

# Hotel Leelaventures

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### Shareholding (%)

Promoters	49.1
FII's	15.8
MFs	4.9
Insurance Co.	5.2
Others	25.0

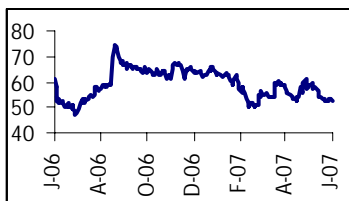
### Share price performance

52-week high/low (Rs) 81/45

	-1m	-3m	-12m
Abs (%)	-10.8	-4.7	-14.1
Rel* (%)	-11.0	-16.2	-53.7

\*to Nifty

### Stock chart



## Dissatisfying performance

Hotel Leelaventures Ltd. (HLVL) reported an increase in net sales in Q4FY07 by 16.5% YoY to Rs1,167mn from Rs1,002mn in Q4FY06. However, EBITDA fell 3% to Rs472mn from Rs487mn and EBITDA margin fell sharply by 810bps to 40% from 48.6% in Q4FY06. Growth in net profit has been less than satisfactory; excluding the other income component which has been accounted for, in both Q4FY07 and Q4FY06, net profit has fallen by 11% to Rs200mn in Q4FY07 from Rs225mn in Q4FY06.

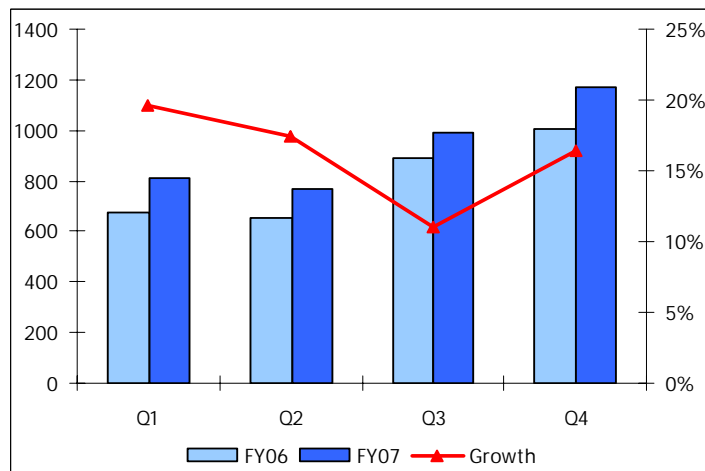
Going forward, we don't see significant growth in topline over the next two-three years, due to peak level attained in ARR in Bangalore, which contributes about 49% to topline, and due to delay in commencement of HLVL's new properties. Also, the recent acquisition of three acres land in Delhi, for Rs6,110mn, for constructing a 250 room property there, would enable break-even only at 40% higher ARR than the existing rates in Delhi.

At the current market price of Rs53, the stock is trading at 16x FY08E and 15.8x FY09E. Taking into account the above concerns we downgrade our rating to 'Hold'.

Key highlights of Q4FY07 results are:

- ▲ **Sales growth** : In Q4FY07, HLVL's net sales increased by 16.5% to Rs1,167mn from Rs1,002mn in Q4FY06. During the quarter, the company reported ARR of Rs11,939 as against Rs9,291 in Q4FY06 and occupancy levels of 75%. These have led to 24% growth in RevPar to Rs9,073 in Q4FY07 from Rs7,296 in Q4FY06.

Chart 1: Sales and Sales growth



Source: IISL research, company

**HOLD**

**Rs 53**

June 25, 2007

Market cap

Rs bn 20

US\$ mn 479

Avg 3m daily volume

1,554,529

Avg 3m daily value

USD mn 2

Shares outstanding (mn)

370

Reuters

HTLE.BO/HOTELEELA.NS

Bloomberg

LELA IN

Sensex

14,488

Nifty

4,259

## Hotel Leelaventures

- ▲ **Fall in EBITDA and EBITDA margins:** During the quarter under consideration, EBITDA fell by 3% to Rs472mn from Rs487mn in Q4FY06, other expenses increased significantly by 63% to Rs381mn from Rs233mn in Q4FY06. This in turn had an adverse impact on EBITDA margins, which fell by 810bps to 40% in Q4FY07 from 48% in Q4FY06.
- ▲ **Increase in profit largely supported by other income:** Net profit during the quarter rose to Rs448mn from Rs375mn, an increase of 19%. This increase can mainly be attributed to a significant rise in other income to Rs247mn in Q4FY07. Excluding other income in this quarter and similarly Rs 149 mn from Q4FY06, net profit has fallen by 11% to Rs200mn from Rs225mn in Q4FY06.
- ▲ **Land acquisition in Delhi:** The company recently won a bid to acquire a three-acre hotel property in Africa Avenue, a prime location in South Delhi, for a sum of Rs6,110mn. The company has raised an FCCB of \$100mn for funding the same. We believe the price paid by HLVL for this 250-room property seems on the higher side. As per our calculation in the table below, this property will take about 13 years to break-even.
- ▲ We believe, for this property to breakeven, HLVL would require ARR of Rs 16,000 which is about 40% higher than the existing rates in Delhi. On the contrary, this increase could mount pressure on occupancy levels and delay break-even further, which would then affect its cash flows.

*Table 1. Delhi property – Breakeven analysis*

ARR (Rs)	10000	11000	13500	16460
Number of rooms	250	250	250	250
Occupancy levels (%)	75%	75%	75%	75%
number of days p.a.	365	365	365	365
Room revenues(Rs mn)	68	75	924	1126
F&B(% of room revenues)	40%	38%	36%	34%
F&B revenues (Rs mn)	27	29	333	383
Total revenues (Rs mn)	96	104	1257	1509
EBITDA (%)	45%	45%	45%	45%
EBITDA (Rs mn)	43	47	565	679
Less: Depreciation (Rs mn)	200	200	200	200
EBIT (Rs mn)	-157	-153	365	479
Less: Interest (Rs mn)	480	480	480	480
PBT (Rs mn)	-636.68	-633.05	-114.37	-0.53

Particulars	Cost (Rs mn)
Cost of land	6110
number of rooms	250
Cost of land per room	24.4
cost of construction per room	10
Total cost per room	34.4
number of rooms	250
<b>Total cost</b>	<b>8610</b>

## Hotel Leelaventures

Sources of funds	Rs mn
FCCB (\$10 cr) YTM 7.8% Period 5 years	4100
Other debt @ 8%	2000
Balance Equity	2510
Calculation of Depreciation	Rs mn
Investment in fixed assets (excluding depreciation)	2500
Depreciation (%)	8%
Depreciation	200

Calculation of Interest	Rs mn
on FCCBs @7.8%	320
on Other debt @8%	160
Total interest cost	480

Source: IISL research, company

- Going forward growth looks sluggish:** Bangalore contributes 49% to topline and has almost reached its peak ARR level of about Rs19,000 in FY07. We do not foresee considerable growth from these levels, and therefore believe whatever growth HLVL registers over the next two years will be sluggish, till its new properties commence operation.
- Valuation:** At the current market price of Rs53, the stock is trading at 16x FY08E and 15.8x FY09E. Considering the delay in commissioning of new projects and the absence of growth in ARR in Bangalore, we downgrade this stock from 'Buy' to 'Hold'.

## Hotel Leelaventures

*Table 2. Standalone- Quarterly result table*

Rs mn	Q4FY07	Q4FY06	YoY (%)	Q3FY07	QoQ (%)
Net Sales	1167.4	1002.4	16.5	990.0	17.9
Total Expenses	695.4	515.7	34.9	486.4	43.0
F&B cost	75.2	59.8	25.8	65.2	15.3
Staff Cost	167.9	148.3	13.2	141.3	18.8
Power and Fuel	70.8	74.7	-5.2	65.9	7.4
Other Expenses	381.5	233.0	63.8	214.0	78.3
EBITDA	472.0	486.7	-3.0	503.6	-6.3
Other Income	247.0	149.6	65.1	25.0	888.0
PBIT	719.0	636.4	13.0	528.6	36.0
Interest	72.9	55.7	30.9	66.9	9.0
Depreciation	89.0	95.6	-6.9	83.8	6.2
PBT	557.1	485.1	14.8	377.9	47.4
Tax	109.4	110.0	0.0	21.5	408.8
PAT	447.7	375.1	19.4	356.4	25.6
Equity	740.0	740.0	0.0	740.0	0.0
EPS (Rs)	1.21	1.01	19.4	0.96	25.6
<b>Key Ratios (%)</b>				0.7	
EBITDA Margin	40.4	48.6		50.9	
Interest / Sales	6.2	5.6		6.8	
Tax / PBT	19.6	22.7		5.7	
NPM	38.4	37.4		36.0	

Source: IISL research, company

**Financials Consolidated**

**Profit & Loss**

In Rs mn	FY06	FY07	FY08E	FY09E
Net sales	3,433.3	4,155.7	5,410.9	5,762.2
YoY (%)	33.8	21.0	30.2	6.5
Total expenses	1,809.1	2,224.1	2,727.4	2,904.5
Inc/dec in stock	0.0	0.0	0.0	0.0
F&B Costs	225.9	275.0	373.1	397.3
Staff cost	472.4	590.0	765.5	815.2
Fuel Cost	280.7	310.3	394.4	420.0
Upkeep and Maint. Exp.	281.3	0.0	427.2	454.9
Other expenses	548.7	1,048.8	767.4	817.2
EBIDTA	1,624.2	1,931.6	2,683.4	2,857.7
YoY (%)	26.6	18.9	38.9	6.5
EBIDTA (%)	47.3	46.5	49.6	49.6
Other income	204.9	675.6	200.0	200.0
PBIDT	1,829.1	2,607.2	2,883.4	3,057.7
Interest	377.4	347.1	464.2	523.1
Gross profit	1,451.7	2,260.1	2,419.2	2,534.6
Depreciation	348.9	376.9	389.6	407.3
PBT and extra ordinary	1,102.9	1,883.2	2,029.6	2,127.3
Extra ordinary items	(14.0)	0.0	0.0	0.0
PBT	1,088.8	1,883.2	2,029.6	2,127.3
(-) Tax	384.5	617.2	664.2	711.1
Tax/ PBT	35.3	32.8	32.7	33.4
PAT	704.4	1,266.0	1,365.5	1,416.2
Adjusted net profit	704.4	1,266.0	1,365.5	1,416.2
YoY (%)	21.9	79.7	7.9	3.7

**Key Ratios**

	FY06	FY07	FY08E	FY09E
EPS (Rs)	1.9	3.4	3.2	3.4
Adjusted EPS (Rs)	1.9	3.4	3.2	3.4
CEPS (Rs)	18.1	4.4	4.6	4.9
Book value (Rs)	106.2	33.0	32.8	36.7
Dividend per share (Rs)	0.0	0.0	0.0	0.0
Debt-equity (x)	1.5	1.0	1.0	0.9
ROCE	6.5	6.3	8.3	8.2
ROE	9.0	10.4	9.9	9.1

**Valuations**

PE (x)	27.7	15.5	16.4	15.8
Cash PE (x)	2.9	11.9	11.6	10.8
Price/book value (x)	0.5	1.6	1.6	1.4
Dividend yield	0.0	0.0	0.1	0.1
Market cap/sales	1.1	0.9	0.8	0.8
EV/sales (x)	4.1	3.5	3.1	3.1
EV/EBDITA (x)	8.7	7.6	6.2	6.3

**Balance Sheet**

In Rs mn	FY06	FY07	FY08E	FY09E
Equity capital	737.1	740.6	845.4	845.4
Preference capital	387.5	387.5	387.5	387.5
Reserves	7,088.9	11,485.3	13,015.6	14,655.5
Net worth	7,826.0	12,225.9	13,861.1	15,500.9
Total borrowings	11,903.8	12,359.5	13,852.7	14,309.7
Deferred tax	362.8	362.8	362.8	362.8
Total liabilities	20,092.6	24,948.3	28,076.6	30,173.4
Gross block	17,822.0	18,678.6	18,788.8	19,740.6
Less: Acc. depreciation	2,506.8	2,889.0	3,278.5	3,685.9
Net block	15,315.2	15,789.6	15,510.3	16,054.7
CWIP	1,455.0	2,610.0	5,140.0	10,200.0
Investments	0.6	3,281.1	4,256.1	1,363.5
Current assets	4,018.0	4,026.4	3,998.2	3,403.1
Inventories	279.2	322.2	294.0	698.9
Debtors	283.8	381.6	381.6	381.6
Cash	1,647.8	1,700.0	1,700.0	700.0
Loans and advances	1,807.2	1,622.6	1,622.6	1,622.6
Current liabilities	475.2	537.9	607.0	626.9
Provisions	221.0	221.0	221.0	221.0
Net current assets	3,321.8	3,267.6	3,170.2	2,555.2
Miscellaneous expenses	0.0	0.0	0.0	0.0
Total assets	20,092.6	24,948.3	28,076.6	30,173.4

**Cash Flow**

In Rs mn	FY06	FY07	FY08E	FY09E
Net profit	704.4	1,266.0	1,549.7	1,659.2
Depn and w/o	348.9	376.9	389.6	407.3
Deferred tax	280.0	0.0	0.0	0.0
Change in working cap	283.9	18.9	40.9	424.8
Other income	0.0	0.0	0.0	0.0
Operating cash flow	1,617.1	1,661.8	1,980.2	2,491.4
Other income	0.0	0.0	0.0	0.0
Capex	(4,374.0)	(2,006.2)	(2,640.3)	(6,011.7)
Investments	0.5	(3,280.5)	(975.0)	2,892.6
Investing cash flow	(4,373.5)	(5,286.8)	(3,615.3)	(3,119.1)
Dividend	0.0	0.0	19.4	19.4
Fresh equity	1,519.3	3,133.9	0.0	0.0
Debt	4,159.9	455.7	1,493.2	456.9
Financing cash flow	5,679.1	3,589.6	1,512.6	476.3
Others	(2,870.6)	35.4	(982.3)	(517.3)
Net change in cash	52.1	0.0	(1,104.8)	(668.7)
Opening cash	1,647.8	1,700.0	1,700.0	700.0
Closing cash	1,700.0	1,700.0	700.0	0.0

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