

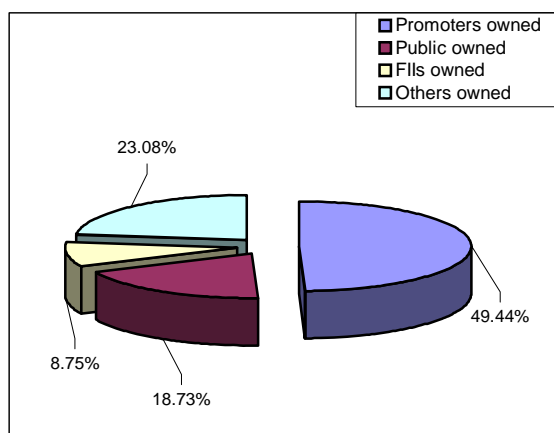
Stock statistics	19 February 2008
Market Cap (Rs Mn)	: 19,646.90
52-Week high/low (Rs)	: 76.85/37.50
Face value	: 2.00
BSE Code	: 500193
NSE Code	: HOTELEELA
Industry	: Hotel
Shares outstanding	: 37,78,24,992
Avg. daily vol. (30 days)	: 67.00

Hotel Leelaventure Limited is the promoter of the 5-star deluxe hotels in Mumbai, Goa, Bangalore and Kovalam. The hotel was founded by Captain C. P. Krishnan Nair. Hotel LeelaVenture Ltd owns and manages hotels under The Leela Palaces & Resorts brand in India. It has a management alliance with Kempinski, the oldest hotel group in Europe. All the hotels of the company are co-branded with Kempinski. The Leela Group has planned new properties in Udaipur, Hyderabad, Pune and Chennai.

The hotel of 360 guest rooms situated at Adyar beach, Chennai facing the Bay of Bengal admeasuring about 6.5 acres is expected to be commissioned in near future at an estimated cost of around Rs 3,200 million. Another 300 room hotel at Banjara Hills, Hyderabad is expected to commence operations in the near future at an estimated cost of Rs 3,100 million. The Leela Group is also setting up a 260 room hotel in Pune at an estimated cost of Rs 1,600 million which is expected to commence operations in the near future only.

INDUSTRY OUTLOOK

Shareholding Pattern (as on 31 Dec'07)



The Hotel Industry in India is expected to pick up the pace of growth in the coming years due to healthy business – tourist traffic escalation, stable political environment and well – poised economy. The industry will witness huge capacity additions at estimated investments of Rs 400 billion adding 100,000 rooms needed for the expected arrival of 10 million foreign tourists by 2010. The Commonwealth Games has been a shot in the arm for the hotel industry which has accelerated the construction & progress of infrastructure, besides cleaning up of the cities which will leave a remarkable impact on the visiting tourists. The hotel industry expects to get infrastructure status in the forthcoming budget to help the sector match surging room demand through easier financing.

Therefore we are bullish on the Hotel Industry for next 2 – 3 years and expects huge surge in sales and profits of the company in this industry.

Key Statistics (as on 19 February 2008)

CMP	: 52
BV	: 21.82
PE	: 11.30
PB	: 2.38
Beta	: 1.37
Turnover (Rs Mn)	: 25.34
Net worth (Rs Mn)	: 6,849.00

INVESTMENT RATIONALE

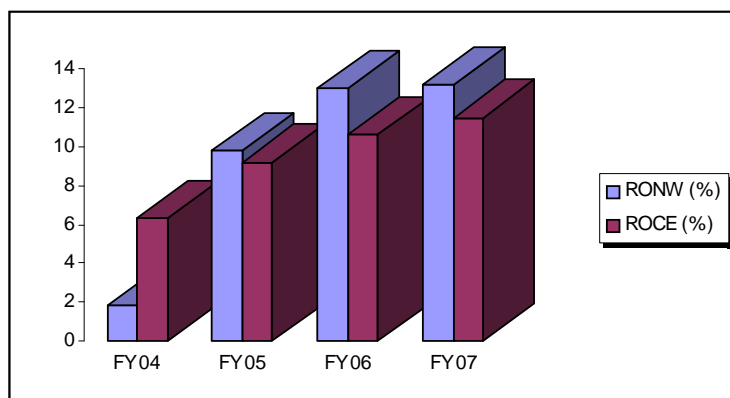
- The Hotel Leela entry into Hyderabad and Pune would give fillip to its revenues due to an increase in the growing IT and ITeS industries in these cities. Both the cities in recent past seen huge surge in demand due to the growing number of business travelers thereby increasing the occupancy rates of the rooms.
- The Hotel Leela with upcoming hotels in Gurgaon, Udaipur, Chennai, Delhi, Pune and Hyderabad will have 2,750 rooms over the next three years from the current 1,086 rooms. Of the six proposed projects, the Gurgaon hotel is expected to be operational first followed by projects in Udaipur, Chennai, Delhi, Hyderabad and Pune. These facilities once becoming operational will generate huge turnover for the Hotel Leela and thereby add to its top line and bottom line.

FINANCIAL STATEMENT ANALYSIS

Particulars	Q3FY07	Q4FY07	Q1FY08	Q2FY08	Q3FY08
	Rs. mn				
Total Income	990.20	1167.4	1001.80	1001.40	1429.60
Growth (%)	-	17.90	(14.19)	(0.04)	42.76
Total Expenditure	486.40	695.40	511.80	528.30	690.30
Operating Profit	503.80	472.00	490.00	473.10	739.30
Growth (%)	-	(6.31)	3.81	(3.45)	56.27
OPM	50.88	40.43	48.91	47.24	51.71
Other Income	25.00	247.00	32.90	176.00	83.90
EBIDTA	528.80	719.00	522.90	649.10	823.20
Interest	66.90	72.90	76.60	75.30	83.10
Depreciation	83.80	89.00	87.10	87.60	100.30
PBT	378.10	557.10	359.20	486.20	639.80
Tax	21.50	109.40	57.60	85.00	90.00
Adjusted PAT	356.60	445.81	301.60	401.20	549.80
Growth (%)	-	25.02	(32.35)	33.02	37.04
Adjusted NPM	36.01	38.19	30.11	40.06	38.46
Reported PAT	356.60	447.11	301.60	401.20	549.80
EPS	1.00	1.20	0.80	1.10	1.50
Equity Capital	740.60	740.60	740.60	740.60	740.60

Face value: Re 2

The company has posted excellent results for the quarter ended Q3FY08. The net sales for the company rose to Rs 1,430 for the Q3FY08 versus the net sales of Rs 990 million for the Q3FY07 with the growth rate of 44%. The operating profit gone up by 47% to Rs 739 million for the Q3FY08 as against the operating profit of Rs 504 million in Q3FY07. The operating profit margin stood at 51.71% for the Q3FY08 versus the operating profit margin of 50.88%. The EBITDA for the company rose to Rs 823 million for the Q3FY08 versus the EBITDA of Rs 529 million for the Q3FY07 registering the growth rate of 56%. The EBITDA margin stood at 57.58% for the Q3FY08 versus the EBITDA margin of 53.40% for the Q3FY07. The net profit gone up by 54% to Rs 550 million for the Q3FY08 in comparison to the net profit of Rs 357 million for the Q3FY07. The net profit margin rose to 38.46% for the Q3FY08 as against the net profit margin 36.01% in Q3FY07.



The Hotel Leela has continuously generated return for its capital providers. The Return on Net Worth stood at 1.80%, 9.80%, 13.00% and 13.20% for the financial year ended FY04, FY05, FY06 and FY07 respectively whereas Return on Capital Employed stood at 6.30%, 9.20%, 10.60% and 11.50% for the above financial years ended respectively. The Hotel Leela with new addition to its room's bank and increasing occupancy rates is expected to perform well in the future. It is expected to provide huge returns for its shareholders with the ongoing tourism industry growth which will add to the volumes and thereby strengthen the earnings.

VALUATION

The Hotel Leela has emerged as one of the major players in the premium segment, though it is present in western and southern India only but it has identified this lacuna and embarked on an expansion spree to set up a pan-India presence to capitalise on the increasing demand in the country.

The stock at the current market price of Rs 52 will trade 11.30 times to its earnings and 2.38 times to its book value and is having lots of upside potential in the medium to long – term.

Therefore, we are initiating 'BUY' signal on the stock with the target price of Rs 85 which is approximately 63% up from the current market price of Rs 52.

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