-	-	-	-
Issue of Equity	-	-	-	-
Inc. / (Dec.) in loans	1	65	23	22
Dividend Paid (Incl. Tax)	1	(8)	(6)	-
Others	(37)	(34)	(28)	(16)
Cash Flow from Financing	**(35)**	**23**	**(11)**	**6**
Inc. /(Dec.) in Cash	(14)	(9)	11	13
Opening Cash balances	**25**	**11**	**2**	**13**
Closing Cash balances	**11**	**2**	**13**	**25**

Key Ratios

Y/E March	FY2008	FY2009	FY2010E	FY2011E
Per Share Data (Rs)				
EPS	11.2	8.4	4.7	6.5
Cash EPS	13.1	12.0	13.1	10.6
DPS	3.2	2.0	1.0	1.0
Book Value	37.1	43.2	46.8	52.3
Operating Ratios (%)				
Raw Material / Sales (%)	8.2	8.5	8.6	8.3
Staff Expenses (%)	11.6	15.5	18.0	17.0
Debtors (Days)	7.6	9.8	11.0	11.0
Debt/Equity (x)	0.3	0.5	0.6	0.6
Returns (%)				
RoE	30.2	19.5	10.1	12.5
RoCE	35.1	20.9	12.7	15.3
Dividend Payout	28.5	23.8	32.0	32.0
Valuation Ratios (x)				
P/E	11.3	15.1	26.8	19.4
P/BV	3.4	2.9	2.7	2.4
EV/Sales	3.3	3.9	4.2	3.5
EV/EBITDA	7.1	9.3	12.3	9.3
EV/Room (Rs cr)	1.0	1.0	1.1	1.1

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Ratings (Returns) :	Buy (Upside > 15%)	Accumulate (Upside upto 15%)	Neutral (5 to -5%)
	Reduce (Downside upto 15%)	Sell (Downside > 15%)	

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