

## The Trick Is To Spot Them At The Larval Stage



BSE Code : 531373

Time Duration : 1 year

CMP : ₹159 (as on 22 June, 2016)

Target Price : ₹215

## The Byke Hospitality

### ASSET LIGHT MODEL; LEASED PROPERTIES TO DRIVE GROWTH

The pick for the month of June is Byke Hospitality, a company in the hospitality sector with an asset light model combining leasing and chartering to earn ROE above 20% for last three years. The focus of the company is on three or four star hotels for the middle income group. The company combines the best of asset owned and aggregator's model to lift up the margins and lower the cyclical risks.

#### Hotel revenues are showing consistent growth :

Company owns two properties in Matheran and Goa with rooms 22 and 80 respectively. Company has leased additional seven properties with total of 575 rooms in Mumbai, Goa, Jaipur, Puri and Manali. Company has recently added property in Puri which has 54 rooms, 4 Conference Rooms and 1 Multi cuisine Restaurant. With every new addition of property, company has been able to generate incremental revenues. Hotel segment revenue has increased at the CAGR of 25% from Rs 58 crores in FY13 to 114 crores in FY16. The USP of the hotels is that the properties are strictly vegetarian.

The company enjoys healthy metrics of hotel occupancy rate of 65% and Average Room Rate (ARR) of Rs 3,909 vs. Rs 3,783 in FY15. Within this segment, revenue is derived from room rentals (54% vs 49% in FY15) and Food and Beverages (46% vs 51% in FY15).

As the leasing cost of properties lies in the range of 5-8% of the hotel revenue, even with low occupancy, company has been able to reach the break-even cost and improve margins.

#### Chartering business :

Company also operates an aggregating B2B model in which it books 10-15 rooms per property of 2 to 3 star hotel inventory at a 35% discount to the seasonal rack rate and sells to the agents at a fixed commission. The agents are then free to sell the rooms at any rates. Company has steadily grown agent network from 134 in FY13 in 32 cities to 326 agents in 66 cities. Most of the agents are in northern and western India. The working capital requirement is usually for 3-4 months, which is quite high, with the booking amount to the tune of 85% paid upfront. This model is easily scalable and company doesn't compete with online hotel booking portals with deep pockets. The revenue in this segment has increased from Rs 43 crore in FY13 to Rs 117 crore in FY16. Also, the ARR has increased from Rs 2,131 to Rs 2,388 and Room nights sold have increased from 2.01 lakhs to 4.90 lakhs during the same period. Company is able to sell upto 94% of the inventory it aggregates.

#### Future outlook promising :

In the hotel room segment, Company plans to lease distressed properties and aims for addition of 450-500 rooms over the next few years, targeting tourist areas like Dalhousie, Chandigarh, Jodhpur, Udaipur, Lonavala, Mahabaleshwar, Darjeeling and Gangtok. The company expects to grow Leasing business by 20% over the next few years. Company is targeting tourist destinations with high demand and occupancy rate. On the Chartering business, company plans to expand its PAN India presence.

#### Financials:

Company has reported robust FY16 results with hotel revenues shooting up by 24.6% driven by increase in room rental by 36% and food & beverages by 24%. In chartering segment, the revenue has grown by a whopping 30%, pulling the topline growth to 27.6%.

On the margin side, company enjoys better margins in F&B under hotel segment and the 'fixed commission' under aggregating gives clear visibility of the margins. EBITDA is up 41.3% to touch Rs 52.6 crores and margins have improved by 220 bps; while Profit after tax is up 29% and has reached Rs 25 crores. Company has lately been feeling the pricing pressure for its BYKE properties and is aiming to strike a balance between the pricing vs occupancy. We believe the margins will stay in the range of 22% and net income will continue to grow above 15%. Also, company's debt to equity ratio is near zero and it provides comfort for further expansion.

#### Inc/Exp Statement(Standalone) (Rs in Crore)

Description	2016	2015	2014	2013	2012
Net Sales	231.52	181.42	155.71	100.93	49.06
Total Income	231.66	181.53	155.86	101.43	49.11
Total Expenditure	178.91	144.15	127.11	83.31	43.89
PBIDT	52.76	37.38	28.75	18.12	5.22
PAT	25.94	20.03	15.89	7.76	2.40
Dividend %	10.00	10.00	15.00	10.00	10.00
Adj. EPS(Rs)	6.47	5.00	3.96	1.93	0.60

#### Valuation:

The company looks attractive at 2016 P/E of 24.4x while the peers like Indian hotels and TAJGK hotel resorts are trading at P/E of 54.1x and 80.63x respectively. On the basis of sound operational performance, resilient business model and growth prospects, we recommend a BUY on this stock with the target of Rs 215 over a year.

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