

Viceroy Hotels (PALHEI)

Rs 36

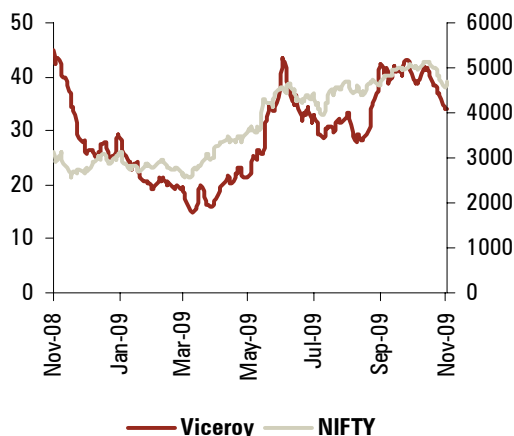
Rating matrix	
Rating	: Hold
Target	: Rs 39
Target Period	: 12 months
Potential Upside	: 8%

Key Financials				
(Rs Crore)	FY08	FY09	FY10E	FY11E
Net Sales	107.9	103.1	96.0	129.9
EBITDA	32.8	32.6	30.7	41.9
Net Profit	9.1	6.7	1.7	5.7

Valuation summary				
	FY08	FY09	FY10E	FY11E
PE (x)	16.3	21.9	88.6	26.0
Target PE (x)	17.2	23.2	93.6	26.1
EV to EBITDA (x)	18.4	23.8	26.7	20.5
Price to book (x)	0.6	0.6	0.6	0.5
RoNW (%)	3.8	2.7	0.7	2.2
RoCE (%)	3.1	2.3	1.8	2.5

Stock data	
Market Capitalisation	Rs 148.4 crore
Debt (FY09)	Rs 600.0 crore
Cash (FY09)	Rs 5.0 crore
EV	Rs 743.4 crore
52 week H/L	50/14.5
Equity capital	Rs 42.4 crore
Face value	Rs.10
MF Holding (%)	0.0
RI Holding (%)	6.6

Price movement (stock vs. Nifty)



Analyst's name

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WHAT'S CHANGED...

PRICE TARGET	Changed from Rs 29 to Rs 37
EPS (FY10E)	Changed from Rs 0.4 to Rs 0.35
EPS (FY11E)	Changed from Rs 1.7 to Rs 1.3
RATING.....	Unchanged

Cost-cutting measures lead positive PAT...

Viceroy Hotels came out with lower-than-expected Q2FY10 numbers. The company reported net sales of Rs 21 crore against our expected net sales of Rs 22.9 crore. Revenues plummeted due to continued weakness in demand for hotel rooms. Consequently, its hotel business reported a loss of Rs 64 lakh for the quarter. However, on a consolidated basis, the company managed to report net profit of Rs 25.6 lakh (Rs 10 lakh last quarter) due to adoption of various cost control measures. This has also resulted in an improvement in the operating margin by 180 bps QoQ to 28.8% for the quarter.

■ Sales growth continues to remain sluggish

Viceroy's revenues from the hotel business declined sharply 30.9% YoY due to weakness in demand for hotel rooms in Hyderabad. Consequently, its total consolidated revenues declined 25.9% YoY and 2.9% QoQ, respectively.

■ Improvement in margin through cost cutting measures

Despite the sequential decline in net sales, the company managed to improve its operating margin by 180 bps QoQ through reduction in its operating costs. Its total operating costs declined by 23.4% YoY and 5.3% QoQ. Among cost components, other operating costs declined sharply by 23.4% YoY and 5.3% QoQ.

Valuation

We are lowering our FY10E and FY11E EPS estimates marginally taking into account the current dismal Q2FY10 performance. At the CMP of Rs 36, the stock is trading at 26.1x its FY11E EPS estimates and 20.5x its EV/EBITDA offering limited potential upside. The stock is also looking fairly valued on an NAV basis. This values the stock at Rs 39 per share. Based on this, we are maintaining our **HOLD** rating on the stock. We advise investors to book profits.

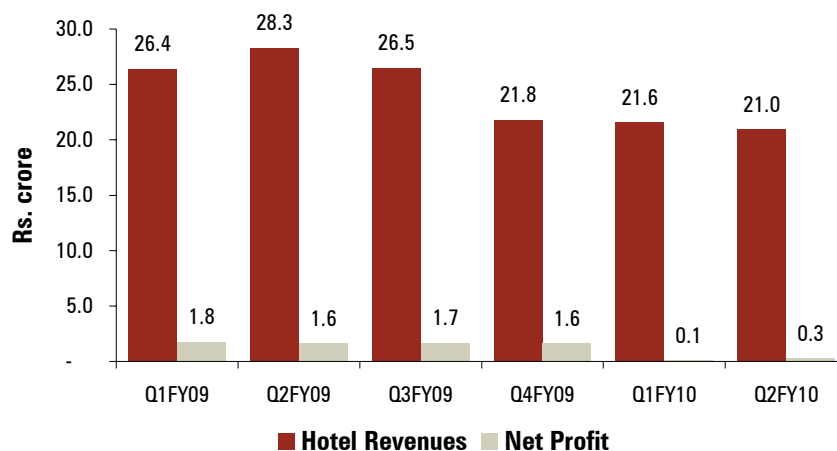
Exhibit 1: Performance Highlights

Rs. Crore	Q2FY10	Q2FY10E	Q2FY09	Q1FY10	YoY Gr. (%)	QoQ Gr. (%)
Net Sales	21.0	22.9	28.3	21.6	-25.9	-2.9
EBITDA	6.0	7.1	8.8	5.8	-31.4	3.5
EBITDA Margin (%)	28.8	30.9	31.1	27.0	-230 bps	180 bps
Depreciation	3.0	3.3	3.0	3.0	0.4	0.3
Interest	4.1	3.9	4.2	4.0	-3.2	2.3
Net Profit	0.3	1.2	1.6	0.1	-83.5	146.6
EPS (Rs)	0.06	0.3	0.4	0.03	-83.5	146.6

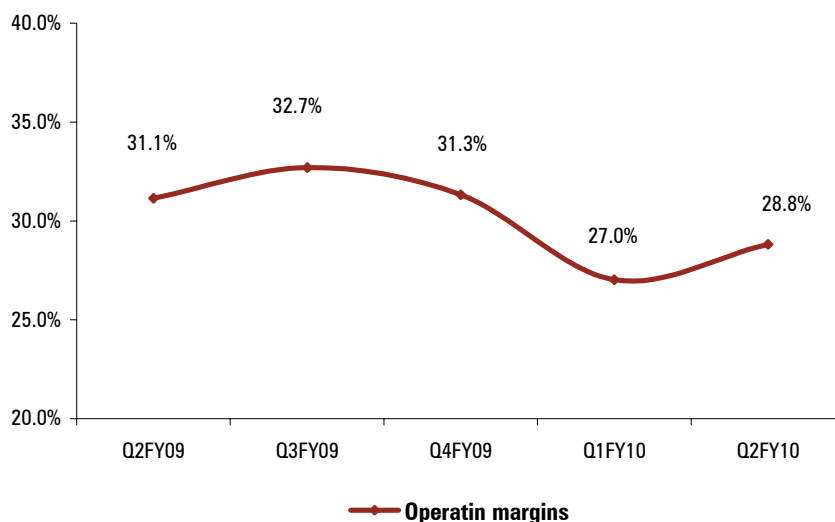
Source: Company, ICICIdirect.com Research

Exhibit 2: Quarterly sales and EBITDA (%)

Sales growth continued to remain flat QoQ. However, profits have improved sequentially on adoption of various cost control measures.



Source: Company, ICICIdirect.com Research

Exhibit 3: Trends in operating margin


Source: Company, ICICIdirect.com Research

Earnings outlook

Viceroy Hotels currently operates only at the Hyderabad location. The company has recently launched Courtyard Hotel in Hyderabad in October 2009 and plans to add another 600 rooms to its current portfolio over the next two to three years. The locations at which the company is foraying include Bangalore (250 rooms) and Chennai (350 rooms). However, due to a lacklustre performance on the back of sluggishness in demand for hotel rooms, we expect the debt equity to rise, going forward. Also, on the project execution side, some delays are already being witnessed in its Chennai and Bangalore projects. This, in turn, is expected to put further pressure on its return ratios, going forward.

ICICIdirect.com Coverage Universe (Hotels)

IHCL				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)	
Idirect Code	INDHOT	CMP	79.0	FY09	2686.4	0.2	458.7	18.1	0.4	4.7
		Target	104.0	FY10E	2563.5	1.6	50.2	20.3	3.3	4.6
MCap (Rs Cr)	5,714.9	Upside (%)	32%	FY11E	3158.1	3.9	20.3	13.3	7.6	7.3
EIH				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)	
Idirect Code	EIH	CMP	123.0	FY09	1057.3	4.3	28.3	14.5	12.1	13.2
		Target	93.0	FY10E	881.6	2.0	62.3	21.8	5.5	8.1
MCap (Rs Cr)	4,833.3	Upside (%)	-24%	FY11E	1274.4	4.8	25.9	14.9	12.2	13.1
Hotel Leela				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)	
Idirect Code	HOTLEE	CMP	35.0	FY09	459.8	3.8	10.8	18.8	7.5	4.7
		Target	38.0	FY10E	411.8	0.7	49.3	23.2	1.3	1.8
MCap (Rs Cr)	1322.4	Upside (%)	9%	FY11E	503.5	1.2	29.4	17.4	1.9	2.7
Taj GVK Hotels				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)	
Idirect Code	TAJGVK	CMP	119.0	FY09	238.2	8.4	15.2	9.2	19.5	14.4
		Target	141.0	FY10E	231.8	5.9	21.8	11.2	12.0	10.0
MCap (Rs Cr)	746.1	Upside (%)	18%	FY11E	277.6	8.3	15.4	8.9	14.4	10.7
Kamat Hotels				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)	
Idirect Code	KAMHOT	CMP	55.9	FY09	123.1	4.1	13.6	8.6	10.1	5.2
		Target	64.0	FY10E	115.3	-3.9	-14.2	10.2	-3.3	6.1
MCap (Rs Cr)	76.6	Upside (%)	14%	FY11E	138.8	4.3	12.9	7.9	3.6	8.2
Viceroy Hotels				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)	
Idirect Code	PALHEI	CMP	35.0	FY09	103.0	1.6	22.0	22.8	2.7	2.3
		Target	37.0	FY10E	96.1	0.4	88.7	24.2	0.7	1.8
MCap (Rs Cr)	148.4	Upside (%)	6%	FY11E	129.9	1.3	26.1	17.7	2.2	2.5

*EV/E - EV/EBITDA

RATING RATIONALE

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Outperformer (OP): 20% or more;

Performer (P): Between 10% and 20%;

Hold (H): $\pm 10\%$ return;

Underperformer (U): -10% or more;

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