

RESULT UPDATE

Kamat Hotels (KAMHOT)

WHAT'S CHANGED...

PRICE TARGET.....Changed to Rs 78 from Rs 29
 EPS (FY10E).....Changed to Rs 9.9 from Rs 9.7
 EPS (FY10E) (Introduced).....Rs.13.1
 RATING.....Changed to Performer from Underperformer

Current Price Rs 65.7	Target Price Rs 78
Potential upside 19 %	Time Frame 12 months

PERFORMER

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Revised AS-11 guidelines lead PAT growth...

Kamat Hotels came out with its Q4FY09 numbers that were marginally below our expectations. The net sales declined by 35.1% YoY and 2.5% QoQ, respectively. The margin continued to remain under pressure despite a reduction in operating costs. It declined 1690 bps YoY and 560 bps QoQ, respectively. During the quarter, the company adopted revised AS-11 guidelines and reversed notional forex loss of Rs 14.48 crore. As a result, it reported net profit of Rs 9.7 crore against loss of Rs 1.5 crore in Q3FY09.

Highlight of the quarter

During Q4FY09, the company reported net sales of Rs 28.8 crore as against our expected net sales of Rs 31.0 crore. Net sales dropped 35% YoY. QoQ also, the company was unable to maintain growth due to heavy cut down in travel budgets by Indian companies, as its major clientele comprise Indian companies. Operating profit for the quarter was Rs 7.6 crore. It declined by 60.6% YoY and 10.3% QoQ. During the quarter, the company adopted revised AS-11 guidelines and reversed notional forex loss of Rs 14.48 crore. It also received luxury tax refund of Rs 1.7 crore for FY04-05. As a result, it reported net profit of Rs 9.7 crore against loss of Rs 1.5 crore in Q3FY09.

Valuations

Over a short-term perspective, we may continue to see sluggish performance as majority of the company's clients are corporate clients which are currently cutting costs steeply. However, on the other hand, with leading macroeconomic data showing some signs of recovery, hotel players having majority 'corporate clientele' like Kamat Hotels would tend to benefit faster compared to those having a higher presence in the leisure segment over a longer term. Hence, we are revising our FY10E EPS estimates marginally upward to Rs 9.9 and introducing our FY11E EPS estimates at Rs 13.1. We value the stock at 6x its FY11E EPS estimates to arrive at a target price of Rs 78. We are changing our rating from UNDERPERFORMER to **PERFORMER**.

Exhibit 1: Key Financials

(Rs Crore)

	Q4FY09A	Q4FY09E	Q4FY08	Q3FY09	YoY Gr. (%)	QoQ Gr. (%)	FY09	FY10E	FY11E
Net Sales	28.8	31.0	44.5	29.6	-35.1	-2.5	123.1	137.2	162.1
EBITDA	7.6	9.9	19.2	8.4	-60.6	-10.3	39.0	50.1	58.6
EBITDA Margin (%)	26.3	31.9	43.2	28.6	-39.2	-8.0	31.7	36.5	36.2
Depreciation	2.9	3.0	3.6	2.8	-19.5	3.6	11.1	12.2	13.3
Interest	7.9	5.6	4.7	6.1	68.9	28.6	23.3	20.5	19.6
Other	15.2	1.7	-0.4	0.0	LP	-	5.3	6.8	7.1
Reported Net Profit*	9.7	1.3	5.2	-1.5	88.7	LP	5.7	13.1	18.0
EPS (Rs)	7.1	1.0	3.8	-0.9	88.7	LP	4.1	9.9	13.1
Valuation									
PE (x)	-	-	-	-	-	-	-	6.6	5.0
Target PE (x)	-	-	-	-	-	-	-	7.9	6.0
EV to EBIDTA (x)	-	-	-	-	-	-	-	7.5	6.4
Price to book (x)	-	-	-	-	-	-	-	0.5	0.5
RoNW (%)	-	-	-	-	-	-	-	7.7	9.6
RoCE (%)	-	-	-	-	-	-	-	8.5	9.1

*Adjusted for forex losses

Source: Company, ICICIdirect.com Research

Stock data...

Market Cap.	Rs.87.1 Crore
Debt (Dec 08)	Rs.290.0 Crore
Cash (Dec 08)	Rs.1.0 Crore
EV	Rs.376.1 Crore
52 week H/L	255-23
Equity capital	Rs.13.2 Crore
Face value	10.00
MF Holding	0.01%
FII Holding	8.1%

Price performance (%)

Company	1m	3m	6m	12m
Kamat	84.7	125.4	53.0	-47.6
Viceroy	8.6	6.7	86.3	-25.8

Result analysis

Sales continue to decline on cut down in corporate travel budgets

During the current quarter, Kamat Hotels again reported a sharp decline in its sales. Its net sales declined by 35.1% YoY to Rs 28.8 crore. One of the main reasons for such a sharp decline in sales was a heavy cut down in corporate travel budgets by Indian companies on account of the global slowdown. Since Kamat Hotels' major clientele (i.e. ~80% of its clientele) comprise Indian companies, it has seen a sharp decline in sales on a yearly basis compared to other hotel companies like Viceroy Hotels.

Adoption of revised AS-11 guidelines results in robust PAT growth

During the quarter, the company adopted revised AS-11 guidelines. Accordingly, a notional forex loss of Rs 14.48 crore on its FCCB of US\$18 million got reversed. As a result of this, the company reported net profit of Rs 9.7 crore and Rs 5.7 crore for Q4FY09 and FY09, respectively. A receipt of Rs 1.71 crore towards luxury tax refund for FY05 also aided the growth in net profit.

Focusing on core business

In order to improve its performance and ease liquidity issues, the company sold its 60% stake in Concept Hospitality (non-core asset) for ~Rs 6 crore. The company is now focusing more on its core business expansions. Currently, it has three major projects underway, which include commissioning of new hotel property at Nagpur, Bhubaneswar and expansion of its Mumbai property 'The Orchid'. These entail total capex of ~Rs 140 crore. A majority of these projects are expected to be complete by 2010 according to the guidance given by the management.

Valuations

Over a short-term perspective, we may continue to see a sluggish performance as majority of company's clients are corporate clients that are currently cutting costs steeply. However, on the other hand, with leading macroeconomic data showing some signs of recovery, hotel players having a majority 'corporate clientele' like Kamat Hotels would tend to benefit faster compared to those having a higher presence in the leisure segment.

Though the stock price has rallied sharply in the last one month, it still offers some further upside as liquidity concerns have eased. With the overall macro scenarios improving, we are also expecting an improvement in hotel occupancies and, thereby, rise in room rates by the end of FY10E. Hence, we have revised our FY10E EPS estimates upwards to Rs 9.9. We are introducing our FY11E EPS estimates at Rs 13.1. We value the stock at 6x its FY11E EPS estimates to arrive at a target price of Rs 78. We are changing our rating from UNDERPERFORMER to **PERFORMER**.

Exhibit 2: Valuation matrix

	Sales (Rs Cr)	Sales Growth (%)	EPS (Rs)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY09	123.1	-16.6	4.1	-80.6	10.6	7.1	8.8	7.0
FY10E	137.2	11.5	9.9	141.3	6.6	7.5	7.7	8.5
FY11E	162.1	18.1	13.1	32.0	5.0	6.4	9.6	9.1

Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe

Exhibit 3: Valuation matrix

EIH				Sales (Rs Cr)}	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)	
Idirect Code	EIH	CMP	118	FY08	1158.0	5.6	24.6	16.0	17.7	15.1
		Target	75	FY09E	1047.7	3.3	38.2	19.3	10.8	11.9
MCap (Rs Cr)	5,462.0	Upside (%)	-36%	FY10E	1223.0	4.6	25.0	16.4	14.5	13.5
Hotel Leela				Sales (Rs Cr)}	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)	
Idirect Code	HOTLEE	CMP	40	FY08	514.6	4.0	10.1	14.1	16.1	8.3
		Target	UR	FY09E	477.4	2.5	16.1	16.9	12.5	6.4
MCap (Rs Cr)	1511.3	Upside (%)	-	FY10E	531.0	2.7	14.6	15.5	8.6	4.7
Kamat Hotels				Sales (Rs Cr)}	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)	
Idirect Code	KAMHOT	CMP	66	FY08	147.6	4.0	16.4	5.6	17.2	19.2
		Target	78.7	FY09	137.2	4.1	16.0	8.9	8.8	7.0
MCap (Rs Cr)	87.1	Upside (%)	19%	FY10E	162.1	9.9	6.6	7.5	7.7	8.5
Viceroy Hotels				Sales (Rs Cr)}	EPS (Rs)	PE (x)	EV/E* (x)	RoNW (%)	RoCE (%)	
Idirect Code	PALHEI	CMP	36	FY08	107.9	2.2	16.7	19.7	3.8	3.1
		Target	18	FY09	103.0	1.6	22.6	19.9	2.7	2.3
MCap (Rs Cr)	152.7	Upside (%)	-50%	FY10E	121.7	1.4	25.2	18.1	2.4	2.3

*EV/E= EV/EBITDA, *UR= UNDER REVISION

Source: Company, ICICIdirect.com Research

Peer valuation

Exhibit 4: Valuation matrix

	CMP	Ratings	M Cap Rs Cr.	EPS			P/E (x)			EV/EBITDA (x)			ROCE			ROE		
				FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E
EIH	139	UP	5462.0	5.6	3.6	5.6	24.6	38.2	25.0	16.0	19.3	16.4	15.1	11.9	13.5	17.7	10.8	14.5
Hotel Leela	40	UR	1511.3	4.0	2.5	2.7	10.1	16.1	14.6	14.1	16.9	15.5	8.3	6.4	4.7	16.1	12.5	8.6
Taj GVK	112.4	-	704.7	11.2	8.4	7.3	10.0	13.4	15.3	5.9	7.1	7.6	23.8	14.0	11.3	30.2	19.5	14.5
Viceroy Hotels	36	UP	152.7	2.2	1.6	1.4	16.7	22.6	25.2	19.7	19.9	18.1	3.1	2.3	2.3	3.8	2.7	2.4
Kamat Hotels	66	P	87.1	16.7	4.1	9.9	4.0	16.0	6.6	5.6	8.9	7.5	19.2	7.0	8.5	17.2	8.8	7.7

H= HOLD, UP= UNDERPERFORMER, OP= OUTPORFORMER, P=PERFORMER, UR=UNDER REVISION.

Source: Company, ICICIdirect.com Research

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