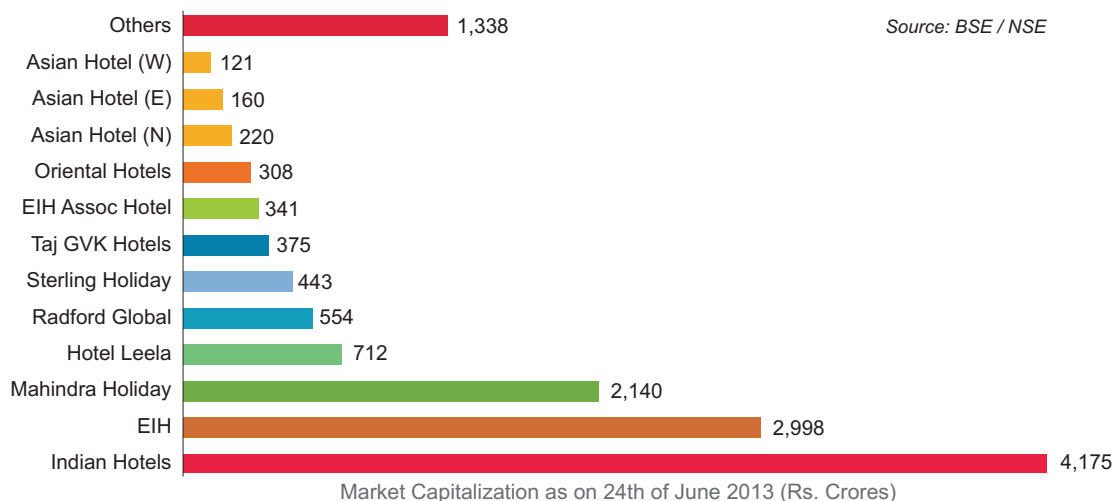


Indian hospitality at the influx of slowing foreign & rising domestic tourism

The global hospitality sector faced a year of uncertainties in the year 2012 due to fiscal adjustments drag in the US, instability in Europe and other advanced and emerging economies. The Indian economy played a dampener with High Inflation, rising interest rates and falling GDP estimates on the sector just when it was time for the hospitality sector to bear the fruits of Investments done in the boom cycle.

Hotel stocks underperformed SENSEX in last five years and market caps eroded for many larger firms since 2008. The top 5 companies (Indian Hotels, EIH, Hotel Leela Ventures, Mahindra Holidays and TajGVK) with current market cap of Rs 102 billion are down by 60% from FY11 market cap of Rs 253 billion. This is at the same time when SENSEX has moved up by 26%.

The growth turned sluggish with most companies market cap eroding between June 2009 and 2013. EIH's market cap came down from ~Rs 5,000 cr. to Rs. 3,000 cr. (USD 83.2 to 50mn), Hotel Leela was down from Rs. 1,209 cr. in June 2009 to Rs. 712 cr. (USD20 to 11.8mn) now. Indian Hotels is roughly at same levels Rs 4,000 cr. from Rs 4,700 cr. in 2009(USD78.2 to 66.5mn). Asian Hotels combined at Rs 427 cr. in June 2009 saw an increase in market cap after its split in to three entities. The combined market cap is up by 17% to Rs 500 cr. in June 2013 (USD 7 to 8.32mn). Asian Hotels (N) Rs.220 cr., Asian Hotels (E) Rs.160 cr. and Asian Hotels (W) Rs.121 cr. in June 2013



True to most sectors where growth has either decelerated or stood still as Indian economy hit its low point, the hotel sector was not left oblivious. Revenue and profitability remained sluggish for the top 4 by market cap in FY2013 with 3 year revenue CAGR of 4% for Indian hotels, EIH 1%, Leela 6% and Mahindra at 10%.

P/E ratio's have squeezed from the high's of 50x in 2010 when the industry was riding high on the accruing benefits from the capital Investments but as the growth slowed and supply outnumbered, the P/E ratio's have trended down to an average of 30x now. This is believed to have bottomed out as the Industry is seeing high CapEx and growing forecasted domestic and International tourism.

Amidst for being in the news for all the wrong reasons the sector travel and tourism is still estimated to contribute between 8-9% towards India's GDP as per PwC estimates. Due to the global slowdown overseas leisure and business tourism have gone down however the travel and tourism industry has found its support in the domestic tourism which grew 13.8% in 2011 and 11.8% in 2010 compared to foreign tourism at 9.2% in 2011 and 11.8% in 2010 (source: Ministry of tourism).

The hotel companies have realized the potential and continue to expand accounting the future growth aspect in the mid-range and the budget segment.

While the capital from the stock markets and financial institutions has remained constrained for the sector, (3 companies raised capital from the stock markets in last 2 years). What is remarkable to note is that high net-worth individuals and well-capitalized multi-industry conglomerates are providing infusions of equity into development companies that are driving supply growth. India is seeing a lot of International hotel chains which are customizing as per local demand to capture the growing and affluent middle class domestic tourism. It is noticeable that with in Indian and China, 850 branded hotels with more than 2,25,000 rooms were under construction in the year 2012 (source:E&Y)

Industry has also seen growing optimism from the private equity markets. As per research firm Venture Intelligence, in 2010, the sector saw five private equity deals with a combined value of \$156 million. By 2011, this number grew to \$299 million and during the first five months of 2012, hospitality industry had raised \$121 million from private equity.

Overall it's believed that as the Indian policy paradigm stabilizes and economy gathers steam, it is just a matter of time when the Investments done in past in the sector will reap its benefits. The riding interest in tourism only sought from International travelers has found a strong holding leg in domestic tourism and as the economies on both sides of the world head for improvement the sector is sure to revive back with renewed energy.

INTRODUCTION

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