

The Byke Hospitality

 BSE SENSEX
 25881

 S&P CNX
 7934

CMP: INR167 TP: INR215 (+28%) Buy

(INR CRORES)

Y/E MARCH	FY16	FY17E	FY18E
Revenue	232	280	346
EBITDA	53	64	80
EBITDA Margin	22.7%	23.0%	23.2%
NP (Adj.)	26	34	43
EPS (Adj.)	6.5	8.4	10.7
EPS Growth	29%	30%	28%
BV/share	30	37	45
Core ROE (%)	23	25	26
Core ROCE (%)	33	35	37
P/E (x)	25.5	19.6	15.4
P/BV (x)	5.5	4.5	3.7

KEY FINANCIALS

Diluted Shares (cr)	4.0
Market Cap. (INRcr)	662
Market Cap. (US\$ m)	97
Past 3 yrs Sales Growth (%)	34%
Past 3 yrs NP Growth (%)	61%

STOCK DATA

52-W High/Low Range (INR)	180/168
Major Shareholders (as of May 25, 2016)	
Promoter	44.5
Institutions	14.3
Public & Others	41.3
Average Daily Turnover(6 months)	
Volume	157,113
Value (Rs cr)	1.2
1/6/12 Month Rel. Performance (%)	7/3/5
1/6/12 Month Abs. Performance (%)	6/2/-1

Maximum Buy Price :INR 180

We recommend to BUY The Byke Hospitality for a target of INR 215 - 20x on FY18E EPS (+28% Upside).

Unique and asset-light model business model: The company operates 9 of the company's 11 properties are on long-term leases (it leases out promising 2-3 star properties in popular tourist destinations). In absence of track records, non-branded (single hotel players) hotels face issues in running their businesses. Byke leases hotels and address these challenges on back of their management experience, strong track record, marketing and distribution network, which further leads to higher occupancy, thereby maximizing the company's profitability. Byke also focuses on the MICE category (meetings, incentives, conferencing, and exhibitions), earning sizeable revenues from F&B and banqueting at its hotels, thereby boosting room revenues.

Strong growth in chartering business to drive overall revenue:

Byke is also a sizeable aggregator of rooms in the mid-market/economy segment hotels on a pan-India basis. The company purchases peak season room inventory (three months in advance by paying 85% of the money upfront) at a significant discount from hotel owners largely in northern and western India, and leverages the pan India network of 326 agents (covering about 66 cities) to successfully sell them. In FY16, the company achieved an average occupancy level of 94% in the chartering business. The chartering model helps the company helps in gaining insight on tourist trends - key for selection of hotel properties. The chartering business has grown at 46% CAGR over FY12-16 and formed 51% of total revenues of FY16.

Expansion holds promise: In the leased business, room portfolio (currently 677 rooms across 9 properties) has grown at 30% CAGR over FY11-16. The company has envisaged the addition of 450-500 rooms over FY17-18 through the addition of properties in eight tourist destinations across the country. The management is also looking to expand its room-aggregation business, which enjoys steady profitability and healthy cash churn with low capital risk.

Valuations & View: Byke currently trades at an FY18 PE of 15.4x and EV/EBIDTA of 7.9x. An asset-light business model, adequately capitalized balance sheet, robust cash flows, exciting growth prospects, & a capable management inspire confidence in its prospects over the next two years. We initiate coverage with a Buy recommendation and price target of INR 215 based on 20x our FY18 EPS estimate of INR 10.7. We believe the premium valuation (compared with peers) is justified because of Byke's superior return ratios and track record.

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Track record inspires confidence: The company has delivered a CAGR of 47% in revenues since FY11, with room inventory and metrics like ARR and OR registering continuous growth. With EBITDA/PAT delivering a CAGR of 68/63% since FY11, its margins and cash flows have improved through a focus on costs and tight control over working capital. It does not have much debt and its asset-light strategy has ensured strong return ratios.

Robust balance sheet: The company has relatively low level of debt (INR 9.7cr) on its balance sheet (Net D/E: 0.1x). This leaves significant headroom for the company for its expansion plans for the leased business, with a majority of capex to be funded through internal accruals. The company expects to spend ~INR 40-45cr for this plan. Further, the growth in its room chartering business would be met from internal accruals with a possibility of borrowing only to meet the mismatch in cash flows

CONCERNS

Online aggregators: Increase in competition from online companies like Oyo Rooms could impact Byke's growth in the long term.

Execution risk: Slower pace in addition of leased properties could impact the earnings of the company.

Slowdown in Indian economy: Slowdown in Indian economy could impact spending in this segment.

BACKGROUND

Byke Hospitality Ltd (Byke) is an India based hospitality services company. The company has two business segments - 1) managing properties/hotels and 2) room chartering. The company operates 11 resorts across Maharashtra, Rajasthan, Goa and Himachal Pradesh (Manali) with a total bouquet of 677 rooms. It operates primarily on a lease based model. While 2 of the 11 resorts are owned, the remaining 9 are on an operating lease of 10-15 years. Under the room chartering business, the company manages room inventory at various locations. The company books third-party hotel rooms at strategically identified cultural and religious tourist destinations during peak seasons, on a bulk basis, and lets them out to tourists. It is also under the process of developing a travel portal - tripdeal.com - which will facilitate travel and room booking online and help bolster Byke's room chartering business.

INR Cr.	4QFY15	3QFY16	4QFY16	yoy	qoq
Total Income	57	70	68	19%	-3%
Expenditure	44	53	52	17%	-3%
EBITDA	12.5	16.6	16.2	29%	-2%
Other Income	0	0	0		
Interest	0	0	0	-19%	8%
Depreciation	3	2.4	4.6	52%	90%
PBT	9.1	13.9	11.2	23%	-19%
Tax	2	5	4		
PL of Associates	0	0	0		
Adj. PAT	7.2	9	7.4	2%	-19%
EBITDA (%)	21.90%	23.70%	23.80%		
Tax rate (%)	21%	35%	34%		

4Q FY16:

Hotel revenues grew +18.5% YoY, chartering revenues grew +20.6% YoY.

The company added the 122 room Thane property to its leased portfolio in September 2015. This hotel will bring in revenues going forward.

Depreciation came in at INR 4.6cr (up 52% YoY) as the company added two new properties at Thane and Puri.

The Byke Hospitality Financials & Valuation

INCOME STATEMENT (INRCR)					
Y/E MARCH	FY14	FY15	FY16	FY17E	FY18E
Net sales	156	181	232	280	346
Growth	54%	17%	28%	21%	24%
COGS	9	14	18	21	26
Employee Cost	3	4	6	7	8
Other Expenses	0	0	0	0	0
EBITDA	29	37	53	64	80
EBITDA Margin	18.3%	20.5%	22.7%	23.0%	23.2%
Depreciation	5	10	12	12	14
Other Income	0	0	0	1	1
Interest Cost	2	2	1	1	1
PBT	21	25	40	52	66
- TAX	5	5	14	18	23
Rate	25%	21%	34.6%	35.0%	35.0%
Adjusted PAT	16	20	26	34	43
Growth	105%	26%	29%	30%	28%
PAT Margin	10.2%	11.1%	11.2%	12.0%	12.4%

RATIOS					
Y/E MARCH	FY14	FY15	FY16	FY17E	FY18E
Adjusted EPS (INR)	4.0	5.0	6.5	8.4	10.7
Book Value	42	25	30	37	45
Div Per Share	1.5	1.0	1.3	1.7	2.1
Dividend Payout	38%	20%	20%	20%	20%
Net Debt / Equity	0.1	0.1	0.1	0.0	0.0
P/E	41.6	33.0	25.5	19.6	15.4
P/BV	3.9	6.6	5.5	4.5	3.7
Dividend Yield	0.9%	0.6%	0.8%	1.0%	1.3%
ROCE	23%	25%	33%	35%	37%
ROE	20%	22%	23%	25%	26%
Debtor days	25	28	28	30	30
Inventory days	14	12	10	10	10
Creditor days	51	40	34	37	37
Loans & advances days	44	52	55	55	55
W.Cap cycle	32	53	59	57	57

BALANCE SHEET (INRCR)					
Y/E MARCH	FY14	FY15	FY16	FY17E	FY18E
Share Capital	20	40	40	40	40
Reserves	65	60	81	107	140
Networth	85	100	121	147	180
Minority interest	0	0	0	0	0
Loans	12	10	10	10	10
Less Net Def. Tax Liab	5	5	5	5	5
Less other long term liability	0	0	0	0	0
SOURCES OF FUNDS	102	115	136	162	195
Net Fixed Assets	78	79	88	90	90
Capital WIP	4	2	0	0	18
Goodwill	0	0	0	0	0
Inventories	6	6	6	8	9
Debtors	11	14	18	23	28
Cash & Investments	2	2	3	14	18
Loans & Advances	19	26	35	42	52
Other Curr Assets	0	0	0	0	0
Current investments	0	0	0	0	0
Curr. Assets	38	48	62	87	108
Creditors and Prov.	23	21	23	22	27
Net Current Assets	14	27	39	64	80
Other LT assets	6	7	10	7	7
APPLICATION OF FUNDS	102	115	136	162	195

CASH FLOW (INRCR)					
Y/E MARCH	FY14	FY15	FY16	FY17E	FY18E
PBT	21	25	40	52	66
Adjustments	8	12	13	12	13
(Inc)/Dec in W.Cap	2	(14)	(14)	(12)	(12)
Others	(5)	(2)	0	0	0
Pre Tax OCF	25	22	39	52	67
Tax Paid	(5)	(5)	(14)	(18)	(23)
CF from Operations	20	16	25	34	44
(Inc)/Dec in FA	(9)	(9)	(16)	(14)	(32)
Net investments	0	0	0	0	0
Others	0	0	0	1	1
CF from Investing act.	(9)	(9)	(16)	(13)	(31)
Equity issuance	0	20	0	0	0
Inc/(Dec) in Debt	(7)	(2)	(0)	(0)	(0)
Interest Paid	(2)	(2)	(2)	(1)	(1)
Divd Paid (incl Tax)	(4)	(5)	(6)	(8)	(10)
Others	2	(19)	0	(1)	2
CF from Financing act.	(11)	(8)	(8)	(10)	(9)
Inc/(Dec) in Cash	0	(0)	1	11	4
Add: Opening Balance	1	2	2	3	14
Closing Balance	2	2	3	14	18

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