



Index

- ♦ Stock Update >> [JK Cement](#)
- ♦ Stock Update >> [Punjab National Bank](#)
- ♦ Sector Update >> [Hotels](#)

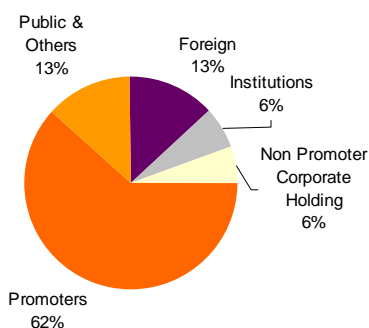
Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ Aban Loyd	03-Mar-05	330	986	1,760
♦ BHEL	11-Nov-05	1,203	2,150	2,650
♦ ICICI Bank	23-Dec-03	284	547	750
♦ Infosys	30-Dec-03	689	1,681	1,870
♦ Orient Paper	30-Aug-05	214	383	675

JK Cement

Cannonball
Stock Update
Better than expected performance
Buy; CMP: Rs153
Company details

Price target:	Rs295
Market cap:	Rs1,070 cr
52 week high/low:	Rs211/109
NSE volume: (No of shares)	1.6 lakh
BSE code:	532644
NSE code:	JKCEMENT
Sharekhan code:	JKCEMENT
Free float: (No of shares)	2.7 cr

Shareholding pattern

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	12.0	-20.0	-	-
Relative to Sensex	9.4	-10.6	-	-

Result highlights

- ◆ JK Cement's Q1FY2007 results are way ahead of our expectations, primarily because of higher-than-expected cement realisations.
- ◆ The revenues for the quarter grew by 39.5% to Rs279.5 crore, driven by a 32% increase in the cement realisations and a 5.7% growth in the cement volumes.
- ◆ As the cement realisations improved substantially, JK Cement's operating leverage came into play and consequently its operating profit for the quarter grew by a huge 163% to Rs65.7 crore.
- ◆ The interest for the quarter declined by 37.4% as the company has adjusted interest earned (on the surplus funds from the follow-on public issue) against interest expended. The depreciation for the quarter jumped by 8%.
- ◆ The net profit for the quarter grew by a staggering 547% year on year (yoy) to Rs33 crore.
- ◆ JK Cement has acquired a 100% holding of a group company JayKay Cem. This company holds limestone mining rights. The company will now be implementing a 3-million-tonne greenfield cement plant in Karnataka. The plant will commence operations in December 2008.
- ◆ The company is about to commence commercial operations after the 0.5-million-tonne expansion. Further the company is about to place the orders for a waste heat recovery plant and a captive power plant (CPP).

As mentioned earlier JK Cement's Q1FY2007 results are way ahead of our expectations primarily because a higher-than-expected improvement in the cement realisations. In the wake of the narrowing cement demand-supply gap and the rising capacity

Result table

Rs (cr)

Particulars	Q1FY2007	Q1FY2006	% yoy chg
Net sales	279.5	200.3	39.5
Total expenditure	213.8	175.3	22.0
Operating profits	65.7	25.0	162.8
Other income	0.7	1.5	-53.3
EBIDTA	66.4	26.5	150.6
Interest	8.2	13.1	-37.4
PBDT	58.2	13.4	334.3
Depreciation	8.2	7.6	7.9
PBT	50.0	5.8	762.1
Tax	17.0	0.7	2328.6
Reported profit after tax	33.0	5.1	547.1
EPS	4.7	0.73	
Margins			
Operating margins (%)	23.5	12.5	
EBIDTA (%)	23.8	13.2	
PATM (%)	11.8	2.5	

utilisation levels of cement producers, the prices of cement have stayed firm across the country. This signifies the extent of the strong cement consumption the country is witnessing. We are upgrading our earnings estimates for JK Cement for FY2007 and FY2008 by 46% and 12% respectively. Our earnings per share (EPS) estimates now stand at Rs13.4 for FY2007 and Rs21 for FY2008.

Going forward, the firm cement prices and the volume growth from the recent capacity expansion would drive JK Cement's top line. This coupled with the company's drive to bring down its power cost through the installation of a CPP and a waste heat recovery plant would result in a substantial margin improvement and drive its earnings. We expect JK Cement to register earnings at a compounded annual growth rate (CAGR) of 107% over FY2006-08. At the current market price (CMP) of Rs153 the stock is discounting its FY2007 earnings by 11.5x and FY2008 earnings by 7.3x. On enterprise value (EV)/tonne basis the stock is trading even below the replacement cost, at USD68.5 for FY2007 and at USD57 for FY2008 per tonne of cement. We believe the valuations are attractive as in the next 18 months JK Cement will completely transform itself with 75% captive power arrangement, access to blending material for a higher blended cement ratio, a lot cleaner balance sheet with constant repayment of debt and a strong improvement in its return ratios.

Cement prices buoy JK Cement's revenues by 39.5%

The northern region has been the prime mover in pushing up the prices of cement, as the region is facing an acute shortage of cement. Consequently the region saw a year-on-year (y-o-y) price rise of almost 30%. JK Cement being the fifth largest cement producer in the northern region grabbed this opportunity with both hands and consequently its cement realisations grew by 32%. This coupled with a 5.7% growth in the cement volumes buoyed JK Cement's revenues by an impressive 39.5% to Rs279.5 crore.

Operating profit up 162.8%

Buoyed by the huge improvement in the cement realisations, JK Cement's operating profit grew by a staggering 162.8% to Rs65.7 crore as the operating profit margins (OPMs) improved by 11% to 23.5%. On the cost front, against a growth of 32% in the cement realisations, the cost went up by 15.3%. A majority of the cost increase is attributable to a 33.7% increase in the freight cost per tonne. Hence the earnings before interest, depreciation, tax and amortisation (EBIDTA) per tonne grew by a very impressive 148.5% to Rs710 per tonne.

Per tonne analysis

Rs per tonne	Q1FY07	Q1FY06	% yoy chg
Raw material consumed	316.4	217.0	45.8
Stock adjustment	-35.6	65.1	
Stores	238.7	211.3	13.0
Employee expenses	131.7	108.5	21.4
Power, oil & fuel	794.8	720.6	10.3
Freight	638.2	477.3	33.7
Other expenses	224.6	202.1	
Total exp	2308.9	2001.8	15.3
Realisation	3018	2287	32.0
EBIDTA/Tonne	709.5	285.5	148.5

Net profit up 547%

The performance at the operating level was sweetened by a 37% decrease in the interest cost. The interest for the quarter declined as the company has adjusted interest earned (on the surplus funds from the follow-on public issue) against interest expended. The depreciation for the quarter jumped by 8%. Hence the net profit for the quarter grew by a staggering 547% yoy to Rs33 crore.

Upgrading earnings

In the wake of the narrowing cement demand-supply gap and the rising capacity utilisation levels of cement producers, the prices of cement have stayed firm across the country. This signifies the extent of the strong cement consumption the country is witnessing. We are upgrading our earnings estimates for JK Cement for FY2007 and FY2008 by 46% and 12% respectively. Our earnings per share (EPS) estimates now stand at Rs13.4 for FY2007 and Rs21 for FY2008.

First phase of capex complete

During FY2007 JK Cement mobilised Rs290 crore through a follow-on public issue for its capital expenditure (capex) plan divided into two phases. The first phase included enhancing the capacity of its gray and white cement plant by 0.5 million tonne and 50,000 tonne respectively and the second phase included the setting up of a 20 megawatt (MW) pet coke-based CPP, replacement of the existing 7.5MW thermal power turbine with a 10MW turbine, and the installation of a waste heat recovery power plant. The first phase of the capex has already been completed and the company would enjoy the benefit of higher capacity going forward. The second phase will be completed in three parts with the 10MW turbine being commissioned by December 2006, the pet coke-based CPP being commissioned by April 2007 and the waste heat recovery plant being commissioned by June 2007. As a result JK

Cement will save significantly on its power cost. Our estimate is that after the completion of the second phase of the capex, JK Cement will be able to save at least Rs50 crore on the production of 4 million tonne of grey cement.

Strong cash flow over next two years

As mentioned earlier JK Cement's Q1FY2007 results are way ahead of our expectations primarily because of a higher-than-expected improvement in the cement realisations. In the wake of the narrowing cement demand-supply gap and the rising capacity utilisation levels of cement producers, the cement prices have stayed firm across the country. This signifies the extent of the strong cement consumption the country is witnessing. We are upgrading our earnings estimates for JK Cement for FY2007 and FY2008 by 45% and 12% respectively. Our EPS estimates now stand at Rs13.3 for FY2007 and Rs20.7 for FY2008.

Valuation and view

Going forward, the firm cement prices and the volume growth from the recent capacity expansion would drive JK Cement's top line. This coupled with the company's drive to bring down its power cost through the installation of a CPP and a waste heat recovery plant would result in a

substantial margin improvement and drive its earnings. We expect JK Cement to register earnings at a compounded annual growth rate (CAGR) of 107% over FY2006-08. At the CMP of Rs153 the stock is discounting its FY2007 earnings by 11.5x and FY2008 earnings by 7.3x. On EV/tonne basis the stock is trading even below the replacement cost, at USD68.5 for FY2007 and at USD57 for FY2008 per tonne of cement. We believe the valuations are attractive as in the next 18 months JK Cement will completely transform itself with 75% captive power arrangement, access to blending material for a higher blended cement ratio, a lot cleaner balance sheet with constant repayment of debt and a strong improvement in its return ratios.

Earnings table				Rs (cr)
Particulars	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs cr)	6.3	32.6	93.4	145.9
<i>% y-o-y change</i>		418.0	187.0	56.0
Shares in issue (cr)	5.0	5.0	7.0	7.0
EPS (Rs)	1.3	6.5	13.4	20.9
<i>% y-o-y change</i>		418.0	187.0	56.0
PER (x)	121.6	32.9	11.5	7.3
EV/EBIDTA (x)	43.0	10.4	6.5	4.5
RoCE (%)	6.8	9.6	14.8	19.9
RoNW (%)	1.6	4.8	12.2	16.0

The author doesn't hold any investment in any of the companies mentioned in the article.

Punjab National Bank

Ugly Duckling

Stock Update

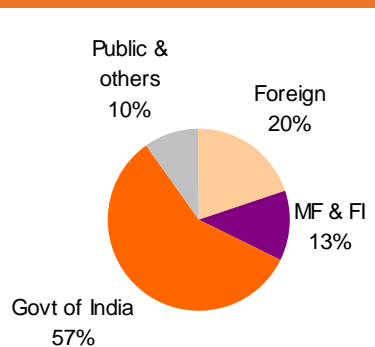
Strong operating performance

Buy; CMP: Rs367

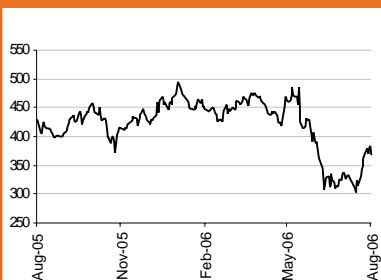
Company details

Price target:	Rs500
Market cap:	Rs11,561 cr
52 week high/low:	Rs496/300
NSE volume: (No of shares)	5.4 lakh
BSE code:	532461
NSE code:	PNB
Sharekhan code:	PUNBANK
Free float: (No of shares)	13.3 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	19.1	-16.5	-12.9	-7.5
Relative to Sensex	16.3	-6.7	-23.1	-35.3

Result highlights

- ◆ Punjab National Bank (PNB) reported strong operational results for Q1FY2007, which were above our expectations.
- ◆ The net interest income (NII) grew by 18.8% year on year (yoy) to Rs1,293 crore backed by a 37.5% year-on-year (y-o-y) growth in the advances and a 25-basis-point growth in the net interest margins (NIMs).
- ◆ However, PNB's total assets grew by a lower 14% yoy as it redeemed its investments to fund the advances growth. The deposits grew by 15.7% yoy; however, they declined by 2.1% sequentially.
- ◆ The fee income grew by 52% yoy as the company revised certain fee rates and due to a lower base.
- ◆ The operating profit grew by 36% yoy, as the operating expenses remained flat. However, adjusting for the exceptional expenses of Rs87 crore in Q1FY2006, the operating profit grew by 19.8% yoy.
- ◆ The net profit for Q1FY2007 grew by 2.3% yoy to Rs367.6 crore. The same is not strictly comparable with that of Q1FY2006 as during Q1FY2007, PNB had a write back of provisions and one-time losses of Rs386.8 crore.
- ◆ The concerns we had earlier about the bank like a higher provisioning requirement and a lower fee income have been allayed to an extent with the lower proportion of the available for sale (AFS) portfolio (only 28% of the total investment now falls in the AFS category) and a strong growth in the fee income.
- ◆ We have revised our FY2007 earnings estimates downwards by 7% to take into account the one-time provisioning done by the bank during this quarter while keeping the FY2008 estimates unchanged.
- ◆ At the current market price of Rs367, the stock is trading at 5.6x its FY2008E earnings per share (EPS) and 0.9x its FY2008E book value. With a return on equity (ROE) of 17.4% we believe these valuations are attractive. We reiterate our Buy recommendation on the stock with a price target of Rs500.

Result table

Particulars	Q1FY2007	Q1FY2006	% yoy chg
NII	1,292.9	1,088.4	18.8
Other income	281.3	253.3	11.1
Fee income	243.1	159.7	52.2
Treasury	-21.9	42.0	
Others	60.1	51.6	
Net income	1,574.2	1,341.7	17.3
Total operating expenses	696.8	696.7	0.0
Operating profit	877.4	645.0	36.0
Provisions	-23.0	116.2	-119.8
Extraordinary expenses	386.8	-	-
Tax	146.0	170.2	-14.2
Reported net profit	367.5	358.7	2.5
Adjusted net profit	644.3	358.7	79.6

Strong growth in operating income

PNB's net operating income grew by a strong 17.3% yoy backed by an 18.8% y-o-y growth in the NII and a 52% growth in the fee income. We are positively surprised by the strong growth in PNB's core income, which grew by a strong 22.8%.

Operating income grows strongly

Rs cr	Q1FY07	Q1FY06	% yoy chg
NII	1,292.9	1,088.4	18.8
Fee income	243.1	159.7	52.2
Other income	60.1	51.6	16.5
Core income	1,596.1	1,299.7	22.8
Treasury	-21.9	42.0	-120.7
Net operating income	1,574.2	1,341.7	17.3

Advances grow by a strong 37.5%

PNB's net advances for the quarter under review grew by 37.5% yoy driven by a strong 49% y-o-y growth in the retail advances.

The advances growth was partially funded by shedding the investment portfolio as the deposits grew by 15.7% yoy and declined by 2.1% quarter on quarter (qoq).

Deposit mix

Rs cr	Q1FY07	Q1FY06	Q4FY06	% yoy chg	% qoq chg
Deposits	117,173.0	101,303.0	119,685.0	15.7	-2.1
Demand deposits	57,414.8	46,194.2	58,645.7	24.3	-2.1
As % of total	49.0	45.6	49.0		

Margins expand yoy as well as sequentially

A 49-basis-point expansion in the yield on the advances and the stable cost of deposits resulted in a 22-basis-point growth in the NIMs. On a sequential basis the NIMs expanded by 10 basis points.

In %	Q1FY07	Q1FY06	Q4FY06	Change in bps	
				yoy	qoq
NIM	4.10	3.85	4.00	25.0	10.0
Yield on advances	8.81	8.32	8.31	49.0	50.0
Yield on investments	7.94	8.16	8.17	-22.0	-23.0
Cost of deposits	4.38	4.38	4.32	0.0	6.0

Source: Company

Core operating profit grows by 30.3% yoy

PNB's reported operating profit grew by 36% yoy, as the operating expenses remained flat. However, during the same quarter last year, PNB had provided for Rs87.3 crore

for wage arrears. Even adjusted for the same the operating profit grew by 19.8% yoy. The core operating profit ie, operating profit excluding the treasury gains grew by an even stronger rate at 30.3% yoy.

Core operating profit grows by 30.3%

Rs cr	Q1FY07	Q1FY06	% yoy chg
Net income	1,574.2	1,341.7	17.3
Reported operating expenses	696.8	696.7	0.0
Reported operating profit	877.4	645.0	36.0
Add: One time wage arrears payment	-	87.3	-
Adjusted operating profit	877.4	732.3	19.8
Less: treasury gains	-21.9	42.0	
Operating profit excl treasury gains	899.3	690.3	30.3

Net profit remains flat due to one-time write off

During Q1FY2007, PNB transferred Rs6,187 crore of securities from the AFS category to the held till maturity (HTM) category to de-risk the investment portfolio from the interest rate risk and booked a loss of Rs386.8 crore on the transfer. PNB has also written back provisions worth Rs23 crore during the quarter compared with a write off of Rs116.2 crore in Q1FY2006. Hence, the net profit for Q1FY2007 is not strictly comparable with that of Q1FY2006.

As a result of one-time write off the net profit grew by 2.3% yoy to Rs367.5 crore.

Asset quality improving

PNB's gross non-performing assets (NPAs) as a percentage of gross advances declined from 6.02% at the end of June 2005 to 3.98% at the end of June 2006. The gross non-performing assets have also declined in absolute terms despite a strong growth in the advances book.

However the net NPAs as a percentage of the net advances have risen by 15 basis points yoy and by 6 basis points qoq to 0.35% in June 2006 due to write back of provisioning.

Valuation and view

The concerns we had earlier about the bank like a higher provisioning requirement and a lower fee income have been allayed to an extent with a lower proportion of the AFS portfolio (only 28% of the total investment now falls in the AFS category) and a strong growth in the fee income.

Although PNB's NIMs for Q1FY2007 have expanded yoy as well as qoq we would like to keep a close watch on the same due to the following reasons.

- ♦ The bank will have to manage its strong loan growth without raising the cost of deposits as the high proportion of the demand deposits vis-à-vis the total deposits leave little headroom for further improvement.
- ♦ If the interest rates continue to harden (driven by the tightening global interest rates), the bank may not be able to pass on the same to its customers under pressure from the government. Recently the finance ministry has stalled the hike in the lending rates by various banks by asking them to get the approval from their respective boards.

We have revised our FY2007 earnings estimates downwards by 7% to take into account the one-time provisioning done by the bank during this quarter while keeping the FY2008

estimates unchanged. At the current market price of Rs367, the stock is trading at 5.6x its FY2008E EPS and 0.9x its FY2008E book value. With a ROE of 17.4% we believe these valuations are attractive. We reiterate our Buy recommendation on the stock with a price target of Rs500.

Earnings table

Rs (cr)

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs cr)	1,410.1	1,439.5	1,630.4	2,053.7
Shares in issue (cr)	31.5	31.5	31.5	31.5
EPS (Rs)	44.8	45.7	51.8	65.2
% yoy chg	9.5	2.1	13.3	26.0
P/E (x)	8.2	8.0	7.1	5.6
Book value (Rs/share)	266.9	287.0	337.7	391.4
Price/BV (x)	1.4	1.3	1.1	0.9
RoE (%)	19.3	16.5	16.6	17.9

The author doesn't hold any investment in any of the companies mentioned in the article.

Hotels

Sector Update

More room for upside

The story so far...

The Indian hotel industry went through a bad phase for five years, from 1997 to 2002 due to various socio-economic factors like the nuclear test, SARS disease etc and an unfavourable demand-supply situation in the industry ie the supply outstripped the demand. Since then the revival in the economy (Indian and global) has led to the growth of the industry. Given below is the snapshot of the key indicators like the occupancy rate (OR), the average room rate (ARR) and the revenue per room available (RevPar). Quite notably in the last two-year period, the ORs have improved by around 500-1,000 basis points (except Bangalore) and the ARR has improved by 30-65% (again except Bangalore where they shot up by 131.2%). Both these factors led to the RevPar zooming ahead.

Leading indicators northward bound

The strong traction seen in the hotel industry continued for the first few months of FY2007 leading us to being more optimistic regarding the industry's prospects and growth.

Leading data for the month of April-June 2006

The data available for April-June 2006 for the key indicators (OR, ARR & RevPar) suggest that, FY2007 will witness an ARR rise of 15-20% and a stable OR for all the key properties and destinations across India.

OR--history did not repeat itself

Traditionally the April-June period is a lacklustre period as the tourist arrivals reduce due to the summer and rains in India. So while sequentially one may see a fall in the OR,

analysing the data on a year-on-year (y-o-y) basis would give a better picture. On a y-o-y basis, barring Hyderabad, which saw a drop in all the months, the other cities have shown a sharp jump in the OR. Goa leads the pack with a y-o-y increase of 1,480 basis points in April, 900 basis points in May and 720 basis points in June, followed by Jaipur (up 1,080 basis points, up 600 basis points and up 410 basis points for April, May and June respectively) and south Mumbai (up 20 basis points, up 760 basis points and up 310 basis points for April, May and June respectively). For the month of April 2006 Goa had the maximum occupancy rate of around 88.9% due to the high tourist inflow. While in May and June 2006, Pune was on top of the charts due to a favourable demand-supply scenario. On a national average, the ORs were well above the 65-67% mark giving a major fillip to the hotel companies' performance during the first quarter.

OR for April-May 2006

Occupancy rates	Months			Change in bps		
	Apr-06	May-06	Jun-06	Apr-06	May-06	Jun-06
Bangalore	74.3	79.8	77.6	-690	470	-10.0
Jaipur	69.8	43.0	36.9	1080	600	410.0
Delhi	80.2	72.8	67.3	-80	330	150.0
Goa	88.9	63.4	61.9	1480	900	720.0
South Mumbai	69.7	64.4	62.1	20	760	310.0
North Mumbai	77.5	80.2	78.3	-810	220	-120.0
Hyderabad	82.2	78.1	83.2	-330	-190	-280.0
Pune	81.0	85.3	84.2	-670	780	-170.0
Chennai	72.2	71.1	73.3	-340	270	100.0
Kolkata	70.8	72.1	71.6	-30	210	30.0
Agra	59.9	38.1	25.4	970	350	10.0

Source: Sharekhan

	Occupancy rates			ARR			RevPar		
	03-04	04-05	05-06	03-04	04-05	05-06	03-04	04-05	05-06
Bangalore	79.6%	80.5%	79.0%	4,801	7,880	11,100	3,822	6,343	8,769
Jaipur	58.3%	67.2%	69.0%	2,922	3,604	4,400	1,704	2,422	3,036
Delhi	72.4%	79.0%	80.0%	4,185	5,200	7,050	3,030	4,108	5,640
Goa	56.7%	62.8%	67.0%	3,293	3,764	5,000	1,867	2,364	3,350
Mumbai	68.5%	72.4%	74.0%	4,274	4,955	6,450	2,928	3,587	4,773
Hyderabad	75.8%	77.6%	82.0%	2,865	3,490	4,550	2,172	2,708	3,731
Chennai	67.5%	71.7%	73.0%	3,478	3,662	4,675	2,348	2,626	3,413
Kolkata	62.4%	69.5%	77.0%	2,975	3,213	3,650	1,856	2,233	2,811

Source: Sharekhan

ARR--strong traction

On a y-o-y basis the ARR has shown a strong growth across all the key cities. The maximum percentage change in April-June 2006 in the ARR was seen in Hyderabad (up 54.8% in April, up 65.4% in May and up 49.0% in June), Pune (up 49.0% in April, up 46.9% in May and up 50.6% in June) and north Mumbai (up 38.3% in April, up 43.2% in May and up 36.9% in June). Bangalore continues to hold the distinction of the highest ARR in all the months, with an ARR of over Rs13,000 in each month. The cities like south Mumbai, Delhi and Hyderabad come in after Bangalore in terms of the highest absolute ARR.

ARR for April-May 2006

ARR	Months			% change yoy		
	Apr-06	May-06	Jun-06	Apr-06	May-06	Jun-06
Bangalore	13111.0	13252.0	13270.0	21.8	24.5	23.5
Jaipur	7244.0	4689.0	4546.0	32.6	3.5	7.1
Delhi	8182.0	7505.0	7328.0	37.5	34.0	36.0
Goa	4973.0	4257.0	3997.0	27.9	29.9	34.7
South Mumbai	8192.0	7800.0	8017.0	31.3	31.3	37.8
North Mumbai	7152.0	7048.0	6947.0	38.3	43.2	36.9
Hyderabad	8063.0	8716.0	7872.0	54.8	65.4	49.0
Pune	6820.0	6674.0	6280.0	49.0	46.9	50.6
Chennai	5984.0	5842.0	6025.0	32.8	32.8	35.3
Kolkata	4797.0	4542.0	4469.0	32.0	29.1	25.5
Agra	4912.0	2971.0	3044.0	36.4	21.2	27.5

Source: Sharekhan

RevPar—par excellence

On account of its high ARR and strong occupancy Bangalore continued to have the highest RevPar in April-June 2006, with RevPar inching over Rs10, 000. Hyderabad (RevPar of Rs6,629.0 in April, Rs6,809.0 in May and Rs6,546.0 in June) and Pune (RevPar of Rs5,522.0 in April, Rs5,696.0 in May and Rs5,285.0 in June) came second and third in terms of absolute ARR. In terms of the percentage change year on year (yoy) Goa and Hyderabad saw a strong growth of over 50% in all the months.

RevPar for April-May 2006

RevPar	Months			% change yoy		
	Apr-06	May-06	Jun-06	Apr-06	May-06	Jun-06
Bangalore	9736.0	10573.0	10300.0	11.3	32.2	23.4
Jaipur	5057.0	2018.0	1679.0	56.9	20.3	20.7
Delhi	6558.0	5461.0	4933.0	36.1	40.3	39.1
Goa	4423.0	2700.0	2476.0	53.5	51.4	52.7
South Mumbai	5708.0	5019.0	4976.0	31.7	48.8	44.9
North Mumbai	5544.0	5650.0	5439.0	25.3	47.1	34.8
Hyderabad	6629.0	6809.0	6546.0	48.8	61.5	44.1
Pune	5522.0	5696.0	5285.0	37.6	61.7	47.6
Chennai	4323.0	4153.0	4418.0	26.9	37.9	37.2
Kolkata	3397.0	3275.0	3198.0	31.5	33.0	25.9
Agra	2944.0	1132.0	774.0	63.0	33.6	28.4

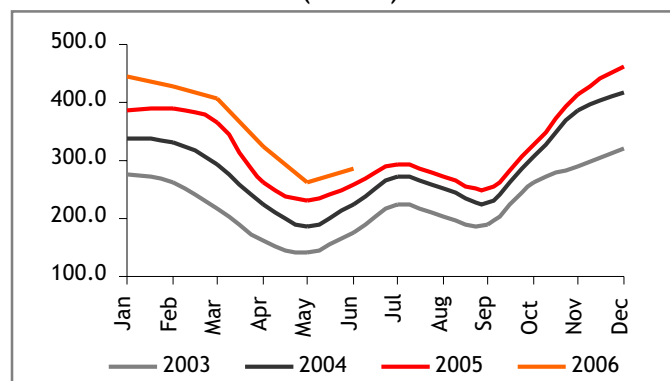
Source: Sharekhan

Tourist arrivals and spends—saw steady rise

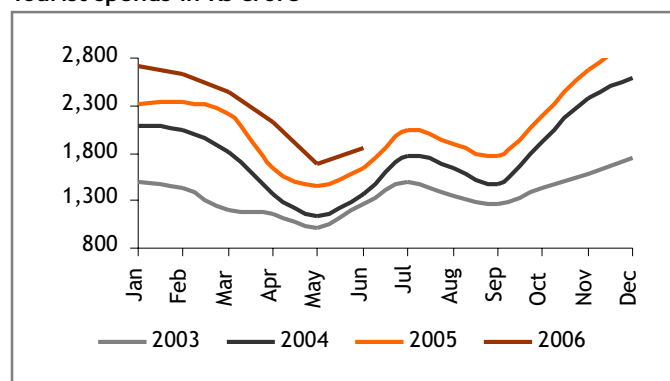
The tourist arrivals and the tourist spends are the key determinants to the fortunes of the luxury hotels. Both these have been robust so far with the tourist arrivals on a year till date (YTD) basis increasing by 16.7% yoy to 874,336 people and the tourist spend on a YTD basis increasing by 15.7% yoy to Rs5,650 crore.

Tourist arrival data

Tourist arrival 2003-2006 (in '000)



Tourist spends in Rs crore



Incredible India—keeps on improving

We expect an improvement in Indian tourism, and the favourable hotel industry dynamics to continue, translating into stellar performances for the companies of this sector due to the following reasons.

- ◆ The economy continues to grow at a healthy rate and this has a multiplier effect on the tourism industry, which in turn, contributes to the economic development and employment generation.
- ◆ Business travelers from the booming services sectors (BPO, IT, telecom and pharma) will propel the demand in certain cities like Mumbai, Bangalore, Hyderabad and Kolkata.
- ◆ The demand in cities like Jaipur, Goa and Agra would be driven by the leisure travelers who visit in the peak season.

- ♦ With a huge increase in the room demand expected, and with a minimal increase in the supply over the next few years, the OR will stay healthy. Also this demand-supply mismatch will cause the ARR to grow or at least remain firm.

Indian Hotels—the biggest beneficiary

We believe that Indian Hotels will be the biggest beneficiary from the continued upturn in the hotel industry because of its (1) strong brand and huge size of operations (76 hotels and 9182 rooms); (2) pan India presence making it immune to concentration risk; and (3) an addition of 1,100 rooms

in the inventory over the next two years. We expect the company to register a 20% compounded annual growth rate in its consolidated earnings.

Even the valuations are attractive at a price/earnings ratio of 19.8x its FY2007E consolidated earnings. Considering the bright business prospects for the company and the fact that the Indian Hotels stock trades at a discount of 16.8% to its replacement cost of Rs1,400.0 per share, we are bullish on the stock with a price target of Rs1,474.0 (target multiple at 27x--the stock typically trades at 25-27x its one-year forward earnings), an upside of 23.7%.

The author doesn't hold any investment in any of the companies mentioned in the article.

Evergreen

HDFC Bank
 Infosys Technologies
 Reliance Industries
 Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
 Associated Cement Companies
 Bajaj Auto
 Balrampur Chini Mills
 Bharat Bijlee
 Bharat Heavy Electricals
 Corporation Bank
 Crompton Greaves
 Elder Pharmaceuticals
 Godrej Consumer Products
 Grasim Industries
 Hindustan Lever
 Hyderabad Industries
 ICICI Bank
 Indian Hotels Company
 ITC
 Mahindra & Mahindra
 Marico Industries
 Maruti Udyog
 MRO-TEK
 Lupin
 Nicholas Piramal India
 Omax Auto
 Ranbaxy Laboratories
 Satyam Computer Services
 Sintex Industries
 SKF India
 State Bank of India
 Sundaram Clayton
 Tata Motors
 Tata Tea
 Unichem Laboratories
 Wipro

Cannonball

Cipla
 Gateway Distriparks
 International Combustion (India)
 JK Cement
 Madras Cement
 Shree Cement
 Transport Corporation of India

Emerging Star

3i Infotech
 Aarvee Denims and Exports
 Aban Loyd Chiles Offshore
 Alok Industries
 Alphageo India
 Cadila Healthcare
 KSB Pumps
 Marksans Pharma
 Navneet Publications (India)
 New Delhi Television
 Orchid Chemicals & Pharmaceuticals
 ORG Informatics
 Solectron Centum Electronics
 Television Eighteen India
 Thermax
 Tube Investments of India
 TVS Motor Company
 UTI Bank
 Welspun Gujarat Stahl Rohren
 Welspun India

Ugly Duckling

Ashok Leyland
 Deepak Fertilisers & Petrochemicals Corporation
 Genus Overseas Electronics
 HCL Technologies
 ICI India
 Jaiprakash Associates
 JM Financial
 KEI Industries
 NIIT Technologies
 Punjab National Bank
 Ratnamani Metals and Tubes
 Sanghvi Movers
 Saregama India
 Selan Exploration Technology
 Subros
 Sun Pharmaceutical Industries
 Surya Pharmaceuticals
 UltraTech Cement
 Union Bank of India
 Universal Cables
 Wockhardt

Vulture's Pick

Esab India
 Nelco
 Orient Paper and Industries
 WS Industries India

[Home](#)

Disclaimer

"This document has been prepared by Sharekhan Ltd.(SHAREKHAN) This Document is subject to changes without prior notice and is intended only for the person or entity to which it is addressed to and may contain confidential and/or privileged material and is not for any type of circulation. Any review, retransmission, or any other use is prohibited. Kindly note that this document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction.

Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from publicly available data or other sources believed to be reliable. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. We do not represent that information contained herein is accurate or complete and it should not be relied upon as such. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

SHAREKHAN & affiliates may have used the information set forth herein before publication and may have positions in, may from time to time purchase or sell or may be materially interested in any of the securities mentioned or related securities. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. Any comments or statements made herein are those of the analyst and do not necessarily reflect those of SHAREKHAN."