

The Byke Hospitality

Appealing business model in a growing industry segment

The Byke Hospitality Ltd (Byke) is an India based hospitality services company. The company operates under two business segments – 1) managing hotels and 2) room chartering.

Investment Arguments

Asset light business model: Byke has 11 properties as of now, of which, 9 properties are on a long term lease of over 10-15 years. In the last 5 to 6 years, the company has increased its number of rooms from 102 to 697 (as in 1QFY2016). Going forward, the company has strong expansion plans through the lease model, which will enable it to grow at a faster pace with minimal capex requirement.

Expansion on the cards: Currently, the company operates 697 rooms, including both owned and leased, across 11 properties. The company is now planning to add 8 more properties, which would lead to an addition of ~450-500 rooms over the next two years. Such expansion would be based on the lease model (for 10-20 years), thus not requiring any significant capex. The company plans to increase the number of properties from 11 to 50 within 5 years, following the asset light expansion plan.

Presence in vegetarian budget hotels (mid-size) segment: Byke has presence in the vegetarian budget hotel segment at popular leisure destinations such as Goa, Matheran, Jaipur, Manali, Shimla, Puri and Mumbai while it has plans to expand across other destinations like Kerala, Lonavala, Chandigarh, Mahabaleshwar etc. In our view, the vegetarian budget hotels at leisure destinations in domestic market is a huge opportunity. Also in absence of track records, non-branded (single hotel players) hotels face issues in running their businesses. Byke, a branded vegetarian budget hotel follows a differentiated market penetration strategy. It leases hotels and address the 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.

Strong growth in chartering business to drive overall revenue: Under the room chartering business Byke books third-party hotel rooms, mainly during peak seasons, at strategically identified cultural and religious destinations on bulk basis and lets them out to tourists. In the chartering segment, the company has a strong track record, with its revenue having grown by 3.5x (₹90cr in FY2015) in the last three years. Going forward we expect strong growth momentum in this segment due to the huge industry size.

Outlook and Valuation: Given the company's proven track records and taking into consideration its strong expansion plans, we expect the company to report strong top-line and bottom-line CAGR of ~28% and ~29% respectively, over FY2015-18E. Moreover, the company is asset light, has negligible debt, and has been posting healthy return ratios, which make its balance sheet all the more attractive. **At the current market price, the stock trades at a P/E of 14.3x its FY2018E EPS. We initiate coverage on the stock with a Buy recommendation and target price of ₹181 (17x FY2018E EPS), indicating an upside of ~19% in the stock price from the present levels.**

Key financials

Y/E March (₹ cr)	FY2015	FY2016E	FY2017E	FY2018E
Net sales	181	222	287	384
% chg	16.5	22.2	29.4	33.7
Net profit	20	23	30	43
% chg	26.2	12.8	34.0	41.3
EBITDA margin (%)	20.5	20.5	20.5	20.5
EPS (₹)	5.0	5.6	7.6	10.7
P/E (x)	30.6	27.1	20.3	14.3
P/BV (x)	6.1	5.1	4.2	3.4
RoE (%)	20.0	18.8	20.7	23.5
RoCE (%)	24.1	26.2	29.3	33.4
EV/Sales (x)	3.4	2.8	2.2	1.6
EV/EBITDA (x)	16.7	13.6	10.5	7.8

Source: Company, Angel Research, Note: CMP as of September 8, 2015

BUY

CMP	₹153
Target Price	₹181

Investment Period	12 Months
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Stock Info	
Sector	Hotels
Market Cap (₹ cr)	613
Net Debt (₹ cr)	10
Beta	0.9
52 Week High / Low	180 / 147
Avg. Daily Volume	1,15,983
Face Value (₹)	10
BSE Sensex	25,318
Nifty	7,688
Reuters Code	TBKH.BO
Bloomberg Code	BYKE@IN

Shareholding Pattern (%)	
Promoters	44.0
MF / Banks / Indian Fls	10.2
FII / NRIs / OCBs	0.3
Indian Public / Others	45.6

Abs. (%)	3m	1yr	3yr
Sensex	(4.5)	42.4	42.6
Byke	(2.2)	(4.8)	84.6

3 years - share price chart



Source: Company, Angel Research

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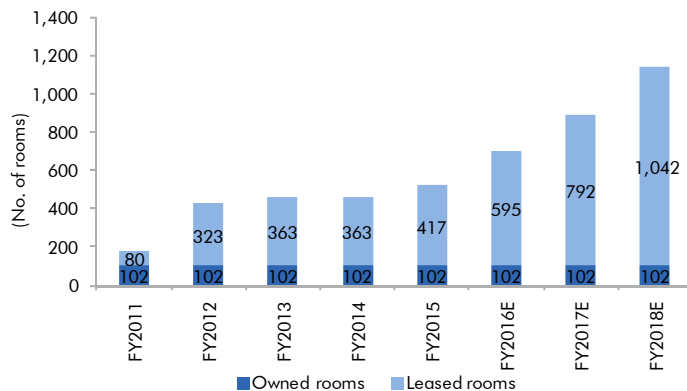
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Investment Arguments

Expansion on the cards

Byke is a fast growing hospitality services company, currently operating hotels (own + leased) at popular holiday destinations such as Goa, Matheran, Mandawa, Jaipur, Manali, Shimla, Puri and Mumbai. Its average occupancy level stands at around 70%.

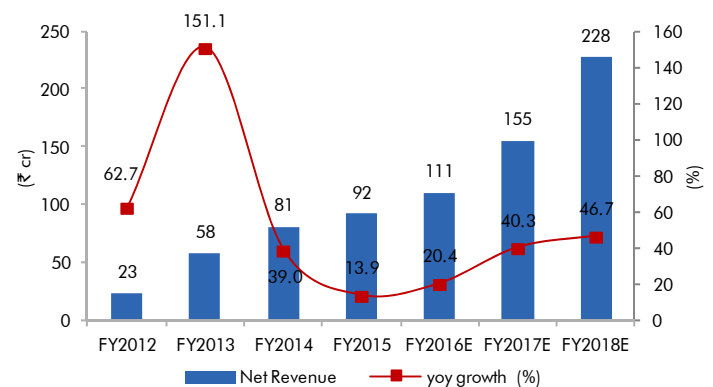
Exhibit 1: Projected growth in hotel rooms



Source: Company, Angel Research

Byke is now planning to add 8 more properties, which would lead to an addition of ~450-500 rooms over the next two years

Exhibit 2: Revenue growth from hotel business



Source: Company, Angel Research

Currently, the company operates 697 rooms, including both owned and leased, across 11 properties. The company is now planning to add 8 more properties, which would lead to an addition of ~450-500 rooms over the next two years. In FY2016, the company would be adding 3 properties; ie in Lonavala, Chandigarh, and Mahabaleshwar, which will lead to an addition of 197 rooms. Further expansion in addition to the aforementioned is expected to happen in FY2017, with the tentative locations being Dalhousie, Jodhpur, Udaipur, Darjeeling and Gangtok; these properties are expected to be fully operational by FY2018. Such expansion would be based on the lease model (for 10-20 years), thus not requiring any significant capex. In this segment, we expect the company to report a top-line CAGR of ~35% over FY2015-18E to ₹288cr. Moreover, the company plans to increase the number of properties from 10 to 50 within 5 years under the asset light expansion plan.

Exhibit 3: Hotel portfolio of Byke

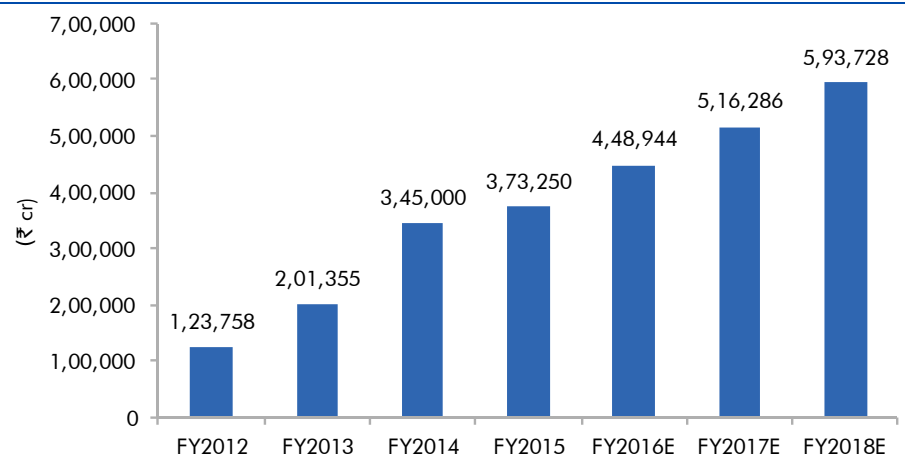
Name of hotel	Location	Rooms	Type
The Byke Heritage	Matheran (Maharashtra)	80	Owned
The Byke- Sunflower	North Goa	22	Owned
The Byke - Redwood	Matheran (Maharashtra)	25	Leased
The Byke - Old Anchor	South Goa	240	Leased
The Byke- Hidden Paradise	North Goa	40	Leased
The Byke - Neelkanth	Manali (Himachal Pradesh)	40	Leased
The Byke- Grassfield	Jaipur (Rajasthan)	54	Leased
The Byke Suraj Plaza	Thane (Mumbai)	122	Leased
Operational in FY16	Shimla & Puri	75	Leased
Upcoming Hotel in FY17	Lonavala		Leased
Upcoming Hotel in FY17	Chandigarh		Leased
Upcoming Hotel in FY17	mahabaleshwar		Leased

Source: Company, Angel Research

Strong growth in chartering business to drive overall revenue

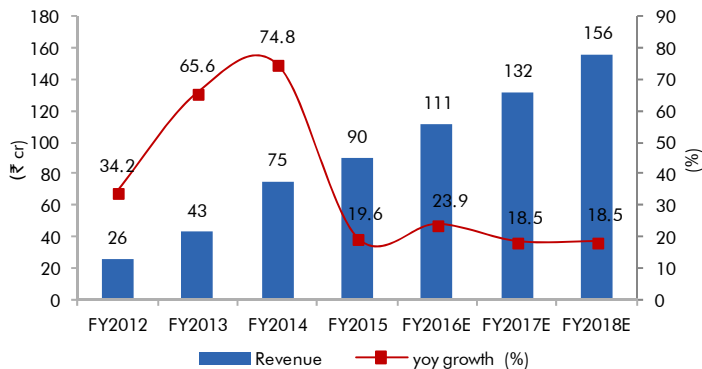
The company also operates in the chartering business segment. In this segment, it books third-party hotel rooms at strategically identified cultural and religious tourist destinations during peak seasons, on bulk basis, and lets them out to tourists. It thus capitalises on the diverse peak seasons across the country and offers unparalleled choice to guests through its strong marketing network. This model has helped Byke strengthen its pan-India presence with it letting out rooms across 50 cities in India, following the model.

The chartering model has helped Byke strengthen its pan-India presence, with it letting out rooms across 50 cities in India, following the model

Exhibit 4: Projected room sales


Source: Company, Angel Research

Exhibit 5: Revenue growth in Chartering business



Source: Company, Angel Research

In the chartering segment, we expect the company to report a CAGR of ~20% over FY2015-18E, to ₹156cr

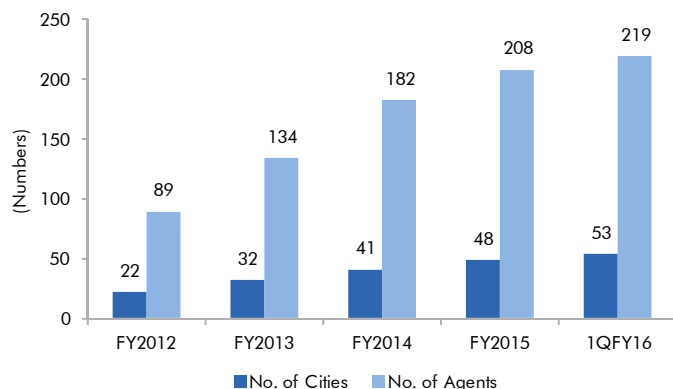
Byke has one of the widest sales and marketing networks, reaching out to the target audience through its 27 owned sales offices and 219 active agents

In the chartering segment, the company has a strong track record, with its revenue having grown by 3.5x (₹90cr in FY2015) in the last three years. Going forward we expect strong growth momentum in this segment due to the huge industry size; as per the company's Management, the current size of the budget hotel segment is around ₹50,000cr. We expect the company to report a CAGR of ~20% over FY2015-18E, to ₹156cr.

Strong marketing network supports utilization

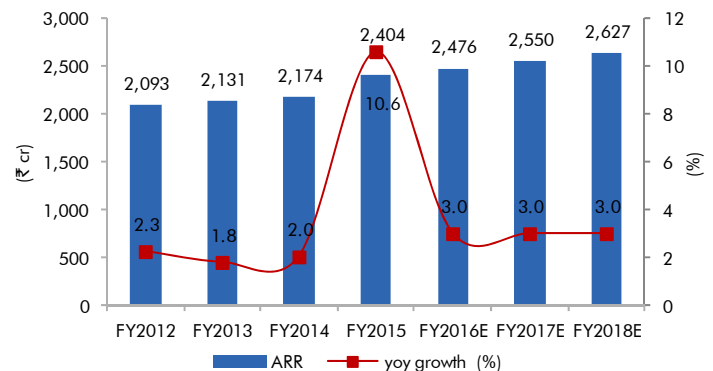
The company has one of the widest sales and marketing network, reaching out to the target audience through its 27 owned sales offices and 219 active agents. The company is also having a unique third party marketing tie-up through which the Byke brand is present across 53 cities in the country.

Exhibit 7: Strong marketing network



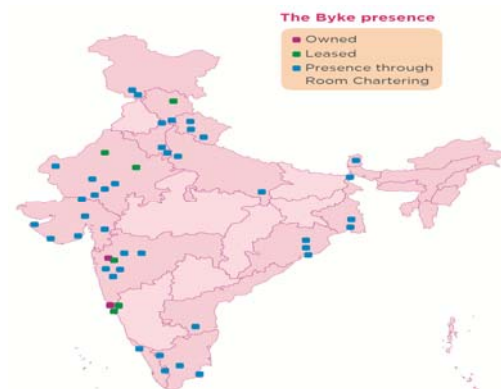
Source: Company, Angel Research

Exhibit 6: Average realisation per room



Source: Company, Angel Research

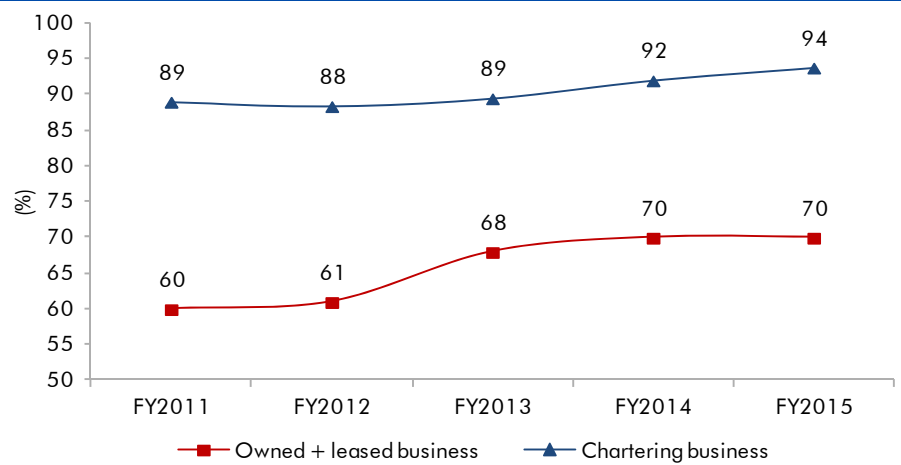
Exhibit 8: "The Byke" Presence



Source: Company, Angel Research

A strong network enables the company to avail to higher utilization rates of rooms in the owned + leased model as well as the chartering business.

Exhibit 9: Higher utilisation in hotel segments



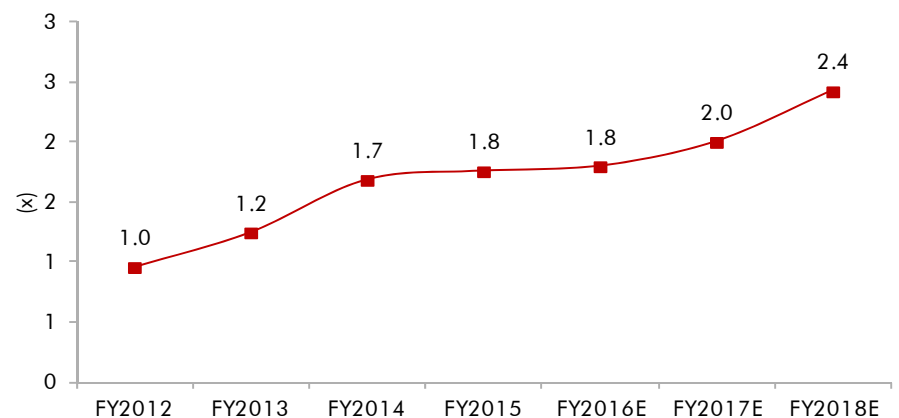
Source: Company, Angel Research

Asset light business model

As of now, the company has 11 properties, of which, 9 properties are on a long term lease over 10-15 years

As of now, the company has 11 properties out of which 9 properties are on long term lease based over 10-15 years. In the last 5 to 6 years, the company has increased its number of rooms from 102 to 697 as in 1QFY2016. During the period, the company has added 595 rooms, all of which are based on the lease model. Further, the company has strong expansion plans through the lease model, which will also enable it to grow at a faster pace with minimal capex requirement.

Exhibit 10: Net Sales/Gross Block trend



Source: Company, Angel Research

Financial outlook

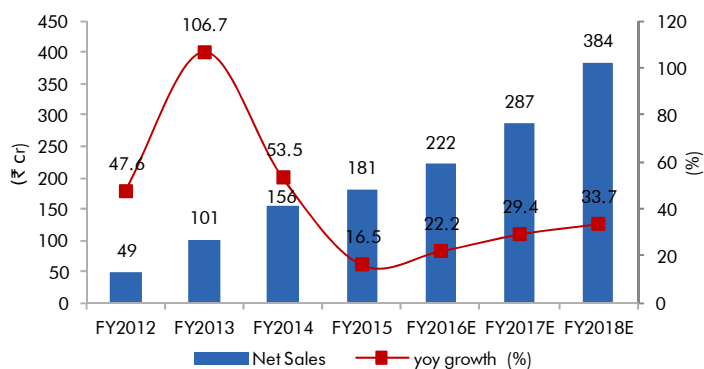
Going ahead, we expect Byke to report a top-line CAGR of ~28% over FY2015-18E to ~₹384cr

Going ahead, we expect Byke to report a top-line CAGR of ~28% over FY2015-18E to ~₹384cr owing to strong growth in the hotel business. The growth would come on the back of robust expansion of number of rooms at popular destination. Further, we expect the chartering business to contribute to the company's growth as well, aided by a strong marketing network.

On the bottom-line front, we expect the company to report a 29% CAGR over FY2015-18E

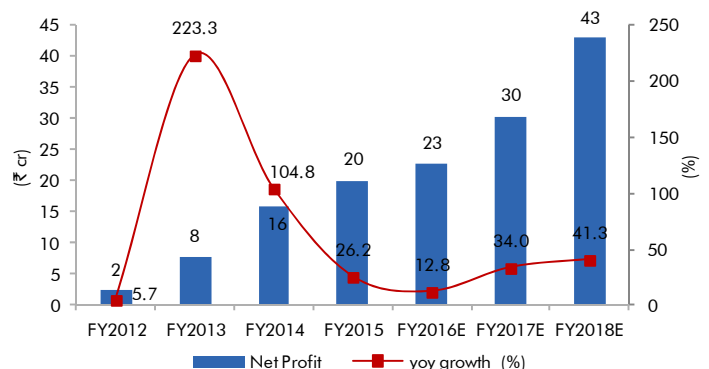
On the bottom-line front, we expect the company to report a 29% CAGR over FY2015-18E on account of healthy top-line growth and operating margin. Moreover, the company is asset light, has negligible debt, and is able to post a healthy return ratio, which makes its balance sheet all the more attractive.

Exhibit 11: Projected Net Sales growth trend



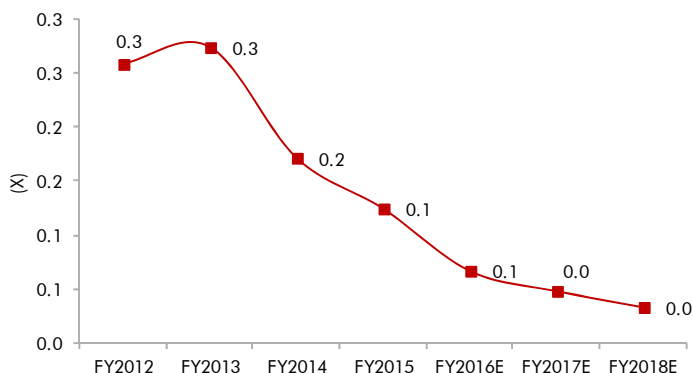
Source: Company, Angel Research

Exhibit 12: Projected Net Profit growth trend



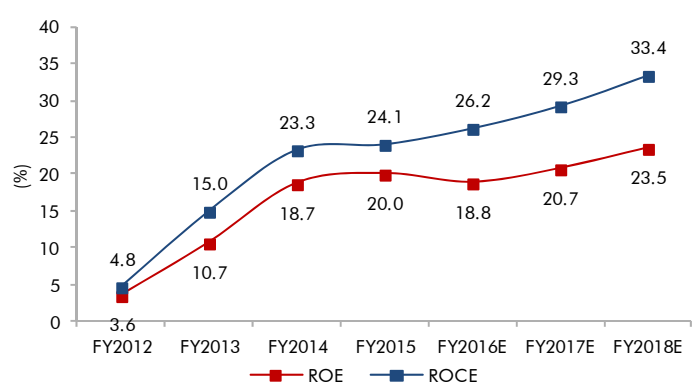
Source: Company, Angel Research

Exhibit 13: Debt/Equity trend



Source: Company, Angel Research

Exhibit 14: ROE and ROCE trend

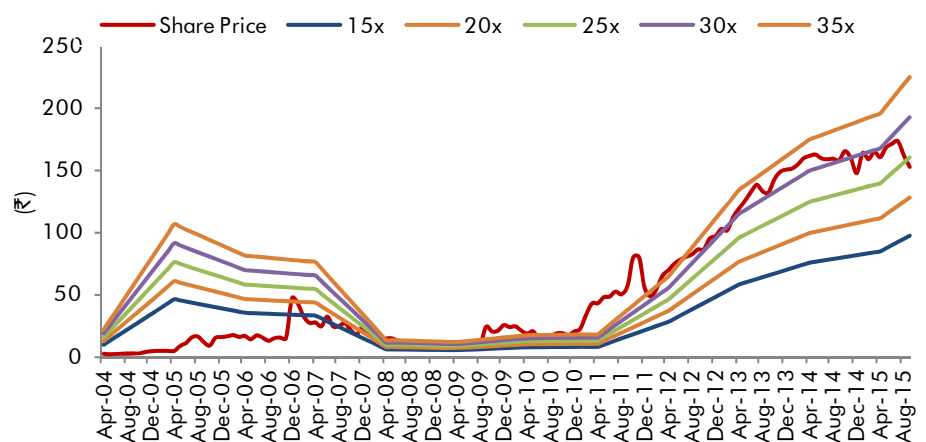


Source: Company, Angel Research

Outlook and Valuation

Given the company's proven track records and taking into consideration its strong expansion plans, we expect the company to report strong top-line and bottom-line CAGR of ~28% and ~29% respectively, over FY2015-18E. Moreover, the company is asset light, has negligible debt, and has been posting healthy return ratios, which make its balance sheet all the more attractive. **At the current market price, the stock trades at a P/E of 14.3x its FY2018E EPS. We initiate coverage on the stock with a Buy recommendation and target price of ₹181 (17x FY2018E EPS), indicating an upside of ~19% in the stock price from the present levels.**

Exhibit 15: One year PE forward chart



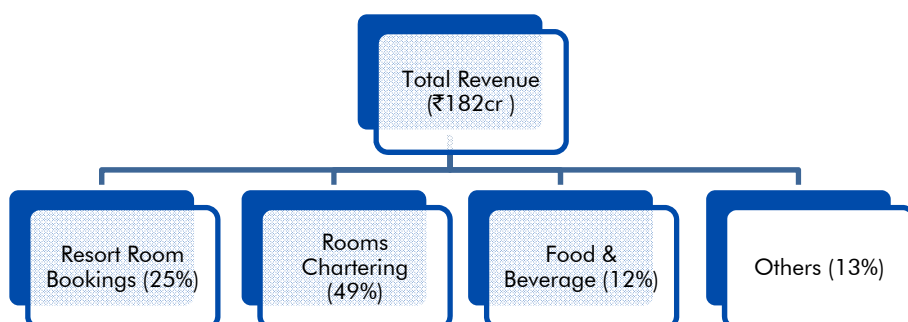
Source: Company, Angel Research

Downside risks to our estimates include 1) increase in competition from online companies like oyorooms.com could impact Byke's growth in the long term, (2) slower pace in room addition could impact the company's earnings, (3) slowdown in Indian economy could impact spending in this segment.

Company 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 697 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.

Exhibit 16: Segment wise revenue break-up of Byke



Source: Company, Angel Research

Exhibit 17: The Byke- Sunflower (Goa)



Source: Company, Angel Research

Exhibit 18: The Byke - Old Anchor (Goa)



Source: Company, Angel Research

Exhibit 19: The Byke- Hidden Paradise (Goa)



Source: Company, Angel Research

Exhibit 20: The Byke Heritage (Matheran)



Source: Company, Angel Research

Exhibit 21: The Byke – Redwood (Matheran)



Source: Company, Angel Research

Exhibit 22: The Byke – Neelkanth (Manali)



Source: Company, Angel Research

Exhibit 23: The Byke- Grassfield (Jaipur)



Source: Company, Angel Research

Exhibit 24: The Byke Suraj Plaza (Thane - Mumbai)



Source: Company, Angel Research

Profit & Loss Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
Total operating income	101	156	181	222	287	384
% chg	106.7	53.5	16.5	22.2	29.4	33.7
Total Expenditure	83	127	144	176	228	305
Personnel Expenses	3	3	4	5	7	9
Others Expenses	81	124	140	171	221	296
EBITDA	18	29	37	45	59	79
% chg	251.2	58.2	30.4	22.1	29.4	33.7
(% of Net Sales)	17.8	18.3	20.5	20.5	20.5	20.5
Depreciation & Amortisation	4	5	10	12	14	16
EBIT	14	23	27	34	45	63
% chg	244.8	67.2	16.8	24.0	33.5	40.1
(% of Net Sales)	13.7	14.9	14.9	15.1	15.6	16.4
Interest & other Charges	2	2	2	1	1	1
Other Income	-	0	0	0	0	0
(% of PBT)	-	0.7	0.4	0.3	0.3	0.2
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	12	21	25	32	44	62
% chg	225.6	83.8	19.4	27.3	35.9	41.3
Prior Period & Extraord. Exp./ (Inc.)	-	-	-	-	-	-
PBT (reported)	12	21	25	32	44	62
Tax	4	5	5	10	14	19
(% of PBT)	32.9	25.2	21.0	30.0	31.0	31.0
PAT (reported)	8	16	20	23	30	43
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
PAT after MI (reported)	8	16	20	23	30	43
ADJ. PAT	8	16	20	23	30	43
% chg	223.3	104.8	26.2	12.8	34.0	41.3
(% of Net Sales)	7.7	10.2	11.1	10.2	10.6	11.2
Basic EPS (₹)	1.9	4.0	5.0	5.6	7.6	10.7
Fully Diluted EPS (₹)	1.9	4.0	5.0	5.6	7.6	10.7
% chg	223.3	104.8	26.2	12.8	34.0	41.3

Balance Sheet

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
SOURCES OF FUNDS						
Equity Share Capital	20	20	40	40	40	40
Reserves& Surplus	52	65	60	80	106	142
Shareholders Funds	72	85	100	120	146	182
Minority Interest	-	-	-	-	-	-
Total Loans	20	15	12	8	7	6
Deferred Tax Liability	4	6	5	5	5	5
Total Liabilities	96	105	117	133	158	193
APPLICATION OF FUNDS						
Gross Block	81	92	103	123	143	158
Less: Acc. Depreciation	9	14	24	36	50	66
Net Block	73	78	79	87	93	92
Capital Work-in-Progress	3	4	2	2	2	2
Investments	-	-	-	-	-	-
Current Assets	38	43	55	69	96	146
Inventories	6	6	6	7	9	11
Sundry Debtors	12	11	14	18	24	33
Cash	1	2	2	2	3	6
Loans & Advances	13	19	31	40	57	89
Other Assets	5	6	2	2	3	8
Current liabilities	17	21	19	24	33	47
Net Current Assets	20	22	37	44	63	99
Deferred Tax Asset	0	1	-	-	-	-
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	96	105	117	133	158	193

Cashflow Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
Profit before tax	12	21	25	32	44	62
Depreciation	4	5	10	12	14	16
Change in Working Capital	(2)	(4)	(16)	(7)	(18)	(33)
Interest / Dividend (Net)	2	2	2	1	1	1
Direct taxes paid	(0)	(5)	(5)	(10)	(14)	(19)
Others	0	0	(0)	-	-	-
Cash Flow from Operations	16	20	16	28	28	26
(Inc.)/ Dec. in Fixed Assets	(15)	(9)	(9)	(20)	(20)	(15)
(Inc.)/ Dec. in Investments	-	-	-	-	-	-
Cash Flow from Investing	(15)	(9)	(9)	(20)	(20)	(15)
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	2	(5)	(2)	(4)	(1)	(1)
Dividend Paid (Incl. Tax)	(2)	(2)	(4)	(3)	(4)	(7)
Interest / Dividend (Net)	(2)	(2)	(2)	(1)	(1)	(1)
Cash Flow from Financing	(2)	(10)	(7)	(9)	(6)	(9)
Inc./(Dec.) in Cash	(1)	1	0	(0)	1	3
Opening Cash balances	2	1	2	2	2	3
Closing Cash balances	1	2	2	2	3	6

Key Ratios

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
Valuation Ratio (x)						
P/E (on FDEPS)	79.1	38.6	30.6	27.1	20.3	14.3
P/CEPS	51.3	28.8	20.3	17.8	13.9	10.5
P/BV	8.5	7.2	6.1	5.1	4.2	3.4
Dividend yield (%)	0.3	0.5	0.3	0.4	0.7	1.1
EV/Sales	6.2	4.0	3.4	2.8	2.2	1.6
EV/EBITDA	35.0	21.9	16.7	13.6	10.5	7.8
EV / Total Assets	5.6	5.0	4.6	3.9	3.2	2.6
Per Share Data (₹)						
EPS (Basic)	1.9	4.0	5.0	5.6	7.6	10.7
EPS (fully diluted)	1.9	4.0	5.0	5.6	7.6	10.7
Cash EPS	3.0	5.3	7.5	8.6	11.0	14.6
DPS	0.5	0.8	0.5	0.7	1.1	1.7
Book Value	18.1	21.2	25.0	29.9	36.4	45.4
Returns (%)						
ROCE	15.0	23.3	24.1	26.2	29.3	33.4
Angel ROIC (Pre-tax)	15.2	23.8	24.6	26.7	30.0	34.5
ROE	10.7	18.7	20.0	18.8	20.7	23.5
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.2	1.7	1.8	1.8	2.0	2.4
Inventory / Sales (days)	22	14	12	11	11	10
Receivables (days)	43	25	28	29	30	31
Payables (days)	33	15	13	14	14	14
WC cycle (ex-cash) (days)	32	24	27	26	27	27

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Disclosure of Interest Statement	The Byke Hospitality
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15)
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