

## RESULT UPDATE

### MID CAP

#### Share Data

Reuters code	HTLE.BO
Bloomberg code	LELAIN
Market cap. (US\$ mn)	277
6M avg. daily turnover (US\$ mn)	1.9
Issued shares (mn)	378
Target price (Rs)	10

#### Performance (%) 1M 3M 12M

Absolute	(10)	(1)	29
Relative	(8)	(7)	(32)

#### Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	1.5	1.5
+/- (%)	(37.1)	1.2
PER (x)	22.9	22.7
PBV (x)	1.6	1.5
Dividend/Yield (%)	1.2	1.2
EV/Sales (x)	8.6	6.7
EV/EBITDA (x)	32.8	22.6

#### Major shareholders (%)

Promoters	52
FII's	3
BFSI's	7
Public & Others	38

#### Financial highlights

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Sales	1,094	897	(18.0)	2,334	1,728	(26.0)	4,522	4,322	(4.4)	5,600	29.6
EBITDA	414	185	(55.4)	959	358	(62.7)	1,559	1,137	(27.1)	1,653	45.3
EBITDA Margin (%)	37.9	20.6	-	41.1	20.7	-	34.5	26.3	-	29.5	-
Other Income	163	57	(65.0)	200	113	(43.6)	650	686	5.4	720	5.0
Interest	(64)	(58)	(9.0)	(140)	(121)	(13.0)	(267)	(389)	45.4	(790)	103.2
Depreciation	(120)	(163)	35.6	(232)	(324)	39.6	(549)	(582)	6.0	(721)	23.9
PBT before extraordinary	394	21	(94.6)	788	25	(96.8)	1,393	852	(38.8)	862	1.2
Extraordinary income	(93)	-	(100.0)	(93)	7	(107.7)	542	7	(98.7)	-	(100.0)
PBT	301	21	(93.0)	695	33	(95.3)	1,935	859	(55.6)	862	0.3
Tax	(60)	(3.6)	(94.0)	(120)	(5)	(96.2)	(476)	(281)	(40.9)	(284)	1.2
Reported PAT	241	18	(92.7)	575	28	(95.1)	1,459	578	(60.4)	577	(0.1)
Adjusted PAT	334	18	(94.8)	668	21	(96.9)	917	571	(37.8)	577	1.2

## Hotel Leelaventure

Maintain SELL

Price: Rs 35

BSE Index: 16,283

28 October 2009

### 2QFY10 Result – Sharp decline continues...

**Net sales decline of 17% to Rs 897 mn was better than our expectations, due to higher than anticipated occupancies in Bangalore. Operating margins contracted by 16% due to lower occupancies and room rents, whereas adjusted PAT declined by 95% to Rs 17.5 mn, which was above our expectations.**

Although the occupancy rates have shown initial signs of improvement (61% for 2Q against 59% for 1Q), ~30% decline in the room rents continues to affect the company's performance and we expect FY10 to remain weak. However, we expect FY11E to witness a significant improvement in the revenue growth due to 20% increase in its room inventory on account of the 280- room Delhi and 380-room Chennai properties. But higher interest costs will curtail the profitability growth over FY09-11E period. We are downward revising our estimates by 43% to factor in the continuing sharp fall in the RevPARs across its properties. The management has indicated an equity issue to reduce the high leverage on books. Although, the stock could see an upside trigger post the equity infusion, we continue to maintain our negative outlook on the company due to the challenging operating environment adversely affecting the company's profitability and cash flows and its highly leveraged balance sheet, with debt: mcap of 1.8x. Currently, the stock is trading at rich valuations of 33x FY10E and 23x FY11E our EBITDA estimates. We reiterate our Sell rating on the stock.

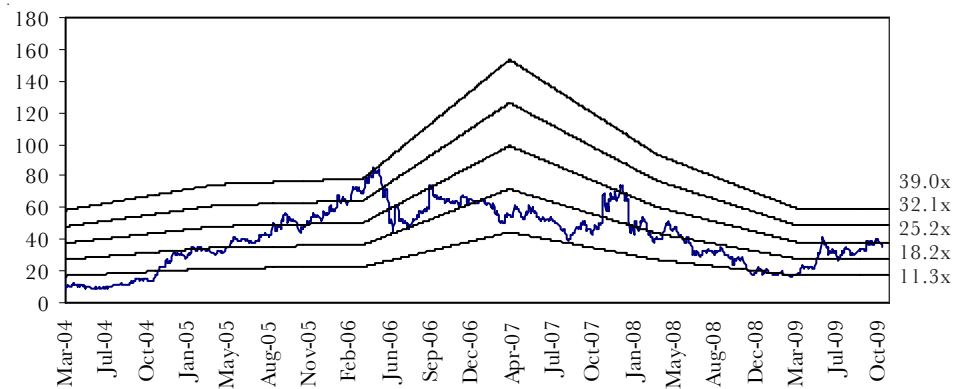
### Highlights

- Although the occupancy rates increased by 300 bps to 66% in Bangalore, sharp corrections in the room rents led to more than 30% fall in RevPARs. The Mumbai property continued its RevPARs decline of 40%+ during the quarter, led by sharp correction in the room rents and lower occupancies at 55%.

## Revision in estimates

(Rs mn)	FY10E			FY11E		
	Old	New	Variance (%)	Old	New	Variance (%)
Sales	4,986	4,322	(13.3)	6,378	5,600	(12.2)
EBITDA	1,797	1,137	(36.7)	2,305	1,653	(28.3)
EBITDA margin (%)	36.0	26.3	–	36.1	29.5	–
PAT	988	571	(42.2)	1,024	577	(43.6)
EPS (Rs)	2.6	1.5	(42.2)	2.7	1.5	(43.6)

## PER Band



Source: B&amp;K Research

## Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
<b>Net sales</b>	<b>5,146</b>	<b>4,522</b>	<b>4,322</b>	<b>5,600</b>
<i>Growth (%)</i>	35.1	(12.1)	(4.4)	29.6
Operating expenses	(2,846)	(2,963)	(3,185)	(3,947)
Operating profit	2,300	1,559	1,137	1,653
<b>EBITDA</b>	<b>2,300</b>	<b>1,559</b>	<b>1,137</b>	<b>1,653</b>
<i>Growth (%)</i>	26.4	(32.2)	(27.1)	45.3
Depreciation	(453)	(549)	(582)	(721)
Other income	742	650	686	720
<b>EBIT</b>	<b>2,589</b>	<b>1,660</b>	<b>1,241</b>	<b>1,652</b>
Interest paid	(356)	(267)	(389)	(790)
Pre-tax profit	2,233	1,393	852	862
(before non-recurring)				
Non-recurring items	0	542	7	0
Pre-tax profit	2,233	1,935	859	862
(after non-recurring)				
Tax (current + deferred)	(732)	(476)	(281)	(284)
Net profit (before Minority Interest, Pref. Dividend, etc.)	1,501	1,459	578	577
Prior period adjustments	(16)	(9)	0	0
Reported PAT	1,486	1,450	578	577
<b>Adjusted net profit</b>	<b>1,486</b>	<b>908</b>	<b>571</b>	<b>577</b>
<i>Growth (%)</i>	75.5	(38.9)	(37.1)	1.2

## Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash & Marketable securities	2,956	304	651	338
Other current assets	3,450	3,658	3,121	2,675
Investments	2	462	462	462
Net fixed assets	26,225	43,695	44,988	46,642
<b>Total assets</b>	<b>32,633</b>	<b>48,120</b>	<b>49,222</b>	<b>50,116</b>
Current liabilities	2,061	3,221	3,205	3,408
Total debt	20,357	24,495	24,351	24,721
Other non-current liabilities	914	1,004	1,004	1,004
<b>Total liabilities</b>	<b>23,332</b>	<b>28,719</b>	<b>28,559</b>	<b>29,133</b>
Share capital	756	756	756	756
Reserves & surplus	8,546	18,645	19,907	20,227
<b>Shareholders' funds</b>	<b>9,302</b>	<b>19,400</b>	<b>20,663</b>	<b>20,983</b>
<b>Total equity &amp; liabilities</b>	<b>32,633</b>	<b>48,120</b>	<b>49,222</b>	<b>50,116</b>
<b>Capital employed</b>	<b>30,571</b>	<b>44,899</b>	<b>46,018</b>	<b>46,708</b>

## Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	2,233	1,935	859	862
Depreciation	453	549	582	721
Change in working capital	(23)	945	522	650
Total tax paid	(571)	(386)	(281)	(284)
<b>Cash flow from oper. (a)</b>	<b>2,093</b>	<b>3,043</b>	<b>1,682</b>	<b>1,949</b>
Capital expenditure	(9,693)	(18,091)	(1,875)	(2,375)
Change in investments	597	(460)	0	0
Others	123	71	0	0
<b>Cash flow from inv. (b)</b>	<b>(8,973)</b>	<b>(18,480)</b>	<b>(1,875)</b>	<b>(2,375)</b>
<b>Free cash flow (a+b)</b>	<b>(6,881)</b>	<b>(15,436)</b>	<b>(193)</b>	<b>(426)</b>
Equity raised/(repaid)	(137)	(256)	0	0
Debt raised/(repaid)	10,829	4,139	(144)	370
Dividend (incl. tax)	(109)	(172)	(177)	(177)
Others	(855)	9,074	861	(81)
<b>Cash flow from fin. (c)</b>	<b>9,728</b>	<b>12,785</b>	<b>541</b>	<b>113</b>
<b>Net change in cash (a+b+c)</b>	<b>2,848</b>	<b>(2,652)</b>	<b>347</b>	<b>(314)</b>

## Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	3.9	2.4	1.5	1.5
Growth	95.5	(38.9)	(37.1)	1.2
Book NAV/share (Rs)	19.0	18.6	22.1	23.2
Dividend/share (Rs)	0.5	0.4	0.4	0.4
Dividend payout ratio	14.9	19.5	30.9	30.6
Tax	32.8	24.6	32.7	33.0
EBITDA margin	44.7	34.5	26.3	29.5
EBIT margin	50.3	36.7	28.7	29.5
RoCE	10.4	4.4	2.7	3.6
Net debt/Equity	187.1	124.7	114.7	116.2

## Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	8.8	14.4	22.9	22.7
PCE	6.8	9.0	11.4	10.1
Price/Book	1.8	1.9	1.6	1.5
Yield (%)	1.4	1.2	1.2	1.2
EV/Net sales	7.2	8.2	8.6	6.7
EV/EBITDA	16.2	23.9	32.8	22.6

## Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	28.9	20.1	13.2	10.3
Asset turnover	0.2	0.1	0.1	0.1
Leverage factor	2.9	2.8	2.4	2.4
Return on equity (%)	16.2	6.3	2.8	2.8

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**Analyst Declaration:** We, Sweta Jain & Ashit Desai, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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1. **BUY:** Potential upside of > +25% (absolute returns)
  2. **OUTPERFORMER:** 0 to +25%
  3. **UNDERPERFORMER:** 0 to -25%
  4. **SELL:** Potential downside of < -25% (absolute returns)
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