A Luxury Story: Part 2

Industry: Hotels | Initiating Coverage | *JUNE 08*

Investment Argument for the Sector

- ✓ Currently the total number of rooms available in India across all the segments is 110000, of which 30000 rooms are in 4- 5 star and heritage segment. 30000 new rooms in the same segment are under development and will be available by FY09. The immediate requirement of rooms in India stands at 100000 and the projects that are underway will only meet 75% of the requirement.

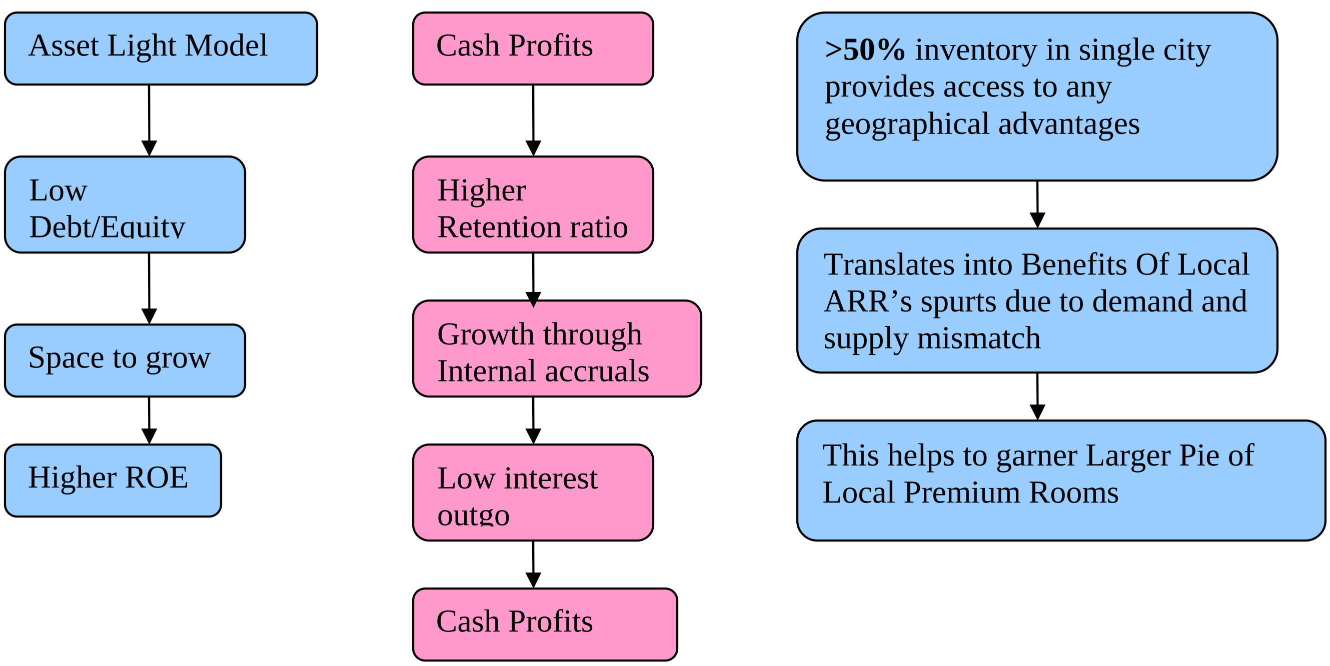
- ✓ The demand and supply mismatch has resulted in higher occupancy rates & higher ARR. ARR's have significantly moved upward over past couple of years & are expected to grow at 12%-15% over the coming years. Occupancy rates also have steadily risen over past years & are currently above 75% in India.

- ✓ USA being a developed market has 40 times more rooms available compared to India.

- ✓ According to the ministry of tourism foreign tourist arrivals in india were higher by 13% in 2005 , 13.5% in 2006 and 12.4% in 2007 earning india a Forex earnings of $9 billion in 2006 . The back bone of the Indian tourism industry is domestic travel which saw 460 million Indians traveling last year (2007).

Model

The Companies that were exhibiting the following points and fell in one of the 3 models or more than 2 models looked promising and have been our picks.



MODEL1 **(Asset Light model)** | **MODEL2** **(High cash Generation model)** | **MODEL 3** **(City specific dominance)**

Padmakshi Financial Services Ltd.

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Industry : Hospitality **Company: Hotel Leela Ventures**

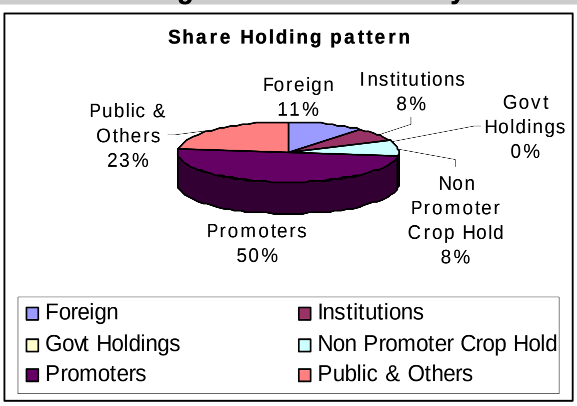
Recommendation: BUY **Target: 60**

02nd June , 2008	
CMP (Rs.)	45
Equity (No)	37.78
Face Value (Rs.)	2
52 Week High/Low (Rs.)	77/38
Market Cap (Rs. Cr.)	1666.4
Avg. Volume (3 month)	744845

Codes	
BSE Code	500139
BSE Group	B
ISIN No	INE102A01024
NSE Symbol	HOTELEELA
Bloomberg	LELA IN

Key Ratio's	
P/E Ratio (TTM)	15.86
P/ BV	3.81
EV/ EBITDA	13.39
Mcap/ Sales	5.85
Dividend Yield -%	0.95%
RoCE (%) (FY07)	9.1

Shareholding Pattern as of May-08



*source: Company (fig:1)

Particulars	FY07	%var	FY08E
Gross sales	393.7	25.0%	492.1
excise duty	0.0		0.0
net sales	393.7		492.1
other income	71.5		30.0
Total income	465.2	12.2%	522.1
Total expenditure	211.4	21.0%	255.9
PBIDT	**253.8**	4.9%	**266.2**
interest	30.4		38.0
PBDT	223.4		228.3
Depriciation	33.8		34.8
PBT	189.7		193.5
Taxes	63.3		54.5
PAT	**126.4**	9.9%	**139.0**

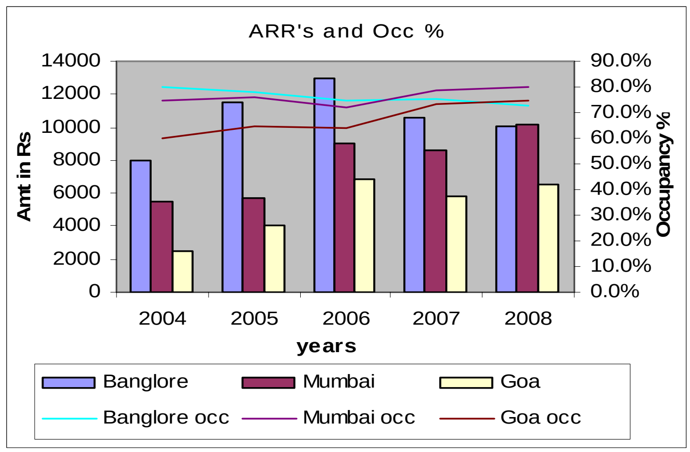
*Source :Capital line /Padmakshi Research

The Company

Founded in 1957 by Capt. C.P. Krishnan Nair (Chairman), the Leela Group is engaged in the business of luxury hotels and resorts and was also into readymade garments until sometime ago, incorporated in 1981 currently owning 4 properties each in Goa, Bangalore, Mumbai and Kovalam.

- ✓ Currently the Company has a extended marketing tie-up with Kempinski, hence garnering higher market share of foreign tourists who form majority of the guests of the hotel. Currently 30% of the revenues are booked through kempinski.

- ✓ The ARR's for FY07 were 20.6% higher at Rs 7038 while the RevPar were reeling at Rs12414 higher 17.03% at 80% Occ.



*Source: Various Industry sources (fig :2)

Properties	Rooms	Contribution	Category
Mumbai	396	32%	Business
Banglore	357	46%	Business
Goa	152	13%	Leisure
Kovalam	181	9%	Leisure
Total	**1086**	**100%**	

*Source: Company

(fig:3)

- ✓ With 1086 rooms in 4 properties, 78% of the revenue is contributed by 70% of the inventory (Mumbai and Bangalore).

Potential growth drivers

Due to higher interest rates and spiraling property prices the Hotel sector has long adopted a ***Asset light model*** *(ref: "A Luxury story" * padmakshi research * 12th May08)* , where in the property is constructed by a real estate major and is later managed by a professional hotel sector company .

Unlike the Lesser large players like Taj-GVK or Oriental Hotels (M-Cap > Rs 1000 crs *Specific to hotel sector) , where going asset light is a viable option considering rapid expansion plans that are required to scale up the inventory , an old hand in the industry will largely have its own property.

- ✓ Therefore certain hotel majors remain which own the properties in which they operate hence they are ***Gross Block heavy*** and a substantial amount in ploughed back in the business to finance the growth.
- ✓ This fact is very evident from the low amounts of dividend that is declared every year. (as the company feels confident to plough back the earnings which can be put to higher return generating opportunities than distributing among the shareholders) .

Thus to understand such hotels the following Triggers are followed in the investigation :

Trigger 1: Constant Cash Profit generation

Trigger 2: Higher plough Backs

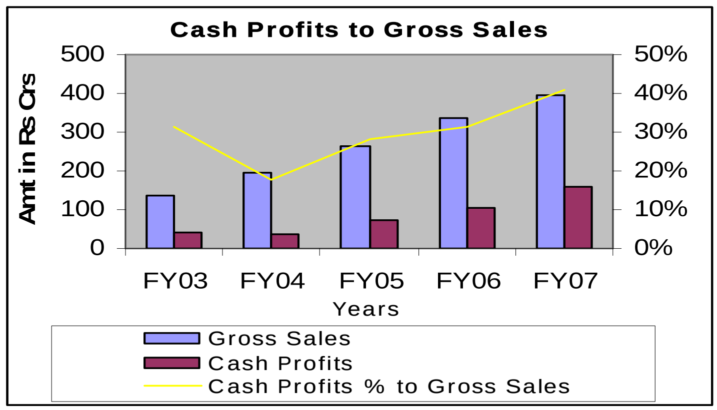
Trigger 3: Recurring investment in Gross Block

Trigger 1

The business model of the hotel industry is pretty simple where the initial investment in Capex is largely in hotel building (Gross Block) and the output which is the room is not recurring. They are sold on the prices which are a function of demand supply mismatch.

Thus the Company which is having existing inventory in a city with spiraling ARR's (average rooms rates) , stand to gain immediately when a new player enters the same location . Hence an inherent location advantage is also working.

- ✓ This leads to a higher ARR and thus the cash profits swell *fig 4*.



* Source : Capital line/Padmakshi Research (fig:4)

- ✓ With the cash profits to GS% topping in FY07 at 40%, enough room is available to expand the business.
- ✓ The cumulative cash profits for the 5 financial years ending in FY07 was Rs 417.2 Crs, while the cumulative gross sales were Rs 1325.42 crs a 31.4% return in cash.

Clear indication is there of a high ***cash generation model*** *being followed (ref: "A Luxury Story" * Padmakshi Research*12th May 08).*

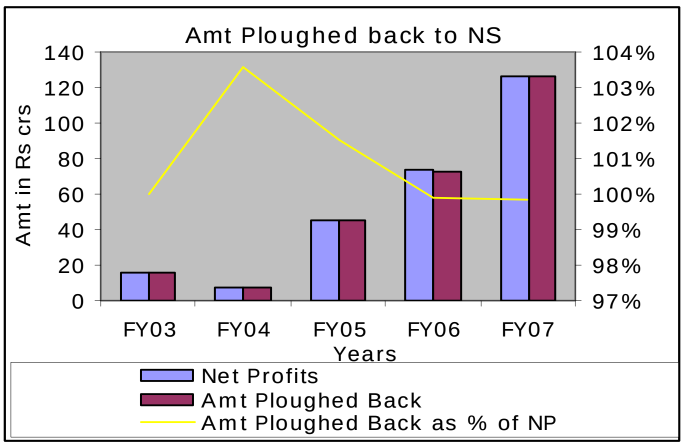
The company seems to have also taken advantage of the higher ARR existing in Mumbai and Bangalore constituting 78% of the total inventory of Leela.

Trigger 2

PloughBack calculation	FY03	FY04	FY05	FY06	FY07
Net Profits	15.77	7.6	44.76	73.17	126.43
Less : Div payed	0	0	1	2	0.45
Balance carried down	26.36	93.04	133.02	139.07	193.39
Less : P&L balance carried over from last yr	0.01	26.36	93.04	133.62	139.07
Add: Appropriation	-10.58	-58.81	5.46	67.66	71.91
Retained Earnings	15.77	7.6	43.76	71.17	125.98
Retention Ratio	1	1	0.98	0.97	1.00
Amt Ploughed Back	15.77	7.87	45.44	73.11	126.23
Amt Ploughed Back as % of NP	100%	103.00%	101%	100%	100%

*Source: Padmakshi Research (fig:5)

- ✓ By commanding premium rates over its competitors in last 5 financial years ending FY07 the company has generated Rs 420 Crs in cash profits which surprisingly have been reinvested to the tune of 100% thus creating a source for invest able funds *fig:5*



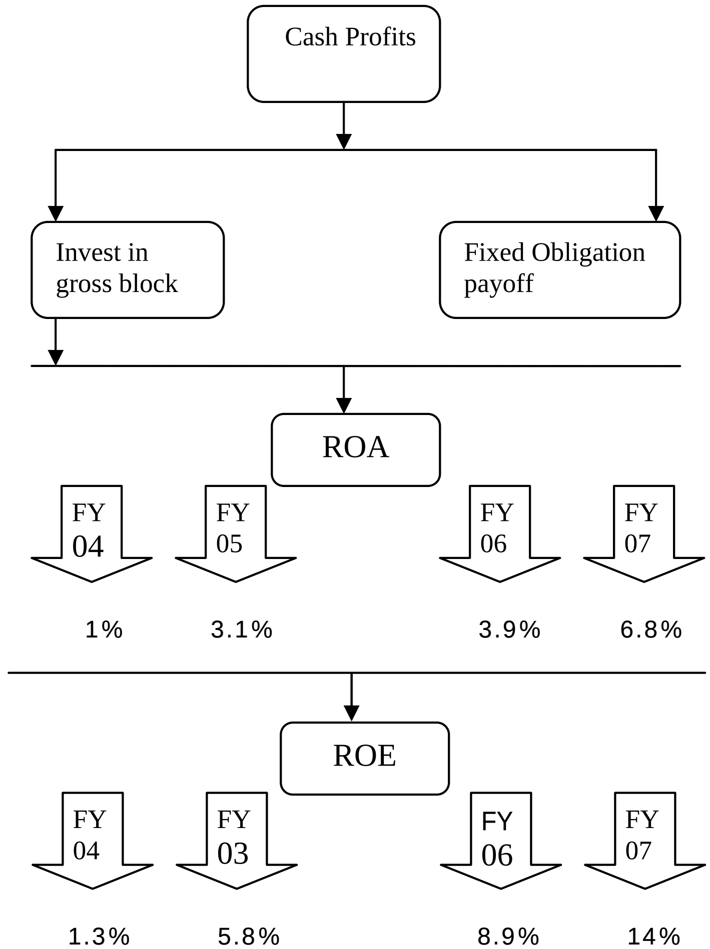
*Source: Padmakshi Research (fig :6)

- ✓ As the business model is carried forward the excess cash is utilized in acquiring Fixed assets which is evident from the investment in gross block from *fig 6*

- ✓ Every year the outflow from the business towards loans payoff and gross block creation as analyzed from funds flow statements has been in the range of 40% to 71% of the total outflow till FY06 and with FY07 seeing a staggering 85% .

This implies that the business has been effective in meeting its fixed obligations in terms of interest and capital repayment of term loans. But at the same time there seems to be no compromise on the growth part as enough has been invested in the form of Gross blocks.

There fore trigger 1 gives way to trigger 2 which is evident from the below diagram :



- ✓ Since the plough back of profits have been at a constant rate the ROA have improved from 1% in FY04 to 6.8% in FY07 a 500 bps move. While the ROE has been ultimately been impacted which from 1.3% in FY014 has moved to 14% in FY07.

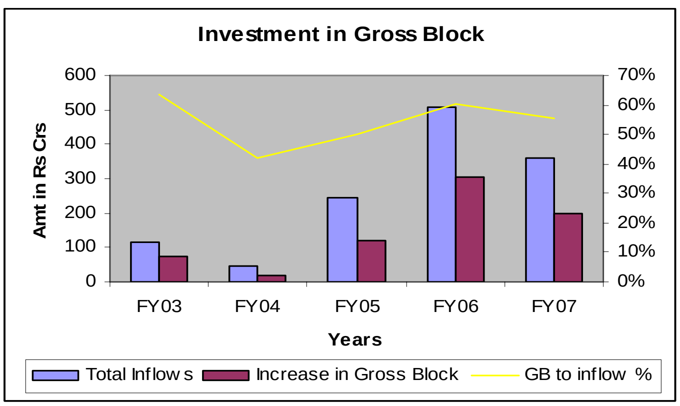
Trigger 3

The high cash generation gives way to the potential investments in Fixed Assets that can be undertaken, and investment in Gross block forms biggest target which directly is cash accretive to the business.

- ✓ Hotel Leela for the 5 financial years ending FY07 had a total inflow of Rs 1274.09 crs of which cash profits were Rs 420 crs a 33 %.

The analysis of cash flow and funds flow statement revels the following details :

- ✓ The Company has invested cumulatively Rs 720 crs in gross block for last 5 years ending FY07 which is 56% of the total inflows. This clearly is a message that the Company had not yet adopted an asset light strategy but feels confident to reinvest the cash earnings.
- ✓ The cash profits form only 60% of the capital invested in gross block the rest is financed from loan funds borrowed in FY06.



*source : Capital line/Padmakshi Research (fig:7)

The short fall is financed by long term loan funds in FY06.

As a substantial amount of inflows in invested into gross block creation in comparison to other hotel sector players like Royal orchid hotels, Taj-GVK, Oriental hotels and Asian hotels, Hotel Leela turns out to the most Gross block heavy Company.

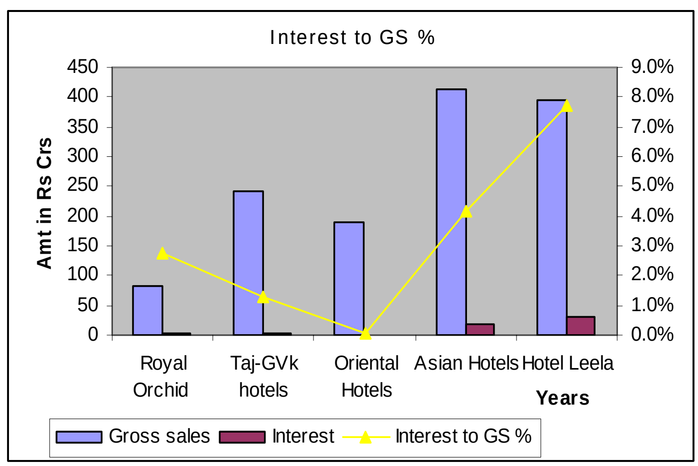
Hotels	Sales to GB	ROA	D/E
Royal Orchid	1.53	18.2%	0.13
Taj-GVk hotels	0.94	24.8%	0.39
Oriental Hotels	0.80	15.8%	0.02
Asian Hotels	0.27	6.5%	0.18
Hotel Leela	0.22	6.8%	1.06

*Source: Padmakshi Research (fig:8)

The ratio suggest that 1 rupee invested in the assets generating x times the amount; hence a lower ratio is an indication of a dragging performance and not an adequate return on assets.

The Company is also generating one of the lowest ROA among other hotels, where Taj-Gvk hotels is leading the pack.

- ✓ This implies that the Company to improve the ROA will have to adopt the assets light model going ahead as interest cost burden, property prices will not allow the company to generate substantial returns.
- ✓ With 1Re of sales generating only 0.33 Re, its peers are far better placed.
- ✓ To substantiate the need for an Asset light model and the need to adopt it, is also evident form the Debt equity ratio which is the highest amongst its peers, hence an increase in the loan will only put pressure on PAT as interest outgo as % of gross sales will only increase. (It is 7.71% to gross sales for FY07).



*Source : Padmakshi Research / Capital line (fig:9)

- ✓ The interest cost for oriental hotels is 0.1% (interest of Rs 0.14 crs for Rs 189.5 Crs of gross sale in FY07). The interest cost is the highest for Hotel Leela at 8% of Gross sales.

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P/BV

Though it might seem as the Company stands at the bottom of ROA, highest debt equity ratio and lowest sales to gross block ratio amongst its peers, the Company is yet to leverage its strengths from a grater room inventory base, a very well respected brand name and room inventory in the cities that are currently seeing the highest ARR's jumps.

But there exists one critical link between the existing valuation and the market pricing of the stock, which we think is a clear sign that the market is undervaluing its prowess.

- ✓ The Company amongst its peers has the lowest P/BV (stock has a FV of Rs 2 , which has been taken at FV 10 for comparison along with Taj-GVk which also has a FV of Rs 2)

Company	Price	BVPS	P/BV	FV
Royal Orchid	102.95	60.4	1.70	10
Taj-GVk hotels	147.85	148.78	0.99	10*
Oriental Hotels	284.9	133.4	2.14	10
Asian Hotels	620	523.9	1.18	10
Hotel Leela	45	122.26	**0.37**	10*

*FV for Taj-GVk and Hotel Leela is taken as 10
*prices are closing prices for 22nd May2008
*Source: Padmakshi Research /Capital line (fig:10)

Valuation

Presently the stock is trading at a PE of 11 and 7.7 on the basis of FY09E and FY10E earnings. The Ev/Ebidta for FY09E is 8.5 while it is 6.3 for FY10E which seems to follow the trend of its peers and as of the whole hotel sector as a whole.

While expecting the Company to adopt an Asset light model soon and leveraging its strengths in terms of existing base of inventory and brand value the company will see its P/BV reflecting real potential as it is at the bottom of the group.

On the basis on the above discussion and DCF valuation we have arrived at a price target of Rs 60 a 33.33%up side from the current levels.

We recommend a **BUY** on the scrip.

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Hotel Leela Venture - Financials

Particulars	FY03	FY04	FY05	FY06	FY07
INCOME :					
Rooms, Restaurants, Banquets and Other Services	134.42	195.41	265.51	336.39	393.69
Other Income	61.39	12.22	15.32	19.49	71.54
Stock Adjustment	0	0	0	0	0
Total Income	**195.81**	**207.63**	**280.83**	**355.88**	**465.23**
EXPENDITURE :					
Food, Bevarages & Provisions Consumed	10.92	14.91	19.78	21.14	24.88
Operating Expenses	13.91	15.2	23.05	26.28	32.68
Employee Cost	37.27	36.68	39.28	43.68	52.53
Power. Fuel & Electricity	18.29	21.75	21.98	25.39	26.97
Selling & Administrative Expenses	24.58	28.68	44.47	58.58	72.24
Miscellaneous Expenses	3.17	2.73	1.47	3.69	2.13
Less: Preoperative Expenses Capitalised	0	0	0	0	0
Total Expenditure	108.14	119.95	150.03	178.76	211.43
Operating Profit	**87.67**	**87.68**	**130.8**	**177.12**	**253.8**
Interest	56.7	53.33	51.75	33.12	30.36
PBT	30.97	34.35	79.05	144	223.44
Depreciation	26.26	27.17	29.83	32.46	33.75
PBT	**4.71**	**7.18**	**49.22**	**111.54**	**189.69**
Tax	0.4	0.63	4	9.41	23.5
Fringe Benefit tax	0	0	0	0.96	0.8
Deferred Tax	-11.46	-1.05	0.46	28	38.96
Total tax	-11.06	-0.42	4.46	38.37	63.26
Net profit	**15.77**	**7.6**	**44.76**	**73.17**	**126.43**
Cash Profits	**42.03**	**34.77**	**74.59**	**105.63**	**160.18**

Sources of funds	FY03	FY04	FY05	FY06	FY07
SOURCES OF FUNDS :					
Share Capital	150.36	140.36	147.58	112.46	74.06
Reserves Total	301.06	441.41	620.15	711.59	827.12
Total Shareholders Funds	**451.42**	**581.77**	**767.73**	**824.05**	**901.18**
Secured Loans	659.32	697.28	623.31	683.15	591.72
Unsecured Loans	57.24	12.9	64.87	373.22	361.07
Shop Security Deposits	2.73	9.61	9.46	0	0
Total Debt	**719.29**	**719.79**	**697.64**	**1056.37**	**952.79**
Total Liabilities	**1170.71**	**1301.56**	**1465.37**	**1880.42**	**1853.97**
APPLICATION OF FUNDS :					
Gross Block	1111.87	1293.67	1393.7	1644.55	1795.98
Less: Accumulated Depreciation	146.05	179.62	210.67	244.53	278.77
Net Block	965.82	580.5	1183.03	1400.02	1517.21
Capital Work in Progress	99.78	69.34	91.48	145.5	193.59
Investments	13.03	9.78	0.11	59.92	59.92
CA & loans and Advances					
Inventories	19.7	22.44	24.63	26.56	31.5
Sundry Debtors	11.28	13.96	19.76	24.53	37.1
Cash and Bank	7.82	5.21	52.06	162.69	10.7
Loans and Advances	166.94	168.88	162.26	199.68	194.4
Total Current Assets	205.74	210.49	258.71	413.46	273.7
Less : Current Liabilities and Provisions					
Current Liabilities	102.7	92.52	49.5	80.07	101.41
Provisions	3.09	2.77	10.18	22.12	13.79
Total Current Liabilities	105.79	95.29	59.68	102.19	115.2
Net Current Assets	99.95	115.2	199.03	311.27	158.5
Miscellaneous Expenses not written off	1	1.01	0	0	0
Deferred Tax Assets	56.08	68.14	65.37	48.76	47.15
Deferred Tax Liability	64.95	75.96	73.65	85.05	122.4
Net Deferred Tax	-8.87	-7.82	-8.28	-36.29	-75.25
Total Assets	**1170.71**	**768.01**	**1465.37**	**1880.42**	**1853.97**

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Ratios	FY03	FY04	FY05	FY06	FY07
Liquidity Ratios					
Current Ratio	1.9	2.2	4.3	4.0	2.4
Quick Ratio	0.3	0.4	0.7	0.5	0.6
Solvency Ratios					
Total Debt/Equity	1.6	1.2	0.9	1.3	1.1
Debt/Assets	0.6	0.9	0.5	0.6	0.5
Interest Coverage	13.0	8.4	2.1	1.3	1.2
Efficiency Ratios					
Receivable Days	30.6	23.6	23.2	24.0	28.6
Inventory Days	53.5	39.4	32.4	27.8	26.9
Payable Days	287.3	187.8	106.5	87.8	100.8
Fixed Asset Turnover Ratio					
Profitability Ratios (%)					
EBITDA margin	65.2	44.9	49.3	52.7	64.5
Net Margin	11.7	3.9	16.9	21.8	32.1
RoCE		4.6	6.2	6.8	9.1
RoE	3.5%	1.3%	5.8%	8.9%	14.0%
FCR(Financial cost ratio) (x times)	0.08	0.12	0.49	0.77	0.86
ROA	1.3%	1.0%	3.1%	3.9%	6.8%
RONW	3.5%	1.3%	5.8%	8.9%	14.0%
Valuation Ratios					
FV	10	10	10	10	2
EPS	2.61	1.26	6.32	9.93	3.41
CEPS	6.96	5.76	10.53	14.33	4.33
PE		35.7	7.1	4.5	13.2
PEG		-0.69	0.02	0.08	-0.20
DPS	0.00	0.00	0.14	0.27	0.01
Dividend Yield	0.00	0.00	0.31	0.60	0.03
Dividend Payout (%)	0	0	0.1	0.2	0.225
BVPS	74.8	96.4	108.4	111.8	24.3
P/BV	0.6	0.5	0.4	0.4	1.8
EV/ EBITDA	11.3	11.3	7.8	7.8	10.3
Sales to Gross block	0.18	0.16	0.20	0.22	0.26

Company: Royal Orchid Hotel

Industry: Hospitality
Recommendation: Buy

Target: 200

02nd June, 2008

CMP (Rs.)	102.95
Equity (No)	2.72
Face Value (Rs.)	10
52 Week High/Low (Rs.)	225/88
Market Cap (Rs. Cr.)	280.02
Avg. Volume (3 month)	9738

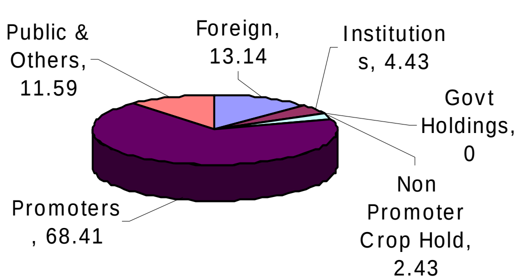
Codes

BSE Code	532699
BSE Group	B
ISIN No	INE283H01019
NSE Symbol	ROHLTD
Bloomberg	ROHL IN

Key Ratio's

P/E Ratio (TTM)	13.03
P/ BV	2.62
EV/ EBITDA	6.84
Mcap/ Sales	5.16
Dividend Yield -%	6.03
RoCE (%) (FY07)	18.4

Shareholding Pattern as of APRIL-08



*Source: Capital line

The Company

ROHL is an emerging player in the hospitality industry and is well positioned to register an impressive growth in revenues and profitability. It has a well established presence in all categories of hotels such as luxury, premium, economy and heritage hotels.

- ✓ ROHL is also benefited by the booming IT industry due to its dominating presence in Bangalore, Mysore & Hyderabad region. ROHL is now also spreading its wing to other cities like Pune, Mumbai, Delhi, Jaipur, and Goa where the Occupancy rates & ARR are moving up steadily.
- ✓ ROHL has also tied up with Indian Railways Catering and Tourism Corporation (IRCTC) for 11 properties, which would include both construct and operate and management contracts.
- ✓ The Company has tied up with Ramada Hotels to set up and manage properties in India. 2-3 properties with 300 rooms would come up by 2008-09.

The ARR's for the Company have grown at 19% for FY07, while the overall occupancy rate being 70%. Following are the existing properties of the Company :

Location	Name	Capacity
Banglore	Royal orchid	195
Banglore	Central	130
Banglore	Harsha	80
Banglore	Resort	54
Hyderabad	Royal orchid	60
Pune(from dec07)	Central	115
Pune	Royal Suites	70
Jaipur	Central	70
Mysore	Metropole	30
Mysore	Brindavan garden	25
		829

*Source: Company

- ✓ We are re-rating the hotel due to steep price de- escalation. The fundamentals are still intact as the Company has substantial number of properties and inventory under management.

Potential growth drives

The Company is inherently following the Asset light model which makes it a very attractive investment opportunity as all the cash profits hence can be utilized for higher return generating opportunities.

- ✓ As it is evident from the further analysis that the Company has been generating stable ROE till FY07 hence constant wealth has been generated.
- ✓ For this purpose the Company seems to have invested less in gross block creation while there has been an increment in working capital, mainly on the account of increase in the paid up capital of the Company.

ROHL is targeting a total 25 properties by 2010 from current 10 and with a plan to increase the number of rooms from 830 currently to 1500 in next two years.

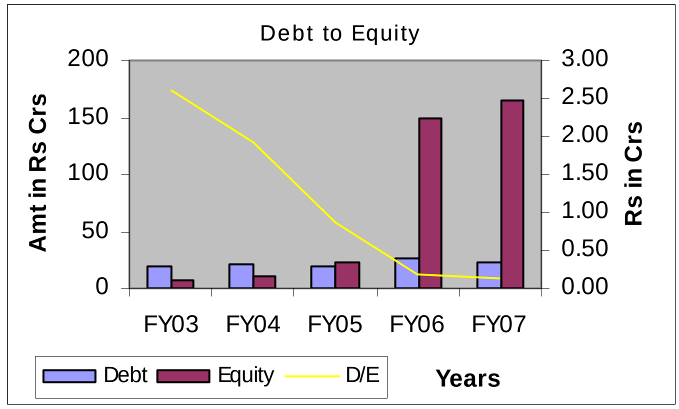
- ✓ The Company is spending Rs 500 cr for various expansion plans over a period of 3 years.
- ✓ To finance the growth the Company seems to have enough space to leverage and raise further long term loan. This is evident from the low debt to equity of the company .

There fore we consider the following trigger to be critical for its further growth

Trigger 1 : Low D/E
Trigger 2 : Cash Profits

Trigger 1

The Company ended FY04 with a D/E of 1.92 and further expansion was limited. A serious cut in its selling and administrative expenses resulted in enchased NW and hence the D/E came down. But to keep D/E down through cost cutting measures is not sustainable hence the Company decided to increase its paid equity from 9.69 crs to 27.23 crs in FY06, which provided the adequate space to borrow and grow.



*source :Padmakshi Research / capital line

- ✓ As the debt burden is kept to minimal the accompanied interest cost burden is also under check (10% of Debt for FY07).
- ✓ Clearly there is enough room to grow as the Company has one of the lowest d/e ratio only succeeded by oriental hotels. As the investment in the gross block has been minimal the Sales to GB ratio which is suggestive of the return generated by 1 Re investment in GB is generated by sales.

Hotels	Sales to GB	ROA	D/E
Royal Orchid	1.53	18.2%	0.13
Taj-GVk hotels	0.94	24.8%	0.39
Oriental Hotels	0.80	15.8%	0.02
Asian Hotels	0.27	6.5%	0.18
Hotel Leela	0.22	6.8%	1.06

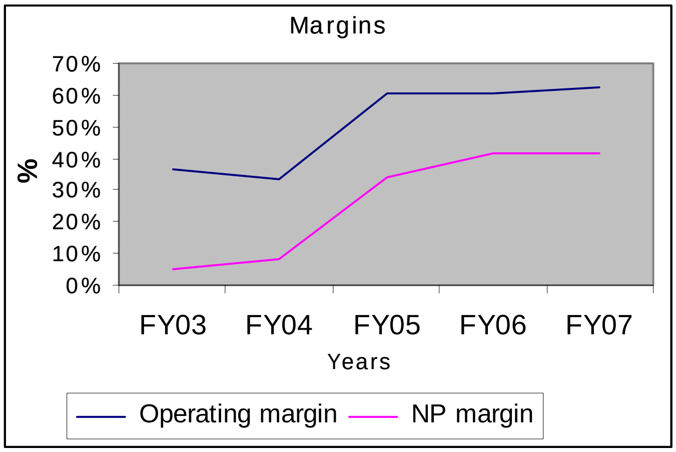
*Source: Padmakshi Research

But as the growth plans as increased this ratio will taper as there will needed to be some minimum investment required in the gross block , but due to the small base effect still the company will be able to command better multiples .

Trigger 2

The hotel sector companies that we have seen till now are very cash rich in terms of generating high cash profits. And it is no different for Royal Orchid Hotels.

- ✓ From FY03 till FY07 there has become 3 times CAGR growth in cash profits for the company from Rs 1.66 Crs to Rs 37.3 Crs.
- ✓ Hence the cumulative cash flow available to the company was Rs 80.87 crs. The company had invested Rs 32.54 Crs cumulatively for the 5 years ending in FY07 which was about 40% of cash profits and 15% of total inflow.
- ✓ The other fact which lends support to this company is the ebidta and net profit margins. The ebidta margins have been between 60%-62% from FY04 to FY07, while the NP margins have been from 34%-42% for the same period.



*source: Capital line / padmakshi research

There fore considering the current trading price of the stock we think that the earlier target of Rs 200 advocated in the month of December of Royal Orchid hotel report (*ref* :"royal orchid hotel" *padmakshi research * 18th Dec 2007) still holds on the basis of above points

- ✓ The Company also has been able to maintain healthy ebidat and pat margins which clearly show effecting internal processes. This coupled with the basic premise on which the hotel sector companies' work, namely Asset light model, high cash generation, will have a sustained effect on the pricing.

Valuation

At the CMP on the basis of FY09E earnings is trading at 6x and for FY10E it is trading at 4.4x. The stocks ev/ebidta for FY09E is 4.4x while for FY10E is3.5 x.

As the Company raises funds to expand the leverage will provide the needed growth momentum and the PE and ev/ebidta multiples will be well justified. The company also possesses the same trigger which is also common to other hotel sector companies in terms of cash generation and asset light model, which will help it gain better position as a smaller size will be cost effective.

There fore we advocate keeping a ***BUY*** on the scrip at the current levels with a price target of Rs 200 based on DCF valuation method.

Padmakshi Financial Services Ltd.

Royal Orchid Hotels - Financials

Particulars	FY03	FY04	FY05	FY06	FY07
INCOME :					
Rooms, Restaurants, Banquets and Other Services	14.52	23.01	38.79	60.42	81.14
Room Revenue				2.06	0
Other Income	0.59	1.34	4.83	6.18	10.05
Stock Adjustment	0	0	0.15	0.08	0
Total Income	**15.11**	**24.35**	**43.77**	**66.68**	**91.19**
EXPENDITURE :					
Food, Bevarages & Provisions Consumed	0	0	2.9	4.5	6.39
Operating Expenses	0	0	3.1	4.54	5.77
Employee Cost	1.83	2.34	3.43	5.46	7.33
Power. Fuel & Electricity	0	0	2.37	3.14	3.8
Selling & Administrative Expenses	7.97	14.38	6.69	10.92	15.39
Miscellaneous Expenses	0	0	1.7	1.41	1.92
Less: Preoperative Expenses Capitalised	0	0	0	0	0
Total Expenditure	9.8	16.72	20.19	29.97	40.6
Operating Profit	**5.31**	**7.63**	**23.58**	**36.71**	**50.59**
Interest	3.63	2.94	2.65	1.62	2.22
PBT	1.68	4.69	20.93	35.09	48.37
Depreciation	0.95	1.89	2.03	2.61	3.33
PBT	**0.73**	**2.8**	**18.9**	**32.48**	**45.04**
Tax	0.02	0.25	3.7	6.08	11.15
Fringe Benefit tax	0	0	0	0.14	0.14
Deferred Tax	0	0.65	1.94	0.93	-0.22
Total tax	0.02	0.9	5.64	7.15	11.07
Net profit	**0.71**	**1.9**	**13.26**	**25.33**	**33.97**
Cash Profits	**1.66**	**3.79**	**15.29**	**27.94**	**37.3**

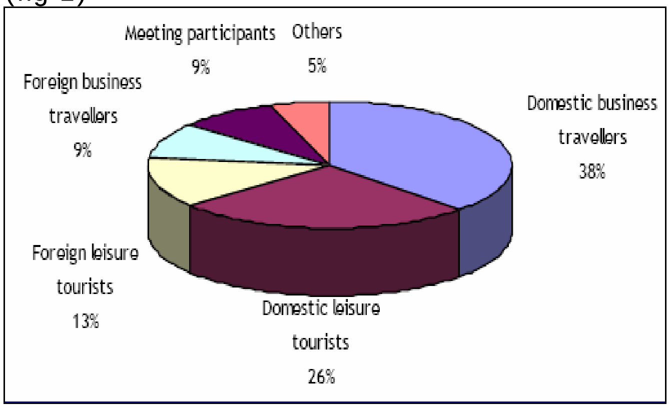
Sources of funds	FY03	FY04	FY05	FY06	FY07
Share Capital	9.12	9.12	9.69	27.23	27.23
Reserves Total	-1.39	2.13	13.48	122.51	137.3
Total Shareholders Funds	**7.73**	**11.25**	**23.17**	**149.74**	**164.53**
Secured Loans	19.36	20.85	19.80	26.94	22.08
Unsecured Loans	0.75	0.7	0.13	0	0
Shop Security Deposits	0	0	0	0	0
Total Debt	**20.11**	**21.55**	**19.93**	**26.94**	**22.08**
Total Liabilities	**27.84**	**32.8**	**43.1**	**176.68**	**186.61**
APPLICATION OF FUNDS :					
Gross Block	20.74	20.84	28.49	43.49	53.06
Less: Accumulated Depreciation	2.05	3.13	5.04	7.65	10.98
Net Block	18.69	17.71	23.45	35.84	42.08
Capital Work in Progress	1.64	4.83	9.98	0.84	0.34
Investments	0.01	0.36	0.35	6.2	10.77
CA & loans and Advances					
Inventories	0.31	0.33	0.44	0.54	0.5
Sundry Debtors	1.29	1.55	2	3.42	4.43
Cash and Bank	0.87	5.26	5.11	140.16	121.03
Loans and Advances	8.07	9.46	10.75	17.34	38.77
Total Current Assets	10.54	16.6	18.3	161.46	164.73
Less : Current Liabilities and Provisions					
Current Liabilities	4.26	5.87	6.22	8.18	8.38
Provisions	0	0	0.17	15.96	19.63
Total Current Liabilities	4.26	5.87	6.39	24.14	28.01
Net Current Assets	6.28	10.73	11.91	137.32	136.72
Miscellaneous Expenses not written off	0	0.01	0	0	0
Deferred Tax Assets	1.21	0	0.26	0.26	0.29
Deferred Tax Liability	0	0.85	2.85	3.78	3.59
Net Deferred Tax	1.21	-0.85	-2.59	-3.52	-3.3
Total Assets	**27.83**	**32.8**	**43.1**	**176.68**	**186.61**

Ratios	**FY03**	**FY04**	**FY05**	**FY06**	**FY07**
Liquidity Ratios					
Current Ratio	2.5	2.8	2.9	6.7	5.9
Quick Ratio	0.4	0.3	0.4	0.2	0.2
Solvency Ratios					
Total Debt/Equity	2.60	1.92	0.86	0.18	0.13
Debt/Assets	0.72	0.66	0.46	0.15	0.12
Interest Coverage	5.973	2.050	1.140	1.050	1.049
Efficiency Ratios					
Receivable Days	32.4	22.5	16.7	16.4	17.7
Inventory Days	7.8	5.1	3.6	3.0	2.3
Payable Days	107.1	80.3	57.7	92.2	117.3
Fixed Asset Turnover Ratio					
Profitability Ratios (%)					
EBITDA margin	36.6	33.2	60.8	60.8	62.3
Net Margin	4.9	8.3	34.2	41.9	41.9
RoCE		16.3	39.6	18.5	18.4
RoE	9.18	20.02	77.05	29.30	21.62
FCR(Financial cost ratio) (x times)	0.17	0.49	0.88	0.95	0.95
ROA	3%	6%	31%	14%	18%
RONW	9.18	16.89	57.23	16.92	20.65
Valuation Ratios					
FV	10	10	10	10	10
EPS	0.26	0.70	4.87	9.30	12.48
CEPS	0.61	1.39	5.62	10.26	13.70
PE	391.2	146.2	20.9	11.0	8.2
PEG		0.87	0.04	0.12	0.24
Total dividend (in Rs crs)	0.00	0.00	0.00	13.62	16.34
Dividend as % of NP	0%	0.00%	0.00%	53.75%	48.10%
Dividend Yield	0.00%	0.00%	0.00%	4.90%	5.88%
Dividend Payout (%)	0.00%	0.00%	0.00%	50.00%	60.00%
BVPS	2.8	4.1	8.5	55.0	60.4
P/BV	35.9	24.7	12.0	1.9	1.7
EV/ EBITDA	56.1	39.2	12.6	8.3	5.9
Sales to Gross block	0.73	1.17	1.54	1.53	1.72

Padmakshi Financial Services Ltd.

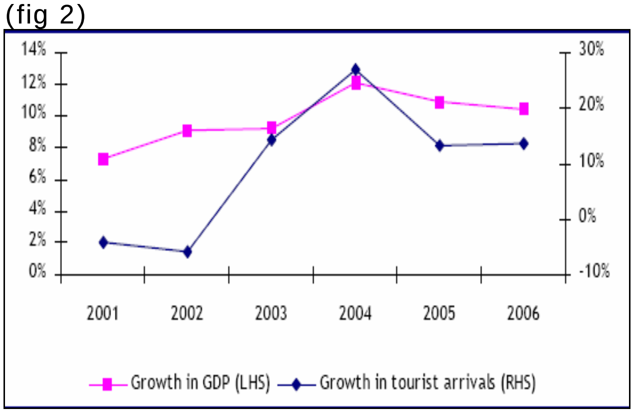
The FOCUS points

(fig 1)



*Source: Ministry of tourism

(fig 2)



*source: Ministry of tourism

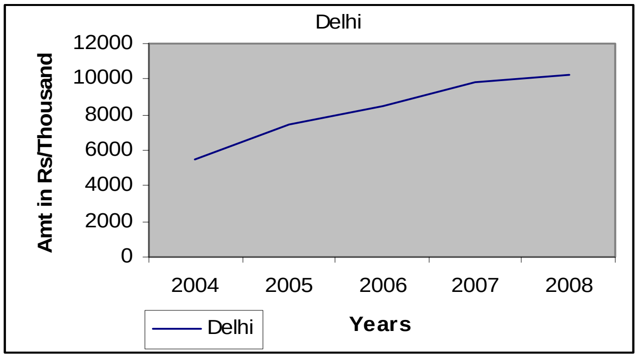
Sectoral GROWTH on the Macro Level

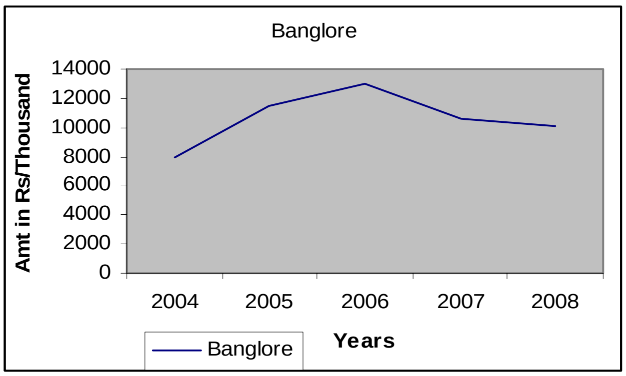
- ✓ The hospitality industry is contributing 5.83% to the GDP and is growing at a rate of 15% pa. Between FY05-FY06 the foreign arrivals in india has increased to 15% out of which more than 50% are business travelers.
- ✓ The Common- Wealth games in FY10 & The Cricket World Cup in FY11 in India will further boost the number of travelers. One in every nine jobs is created by hospitality industry and total number of people currently employed is 41.8 mn.
- ✓ This sector has strong backward and forward linkages with other industries like transportation, agriculture, handicrafts, construction, poultry, horticulture etc. the government realizing this had provisioned $95.6 Mn in 2006-2007 and $117.5 Mn in 2007-2008.
- ✓ The investment in Hospitality sector is expected to around US$11 Bn in next 2 years and this sector in India can boast of 40 international brands by FY2011.
- ✓ Realizing the opportunity in this sector many Real Estate developers have announced plans to set up premium and budget segments projects coming up in next 3-4 years in association with international and national chains for managing their properties.
- ✓ Recently Emaar MGF has announced to build 4 properties worth $400 million in association with Marriot international which will provide advisory, planning and design, construction and operations. The total number of proposed rooms is approx 900.

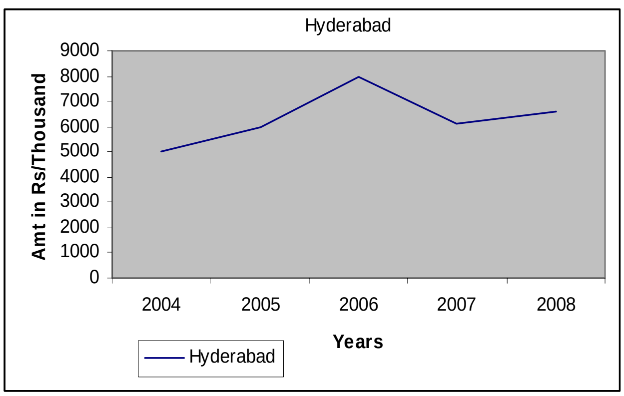
With certain pockets of the whole domestic markets like Bangalore, Mumbai, Hyderabad and Delhi will see the maximum action due to individual local factors, each city as enumerated below represents a different growth potential.

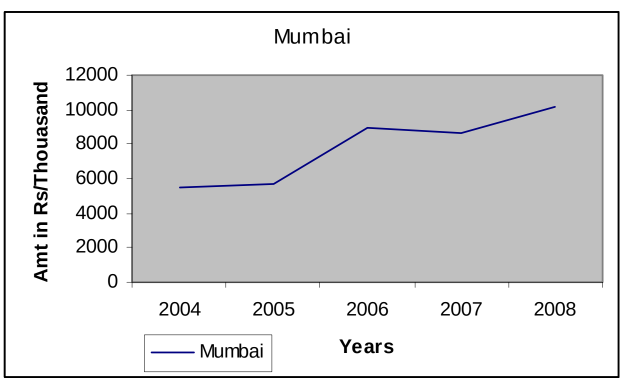
- ✓ **Delhi:** Being the centre for all the destination arrivals in the country is grappling with infrastructural issues and expected future events that will give boost to the hotel industry. Currently there are about 8500 room in Delhi and till FY11 11500 rooms more are expected to be commissioned. So even at this point there is a gap ***2.4 times the existing supply***.
- ✓ **Bangalore:** It was already operating on high ARR base of Rs 10545 for FY07 expectedly saw an -4.2 % Decline in ARR's for FY08. The city due to being an IT hub was drawing major growth in ARR's.
- ✓ **Hyderabad:** Being the sister IT destination for Bangalore it had also registered a growth of 8.36% in its ARR'r for FY08. Companies like Taj GVk have 3 properties with total rooms for business category being 269 of which all the 3 properties are undergoing expansion.
- ✓ **South Mumbai**: The EIH group controls 36% of the inventory and with their Bandra Kurla property underway their total rooms in the premium category will go to 1300 from 874 presently. The company has moved into asset light strategy which will have direct bearing on its ROE.

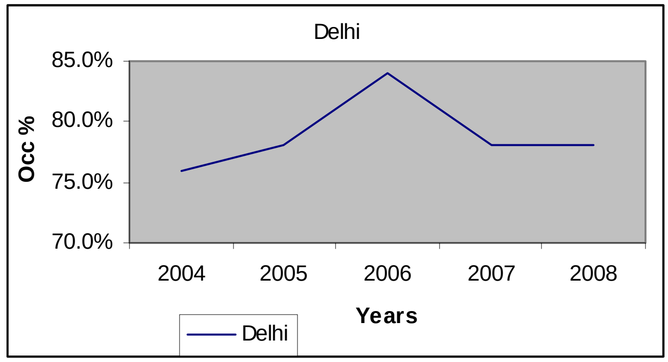
Growth in ARR and Occupancy rate across the country

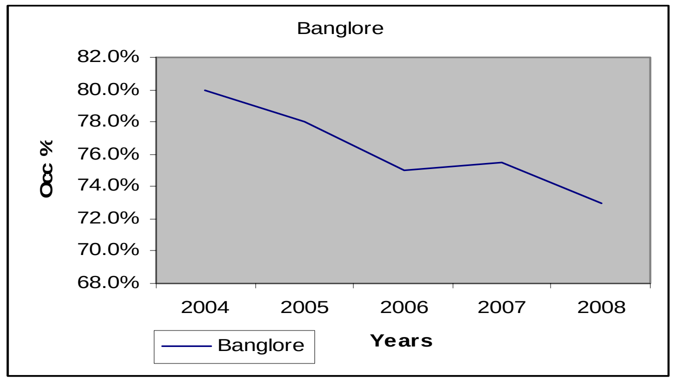


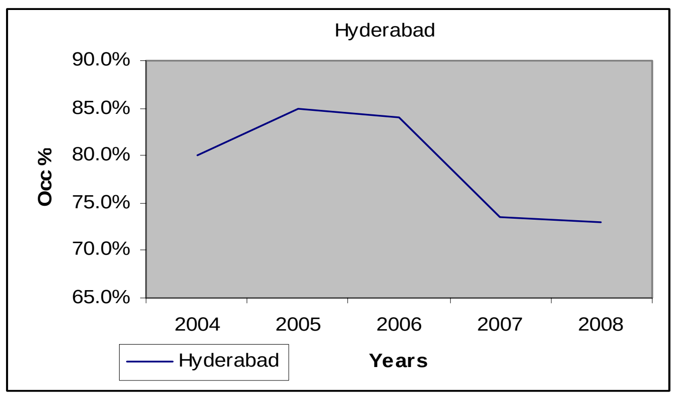


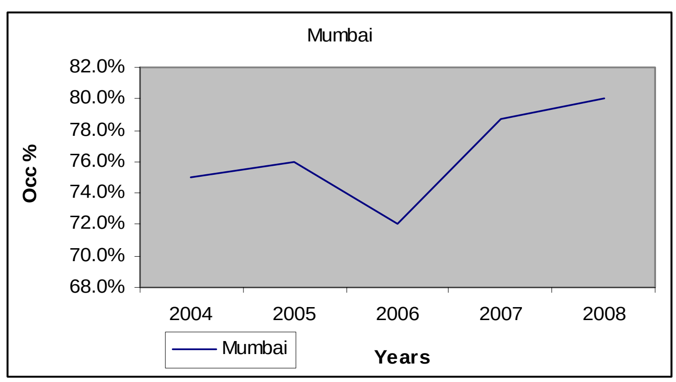












*Knight Frank Research / Industry sources

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