

27 September, 2006

### Pratik Dalal

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#### Stock details

BSE Code	532699
Bloomberg Code	ROHL@IN
Market Cap (Rs bn)	4.79
Free Float (%)	31.61
52-wk Hi/Lo (Rs)	264 / 96
Avg Daily Vol (BSE)	13412
Avg Daily Vol (NSE)	24553
Shares o/s (mn) FV Rs 10	27.23

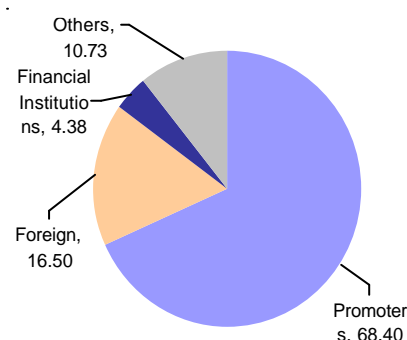
Source: Company Emkay Private Client Research

#### Summary table

Rs mn	FY06A	FY07E	FY08E
Total Revenue	835.8	1089.1	1450.0
Growth %	46.6	30.3	33.1
EBITDA	360.9	487.3	629.1
EBITDA margin %	43.2	44.7	43.4
Net Profit	230.5	292.0	363.5
EPS (Rs)	9.1	11.8	14.8
CEPS (Rs)	10.2	13.4	17.0
ROE %	16.1	19.0	21.2
ROCE %	19.1	24.5	27.5
EV/Sales (x)	5.8	4.5	3.4
EV/EBITDA (x)	13.4	10.0	7.8
P/E (x)	19.3	14.9	11.9
P/CEPS (x)	17.2	13.2	10.4
P/BV (x)	3.1	2.8	2.5

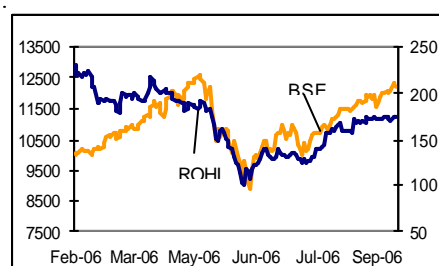
Source: Company Emkay Private Client Research

#### Shareholding pattern (31 March, 2006)



Source: Company Emkay Private Client Research

#### One-year performance (vs. Sensex)



Source: Capitaline

## ROYAL ORCHID HOTELS LTD RECOMMENDATION: BUY

Price: 176

Target Price: 243

**Royal Orchid Hotels Limited (ROHL) is an emerging player in the Hospitality Industry with major presence in Bangalore & properties coming up in Pune, Hyderabad, Jaipur & Delhi. The company operates through a unique business model of taking properties on lease instead of owning them outright, this has helped the company manage its funds efficiently, have lower payback period on its projects & earn attractive operating margins. Strong buoyancy in the hotel industry in terms of Average Room Rates (ARR's) & Occupancy Rates (OR's) due to increasing demand-supply imbalance & the planned expansion of ROHL will drive its future growth. We are initiating coverage on ROHL with a BUY recommendation & a 12-month target price of Rs243.**

#### Investment Rationale

**Boom in Hotel Industry – Demand far outstripping supply** – Indian hotel industry has witnessed good growth over last 2 years due to increase in ARR's & OR's resulting from significant mismatch in the demand-supply scenario aided by huge growth in domestic as well as international business & leisure tourists. Going forward the demand for hotel rooms is estimated to grow at a rate of 8-10% annually over next 3 years, whereas the addition to the room inventory is not expected to be commensurate with this growth, due to which the demand-supply mismatch is expected to continue. This demand-supply imbalance shall help further improvement in ARR's & OR's thereby driving industry's profitability.

**Widening geographical presence to drive future growth** – ROHL has lined up aggressive expansion plans involving a capital expenditure of Rs 5000 mn which will increase its room inventory by 57% from current 489 rooms to 769 rooms by Apr'07. The expansion has been well planned in cities like Pune, Hyderabad, Jaipur & Delhi where the ARR's have not risen exponentially and where the prospects of increase in ARR's and OR's are bright aided by increasing business activity in these cities.

**De-risking Strategy** – Presence in all segments across different price categories of hotels gives ROHL access to a wide customer base. The company is present in the luxury segment through its flagship Royal Orchid, premium business segment through Royal Orchid Central, economy segment through Royal Orchid Harsha and in luxury resorts through Royal Orchid Resorts. Further the company is spreading its operations in other cities like Pune, Hyderabad, Jaipur, Delhi and Mysore, in order to de-risk its pre-dominant Bangalore presence. Such geographical and business segment spread mitigates risk of change in demand pattern in a certain segment or area of business in an efficient manner.

**Asset Light Strategy** – ROHL has been successful in managing its capital efficiently by operating on an asset light strategy by taking properties on lease instead of buying it outright. All the properties of ROHL except the flagship property have been taken on long term lease agreements which has helped the company in having low set-up costs. Low set up cost for developing properties has enabled a lower pay back period and a higher RoCE. For FY07E & FY08E we expect the RoCE to be at 25.5% & 27.5% respectively.

**Valuation** – ROHL is an emerging player in the industry well positioned to register impressive growth in revenues and bottomline. At Rs 176 the stock is trading at 12x FY08E earnings. With an EPS CAGR of 27% estimated over FY06-08E and ROCE levels of 24.5% & 27.5% for FY07E & FY08E respectively we believe present valuation to be attractive. Based on this we initiate coverage on ROHL scrip with a BUY recommendation & a 12-month target price of Rs243.



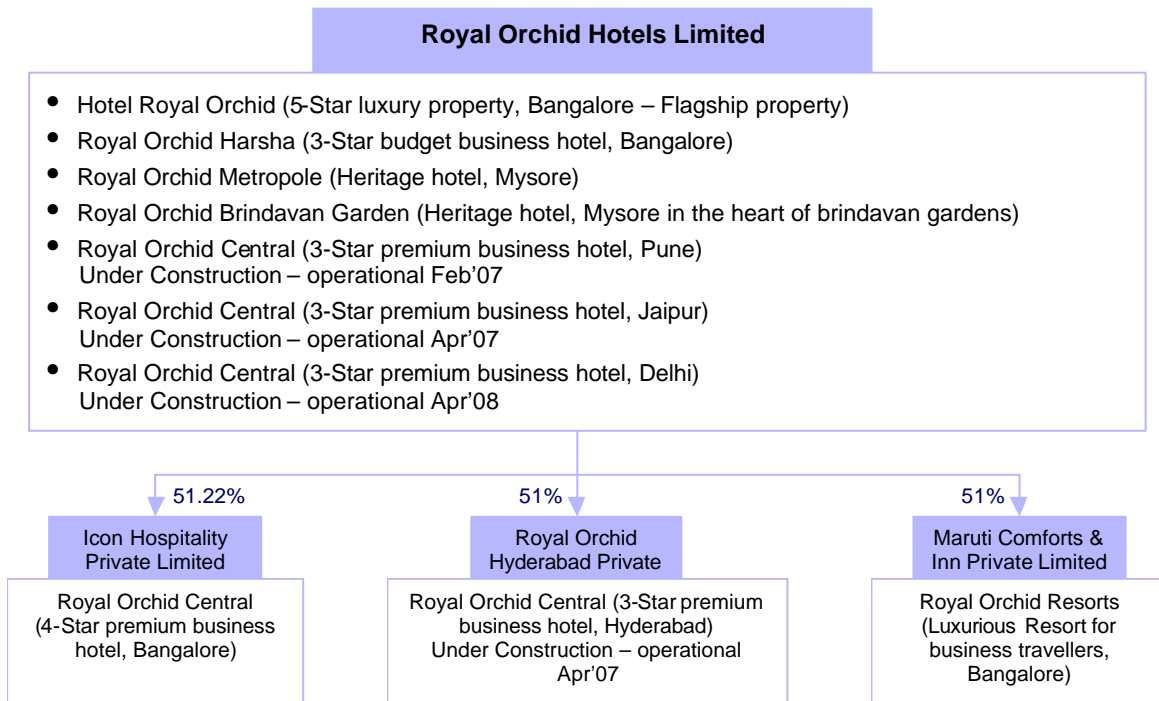
## Company Background

ROHL incorporated in 1986 under the name of Universal Resorts Limited during 1997 got renamed as Royal Orchid Hotels Limited. ROHL is promoted by Mr. C K Baljee, an IIM, Ahmedabad alumni having over 3 decades of experience in the Indian hospitality industry. ROHL operates and manages a chain of hotels under the brand 'Royal Orchid' and is an emerging player in the Hospitality Industry with major presence in Bangalore and small presence in Mysore. Its currently operates 4 properties in Bangalore and 1 in Mysore and is coming up with 5 new properties one each in Pune, Hyderabad, Mysore, Jaipur and Delhi. ROHL has 3 subsidiary companies through which it manages 2 of its current properties in Bangalore and 1 property coming up in Hyderabad. In each of these hotels ROHL owns a 51% stake. Currently ROHL has a room inventory of 489 rooms, 11 food and beverage outlets and 12 banquet halls through its 5 properties. It has its main focus on the growing business travellers segment in all categories ranging from luxury to premium to budget categories through its presence in all the categories. ROHL is also known for its popular food and beverage outlets like Limelight, Geoffrey's, Tiger Trail, Paparazzi and Pinx which has helped the hotel enhance its image and generate in additional revenue. The company generated 30% of its total revenue in FY06 from its food & beverage business.

*Management intends to have a pan India presence over a period of time*

The management intends to have presence in every major city in India, targeting mainly the business travellers, as a result of which the company is coming up with properties in Pune, Hyderabad, Delhi & Jaipur. For this purpose the company raised funds to the tune of Rs 1125 mn in Jan 2006 through an IPO and is investing in development of these properties through internal accruals and IPO funds.

### Group Structure –



Source : Emkay Private Client Research

**Operational Analysis –**

ROHL clocked impressive numbers for the first quarter of FY07 largely aided by improvement in ARR's and a marginal improvement in OR's.

**Key Financials – Q1'07**

Rs Mn

*Net revenue up 70.9% YoY**Operating profit up 94.6% YoY**Net profit increases 99.5% YoY*

Period Ended	Q1FY07	Q1FY06	YoY %
<b>Net Revenue</b>	189.23	110.70	70.9
Other Income	21.00	4.50	366.7
Total Expenditure	(92.51)	(54.70)	69.1
<b>Operating Profit</b>	117.72	60.50	94.6
<i>Operating Margins</i>	62.21	54.65	-
Interest	(5.58)	(3.80)	46.8
<b>PBDT</b>	112.14	56.70	97.8
Depreciation	(7.11)	(3.70)	92.2
<b>PBT</b>	105.03	53.00	98.2
Tax	(24.03)	(12.40)	93.8
<b>Profit After Tax</b>	81.00	40.60	99.5
<b>Adjusted Net Profit</b>	81.00	40.60	99.5
Equity Capital	272.34	96.90	181.1
<b>EPS (Rs)</b>	2.97	4.19	(29.0)

Source : Emkay Private Client Research

- Net revenue from rooms and food & beverages increased by 70.9% to Rs 189.23 mn in Q1FY07 against Rs 110.7 mn in Q1FY06;
- Operating profits grew by 94.6% to Rs 117.7 mn in Q1FY07 from Rs 60.5 mn in Q1FY06 with operating margins improving by 756 basis points from 54.65% in Q1FY06 to 62.21% in Q1FY07. Operating margins was propelled by 366.7% improvement in operational other income and better management of expenses;
- PAT increased by 99.5% and stood at Rs 81 mn in Q1FY07 against Rs 40.6 mn during the same period last year.

We believe that this upward trend in revenue and profits shall continue during the year.

## Investment Positives

*Boom witnessed in the domestic hospitality industry – Demand far outstripping supply.*

### Investment Rationale

#### Boom in Domestic Hotel Industry : Demand outstripping supply –

Indian hotel industry has witnessed good growth over last 2 years due to increasing ARR's & OR's resulting from significant mismatch in the demand-supply scenario aided by huge growth in domestic as well as international business & leisure tourists. With the macro-economic variables expected to remain positive and the performance of the Indian economy expected to be impressive over the next 3 years, we expect demand for hotel rooms to grow at a rate of 8-10% annually over this period. However, the addition to room inventory is not expected to be commensurate with this growth, due to which the demand-supply mismatch is expected to continue. This demand-supply imbalance shall help in further improvement of ARR's & OR's thereby driving industry's profitability.

*ROHL coming up with 5 properties – 1 each at Pune, Hyderabad, Mysore, Jaipur & Delhi*

#### Widening geographical presence to drive future growth –

ROHL has a predominant presence in Karnataka with 4 properties in Bangalore and 1 in Mysore. The management of ROHL intends to have a pan India presence and inline with these plans the company has embarked on an aggressive expansion plan involving a capital expenditure of Rs 5000 mn over the next 18 months. This expansion programme will increase its room inventory by 57% from current 489 rooms to 769 rooms by Apr'07 and by another 13% to around 869 rooms by Apr'08. The expansion has been well planned in cities like Pune, Hyderabad, Jaipur & Delhi where the ARR's have not risen exponentially and where the prospects of increase in ARR's and OR's are bright aided by increasing business activity and influx of business and leisure travellers in these cities.

Cities like Pune & Hyderabad have experienced a trend of increasing number of domestic and foreign business travellers due to the mushrooming of IT/ITES operations and other corporate ventures. The management is also eyeing cities like Mumbai, Goa & Kolkata and is in discussions with interested parties for development in these cities. Apart from that the management is planning to build up an additional 100 rooms at the newly acquired Royal Orchid Resort by 2008 as the same is situated near the new international airport where it is expecting a good spurt in demand once the new airport is operational.

Capacity expansion programme coupled with improvement in ARR's & occupancies in current properties is expected to generate a revenue growth of 30.3% in FY07E & 33.1% in FY08E on a YoY basis of and PAT growth of 26.7% in FY07E and 24.5% in FY08E on a YoY basis. This translates into an additional revenue of Rs 253.3 mn in FY07E and Rs 360.9 mn in FY08E and an additional PAT of Rs 61.5 mn in FY07E and Rs 71.5 mn in FY08E in absolute terms.

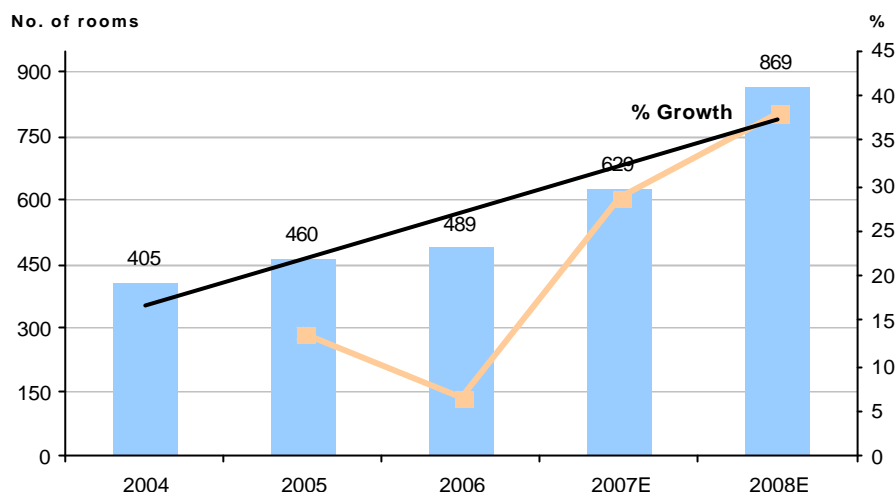
#### Addition to Room Inventory –

*Will be adding 380 rooms to its inventory over next 18 months.*

Property	Rooms	Op. Date
Royal Orchid – Brindavan Gardens	25	Sep'2006
Royal Orchid Central – Pune	115	Feb'2007
Royal Orchid Central – Hyderabad	65	Apr'2007
Royal Orchid Central – Jaipur	75	Apr'2007
Royal Orchid – Delhi	100	Mar'2008
<b>5 Hotels – 380 Keys</b>		

Source : Company

**Room Inventory**



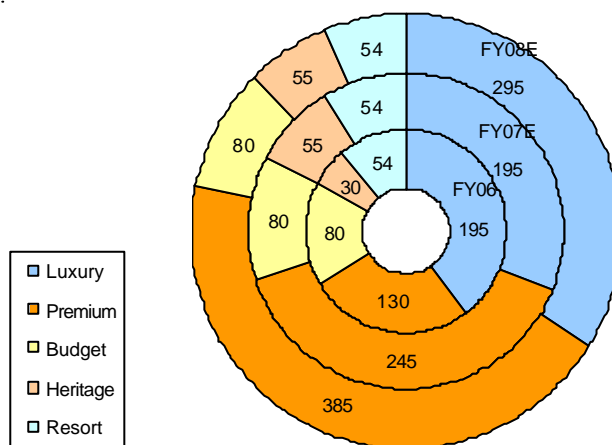
Source : Emkay Private Client Research

**De-risking Strategy –**

*It has presence in all categories of hotels giving the hotel an access to a wide variety of customer base.*

Presence in all segments across different price categories : ROHL has followed a business model of being present in all price points and categories. It is present in the luxury segment through its flagship Royal Orchid, premium business segment through Royal Orchid Central, economy segment through Royal Orchid Harsha, in luxury resorts through Royal Orchid Resorts and luxury heritage hotels through Hotel Royal Orchid Metropole and Hotel Royal Orchid - Brindavan Gardens. Presence in all segments across different price categories of hotels gives ROHL access to a wide customer base.

**Business Mix**

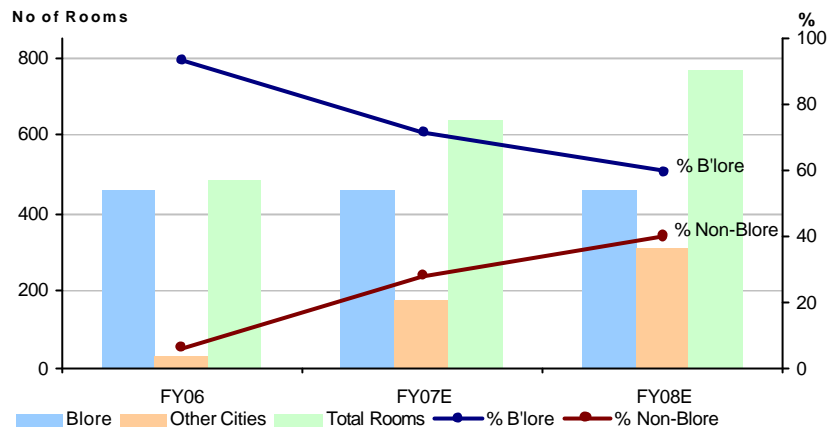


Source : Emkay Private Client Research

*The company is now looking a properties beyond Bangalore and is expanding in cities like Pune, Hyderabad & Delhi where demand is expected to grow at a rapid pace.*

Spreading business outside Bangalore : ROHL is spreading its operations in other cities like Pune, Hyderabad, Jaipur, Delhi and Mysore, in order to de-risk its predominant Bangalore presence. As per CRISIL Research, among business destinations, room demand growth in the next 5 years is expected to be the highest in Bangalore (18.5% CAGR), Hyderabad (18%), Pune (18%) and Chennai (14%). With this demand growth pattern in perspective the company is developing properties in Pune & Hyderabad. Establishing its presence in other cities where, unlike Bangalore where the ARR's seem to have touched its peak, the ARR's are still on a rise shall help in overall improvement of ARR's and increase the profitability of the company.

### Reducing dependence on Bangalore



Source : Emkay Private Client Research

Such geographical and business segment spread mitigates risk of change in demand pattern in a certain segment or area of business in an efficient manner.

*Company derives strong revenues from other segments of business like F&B. Almost 22% of the revenues came from F&B segment in FY06*

**Strong revenues from F&B segment :** The company has well established and popular F&B outlets like Limelight, Geoffrey's, Tiger Trail, Papparazzi and Pinx which has helped the hotel enhance its image and generate in additional revenue. The F&B segment contributed almost 22% to ROHL's total revenue, this has also enabled the company to diversify its risk. Going forward we expect the contribution from F&B to be around 23% of the total revenue for FY07E & FY08E.

*Company believes in an Asset Light strategy against buying out the property outright resulting in lower pay-back period for it's investments.*

#### Asset Light Strategy –

ROHL has a unique business model of taking properties on lease instead of buying it outright. It has been successful in managing its capital efficiently by operating on this asset light strategy. All the properties of ROHL except the flagship property have been taken on long term lease agreements which has helped the company in having low set-up costs. The approximate per room investment of the company ranges from Rs 1.2 to Rs 2 mn depending on the segment of the hotel. The company intends to follow this model for its future expansions too. Low set up cost for developing properties has enabled a lower pay back period and a higher return on capital employed. Such a strategy will also help the company remain profitable in situations of cyclical downturn in the business and enable the company to maintain a higher ROCE. For FY07E & FY08E we expect the RoCE to be at 25.5% & 27.5% levels respectively.

*RPHL has had the advantage of having properties at strategic locations due to which the company enjoys a healthy occupancy rate at its properties*

#### Strategic locations for properties –

ROHL has been successful in selecting strategic locations for its properties. The Royal Orchid Hotel, Royal Orchid Central and Royal Orchid Harsha in Bangalore are situated in the heart of the city and are at a short distance from Bangalore's airport and railway stations. These 3 properties are in close proximity to the city's business and shopping districts making it a preferred location for business travelers.

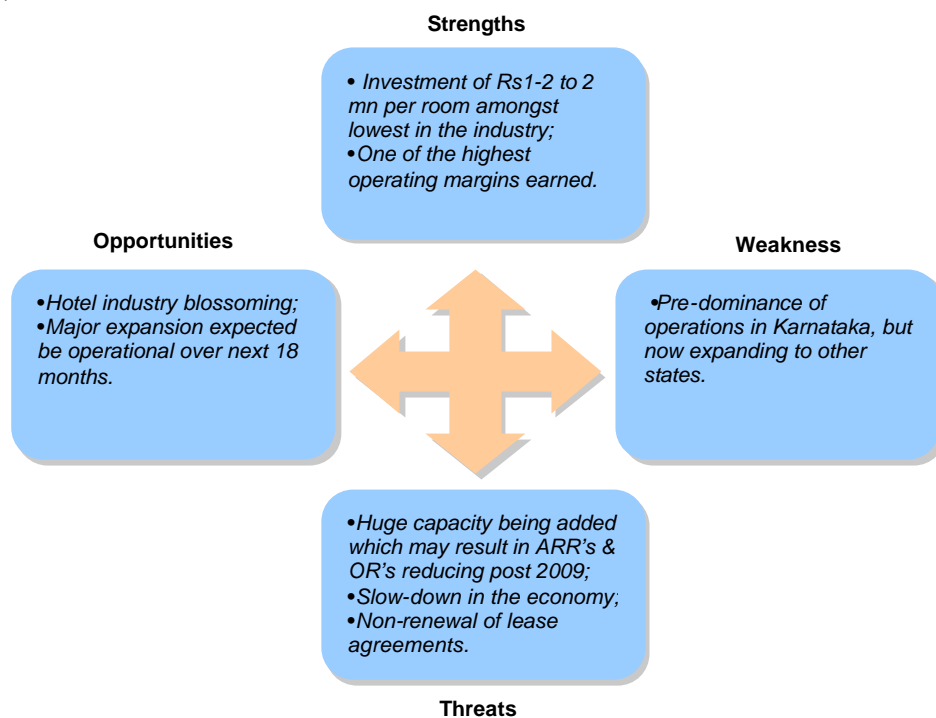
The Royal Orchid resort (previously Doddis Resort) is away from the city located near the new international airport expected to come up by 2008. The company has plans to build a further 100 rooms at this property by 2008 as there will be a great demand for rooms in this area once the new international airport is set-up.

Of the 2 properties in Mysore one is near the Mysore Palace and the other is in the heart of Brinvandan Gardens, both well known tourist spots.

The upcoming properties in Pune, Hyderabad and Delhi are also well located. The Pune property is located near the International Biotech Park at Hinjewadi, which would be a major demand driver. The Hyderabad property is located at a distance of 6 kms from the airport. The property in Delhi is expected to near the Delhi airport.

Selection of such strategic location shall help the company in having good occupancy levels.

**SWOT Profile:**



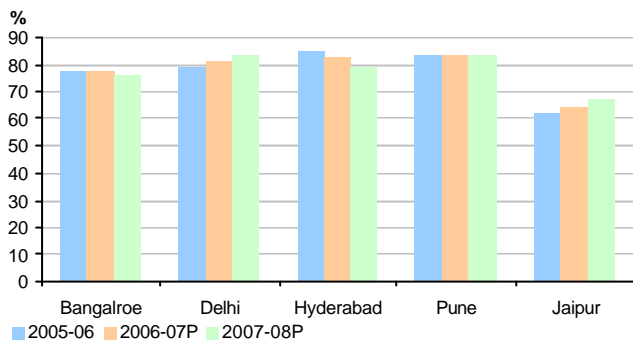
## Financial Outlook

*ARR's and OR's for the cities in which ROHL has properties and where new properties are coming up are expected to remain healthy*

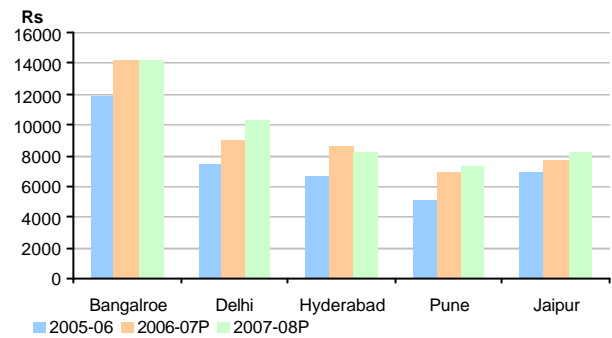
### ARR's & OR's to remain attractive –

We expect the ARR's in Bangalore to remain at almost the same level or rise marginally over next 2 years. At the same time the ARR's in cities like Pune, Hyderabad, Delhi & Jaipur are expected to register good growth on increasing demand in these cities. The properties in Hyderabad, Pune and Jaipur are expected to be operational by Apr'07. Due to this the company shall see a good growth in the blended ARR's through FY07 & FY08. At the same time the OR's across all cities in which ROHL has properties is likely to remain strong as a result of growth in demand.

#### City-wise ARR Projections



#### City-wise OR Projections



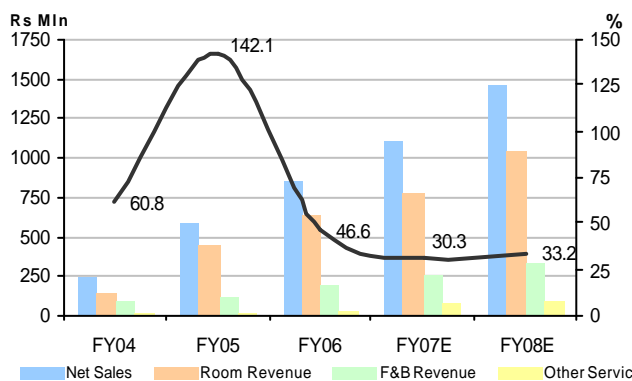
Source : CRISIL Reserach

*Revenues and EBIDTA will grow at a healthy rate of 28% & 32% respectively over the period 06-08..*

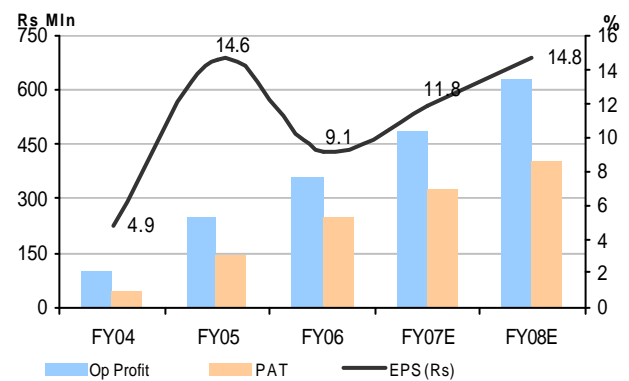
### Revenues & EBIDTA expected to grow at a CAGR of 28% & 32% respectively over FY06-08 –

We expect ROHL to register a CAGR of 28% in revenues over FY06-08 largely supported by additional capacity being added with ROHL entering new cities like Pune, Hyderabad, Jaipur, Mysore & Delhi and surging ARR's and OR's in these cities. It is expected to register a revenue of Rs 1089 mn & Rs 1450 mn for FY07E & FY08E respectively. Increase in ARR's & OR's shall also help the company improve its EBIDTA in absolute terms at CAGR of 32% over FY06-08. The company is expected to generate an EBIDTA of Rs 487.3 mn for FY07E & Rs 629.1 mn for FY08E.

#### Revenue & Business Mix



#### Profitability



Source : Emkay Private Client Research



*ROHL amongst the highest margins earners in the industry*

**ROHL is amongst the highest margin earners in the industry –**

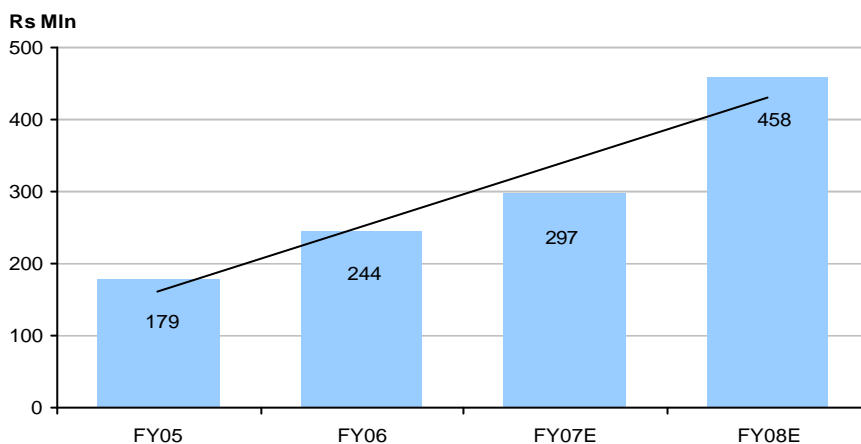
For year ending FY06 the company earned an EBIDTA margin of 43.2% which is amongst the highest in the industry only next to Hotel Leela. We expect the company to earn better margins for FY07E & FY08E at 44.7% & 43.4% respectively.

*Cash generation for the company is expected to remain extremely strong*

**Cash Generation for ROHL to remain extremely strong –**

The company is expected to generate strong cash flows from its operations over next 2 years. We expect the company to generate Rs 297 mn & Rs 458 mn of cash flows from its operations for FY07E & FY08E respectively. This shall enable the company to fund its expansion programme effectively. Further the company is well placed in terms of debt-equity ratio at 0.2:1 for FY06 which will enable ROHL to raise funds at reasonable cost to fund further expansion if opportunity exists.

**Operational Cash Flow Trend**



Source : Emkay Private Client Research

## Business Outlook

### Industry Overview –

Liberalisation of Indian economy in 1991 and the integration of India into the Global Economy has given impetus to business and tourist travellers. As a result the hotel industry in India has recorded a healthy growth since last few years. In the late 1990s major hotel chains, new entrants and international chains entered the Indian market. However, over the past five years the growth in hotel rooms has been relatively low across all categories of hotels. The data relating to hotels which are members of FHRAI shows that the number of hotel rooms has increased from 91,294 in year 2000 to 98,515 in year 2004 and to around 1,05,000 in year 2006, a CAGR increase of 1.92%. Indian tourism industry is currently grappling with the problem of shortage of accommodation. While there are 7,65,000 hotel rooms in China, there are only 1,05,000 hotel rooms in India. The current annual growth rate of hotel rooms in India is 6%, compared to 22% in China, 18% in Thailand and 15% in Malaysia. This slow growth has led to an increase in ARR's & OR's for hotels in major business and travel destinations. To take advantage of this situation global hospitality majors and Indian Hotel companies are investing in a big way in the Indian Hotel industry. However, the addition to room inventory is not expected to be commensurate with the expected growth in room demand, due to which the demand-supply mismatch is expected to continue. This demand-supply imbalance shall help in further improvement of ARR's & OR's thereby driving industry's profitability.

*Numbers of rooms that have been added in the industry post liberalization has been inadequate as compared to other emerging economies*

*Room demand expected to grow at an annual rate of 8-10% over next 3 years. Addition however not expected to be commensurate with the demand. This shall result in healthy ARR's & OR's for the industry.*

In last 2 years the Indian hotel industry has witnessed impressive growth. The upward trend in ARR's & OR's is expected to continue for the next 2-3 years. The demand for hotel rooms is estimated to grow at a rate of 8-10% annually over this period, whereas the addition to the room inventory is not expected to be commensurate with the growth. The growth in demand is further supported by an increasing trend in foreign tourist arrivals, both for business as well as leisure and the fact that the middle class population of India is expanding due to the growth in the economy, which is having a fuelling impact on the growth in domestic tourism. Apart from tourism segment, the Indian hotel sector has experienced a remarkable increase in the business traveller segment, both from within and outside India. This has led to most of the major players like Indian Hotels, EIH, Hotel Leela Ventures, Royal Orchid, Kamat Hotels, etc. investing in the premium business and budget hotels and serviced apartments on a big scale.

Key markets like Bangalore, New Delhi, Mumbai and Kolkata are expected to command higher room rates or maintain current rates due to the dearth in additional supply in the near term. Cities such as Hyderabad, Pune and Jaipur are also likely to be some of the fastest growing markets due to the spurt in business activity in these cities.

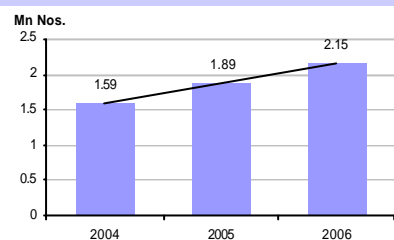
### The key growth drivers for Hotel industry are –

#### *Growth Drivers for the Industry:*

- *Robust economic growth*
- *Increasing flow of foreign tourists*
- *Substantial investment in budget segments and increasing revenue from other areas of business like F&B*
- *Reduction in travel costs due to introduction of low costs airlines*
- *Various government initiatives like Incredible India campaign, upgrade of airports, etc.*

- Robust economic growth to continue – With performance of the Indian economy expected to be impressive over the next 3 years, we expect demand for hotel rooms to grow at a rate of 8-10% annually over this period. The spurt in economy has resulted in increasing disposable income in the hands of the huge middle class population in India who have started exploring different tourist destinations in India and Abroad. As a result hotels will continue to command healthy ARR's and experience strong occupancies. Robust pricing power along with operating leverage, should drive earnings growth.
- Increasing trend in inflow of foreign tourists – India is increasingly being seen as a favoured tourist destination for foreign travellers. For the 1st quarter of FY07 8.74 lakh foreign tourists visited the country – a growth of 16.77% over the same period previous. We expect this increasing trend in inflow of foreign tourists to continue in the near future.

## Foreign Tourist Inflow



Source : Department of Tourism

- Inflow of foreign tourist and the fact that the middle class population of India is expanding due to the progress in economy which has had a fuelling impact in the growth in domestic tourism.
- Expansion in budget segments / service apartments segment and increasing revenue from F&B segment – The push into budget hotel segments, and the growing share of services should drive growth and profitability of hospitality companies.
- Reduction in travel costs by introduction of low-cost airlines – Introduction of low cost airlines has given a big boost to domestic leisure travel. This has resulted in the industry is experiencing a gradual change in industry dynamics. The concept of off-season is slowly shrinking in select locations and this is shown by the fact that the occupancy rate in places like Goa, Kerala, Jaipur, etc has increased during the period Apr'06 to Jun'06 which is generally considered as a slack period.
- Government Initiatives – The Government has also recognized the importance of the hospitality industry, and, over the past 2 to 3 years, has enacted or announced several initiatives to give further impetus to the industry, some of which are:
  - The “Incredible India” campaign – the first major public/private global campaign from India was very well received, helping to showcase India as a leading tourist destination globally;
  - Announcement of an open-skies policy for the peak travel season;
  - Planned upgrade of Mumbai and Delhi airports and the construction of new airports at Chennai and Bangalore;
  - Announcement of the establishment of international convention centers in Delhi, Mumbai, Goa and Jaipur in an effort to attract more business travelers to India.

### ROHL's Business Prospects –

ROHL is well placed to take advantage of this boom experienced in the hotel industry with 5 new properties, translating into 380 additional room inventory coming up over next 2 years. The company is also in negotiations for development in other cities which may materialize during this period.

## VALUATION

### DCF Table – DCF based valuation

Key Assumptions	
Terminal Value (%)	4.0
Adjusted Beta	0.5
Risk Free Rate (%)	6.5
Market Risk Premium (%)	7.0
Cost of Equity (%)	10.0
Cost of Debt (%)	8.0
Debt (Rs Mn)	283.2
Equity (Rs Mn)	4714.9
<b>WACC (%)</b>	<b>9.7</b>

NPV (Rs Mn)	5297
Net Debt (Rs Mn)	-735
Shareholder Value (Rs Mn)	6032
Value / share (Rs)	221
One year forward (Rs)	243

Source : Emkay - Private Client Research

DCF	CY06	CY07	CY08	CY09	CY10	CY11	CY12	CY13
PAT	230	292	363	405	408	401	393	403
Depreciation	30	43	60	66	73	80	84	88
Interest (1-tax rate)	12	14	11	8	5	5	5	6
Change in NWC	(25)	29	37	15	9	5	5	5
Capex	(192)	(569)	(158)	(150)	(100)	(80)	(90)	(88)
FCFF	56	(192)	314	344	395	411	398	414
Discounted Value	56	(175)	261	260	272	259	228	4136

\*Terminal value source : Emkay - Private Client Research

Terminal Growth	WACC		
	11	12	13
3%	194	180	168
4%	212	193	179
5%	235	211	192

Source : Emkay - Private Client Research

Company	CMP (27.09.06)	Net Sales (Rs. Mn)	Enterprise Value	EBIDTA (Rs Mn)	EBIDTA (%)	EV / EBIDTA	Net Profit (Rs Mn)	EPS (Rs)	P/E (x)
Royal Orchid Hotels	176	835.8	4821.9	360.9	43.2	13.4	230.5	9.1	19.3
TajGVK Hotels	216	1893.9	17082.9	848.1	44.8	20.1	462.8	7.1	30.4
Asian Hotels	649	3302.2	16041.7	1272.7	38.5	12.6	570.4	23.5	27.7
Oriental Hotels	363	1623.9	6406.7	548.5	33.8	11.7	278.7	15.2	23.8

Note : The above figures are as reported by the companies for financial year ended Mar'06

Source : Emkay Private Client Research, Capitaline

### Attractive Valuation –

*We initiate coverage on ROHL with a BUY recommendation and a 12-month target price of Rs243*

ROHL is an emerging player in the hospitality industry well positioned to register impressive growth in revenues and bottomline. It has a well established presence in all categories of hotels such as luxury, premium, economy and heritage hotels. The company is well positioned for providing value services to business and tourist travellers in all segments. Key growth driver for the company is expanding operations in cities like Pune, Hyderabad, Jaipur and Delhi where the ARR's and OR's are on an upward trend due to increasing business activity in these cities. At Rs 176 the stock is trading at 12x FY08E earnings. With an EPS CAGR of 27% estimated over FY06-08E and ROCE levels of 24.5% & 27.5% for FY07E & FY08E respectively we believe present valuation is attractive as compared to its peers. Based on this we initiate coverage on ROHL scrip with a BUY recommendation & a 12-month target price of Rs243.

## Income Statement

	FY05	FY06	FY07E	FY08E
<b>Total Revenue</b>	<b>569.9</b>	<b>835.8</b>	<b>1,089.1</b>	<b>1,450.0</b>
Growth (%)	142.1	46.6	30.3	33.1
Food & Beverages consumed	46.4	74.1	103.2	138.3
% of Total F&B Revenue	39.5	40.6	41.5	42.3
Employee costs	61.6	92.8	119.8	155.1
% of Total Revenue	10.8	11.1	11.0	10.7
Operating Expenses	146.1	202.3	253.7	362.0
% of Total Revenue	25.6	24.2	23.3	25.0
Selling Expenses	28.4	51.0	63.2	87.0
% of Total Revenue	5.0	6.1	5.8	6.0
Administration Expenses	37.8	54.7	62.0	78.4
% of Total Revenue	6.6	6.6	5.7	5.4
<b>EBIDTA</b>	<b>249.6</b>	<b>360.9</b>	<b>487.3</b>	<b>629.1</b>
% of Total Revenue	43.8	43.2	44.7	43.4
Other Income	11.8	24.1	36.5	21.5
<b>PBIDT</b>	<b>261.4</b>	<b>384.9</b>	<b>523.8</b>	<b>650.6</b>
% of Total Revenue	45.9	46.1	48.1	44.9
Interest	24.8	16.1	20.0	15.5
Depreciation & Amortization.	22.3	30.2	42.6	60.2
<b>PBT</b>	<b>214.3</b>	<b>338.6</b>	<b>461.2</b>	<b>575.0</b>
Tax	72.7	90.4	139.5	173.3
Tax % PBT	33.9	26.7	30.2	30.1
Minority Interest & EO Item	(6.1)	17.8	29.7	38.3
<b>PAT</b>	<b>147.7</b>	<b>230.5</b>	<b>292.0</b>	<b>363.5</b>
Growth (%)	679.1	56.0	26.7	24.5

## Balance Sheet

	FY05	FY06E	FY07E	FY08E
Equity Capital	96.9	272.3	272.3	272.3
Reserves	158.4	1,264.8	1,401.4	1,609.6
<b>Networth</b>	<b>255.3</b>	<b>1,537.1</b>	<b>1,673.8</b>	<b>1,882.0</b>
Total Debt	205.1	283.2	257.5	206.4
Deferred Tax Liabilities	26.5	36.4	50.9	70.3
Minority Interest	24.9	43.2	73.0	111.2
<b>Total Capital Employed</b>	<b>511.8</b>	<b>1,900.0</b>	<b>2,055.2</b>	<b>2,269.8</b>
<b>Gross Block</b>	<b>320.5</b>	<b>604.7</b>	<b>1,099.9</b>	<b>1,196.4</b>
Less Depreciation	52.9	130.4	166.8	217.6
<b>Net Fixed Assets</b>	<b>267.6</b>	<b>474.4</b>	<b>933.1</b>	<b>978.9</b>
<b>CWIP</b>	<b>101.8</b>	<b>9.5</b>	<b>83.5</b>	<b>145.0</b>
<b>Investments &amp; Goodwill</b>	<b>0.0</b>	<b>61.8</b>	<b>55.6</b>	<b>49.4</b>
Inventory	5.4	7.0	11.0	14.2
Debtors	31.7	54.2	71.5	98.8
Cash and Bank	43.1	227.3	138.5	89.7
Deposits	25.7	1,213.0	854.5	1,008.6
Loans & Advances	120.8	173.2	198.7	205.0
<b>Total Curr. Assets</b>	<b>226.7</b>	<b>1,674.7</b>	<b>1,274.2</b>	<b>1,416.3</b>
Current Liabilities	62.2	137.1	127.1	159.9
Provisions	22.1	183.2	180.3	172.8
<b>Total Curr. Liabi. &amp; Prov.</b>	<b>84.3</b>	<b>320.3</b>	<b>307.4</b>	<b>332.7</b>
<b>Net Current Assets</b>	<b>142.4</b>	<b>1,354.4</b>	<b>966.7</b>	<b>1,083.6</b>
Misc. Expenditure	0.0	0.0	16.2	13.0
<b>Total Assets</b>	<b>511.8</b>	<b>1,900.0</b>	<b>2,055.2</b>	<b>2,269.8</b>

Source: Emkay Private Client Research

## Cash Flow Statement

	FY05	FY06	FY07E	FY08E
PBT (excl other income)	234.8	338.6	461.2	575.0
Depreciation	22.3	30.2	42.6	60.2
Other Income	(25.6)	6.5	(30.5)	(15.5)
Interest Charges	22.5	(1.5)	20.0	15.5
Change in working capital	(75.5)	(129.5)	(196.3)	(177.2)
<b>Cash flow from Operations</b>	<b>178.5</b>	<b>244.4</b>	<b>296.9</b>	<b>457.9</b>
(Inc)/Dec in fixed assets	(140.0)	(86.7)	(569.2)	(158.0)
(Inc)/Dec in Investments	1.4	(1240.9)	358.6	(154.2)
Interest Earned	2.3	3.1	30.0	15.0
<b>Cash flow from Investing</b>	<b>(136.4)</b>	<b>(1324.5)</b>	<b>(180.7)</b>	<b>(297.2)</b>
Equity Issue	0.0	1218.5	0.0	0.0
Net Borrowings	(12.4)	58.6	(25.7)	(51.2)
Dividend Paid	0.0	0.0	(155.3)	(155.3)
Interest Charges	(23.9)	(16.0)	(20.0)	(15.5)
Others	0.0	0.0	(4.1)	12.4
<b>Cash Flow from Financing</b>	<b>(36.3)</b>	<b>1261.1</b>	<b>(205.1)</b>	<b>(209.5)</b>
<b>Incr/(decr) in cash</b>	<b>5.9</b>	<b>181.0</b>	<b>(88.8)</b>	<b>(48.8)</b>
<b>Cash beginning</b>	<b>37.1</b>	<b>46.3</b>	<b>227.3</b>	<b>138.5</b>
<b>Cash ending</b>	<b>43.0</b>	<b>227.3</b>	<b>138.5</b>	<b>89.7</b>

## Ratios

	FY05	FY06E	FY07E	FY08E
EBITDA %	43.8	43.2	44.7	43.4
EBIT%	42.0	42.4	44.2	40.7
NPM %	24.8	29.7	29.5	27.7
ROE (avg) %	55.5	16.1	19.0	21.2
ROCE (avg) %	49.1	19.1	24.5	27.5
Adj. EPS	16.7	9.1	11.8	14.8
Cash EPS	16.9	10.2	13.4	17.0
Book Value	26.3	56.4	62.1	69.6
DPS	0.0	5.0	5.0	5.0
Payout %	0.0	67.4	53.2	42.7
Debtors days	16.6	18.8	21.1	21.4
Creditors days	37.3	40.6	39.9	36.2
Total Debt: Equity	0.9	0.2	0.2	0.1
Asset Turnover	2.1	1.8	1.2	1.5
PE (x)	10.5	19.2	14.8	11.9
Cash PE (x)	10.3	17.1	13.1	10.3
P/BV (x)	6.6	3.1	2.8	2.5
EV/Net Sales (x)	3.3	5.8	4.5	3.4
EV/EBITDA (x)	7.4	13.4	10.0	7.8
Dividend Yield %	0.0	2.9	2.9	2.9

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