

Hotel Leela

Warming up for new guests

Revenues in line, but bottomline succumbs to cost pressures

Hotel Leela reported a topline of INR4.3bn, drop of 4% YoY, in line with our estimates. The company faced pressures on employee, F&B and other operating costs thus bringing the EBITDA margins down by 545bp to 29% at INR 1.26bn in FY10. Hotel Leela has reported net profit of INR410mn in FY10 as against INR812mn in FY09, down 50% due to benign occupancy and ARR throughout the year.

Occupancy remains flat, ARR drops 20% in FY10

Hotel Leela recorded a flat occupancy at 64% while ARRs corrected by 20% YoY to INR9300 in FY10. The fourth quarter, however, showed clear signs of a revival with occupancy at 71% and ARR at INR10748 levels, sequentially up from 69% and INR9800 respectively, as of Q3FY10. We believe Hotel Leela will benefit from the strong domestic revival due to its concentrated presence in key metro locations which invariably are the first to revive.

Delhi property to be operational in Aug'10; Chennai in Q1FY12

Hotel Leela would be commissioning its Delhi property in August 2010 with 260 rooms. The property would be a high-end, deluxe hotel and would open with rack rates of INR20000 plus. The Chennai project is expected to get delayed from the earlier timeline of Dec2010. The management has indicated that the Chennai hotel would commence in Q1FY12 with 332 rooms. We have made necessary changes in our assumptions of property launch timelines.

Growth momentum to continue with domestic revival

Domestic sector has shown clear signs of a revival from the third quarter onwards. We expect Hotel Leela to make a 23% topline growth in FY11 on the back of improved occupancy and ARRs along with the new launch in Delhi which is expected to ring in good business with the Commonwealth Games round the corner.

Maintain Accumulate; Balance sheet stresses to ease off

We have built in the expected delays in projects and thereby revised our FY11 and FY12 estimates. Hotel Leela is expected to present a healthy earnings growth going ahead with management focus on reducing balance sheet stresses. At CMP, Hotel Leela is fairly valued at INR 26.4mn FY12E EV/Room. We maintain our **Accumulate** and have revised our Target Price on Hotel Leela to INR50 valuing it at INR 27mn FY12E EV/Room, presenting 9% upside.

Rating : Accumulate

Target Price : INR50

Upside : 9%

CMP : INR46 (as on 2 June 2010)

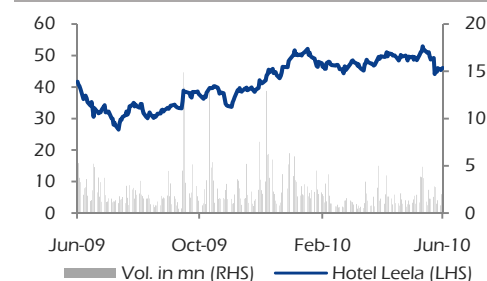
Key data

Bloomberg /Reuters Code	LELA IN/HTLE.BO
Current /Dil. Shares O/S (mn)	378/423
Mkt Cap (INRbn/US\$mn)	17.4 / 370.2
Daily Vol. (3M NSE Avg.)	1,323,752
Face Value (INR)	2

1 US\$= INR47

Source: Bloomberg; * As on 2 June 2010

Price & volume



Source: Bloomberg

Share holding (%)

	Q1FY10	Q2FY10	Q3FY10	Q4FY10
Promoter	51.6	51.6	52.7	53.3
Institutional Investors	9.9	10.1	10.4	12.9
Other Investors	14.0	14.8	15.2	12.8
General Public	24.5	23.5	21.8	21.0

Source: Bloomberg

Price performance (%)

	3M	6M	12M
Sensex	(0.2)	(2.5)	12.6
Hotel leela	(3.0)	10.8	10.4
Indian Hotels		6.4	13.8
EIH	(5.6)	(16.5)	(13.9)

Source: Bloomberg

Key Financials

Y/E Mar (INR mn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	EV/EBITDA (x)	EV/Adj. Room
FY08	5,146	23.8	2,300	44.7	1,501	18.6	3.5	14.0	6.0	16.0	33.1
FY09	4,522	(12.1)	1,559	34.5	1,459	(2.8)	3.4	7.4	2.1	26.7	39.2
FY10	4,362	(3.6)	1,266	29.0	404	(72.3)	1.0	2.0	1.2	36.6	37.5
FY11E	5,385	23.5	1,925	35.7	652	61.4	1.5	2.9	2.0	25.4	25.3
FY12E	6,480	20.3	2,490	38.4	949	45.7	2.2	4.1	2.9	20.0	26.4

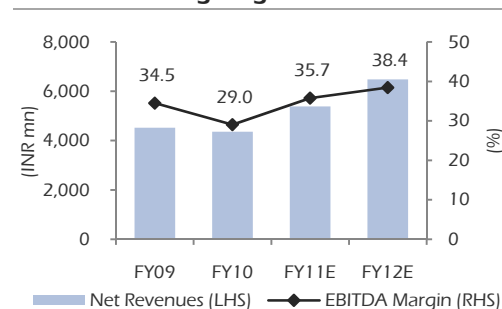
Source: Company, Elara Securities Estimate

Financials

Income Statement (INR mn)	FY09	FY10	FY11E	FY12E
Net Revenues	4,522	4,362	5,385	6,480
EBITDA	1,559	1,266	1,925	2,490
Less :- Depreciation & Amortization	633	683	907	943
EBIT	926	583	1,019	1,547
Add:- Other Income	1,299	262	653	653
Less:- Interest Expenses	267	245	766	882
PBT	1,958	600	905	1,319
Less :- Taxes	476	196	253	369
Adjusted PAT	1,482	404	652	949
Reported PAT	1,459	404	652	949
Balance Sheet (INR mn)	FY09	FY10E	FY11E	FY12E
Share Capital	756	756	847	847
Reserves	18,645	19,292	21,891	22,593
Borrowings	24,495	29,364	29,434	29,889
Deferred Tax (Net)	1,004	1,004	1,004	1,004
Total Liabilities	44,899	50,415	53,175	54,333
Gross Block	38,335	39,305	54,945	55,445
Less:- Accumulated Depreciation	3,985	4,633	5,540	6,482
Net Block	34,350	34,671	49,405	48,962
Add:- Capital work in progress	9,345	13,775	1,935	3,935
Investments	462	462	462	462
Net Working Capital	741	1,506	1,373	972
Other Assets	0.15	0.15	0.05	0.05
Total Assets	44,899	50,415	53,175	54,333
Cash Flow Statement (INR mn)	FY09	FY10E	FY11E	FY12E
Cash profit adjusted for non cash items	2,005	1,330	1,467	1,645
Add/Less : Working Capital Changes	1,165	(600)	(298)	(5)
Operating Cash Flow	3,170	730	1,169	1,640
Less:- Capex	17,591	5,435	3,800	2,500
Free Cash Flow	(14,421)	(4,705)	(2,631)	(860)
Financing Cash Flow	3,882	4,869	2,200	455
Investing Cash Flow	(18,053)	(5,435)	(3,800)	(2,500)
Net change in Cash	(11,000)	164	(431)	(405)
Ratio Analysis	FY09	FY10E	FY11E	FY12E
Income Statement Ratios(%)				
Revenue Growth	(12.1)	(3.6)	23.5	20.3
EBITDA Growth	(32.2)	(18.8)	52.1	29.3
PAT Growth	(2.8)	(72.3)	61.4	45.7
EBITDA Margin	34.5	29.0	35.7	38.4
Net Margin	32.3	9.3	12.1	14.7
Return & Liquidity Ratios (%)				
Net Debt/Equity (x)	1.2	1.4	1.3	1.3
ROE (%)	7.4	2.0	2.9	4.1
ROCE (%)	2.1	1.2	2.0	2.9
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	3.4	1.0	1.5	2.2
EPS Growth (%)	(2.8)	(71.9)	58.9	45.7
DPS (INR/Share)	0.5	0.2	0.2	0.6
P/E Ratio (x)	11.9	42.4	29.9	20.5
EV/EBITDA (x)	26.7	36.6	25.4	20.0
EV/Adj. Room (INR mn)	39.2	37.5	25.3	26.4
EV/Sales (x)	0.9	1.1	0.9	0.8
Price/Book (x)	0.9	0.9	0.9	0.8
Dividend Yield (%)	1.0	0.3	0.5	1.3

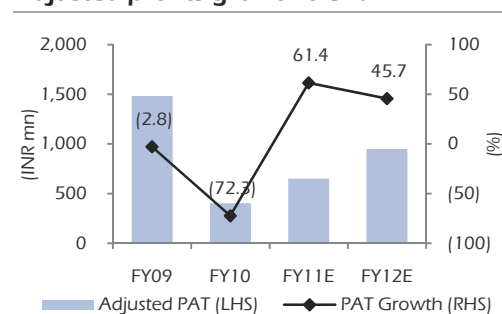
Source: Company, Elara Securities Estimate

Revenue & margins growth trend



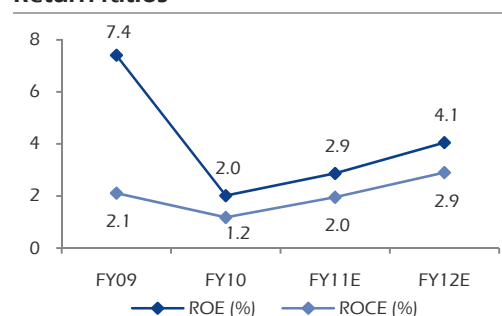
Source: Company, Elara Securities Estimate

Adjusted profits growth trend



Source: Company, Elara Securities Estimate

Return ratios



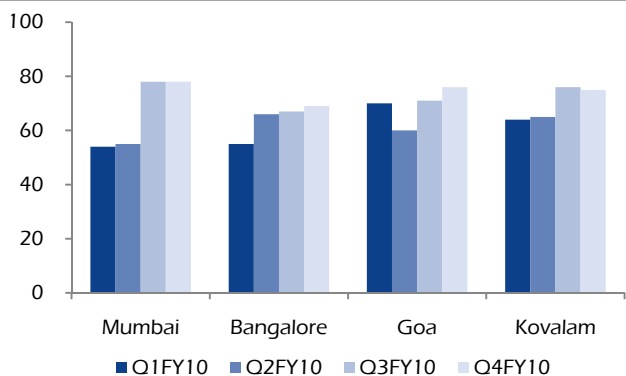
Source: Company, Elara Securities Estimate

Q4 brings signs of buoyancy

Occupancy stays flat; ARR drops 20% in FY10

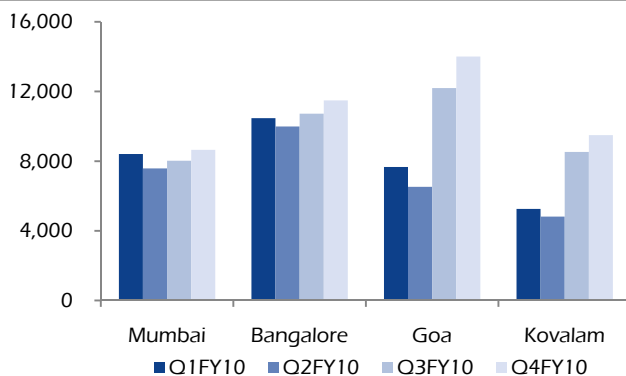
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Exhibit 1: Occupancy improves in H2FY10 (%)



Source: Company, Elara Securities Research

Exhibit 2: ARR shows significant growth in Q4 (INR)

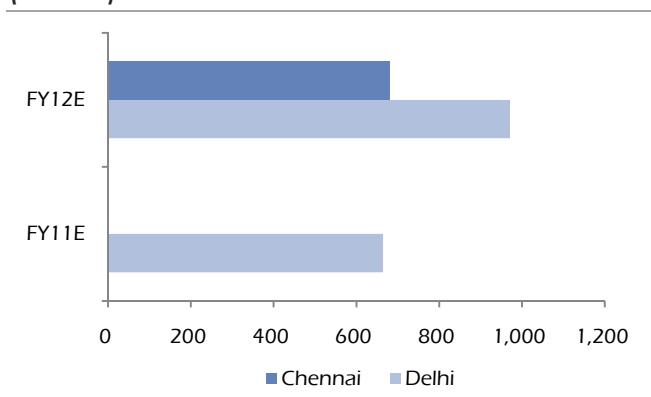


Source: Company, Elara Securities Research

Delhi property to be operational in Aug'10; Chennai in Q1FY12

Hotel Leela would be commissioning its Delhi property in August 2010 with 260 rooms. The property would be a high-end, deluxe hotel and would open with rack rates of INR 20000 plus. The Chennai project is expected to get delayed from the earlier timeline of Dec2010. The management has indicated that the Chennai hotel would commence in Q1FY12 with 332 rooms. We have made necessary changes in our assumptions of property launch timelines.

Exhibit 3: New hotels to give more fillip to topline (INR mn)



Source: Elara Securities Research

FY11 topline to show strong growth of 23%

Domestic revival to sustain growth momentum

Domestic sector has shown clear signs of a revival from the third quarter onwards. We expect Hotel Leela to make a 23% topline growth in FY11 on the back of improved occupancy and ARR along with the new launch in Delhi which is expected to bring in good business with the Commonwealth Games round the corner.

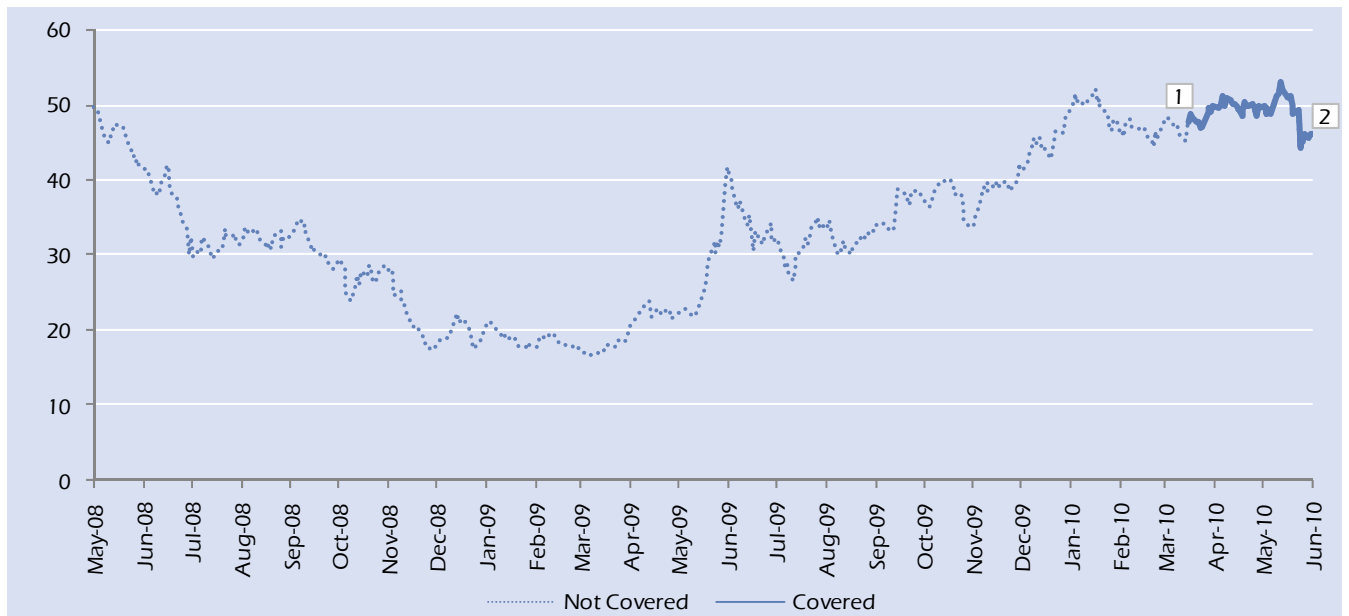
Focus on reducing balance sheet stresses

The management has indicated that it is focused on reducing the debt and easing off the balance sheet pressures in FY11. Hotel Leela's outstanding 39.2mn Euro FCCBs would be up for redemption in Sep2010, which would see an outflow of around INR2.8bn. The company is looking to raise INR7.5bn via OIP or the FCCB route. We also expect the divestment of IT park in Chennai at around INR1.8bn to ease out debt pressures.

Maintain Accumulate with 9% upside

We have built in the expected delays in projects and thereby, revised our FY11 and FY12 estimates. Hotel Leela is likely to present a healthy earnings growth going ahead egged on by improving sector drivers. At the CMP, Hotel Leela is fairly valued at INR 26.4mn FY12E EV/Room. The stock currently trades at an expensive 20x FY12E EV/EBIDTA but on a 17% discount to its FY12E book value of INR55. We maintain our **Accumulate** and have revised our Target Price on Hotel Leela to INR50, valuing it at INR 27mn FY12E EV/Room, presenting 9% upside.

Coverage History



	Date	Rating	Target Price	Closing Price
1	17-Mar-2010	Accumulate	INR54	INR47
2	2-Jun-2010	Accumulate	INR50	INR46

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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