

Hotel Leela (HOTLEE)

Rs 50

WHAT'S CHANGED...

PRICE TARGET Changed from Rs 51 to Rs 55
 EPS (FY11E) Unchanged
 EPS (FY12E) Changed from Rs 2.6 to Rs 3.0
 RATING..... Changed from Buy to Add

Business destinations lead robust growth...

Hotel Leela's net sales recorded growth of 24.9% YoY to Rs 105.8 crore backed by a revival in demand especially in business destinations. However, it remained below our expectations as leisure destinations witnessed a decline in occupancy, especially Kovalam compared to last year. There has been an improvement in the operating margin for the quarter backed by growth in sales and cost control measures. It improved by 750 bps YoY and 70 bps QoQ to 29.8%. Net profit for the quarter stood at Rs 9.2 crore as against net profit of Rs 1 crore last year and Rs 9.4 crore last quarter.

■ Healthy demand from business segment leads robust sales growth

Hotel Leela's net sale recorded a growth of 24.9% YoY to Rs 105.8 crore backed by strong recovery in demand especially in business destinations. However, it remained below our expectations as average occupancy levels in leisure destinations declined by 300 bps YoY to 64%. Among leisure destinations, Kovalam recorded a decline of 700 bps YoY while Goa recorded an improvement of 100 bps in average occupancy. On the other hand, not only did business destinations record a healthy recovery in occupancy but there was also a marginal improvement in average room rates (ARRs) indicating a sustainable recovery in this segment.

■ Margin improves backed by growth in sales

There has been an improvement in the operating margin for the quarter backed by growth in sales and cost control measures. It improved by 750 bps YoY and 70 bps QoQ to 29.8%.

Valuation

At the CMP of Rs 50, the stock is trading at 21.6x and 16.7x its EV/EBITDA, respectively. With the opening of two new hotels during our forecast period, we expect revenue and EPS CAGR of 25.9% and 64.8%, respectively, for the period FY10-12E. Considering the favourable demand supply scenario where the company has a strong presence, we have raised our target multiple upwards and arrived at a target price of Rs 55, valuing the company at 17.5x EV/EBITDA.

Exhibit 1: Performance Highlights

Rs. Crore	Q1FY11	Q1FY11E	Q1FY10	Q4FY10	YoY Gr. (%)	QoQ Gr. (%)
Net Sales	105.8	115.4	84.7	135.3	24.9	-21.8
EBITDA	31.6	36.0	18.9	39.4	67.5	-19.9
EBITDA Margin (%)	29.8	31.2	22.3	29.1	+750 bps	+70 bps
Depreciation	18.6	17.5	16.1	22.0	15.7	-15.3
Interest	5.7	5.9	6.4	7.6	-11.2	-25.4
Net Profit	9.2	16.5	1.0	9.4	788.5	-1.6
EPS (Rs)	0.2	0.4	0.03	0.2	788.4	-1.6

Source: Company, ICICIdirect.com Research

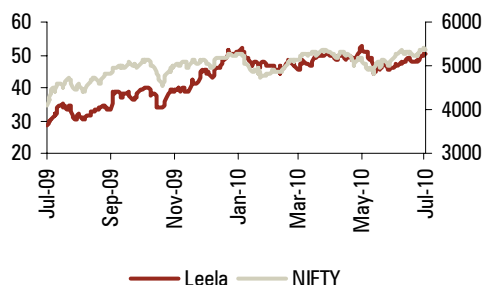
Rating matrix	
Rating	: Add
Target	: Rs 55
Target Period	: 12 months
Potential Upside	: 10%

Key Financials				
(Rs Crore)	FY09	FY10	FY11E	FY12E
Net Sales	459.7	436.2	558.6	691.07
EBITDA	162.6	126.6	201.1	259.8
Net Profit	144.9	41.0	74.5	111.5

Valuation summary				
	FY09	FY10	FY11E	FY12E
PE (x)	13.0	46.0	25.4	16.9
Target PE (x)	14.3	50.6	27.9	18.6
EV to EBITDA (x)	26.6	34.1	21.5	16.6
Price to book (x)	0.9	0.8	0.8	0.75
RoNW (%)	7.5	2.0	3.3	4.9
RoCE (%)	4.7	1.6	3.1	4.4

Stock data	
Market Capitalisation	Rs 1890 crore
Debt	Rs 2480 crore
Cash (Projected)	Rs 70 crore
EV	Rs 4300 crore
52 week H/L	53/29
Equity capital	Rs 75.6 crore
Face value	Rs.2.0
MF Holding (%)	0.7
FII Holding (%)	2.5

Price movement

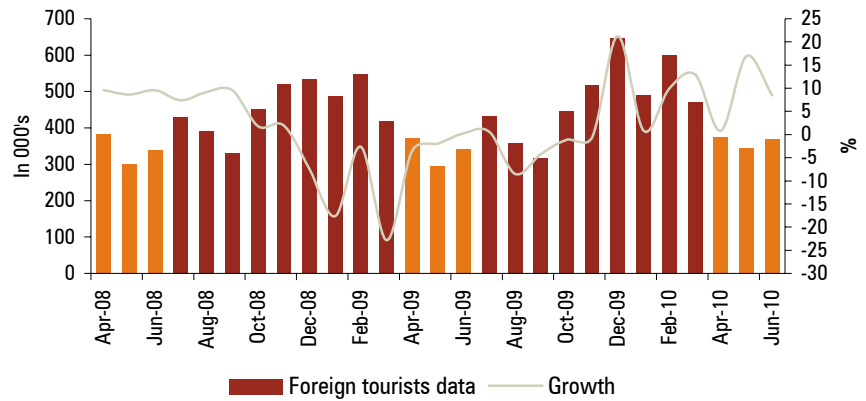


Analyst's name

Rashesh Shah
 rashes.shah@icicisecurities.com

Exhibit 2: Trends in foreign tourist arrivals (FTAs)

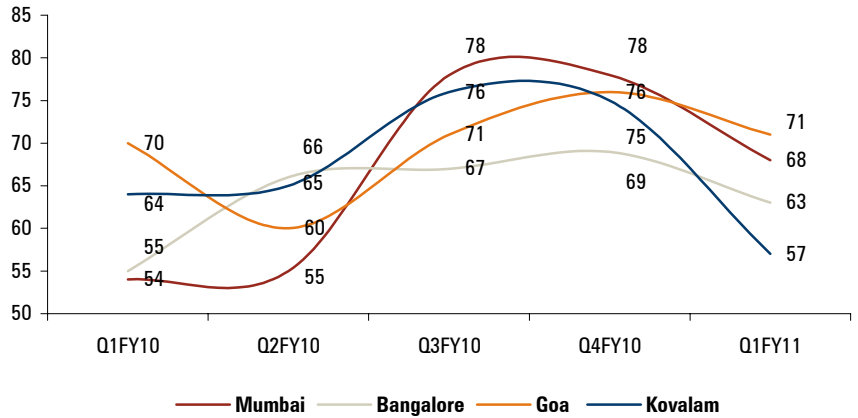
Foreign tourist arrivals for Q1FY11 grew by 8% YoY led by a gradual recovery in the global economic outlook



Source: MoT, ICICIdirect.com Research

Exhibit 3: Trends in average occupancy levels

On a quarterly basis also, business destinations continued to outperform leisure destinations with an average decline of 800 bps in occupancy as against a 1150 bps decline in occupancy in leisure destination. This decline can be mainly attributed to seasonality of business



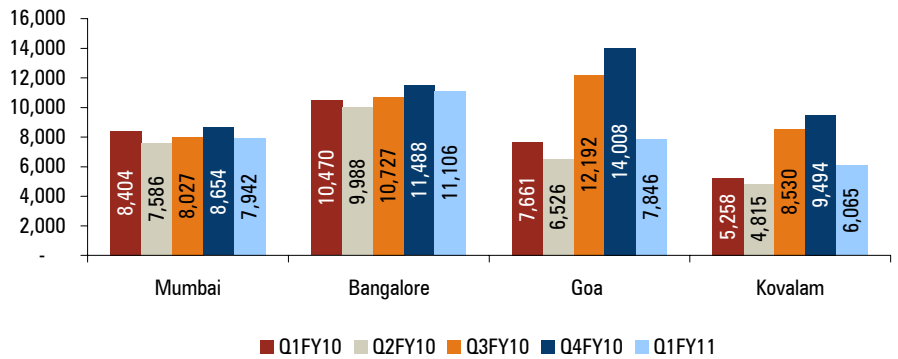
Source: Company, ICICIdirect.com Research

Average occupancy levels across business destinations improved by 1100 bps YoY to 65.5% with a sharp improvement of 1400 bps in Mumbai on account of a revival in the economy. Among leisure destinations, Goa recorded a marginal improvement of 100 bps YoY in occupancy. Average occupancy levels in Kovalam declined by 700 bps YoY. Here demand for hotel rooms is mainly driven by foreign tourists.

Exhibit 4: Trends in average room rates

Average room rates across business destinations continued to remain stable with an improvement in demand especially in Bangalore

Leisure destinations recorded an average annual growth of 9% in ARR compared to last year. However, the same has declined by 40% QoQ on account of the lean season impact

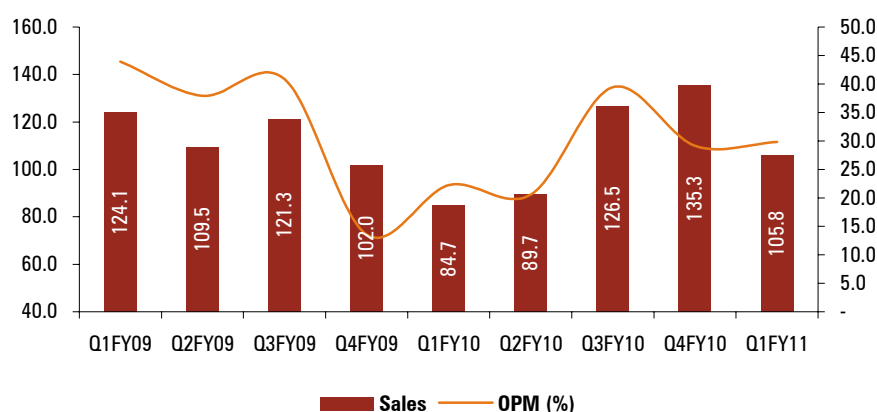


Source: Company, ICICIdirect.com Research

Operating revenues recorded robust growth of 24.9% YoY indicating a sustainable recovery in demand for hotel rooms. However, it remained lower compared to Q1FY09

With the addition of these two five star hotels, its room inventory is expected to increase to 2,115 rooms by FY12E, representing a CAGR of 17.8% over FY10-12E

Exhibit 5: Quarterly trends in sales and net profit



Source: Company, ICICIdirect.com Research

Capex plans

The company is currently working on two major projects located in Delhi and Chennai. Its Delhi hotel project (located in Chanakyapuri) with 260 rooms is expected to start operations before the Commonwealth Games. The hotel at Adyar beach in Chennai with 332 rooms is likely to commence by FY12. With the addition of these two five star hotels, its room inventory is expected to increase to 2,115 rooms by FY12E, representing a CAGR of 17.8% over FY10-12E. The schedule for the planned capex is mentioned herein below.

Exhibit 6: Planned capex schedule

Project Location	Capex (Rs. Crore)	Incurred Till March 10	Schedule for pending capex (Rs. Crore)		
			FY11E	FY12E	Beyond FY12E
New Delhi	1,180.00	955.00	195.00	21.00	9.00
Chennai	532.00	216.60	150.00	115.00	50.40

Source: Company, ICICIdirect.com Research

Sale of IT Park in Chennai on cards

The company has indicated its plans to sell its non-core asset IT Park in Chennai in order bring down its overall debt burden. Through this transaction the company is expected to generate proceeds of Rs 220 crore.

Key developments for the quarter

- The Board has approved the allotment of one crore shares on a preferential basis to promoter group company Leela Lace Software Solutions Pvt Ltd at Rs 48.5 per share. With this allotment, the promoter holding in the company would increase from 53.4% to 54.6%
- The company has indicated its plan to develop its land in Pune into a premium residential and commercial property jointly with reputed local builders. In turn, this would ease the company's overall capex requirement. A further announcement on this development is expected to come from the management soon

ICICIdirect.com Coverage Universe (Hotels)

IHCL				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)	
			FY09	2686.4	0.2	615.4	19.5	0.4	4.7	
Idirect Code	INDHOT	CMP	106.0	FY10	2516.5	-2.7	-38.8	27.6	-6.4	2.6
		Target	118.0	FY11E	3158.1	3.5	30.6	13.5	7.5	7.6
MCap (Rs Cr)	7,161.7	Upside (%)	11%	FY12E	3679.9	5.3	20.1	10.3	11.4	10.4
EIH				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)	
			FY09	1199.2	4.3	28.4	13.7	12.0	13.8	
Idirect Code	EIH	CMP	123.0	FY10	1038.3	1.7	72.9	20.0	4.8	7.2
		Target	128.0	FY11E	1220.8	2.5	49.7	17.6	6.7	10.1
MCap (Rs Cr)	4,518.9	Upside (%)	4%	FY12E	1379.5	4.2	29.3	13.7	11.9	12.2
Hotel Leela				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)	
			FY09	459.8	3.8	13.0	26.6	7.5	4.7	
Idirect Code	HOTLEE	CMP	50.0	FY10	436.2	1.1	46.0	34.1	2.0	1.6
		Target	55.0	FY11E	558.7	2.0	25.4	21.5	3.3	3.1
MCap (Rs Cr)	1889.1	Upside (%)	10%	FY12E	691.1	3.0	16.9	16.6	4.9	4.4
Taj GVK Hotels				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)	
			FY09	238.2	8.4	19.3	11.6	19.5	14.4	
Idirect Code	TAJGVK	CMP	162.0	FY10	229.1	5.8	28.0	13.6	12.4	10.5
		Target	186.0	FY11E	270.9	7.1	22.8	11.9	13.2	9.8
MCap (Rs Cr)	971.9	Upside (%)	15%	FY12E	318.6	9.3	17.5	9.6	17.2	12.8
Kamat Hotels				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)	
			FY09	123.1	4.1	29.5	19.6	10.1	5.2	
Idirect Code	KAMHOT	CMP	121.0	FY10E	107.8	-4.9	NA	23.1	NA	5.6
		Target	128.0	FY11E	141.7	3.3	37.0	14.9	3.4	9.0
MCap (Rs Cr)	157.2	Upside (%)	6%	FY12E	172.2	10.6	11.4	12.0	8.7	10.5
Viceroy Hotels				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)	
			FY09	103.0	1.6	31.1	25.1	2.8	2.1	
Idirect Code	PALHEI	CMP	49.5	FY10	93.9	0.3	185.5	27.1	0.5	1.7
		Target	49.0	FY11E	122.3	1.1	46.2	19.8	1.8	2.3
MCap (Rs Cr)	167.5	Upside (%)	-1%	FY12E	157.6	2.2	22.7	15.3	3.6	3.0
Royal Orchid				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)	
			FY09	140.2	7.3	10.6	6.4	9.8	7.9	
Idirect Code	ROYORC	CMP	78.0	FY10	120.4	2.6	30.5	12.8	3.3	2.8
		Target	94.0	FY11E	141.2	3.7	21.1	12.5	4.7	4.1
MCap (Rs Cr)	195.8	Upside (%)	21%	FY12E	203.8	5.4	14.3	10.4	6.7	5.0

*EV/E - EV/EBITDA

Prices are as on July 15, 2010

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
 ICICI Securities Limited,
 7th Floor, Akruiti Centre Point,
 MIDC Main Road, Marol Naka,
 Andheri (East)
 Mumbai – 400 093**

research@icicidirect.com

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