

# Hotel Leelaventure Ltd - SELL

CMP Rs43, Target Rs35

## Sector: Hotels

Sensex:	16,601
CMP (Rs):	43
Target price (Rs):	35
Downside (%):	18.3
52 Week h/l (Rs):	46/16
Market cap (Rscr) :	1,619
6m Avg vol ('000Nos):	2,510
No of o/s shares (mn):	378
FV (Rs):	2
Bloomberg code:	LELA IB
Reuters code:	HTLE.BO
BSE code:	500193
NSE code:	HOTELEELA

Prices as on 21 Dec, 2009

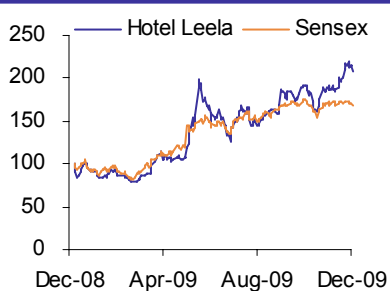
## Shareholding pattern

September '09	(%)
Promoters	51.6
Institutions	10.1
Non promoter corp hold	11.6
Public & others	26.7

## Performance rel. to sensx

(%)	1m	3m	1yr
Hotel Leela	11.9	12.0	35.4
Ind Hotels	9.8	19.7	38.1
EIH	3.4	8.2	(66.3)

## Share price trend



An improvement in H2 FY10 occupancies across room portfolio coupled with steady average room rates (ARRs) has been key to Hotel Leela's recovery from amongst the worst downturn in the hospitality industry. Even so, Mumbai and Bangalore luxury markets (~65% of FY11E room revenues) have not shown the kind of business ramp up seen in Delhi or Hyderabad.

We now expect FY11 occupancies to be in the range of 66-74% (an increase of 200-400bps from previous estimate) while room tariffs may be flat yoy. Revise FY11 revenue and EPS estimates by 11% and 16% respectively. Raise TP to Rs35 but retain SELL.

### H2 occupancies better than expected

Key business destinations of Chennai and Hyderabad have witnessed 5-10ppts yoy jump in occupancies in the past three months. This has been primarily on account of buoyancy in domestic demand. On the other hand, luxury room rates are unlikely to improve yoy as foreign demand remains muted. Also, average occupancies in Delhi have improved ~500bps in the busy season so far. Consequently, we incorporate a 200-400bps improvement in our FY11 occupancies.

### Volume growth in FY11 partly offsets weak ARR

Hotel Leela would about 600 rooms, ~50% of its current owned inventory of 1,200 rooms, by end of next fiscal. This would account for 10% of the total room revenues, even though the incremental capacity would be available only from H2 FY11, thereby offsetting potential ARR weakness.

### Co in recovery mode but remains expensive: SELL

Although stable room rates and rising occupancies mark the eventual recovery out of any cyclical downturn, the improvement in domestic demand has been much better than anticipated. We now expect ARR to remain flat yoy in the next fiscal in the company's key markets of Mumbai and Bangalore. Even so, in our view, FY11 PAT would be still below that in FY07, an indication of tepid recovery as foreign arrivals remain weak. We raise our FY11 EPS estimates and up the TP to Rs35 (earlier Rs21) but retain SELL.

## Valuation summary

y/e 31 March (Rs m)	FY08	FY09	FY10E	FY11E
Revenues	5,146	4,522	4,105	5,218
yoy growth (%)	23.8	(12.1)	(9.2)	27.1
Operating profit	2,300	1,559	1,067	1,644
OPM (%)	44.7	34.5	26.0	31.5
Pre-exceptional PAT	1,481	754	652	1,022
Reported PAT	1,486	1,450	652	1,022
yoy growth (%)	17.9	(2.4)	(55.0)	56.8
EPS (Rs)	3.9	3.8	1.7	2.7
P/E (x)	10.9	11.1	24.7	15.8
P/BV (x)	1.7	0.8	0.8	0.8
EV/EBITDA (x)	14.6	25.9	41.5	27.3
Debt/Equity (x)	2.2	1.3	1.4	1.4
ROE (%)	16.3	10.1	3.3	5.0
ROCE (%)	10.1	4.2	2.3	3.1

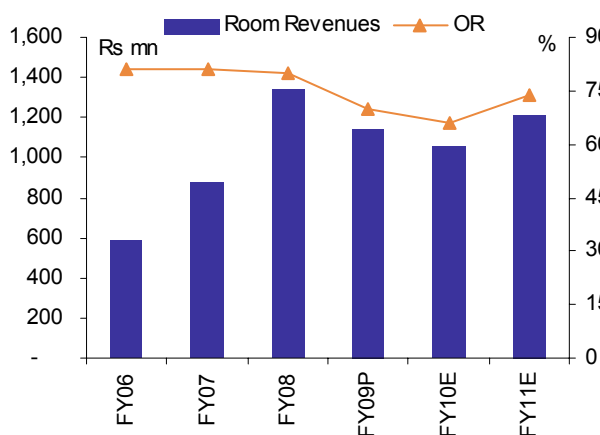
Source: Company, India Infoline Research

**Hotel Leela revenue forecast**

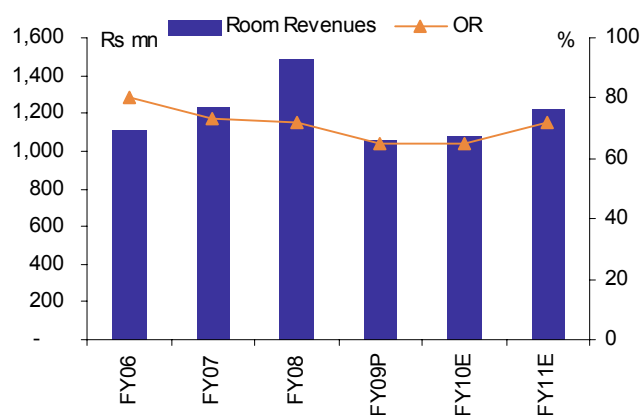
Rs mn	FY05	FY06	FY07	FY08	FY09	FY10E	FY11E
Room & Galleria	1,633	2,248	2,778	3,476	2,991	3,011	3,814
F&B	718	887	1,057	1,301	1,175	790	1,018
Other services	216	297	321	368	356	304	387
<b>Net revenues</b>	<b>2,567</b>	<b>3,433</b>	<b>4,156</b>	<b>5,146</b>	<b>4,522</b>	<b>4,105</b>	<b>5,218</b>

Source: Company, India Infoline Research

**Mumbai: trends in room revenues & O.R**



**Bangalore: trends in room revenues & O.R**



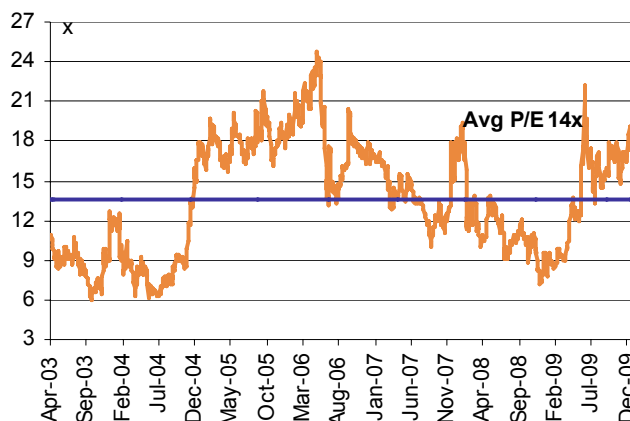
Source: Company, India Infoline Research

**Revision summary**

Estimates	Revised		Earlier	
	FY10E	FY11E	FY10E	FY11E
Revenues	4,105	5,218	4,046	4,702
Operating profit	1,067	1,644	1,129	1,613
OPM (%)	26.0	31.5	27.9	34.3
PAT	652	1,022	631	880
EPS	1.7	2.7	1.7	2.3

Source: India Infoline Research

**Trades above its historical PE band**



Source: Company, India Infoline Research

## Financials

### Income statement

Y/e 31 Mar (Rs m)	FY08	FY09	FY10E	FY11E
Revenue	5,146	4,522	4,105	5,218
<b>Op. profit</b>	<b>2,300</b>	<b>1,559</b>	<b>1,067</b>	<b>1,644</b>
Depreciation	(453)	(654)	(558)	(706)
Interest	(335)	(238)	(315)	(327)
Other inc	702	563	591	620
<b>PBT</b>	<b>2,213</b>	<b>1,230</b>	<b>785</b>	<b>1,231</b>
Taxes	(732)	(476)	(134)	(209)
<b>Adj. profit</b>	<b>1,481</b>	<b>754</b>	<b>652</b>	<b>1,022</b>
Extra. items	4	695	0	0
<b>Net profit</b>	<b>1,486</b>	<b>1,450</b>	<b>652</b>	<b>1,022</b>

### Balance sheet

Y/e 31 Mar (Rs m)	FY08	FY09	FY10E	FY11E
Equity capital	756	756	756	756
Reserves	8,545	18,643	19,121	19,970
<b>Net worth</b>	<b>9,301</b>	<b>19,399</b>	<b>19,877</b>	<b>20,725</b>
Debt	20,357	24,495	28,350	28,930
Def. tax liability	914	1,004	1,034	1,065
<b>Total liabilities</b>	<b>30,571</b>	<b>44,898</b>	<b>49,261</b>	<b>50,720</b>

Fixed assets	26,225	44,231	47,950	49,179
<b>Net working cap</b>	<b>4,344</b>	<b>666</b>	<b>1,310</b>	<b>1,540</b>
Inventories	387	420	371	486
Sundry debtors	386	315	292	343
Cash	2,958	306	180	109
Other curr assets	2,675	2,846	1,970	2,453
Sundry creditors	(275)	(704)	(427)	(529)
Other curr lia	(1,786)	(2,517)	(1,077)	(1,322)
<b>Total assets</b>	<b>30,571</b>	<b>44,898</b>	<b>49,261</b>	<b>50,720</b>

### Cash flow statement

Y/e 31 Mar (Rs m)	FY08	FY09	FY10E	FY11E
PBT	2,213	1,230	785	1,231
Depreciation	453	654	558	706
Def. tax lia	178	90	30	31
Tax paid	(732)	(476)	(134)	(209)
Working cap Δ	(401)	1,026	(769)	(301)
Other items	4	695	-	-
Operating CF	1,715	3,219	470	1,458
Capital exp.	(8,037)	(18,659)	(4,277)	(1,935)
<b>Free CF</b>	<b>(6,322)</b>	<b>(15,440)</b>	<b>(3,807)</b>	<b>(477)</b>
Equity raised	(946)	8,823	-	-
Debt fin/disp	10,322	4,139	3,855	580
Dividends	(221)	(174)	(174)	(174)
<b>Net Δ in cash</b>	<b>2,833</b>	<b>(2,653)</b>	<b>(126)</b>	<b>(70)</b>

### Key ratios

Y/e 31 Mar	FY08	FY09	FY10E	FY11E
<b>Growth matrix (%)</b>				
Revenue growth	23.8	(12.1)	(9.2)	27.1
Op profit growth	19.3	(32.2)	(31.6)	54.0
EBIT growth	32.9	(42.4)	(25.0)	41.6
Net profit growth	17.9	(2.4)	(55.0)	56.8

### Profitability ratios (%)

OPM	44.7	34.5	26.0	31.5
EBIT margin	49.5	32.5	26.8	29.9
Net profit margin	28.8	16.7	15.9	19.6
RoCE	10.1	3.9	2.3	3.1
RoNW	16.2	5.3	3.3	5.0
RoA	5.5	1.9	1.3	2.0

### Per share ratios

EPS	3.9	2.0	1.7	2.7
Dividend per share	0.5	0.4	0.4	0.4
Cash EPS	5.1	3.7	3.2	4.6
Book value per share	24.6	51.3	52.6	54.9

### Valuation ratio (x)

P/E	10.9	11.1	24.7	15.8
P/CEPS	8.3	11.5	13.3	9.3
P/B	1.7	0.8	0.8	0.8
EV/EBIDTA	14.6	25.9	41.5	27.3

### Payout (%)

Dividend payout	14.9	23.0	26.7	17.0
Tax payout	33.1	38.7	17.0	17.0

### Liquidity ratios

Debtor days	27	25	26	24
Inventory days	27	34	33	34
Creditor days	20	57	38	37

### Leverage ratios

Interest coverage	7.6	6.2	3.5	4.8
Net debt / equity	1.9	1.2	1.4	1.4
Net debt / op. profit	7.6	15.5	26.4	17.5

### Du-Pont Analysis

Y/e 31 Mar (Rs m)	FY08	FY09	FY10E	FY11E
Tax burden (x)	0.67	0.61	0.83	0.83
Interest burden (x)	0.87	0.84	0.71	0.79
EBIT margin (x)	0.50	0.32	0.27	0.30
Asset turnover (x)	0.19	0.11	0.08	0.10
Financial leverage (x)	2.93	2.81	2.52	2.55

<b>RoE (%)</b>	<b>16.2</b>	<b>5.3</b>	<b>3.3</b>	<b>5.0</b>
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**Recommendation parameters for fundamental reports:**

**Buy** – Absolute return of over +10%

**Market Performer** – Absolute return between -10% to +10%

**Sell** – Absolute return below -10%

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