

HOTEL LEELA VENTURE LTD.

Hiccups hit growth...
Q2 FY 2007 update

COMPANY DETAILS

Auditors	Picardo & Co.
Chairman	Capt. C.P. Krishnan Nair
Reg. Off	The Leela Kempinski, Sahar, Mumbai 400 059
Website	www.theleela.com

SCRIP DETAILS

Market Capitalisation	Rs. 24 bn.
Book Value per share	Rs. 15
Equity Shares O/S (F.V. Rs 2)	370 mn.
Median Volumes (12 mths)	138,650 (BSE+NSE)
52 Week High/Low	Rs. 85 / 46
BSE Scrip Code	500193
NSE Scrip Code	HOTELEELA
Bloomberg Code	LELA@IN
Reuters Code	HTLE.BO

SHAREHOLDING PATTERN (%)

Qtr. Ended	Mar-06	Jun-06	Sep-06 #
Indian Promoters	48.5	48.7	48.9
MFs / UTI / FIs	8.4	8.1	8.1
FII's /NRI's /OCBs	23.6	21.6	21.1
Pvt. Corp. Bodies	5.6	6.1	7.4
Indian Public	13.9	15.4	14.4
No. of shares	368.6	370.3	370.3

F.V. has changed from Rs 10/sh to Rs 2/sh w.e.f 8th Sep'06

KEY FINANCIALS (STANDALONE)

Rs Mn	Quarter Ended			Year Ended (March)		
	Mar-06	Jun-06	Sep-06	2006	2007E *	2008E
Net Sales	1,002	808	767	3,239	3,770	4,484
YoY Gr. (%)	19.6	19.7	14.6	23.4	16.4	18.9
Op. Profits	468	392	382	1,577	1,928	2,287
Op. Marg.(%)	46.7	48.4	49.9	48.7	51.1	51.0
Net Profits	375	628	221	1,008	1,487	1,377
Eq. Capital	737	741	741	737	843	843

KEY RATIOS

Year Ended (March)	EPS (Rs.)	ROCE (%)	RONW (%)	P/E (x)	EV/Sales (x)	EV/EBDIT (x)
2006	2.0	2.3	8.9	31.7	10.5	21.5
2007E	3.5	2.9	12.8	17.8	9.1	17.8
2008E	3.3	2.5	10.7	19.3	7.6	15.0

* Full dilution of FCCBs has been assumed for FY07E & FY08E Equity

SUMMARY

- Hotel Leela Venture Ltd. (Leela) registered a 15% YoY jump in net revenues to Rs 767 mn in Q2FY07, on back of higher ARR's at Bangalore & Mumbai, and off season tourist traffic in Goa & Kovalam.
- It witnessed a jump in average room realisations (ARRs) across all its old properties i.e. Bangalore, Mumbai and Goa. These moved up significantly by 22%, 33% & 11% YoY respectively.
- Occupancy Rate (OR) at Goa improved to 67% (+2% YoY) in Q2FY07. However, strong ARR's at Mumbai resulted in OR falling to 78% (-7% YoY), while OR at Bangalore declined to 74% (-7% YoY).
- OPM in Q2FY07 vaulted 720 bps YoY to 49.9% as revenues growth outpaced the upsurge in operational expenses. All round decline in expenses (as a % a income) resulted in Op. profits jumping 34% YoY to Rs 382 mn in Q2FY07.
- Leela's interest burden in Q2FY07 was flat YoY at Rs 83 mn. Depreciation was higher by 27% YoY at Rs 87 mn due to the renovated rooms at Kovalam and Mumbai.
- Net profits rose 57% YoY to Rs 221 mn in Q2FY07.
- The launch of company's floating casino in Goa has been pushed back to Jan-Feb'07 as against the earlier planned Oct'06. Also, Leela may not be able to commission the full complement of 120 key at its Bangalore property by Dec'06. Instead, ~ 70 rooms will be commissioned by the end of Jan'07 in time for the International Air Show in Feb'07. Leela's plans to increase its inventory at Kovalam have also been put off due to hurdles in securing clearances for the same.
- In light of the new developments (i.e. delay in capacity augmentation & softening of ARR's in Bangalore) we downgrade our recommendation on the stock to 'HOLD'. We plan to revisit the same after assessing the situation in subsequent quarters.

Nov 09, 2006

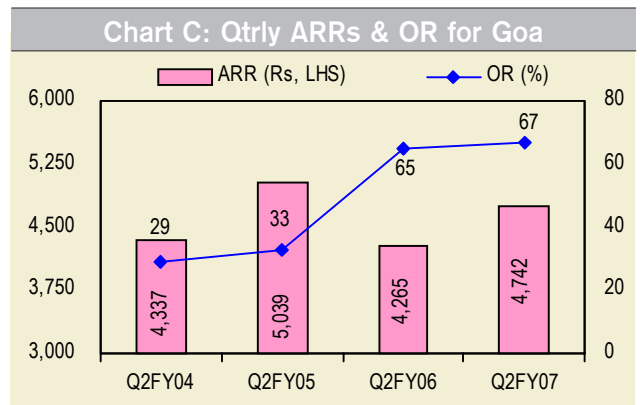
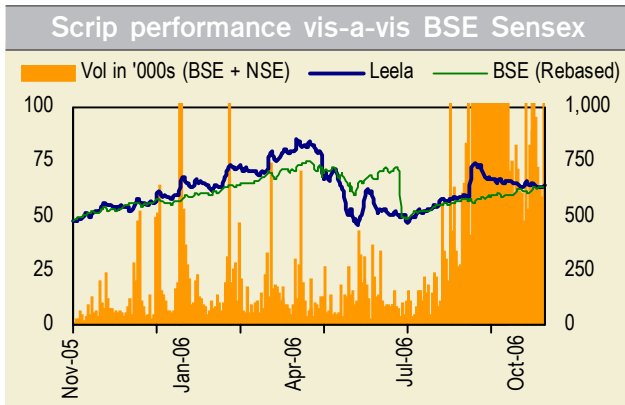
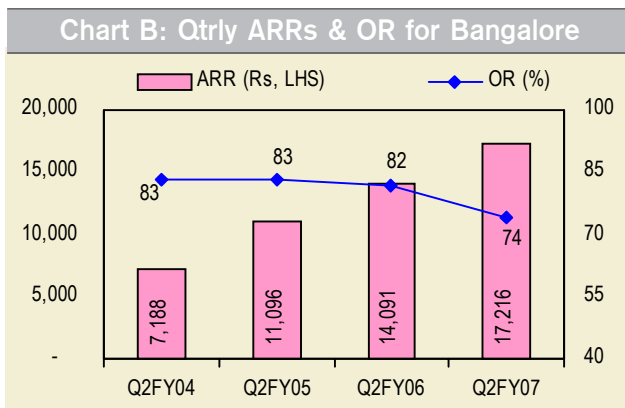
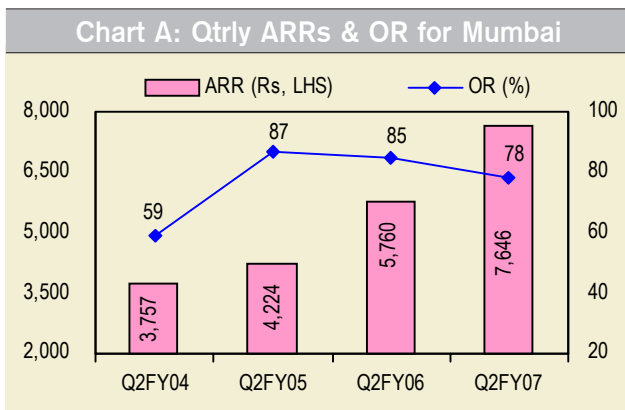
Sensex : 13137

Nifty : 3796

CMP : Rs 63

Recomm : HOLD

Leela's 15% YoY increase in revenues in Q2FY07 to Rs 767 mn may seem sedate, by its standards and in comparison to those of other hotel companies. However, the same should be viewed in light of the company's high base of the previous year, when it had initiated a revenue-maximisation policy for its Goa property. Another reason for the relatively lower growth in income, was the depleted inventory of rooms at the Mumbai property, where the company operated with 290 rooms, as 120 rooms were being refurbished.



The ARR at the *Leela Palace* (Bangalore) continued to rise YoY, settling at Rs 17,216 in Q2FY07 (+22% YoY); while OR dipped 700 bps YoY to 74%. RevPAR from the property was higher by 11% YoY at Rs. 12,800.

The *Leela Kempinski*, (Mumbai) witnessed a huge jump of 33% YoY in ARR to Rs 7,646 in Q2FY07. This resulted in OR dropping by 700 bps to 79% in the quarter. RevPAR (Revenue Per Available Room) rose by 21% YoY to Rs 5,940. However, lower inventory of rooms resulted in lower revenues from the property and consequently, Leela couldn't reap the benefits of improved RevPAR at Mumbai.

As part of a revenue maximisation initiative, the *Leela* (Goa) lowered ARR (in comparison to peak season rates) in an effort to boost OR during the traditional slack season. The property recorded an ARR of Rs 4,742 and OR of 67% (+2% YoY), thus registering RevPAR of Rs 3,177 (+29% YoY)

The *Leela Kovalam Beach* (Kerala) also registered a respectable ARR & OR of Rs 2,771 & 74% resp. The relatively high OR at Kovalam should be viewed in light of small inventory of rooms at the property (~94 rooms). An additional 100 rooms, which under renovation till recently, have become operational and will be available in time for peak season traffic.

Leela's Q2FY07 OPM was higher by 720 bps YoY. All operational expenses were stable on a YoY basis. This, coupled with the growth in revenues resulted in OPM expansion. Op. profits leapfrogged 34% YoY to Rs 382 mn in Q2FY07.

Net profits jumped 57% YoY to Rs 221 mn. Net profits could have been higher, had it not been for the provision of taxes of Rs 30 mn in the quarter. Till last year, the company used to provide for taxes in Q4 only.

Leela's results for the quarter were in line with our expectations. The most noteworthy feature of this quarter was the significant improvement in RevPAR at the *Leela Kempinski*, Mumbai. The ARR rose 33% to Rs 7,646 in the quarter. Though this had the effect of dampening the OR, the RevPAR from the property rose 21% YoY to Rs 5,940. Going forward, in FY07, with no new capacity being commissioned in the city, we expect the *Leela Kempinski* to steadily hike ARR as the business traffic picks up. The property should end FY07 with a blended ARR of Rs 8,200 and OR of ~78%. From Q3FY07, we expect the company to operate with its full complement of 418 rooms, thus boosting collections from the property.

The company had planned to add ~120 rooms to *The Leela Palace Bangalore* by Dec'06, in time to service the demand arising from the Bangalore Air Show, to be held in Feb '07. However, we feel the number of rooms that will be commissioned in time for the event will be ~ 70. Also, Bangalore has been experiencing a steady slide in ARR & OR on account of a large number of serviced apartments being commissioned. Going forward, we anticipate ARR to ease 5-7% from current levels in FY07. Going forward, this likely to impact of revenues and margins of all 5-Star hotel operators in Bangalore.

Over the remaining two quarters, we foresee the *Leela Palace Goa* commanding a premium in room rates (Rs 12,000+) with strong occupancies (80%) brought about by foreign tourists.

The Kovalam property should fetch a premium in terms of ARR (~Rs 5,000), during the peak season of Q3 & Q4, while collections and op. margin should improve as the company will operate with a full complement of 188 rooms. However the addition of 100 rooms to the property has been indefinitely delayed due to non receipt of clearances for the same.

Leela plans to launch its floating casino in Goa by Oct'06 have been pushed back to Jan-Feb'07. The company will miss out on peak tourist traffic generated in Goa during the months of Nov-Dec and the casino will contribute only marginally to the company's revenues in FY07.

Leela's expansion plans are in full swing, with civil work at Udaipur and Chennai having commenced. Its

plans for a 300 room property in Hyderabad are being finalised and it has also firmed up plans to set up a 260 room hotel at Pune by Apr'08 at an estimated outlay of Rs 1.8 bn. These expansions are to be effected through a mixture of internal accruals and debt.

Leela's foray into the sphere of management of properties is on schedule to be commissioned by Apr'07. It had entered into an agreement with the Ambience Group of Delhi to manage its Gurgaon property of 319 rooms and 90 serviced apartments, from FY08. The advantage of this arrangement is the expansion of Leela's inventory while simultaneously boosting return on capital employed. This will strengthen the company's cash flows considerably enabling it to borrow funds at a competitive rate for future expansions/acquisitions.

We have again lowered our revenue estimates for Leela for FY07 to ~ Rs 3,770 mn (Earlier estimate: Rs 4 bn). With ARR easing in Bangalore coupled with no major capacity addition by the company in FY07, OPM should stabilise at current levels. Leela should clock operating profits of ~Rs 1.9 bn at an OPM of 51.1%. Leela should earn net profits of Rs 1.4 bn (Earlier estimate: Rs 1.6 bn). This includes proceeds of sale of its stake in Leela Business Park (~Rs 479 mn). We have factored in full conversion of FCCBs and corresponding 13% dilution of equity from current levels, while excluding any income that might result from the HUDCO litigation.

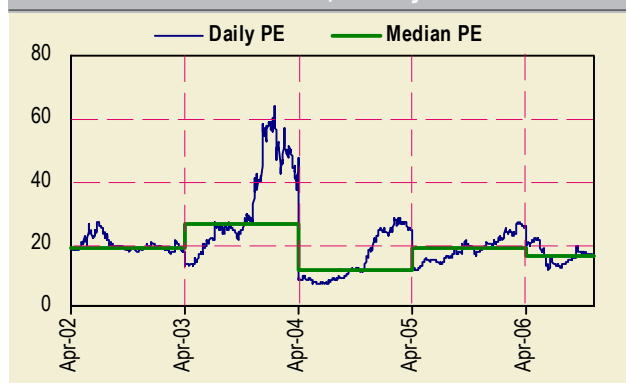
For FY08, we have assumed conservative ARR for Bangalore, in light of the easing of room rates in the city. We have factored in additional revenues from the floating casino and the Gurgaon property, while maintaining steady growth at the remaining properties. We estimate Leela to earn revenues of Rs 4.5 bn (+19% YoY) and profits of Rs 1.4 bn (-7% YoY). We have consciously not included any extraordinary income which may accrue to the company.

The stock is currently trading at a P/E of 19.3X, its FY07E earnings. Considering weakening ARR & OR in Bangalore and the delay in commissioning of capacity, we have downgraded our recommendation to 'HOLD'. We will closely monitor the situation in Bangalore and the progress made by the company in executing its new projects in subsequent quarters and accordingly revisit our recommendation.

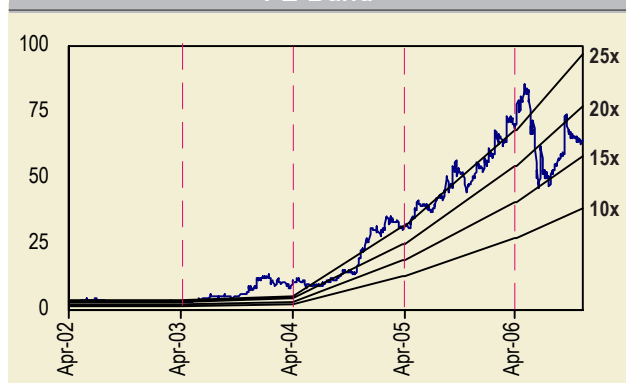
Financial results for the quarter & half year ended Sep 30, 2006 (Standalone)

Particulars (Rs mn)	Quarter Ended			Half Year Ended			Yr Ended
	30/09/06	30/09/05	Gr %	30/09/06	30/09/05	Gr %	31/03/06
Net Sales	767	669	14.6	1,575	1,345	17.1	3,239
Expenditure	384	384	0.2	801	729	9.9	1,669
Materials	52	47	10.1	109	92	17.6	212
Staff Cost	107	103	3.7	216	198	9.4	444
Fuel and Power	64	64	1.0	133	128	3.7	265
Other Expenditure	161	170	(5.0)	347	311	11.4	723
Misc Expenditure	-	-		(3)	-		26
Operating profit	382	286	33.9	774	615	25.7	1,570
Other Income	34	4		513	11		198
PBDIT	416	289	43.7	1,287	626	105.5	1,768
Interest (Net)	83	84	(1.5)	162	174	(7.3)	319
Depreciation	82	65	26.9	165	149	10.9	339
PBT	251	140	78.8	961	303	216.7	1,110
Provision for tax (incl. deferred tax & FBT)	30	-		112	-		110
Profit after Tax	221	140	57.2	848	303	179.7	1,000
Extra-ordinary Items	-	-		-	-		8
Net Profit after extra-ordinary	221	140	57.2	848	303	179.7	1,008
Equity Capital	741	604		737	708		737
Reserves (excl. rev. res.)	-	-		-	-		4,933
EPS for the period (Rs.)	0.6	0.5		2.3	0.9		13.7
Book Value (Rs.)	-	-		-	-		15.4
OPM (%)	49.9	42.7		49.1	45.8		48.5
NPM (%)	28.8	21.0		53.9	22.6		30.9
Exp. (% of Net SI.)							
Raw materials (incl. stock adj.)	6.8	7.1		6.9	6.9		6.5
Staff costs	13.9	15.4		13.7	14.7		13.7
Power fuel and light	8.4	9.5		8.4	9.5		8.2
Other expenses	21.0	25.4		22.0	23.1		22.3

Median PE v/s Daily PE



PE Band



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