

Taj GVK Hotels (TAJGVK)

Rs 167

WHAT'S CHANGED...

PRICE TARGET	Unchanged
EPS (FY11E)	Unchanged
EPS (FY12E)	Changed from Rs 10.3 to Rs 9.5
RATING.....	Unchanged

Muted growth led by Telangana crisis...

Taj GVK Hotels came out with Q4FY10 numbers that were lower than our expectations. The company reported net revenues of Rs 63.3 crore, (up 11.2% YoY, down 1.4% QoQ) as against our expected net revenues of Rs 69.8 crore. The growth in revenues was lower on account of the Telangana crisis, which resulted in revenue loss of ~Rs 3.0 crore for the quarter. On the other hand, operating margins recorded an improvement of 450 bps YoY and 110 bps QoQ to 41.5%. This was achieved through cost control measures. Net profit for the quarter stood at Rs 12.2 crore as against Rs 7.9 crore last year, up 54.3% YoY.

Revenue grows but at a lower pace on Telangana crisis

During the quarter, revenues from the MICE segment were badly impacted due to the Telangana crisis in Hyderabad where the company has a major room inventory. Average occupancy levels in the city declined from 73% to 67% QoQ. This resulted in revenue loss of over ~Rs 3.0 crore for the quarter. Shifting of IPL from Hyderabad to other cities also resulted in further revenue loss of Rs 2-3 crore for the quarter. On the other hand, revenues from Chandigarh and Chennai both witnessed an improvement due to pick-up in demand for hotel rooms. In Chandigarh, growth in revenues was mainly driven by a rise in ARR that rose 2.7% QoQ to Rs 7,500 while in Chennai growth mainly came from improvement in occupancy that increased sharply by 2100 bps QoQ to 60%.

Valuation

Taj GVK is competitively positioned in terms of room rates against its competitors. In our forecast period of FY10-12E, we expect revenue and PAT CAGR of 18.8% and 26.6%, respectively. At the CMP of Rs 167, the stock is available at 11.8x and 9.5x its FY11E and FY12E EV/EBITDA, respectively. This is at a discount to its comparable peers (i.e. at 13.0x FY12E EV/EBITDA). Considering the company's competitive pricing power, balanced growth plans and sound balance sheet, we value the stock at 10.5x its FY12E EV/EBITDA and maintain our target price of Rs 186. We continue to maintain our **BUY** rating on the stock.

Exhibit 1: Performance Highlights

Rs. Crore	Q4FY10	Q4FY10E	Q4FY09	Q3FY10	YoY Gr. (%)	QoQ Gr. (%)
Net Sales	63.3	69.8	56.9	64.2	11.2	-1.4
EBITDA	26.3	30.2	21.1	26.0	24.9	1.3
EBITDA Margin (%)	41.5	43.3	37.0	40.4	+450 bps	+110 bps
Depreciation	5.1	5.0	4.1	4.9	22.9	3.3
Interest	2.9	2.8	3.6	2.6	-19.7	9.2
Net Profit	12.2	16.4	7.9	12.2	54.3	0.0
EPS (Rs)	1.9	2.6	1.3	1.9	54.3	0.0

Source: Company, ICICIdirect.com Research

Rating matrix

Rating	:	Buy
Target	:	Rs 186
Target Period	:	12 months
Potential Upside	:	11%

Key Financials

(Rs Crore)	FY09	FY10	FY11E	FY12E
Net Sales	237.5	229.1	270.9	318.6
EBITDA	101.9	86.6	98.9	122.3
Net Profit	52.8	36.3	44.6	58.1

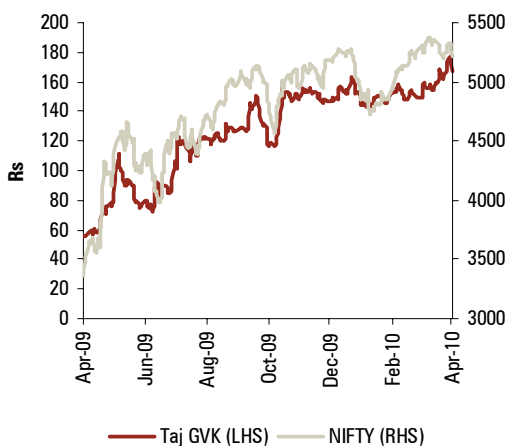
Valuation summary

	FY09	FY10	FY11E	FY12E
PE (x)	19.7	28.7	23.3	17.9
Target PE (x)	22.1	32.1	26.1	20.1
EV to EBITDA (x)	11.4	13.5	11.8	9.5
Price to book (x)	3.8	3.6	3.0	2.6
RoNW (%)	19.5	12.4	13.2	17.2
RoCE (%)	14.4	10.5	9.8	12.8

Stock data

Market Capitalisation	Rs 1047 crore
Debt	Rs 130 crore
EV	Rs 1177 crore
52 week H/L	178/53
Equity capital	Rs 12.5 Crore
Face value	Rs 2.0
MF Holding (%)	7.9
FII Holding (%)	0.8

Price movement (Stock vs. Nifty)

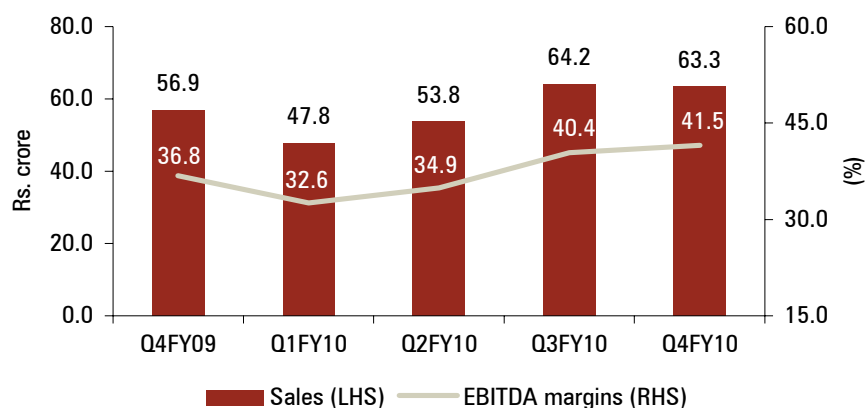


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Exhibit 2: Quarterly sales and EBITDA (%)

Sales growth remained muted compared to the last quarter due to the Telangana crisis. However, the EBITDA margin improved on account of adoption of effective cost control measures



Source: Company, ICICIdirect.com Research

Exhibit 3: Trends in ARR and occupancy levels**YoY comparison**

Chandigarh has witnessed a sharp recovery in demand compared to last year. In Hyderabad, the demand growth remain muted due to a late pick-up in demand, which again got impacted due to the Telangana crisis

Particulars	ARRs* (Rs.)			Average Occupancy (%)		
	Q4FY10	Q4FY09	Growth (%)	Q4FY10	Q4FY09	Growth
Hyderabad						
Taj Krishna	8,200	8,800	-6.8	65.0	66.0	-100 bps
Taj Deccan	5,500	6,000	-8.3	68.0	68.0	-
Taj Banjara	5,500	6,000	-8.3	68.0	68.0	-
Chandigarh						
Taj Chandigarh	7,500	7,500	0.0	73.0	67.0	+600 bps
Chennai						
Taj Mount Road	5,500	6,500	-15.4	60.0	22.0	+3800 bps

Q-o-Q Comparison

Average occupancy levels in Hyderabad have been impacted due to the Telangana crisis while in Chennai occupancy levels improved sharply due to an improvement in demand from IT and auto segments

Particulars	ARRs* (Rs.)			Average Occupancy (%)		
	Q4FY10	Q3FY10	Growth (%)	Q4FY10	Q3FY10	Growth
Hyderabad						
Taj Krishna	8,200	8,000	2.5	65.0	70.0	-500 bps
Taj Deccan	5,500	5,500	0.0	68.0	75.0	-700 bps
Taj Banjara	5,500	5,500	0.0	68.0	75.0	-700 bps
Chandigarh						
Taj Chandigarh	7,500	7,300	2.7	73.0	73.0	-
Chennai						
Taj Mount Road	5,500	5,500	0.0	60.0	39.0	+2100 bps

Source: Company, ICICIdirect.com *ARRs –Average Room rates.

Future expansion plans

The company is currently focusing on its two major projects that are located in Hyderabad. Apart from this, the company is exploring the possibility of entering the value for money chain segment through the Ginger brand in Andhra Pradesh. It also holds a six-acre land in Bangalore (the Shivna Haldi area)

Capex schedule

Property Name	Location	Type	No of Rooms	Total CapEx (Rs. Cr)	Expected completion date
Taj Begumpet	Hyderabad	Leased	190	80.00	Q4FY11
Taj Krishna (Expansior	Hyderabad	Service Apts	43	80.00	FY12
Ginger Hotels	Hyderabad	Owned	250	40.00	FY12

Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe (Hotels)

IHCL					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)
Idirect Code	INDHOT	CMP	105.0	FY10E	2758.5	2.7	39.4	19.6	5.5	6.0
		Target	118.0	FY11E	3308.1	4.7	22.5	14.1	8.8	8.5
MCap (Rs Cr)	7,957.4	Upside (%)	12%	FY12E	3854.7	6.9	15.2	8.8	13.1	12.2
EIH					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)
Idirect Code	EIH	CMP	126.0	FY10E	899.5	1.9	65.8	22.9	5.4	7.9
		Target	111.0	FY11E	1220.8	4.1	30.5	15.4	10.7	12.7
MCap (Rs Cr)	5,029.8	Upside (%)	-12%	FY12E	1314.5	5.5	22.8	13.6	13.9	14.3
Hotel Leela					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)
Idirect Code	HOTLEE	CMP	48.0	FY10E	435.6	1.5	32.7	26.3	2.7	2.1
		Target	53.0	FY11E	579.9	2.5	19.2	16.9	4.1	3.5
MCap (Rs Cr)	1889.1	Upside (%)	10%	FY12E	724.3	3.3	14.7	13.8	5.4	4.4
Taj GVK Hotels					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)
Idirect Code	TAJGVK	CMP	166.0	FY10	229.1	5.8	28.7	13.6	12.4	10.5
		Target	186.0	FY11E	270.9	7.1	23.3	11.9	13.2	9.8
MCap (Rs Cr)	1047.1	Upside (%)	12%	FY12E	318.6	9.3	17.9	9.6	17.2	12.8
Kamat Hotels					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)
Idirect Code	KAMHOT	CMP	126.0	FY10E	105.7	-3.1	-40.4	15.1	NA	6.0
		Target	UR	FY11E	135.2	4.3	29.2	10.4	4.4	8.9
MCap (Rs Cr)	172.6	Upside (%)	-	FY12E	165.0	11.4	11.0	8.2	9.1	11.1
Viceroy Hotels					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)
Idirect Code	PALHEI	CMP	43.0	FY10E	93.8	0.2	198.2	28.7	0.4	1.5
		Target	52.0	FY11E	125.3	1.1	38.9	21.0	1.9	2.2
MCap (Rs Cr)	206.1	Upside (%)	21%	FY12E	197.0	3.3	13.0	12.4	5.6	3.8
Royal Orchid					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)
Idirect Code	ROYORC	CMP	80.0	FY10E	117.1	1.2	69.0	13.9	1.5	2.3
		Target	106.0	FY11E	145.8	3.7	21.7	11.0	4.8	4.2
MCap (Rs Cr)	229.7	Upside (%)	33%	FY12E	208.9	6.3	12.8	8.9	7.8	5.4

*EV/E - EV/EBITDA

RATING RATIONALE

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Strong Buy: 20% or more;
 Buy: Between 10% and 20%;
 Add: Up to 10%;
 Reduce: Up to -10%
 Sell: -10% or more;

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