

Please **DO NOT** buy the stock

I will be talking about



Happy Holidays!

# The typical hospitality business



Buy a plot of land (typically urban / central)



Construct a Hotel / Resort

# Run the business

- Not my favourite business (Not a bad business, not excellent either)
  - Initial returns very poor
    - Gestation period
    - Low occupancy
    - Low pricing power
  - Risks
    - Perishable output (a vacant day is lost for ever)
    - Continuous investment requirements
    - Cyclical (vulnerable to economy, civil unrest, weather etc.)
  - Pricing power over time, inflation hedge

# Practical experience

- Sometimes, it gives ROE of about 20% (in good times)
- At other times there are losses or ROEs like 4% - 5%
- Indian Hotels consolidated PAT (Top ROE 17%)

March 2002	13.32	March 2003	8.93
March 2004	52.17	March 2005	79.44
March 2006	263.17	March 2007	390.42
March 2008	313.54	March 2009	2.74
March 2010	-118.40	March 2011	-68.87

Hit 1<GO> for Options, Hit <Page> for table.

### COMPARATIVE RETURNS

Range		1/31/91 - 9/30/11		Period	Monthly	248 Mo.	Period
Securities	Crcny	Prc	Appr	Total Ret	Difference	Annual	Eq
1 IH IN Equity	INR	1866.88 %		2773.31 %	1198.32 %	17.63 %	
2 SENSEX Index	INR	1574.99 %		1574.99 %*		14.60 %	
3							

(\* = No dividends or coupons)



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000  
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Start date adjusted.

## COMPARATIVE RETURNS

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Securities	Range	1/31/91 - 9/30/11	Period	M Monthly	248 Mo. Period	Total Ret	Difference	Annual Eq
	Crncy	Prc	Appr					
1 LELA IN Equity	INR	1101.67 %				1582.63 %	7.64 %	14.63 %
2 SENSEX Index	INR	1574.99 %				1574.99 %*		14.60 %
3								

(\* = No dividends or coupons)



DEC92 DEC94 DEC96 DEC98 DEC00 DEC02 DEC04 DEC06 DEC08 DEC10

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000

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# An alternative business model

- Build a resort with a few rooms on a remote plot of land (call it scenic & serene)
- Sell rooms nights in advance (for as much as 25 years)
- Buy land and construct more rooms from that money
- Charge utility fees, serve F&B to “captive” guests, sell various over priced activities at the resort
- Build ancilliary businesses

# Club Mahindra

- Mahindra Holidays & Resorts India Ltd.
  - Takes Rs. 2.7 lacs to Rs. 5.6 lacs per 1 BHK per week for 25 years membership
  - Gets Rs. 1.5 Cr to Rs. 2 Cr assuming 50 operational weeks and average of Rs. 3 lacs to Rs. 4 lacs per week
  - Maintenance fees of Rs. 12,600 per week (inflation adjusted)
  - F&B, activities, Cab rentals

# Additional levers

- Goa & Rajasthan in Summer, Manali in winter
- Season conversion
- Air tickets, currency exchange
- EMIs (18% to 20%)
- Overselling, lapsed entitlements, surrender
- RCI exchanges monetisation
- Sale of excess inventory
- Contractual inventory with managed resorts

# Balance Sheet

- Shareholders have put in Rs. 240 crores (including the recent public issue)
- Total Balance Sheet of Rs. 1,468 crores. Most of it funded by members money (retained earnings + advances)
- Consistently high Return on Equity since last 8 years (Minimum of 15%, Maximum of 75%)
- Debt seems high, but most of it is locked in money

# Entry Barrier - Once bitten twice shy

- Suman motels, Sterling Holidays etc
  - With due respect to Mr. Rakesh Jhunjhunwala
- Need for a reputed brand with proven track record and a lot of locations
  - Virtuous cycle here
- Reaction to Sheraton, Taj etc.? .....

# Why not to buy (right now)

- Valuation, low floating stock
- Aggressive accounting
  - 60% of funds accounted as income
  - 40% over the tenure of the entitlement
- Stock options
- Market fancy
- Wait for the cyclical downturn where no incremental sales happen