

The Byke Hospitality Limited (The Byke) (erstwhile Suave Hotels Ltd) is one of the emerging operators of premium class heritage hotels at various tourist and business destinations of India. The company has an aggressive plan to make its brand presence across the country in the span of 2 years and eventually go global with its niche services. Operating with 7 luxury hotels, it intends to spread its hotel network to 13.

Investor's Rationale

With an objective to bank on the increasing demand and supply gap in the Indian hotel and tourism industry, The Byke has aggressively ramping up its capacity in ensuring two years by expanding its room's capacity to around 825 and taking its hotels tally from its presence count of 7 to 13.

The luxury hotel is developing an online search engine, www.tripbychoice.com, for providing a complete package for luxury and business class customers across the varied verticals in the Indian Tourism industry right from car booking, quick search for hotels and tour packages.

In addition to the business of developing and operating hotels, The Byke operates with 600 rooms under its chartering business with peak occupancy rate striking over 90% and Average Room Rent (ARR) of over ₹5,000. Under its aggressive expansion plan, the company is planning to start room chartering business in PAN India, Bangkok, Singapore, Dubai & Hongkong as well, which in turn will reduce the initial expenditure towards acquisition and development of properties.

During H1FY'12, BYKE has reported a robust net profit growth of 70.5% at ₹8.2 million backed by increased operational efficiency, sharp, focus on marketing strategy and stringent internal cost control systems of the company. We expect the hotel chain operator to continue with its robust growth drive and reach over ₹1 billion by FY'13E.

The luxury hotel Aronda (in Goa) will experience better revenue visibility with its Rejuvenation centre due to its Naturopathy and Spa that provides an individual to experience inner peace and the joy of a healthy body.

The Byke is a part of the BSE Small Cap Index and with aggressive expansion plan on cards, the stock is expected gain in volume, thereby adding in the investor's buy list.

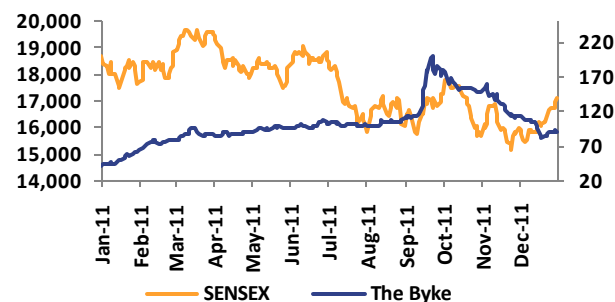
Market Data

Rating	BUY
CMP (₹)	92
Target (₹)	133
Potential Upside	~45%
Duration	Long Term
52 week H/L (₹)	215.8/38
All time High (₹)	215.8
Decline from 52WH (%)	57.4
Rise from 52WL (%)	142.1
Beta	0.23
Mkt. Cap (₹ mn)	1,752.5
Enterprise Val (₹ mn)	1,759.2

Fiscal Year Ended

	FY10A	FY11A	FY12E	FY13E
Revenue (₹mn)	150.3	332.4	501.9	1,154.5
Net Profit(₹mn)	9.5	22.7	63.9	165.6
Share Capital	125.5	190.5	200.5	200.5
EPS (₹)	0.8	1.2	3.2	8.3
PE (x)	121.5	77.1	28.9	11.1
P/BV (x)	3.4	2.8	2.5	2.1
EV/EBITDA (x)	49.5	45.1	19.7	7.5
ROE (%)	2.8	3.6	8.7	18.6
ROCE (%)	4.0	4.6	9.7	22.1

One year Price Chart



Shareholding Pattern

	Dec'11	Sep'11	Diff.
Promoters	43.4%	45.1%	(1.8)
FII	-	-	-
DII	-	-	-
Others	56.6%	54.9%	1.8



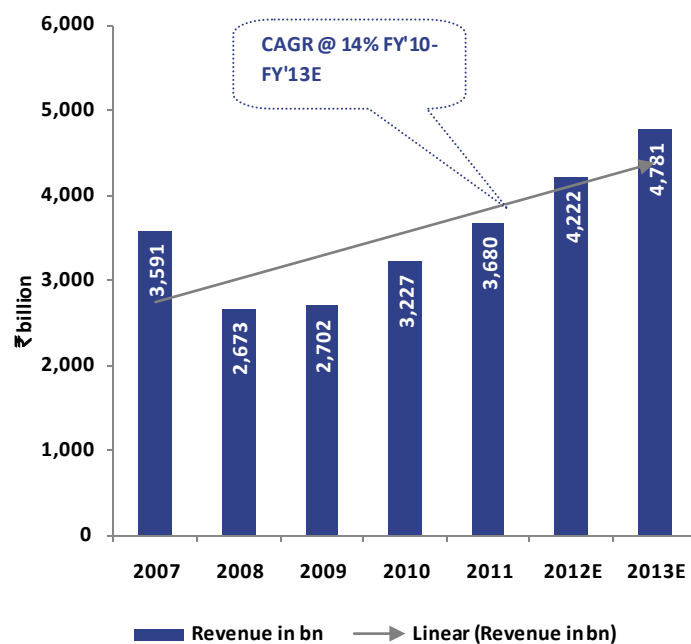
Improving industry dynamics to boost The Byke's performance

Historically, the industry has witnessed volume growth in Luxury room demand at a 9.1% CAGR over FY'05–10. Considering the latest signs of economic revival and probability of India emerging out of the current crisis at a faster pace, the hotel industry is back on track with a sharp rise in room demand. It is estimated that demand for Luxury/premium segment rooms to witness a 14% CAGR over FY'10–FY'13E respectively. On the supply front, over FY'05–10, total room supply in India, across all classes of hotels, witnessed a 6% CAGR. Presently, total demand for branded hotels in India is over 200,000 rooms whereas supply is only about 120,000 rooms, which reflects a huge gap to be filled in. However, many players delayed their rollout plans due to the global meltdown, tight liquidity conditions and a downturn in the industry. It is expected that premium room supply to record a 10.8% CAGR over FY'10–FY'13E. Moreover, even though there are supply concerns in the premium hotel segment there is not much supply coming in the Luxury-market business segment where The Byke is positioned.

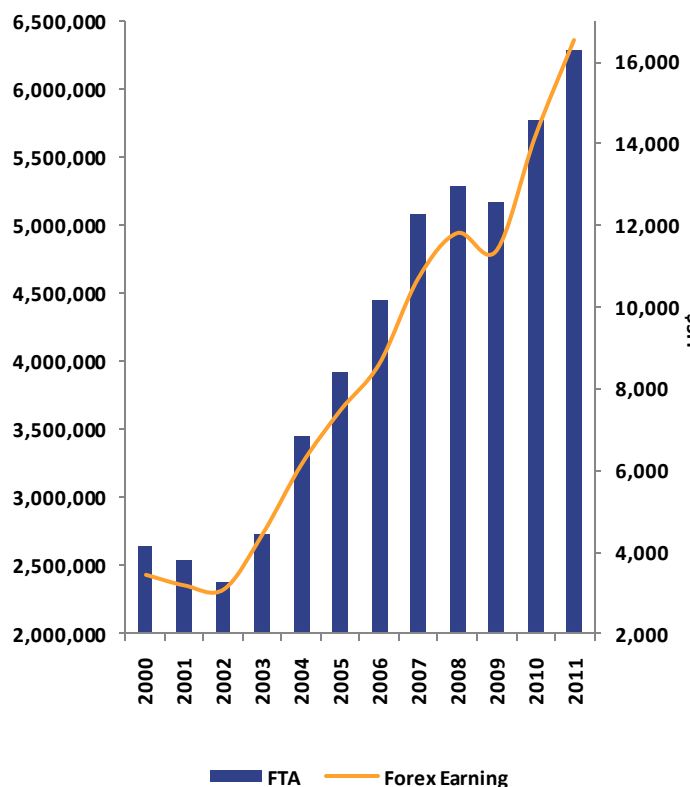
As the green shoots of economic recovery became evident, the sector is well-poised to attract heavy investment and government initiatives. The Indian hospitality sector is expecting a projected investment of US\$ 12 billion within the next two years along with a number of industry initiatives. The sector holds a lot of significance to the national GDP and offers major contribution to the foreign exchange reserve of the country. During FY'11 Foreign Tourist Arrivals (FTAs) recorded a growth of 8.9% at 6.29 million as against 5.78 million in 2010. The hotel and tourism industry's contribution to the Indian economy by way of Foreign Direct Investments (FDI) inflows were pegged at US\$ 2.35 billion from April 2000 to February 2011. Characterized by strong fundamentals, one-of-a-kind market nuances and compelling economics, India is a land of opportunity. The demand for travel and tourism in India is expected to grow by 8.2% between 2010 and 2019 and Occupancy Levels Expected to Scale Back to Pre-Crisis Levels. The average occupancy level of the Indian Hospitality sector is expected to reach 63% by 2013. In FY11, occupancy levels of the overall industry grew by 1.7%. It is expected that the demand will outpace the supply of hotels, thereby providing the escalation prospective for emerging industry players like The Byke to catch on.

The Byke, in order to bridge the current demand and supply gap and thereby strengthen its position in the domestic hospitality industry has stepped up to build organizational capacity, management bandwidth and enhance its ability to execute strategic initiatives has also changed its strategy for promotion and marketing and has decided to create a chain of hotels through a single brand "The Byke".

Future growth pegged at 14% CAGR



FTA pegs a CAGR of 10% in the decade





The Byke Hospitality

The Byke Hospitality Limited operates hotels and resorts in India. The company's portfolio comprises of Luxury/ premium class hotels primarily in Goa, Maharashtra, and Rajasthan with a current capacity of 425 rooms and been focusing very strongly in strengthening its internal force, and ensuring that business remains ahead of the curve as it paces up to lead the paradigm shift within the hospitality industry.

Company's main focus is on the high end premium market catering to discerning business travelers and tourists. With rapid growth of room demand in premium segment, The Byke is expanding its operations by developing additional luxury hotels at Aronda, Khopoli, Jodhpur, Kudal, Lavasa and Kullu Manali. Further, The Byke is looking for more properties at different locations to make presence all over India and in future across the world.

Present Operational Edge

Hotel	Location	No. of rooms	Avg. Occupancy Rate (%)
The Byke Old Anchor Goa	Goa	240	64
The Byke Heritage Matheran	Matheran	80	68
The Byke Redwood Matheran	Matheran	25	68
Sunflower Goa	Goa	22	64
Sunshine Goa	Goa	22	64
Goan Holidays	Goa	18	64
Paawana Resort Mandawa	Shekhawati	18	73

Room Chartering Business

The company is focusing towards room chartering or agreements with property owners, whereby, it makes accommodation alliances with other hotels. The company buys hotel rooms by paying the whole sum to the hotel management in advance at highly competitive prices on charter basis at various destinations and selling the same in peak season and making quick good profit. The company currently operates over 600 rooms under its chartering business with peak occupancy rate striking over 90% and Average Room Rent of over ₹5,000. The company plans to develop this business segment aggressively which will reduce the initial expenditure towards acquisition and development of properties and establish the "The Byke" brand across major tourist spot in Pan India. Further, The Byke is planning to launch its room chartering business across Asia ~ Bangkok, Singapore, Dubai and Hongkong as well.



Looks at nearly doubling its capacity over next 2 years

The Byke has chalked out an aggressive expansion plan in FY'12 and FY'13. With rapid growth of room demand in the premium segment, The Byke is expanding its operations by developing additional luxury hotels across favorite tourist destinations by increasing its room capacity to around 825 by adding over 400 rooms in the next two years and doubling its hotels tally to 13. The Byke continues to focus on high-end premium and luxury market catering to business travelers and tourists and cement its position in terms of Revenue Per Available Room (RevPAR). The company is expecting ARR of over ₹5,000 from these proposed projects.

The Byke with its strong presence in major tourist spot (GOA) is well poised to benefit from of growing demand. Occupancies and ARR for its all hotel properties are increasing rapidly after the recovery, which will positively reflect in top-line of the company.

The company is banking big on its Hotel business and is in process of creating an online search engine for tourism to boost its tours and travel business. The Byke, is also planning to develop dedicated packages for outbound tourism.

Online Search Engine

The Byke is coming up with Online Search Engine that would assist travelers to experience a user friendly platform for providing assistance for tickets, hotels & other related services. In other words, a complete hassle-free task to provide convenient trip to any traveler. With an internet access, anyone can book or make reservation or plan a whole trip through this portal. This will not only aid in the company's hotel business but also in all the verticals under its hospitality domain. Very few hotel chains provide such convenient services, thus this will not only benefit the company over its peers, but also provide a better positioning in the industry.

Average occupancy rate expected to strike 80-85%

The Byke, with an operational capacity of 425 rooms across 7 luxury hotels enjoys supreme occupancy rate of around 88% in the peak season while the same revolves around 65-66% in the average seasons. With the company's aggressive plan to launch additional 6 luxury hotels, the average occupancy rate of at an average is likely to reach 80-85%. Under its strategy to have a Pan-India presence, the company has also acquired a Beach resort of 240 rooms spread over 17 acres of land located at Cavelossim Beach in Southern Goa and hotel Redwood in Matheran. With the aggressive growth strategy to expand its business to newer market, the present ARR of the company, which stands at around ₹3,000, is expected to reach ₹5,000 in the coming two years.

Asset light strategy

Going forward company is focusing towards management contract or joint venture agreements with property owners which will reduce the initial expenditure towards acquisition and development of properties. This will help company to control its cost structure.

The Byke resorts has been one of the hot destinations for telecasting TV shows; and also for corporate bookings for major part of the year, which is likely to accelerate its occupancy rate in the ensuring years.



Current Operational Areas

The Byke Heritage, Matheran

- The Byke Heritage at an elevation of around 800 meters above sea level, with a 25 and 80 rooms, respectively, serving budget and premium class customers.
- The Byke Matheran's most luxurious resort offers enchanting cottages and suites equipped with modern amenities. One can indulge himself in the choice of Vegetarian Cuisine or relish exotic cocktail treats and have fun in air-conditioned discotheque.

The Redwood, Matheran

- The premium hotel, Redwood Matharen is located at an elevation of around 800 meters above sea level, 100 kms away from Mumbai. With 25 rooms and average occupancy rate at 68% with peak level at 85%. The location serves as the perfect gate away spot during the weekend.

The Byke Anchor, Goa

- It is located in the South Goa, and just 32 kilometer away from Airport and 13 kilometer away from Madgaon Railway station.
- With 240 rooms of five star category for accommodation the hotel also provides conference room, recreation center facilities for a comfortable living and serves group booking.

Hotel Paawana, Mandawa

- It is located in the heart of Mandawa, Hotel Paawana is located minutes away from historical havelis and forts of Shekhawati region of Rajasthan, also known as "Open Art Gallery of Rajasthan".
- The hotel is spread over 3000 sq. ft. with modern facilities and ethnic set-up. A night's stay is an experience in itself with theme based evenings with Oriental and Medieval Cuisine.

Sunshine Beach Resort, Goa

- The resort is strategically located in close proximity of barga's art shopping places, discotheques, etc. and 1 km away from Calangute Beach and 1 hour journey from Goa Airport.
- The resort has currency exchange bureau for convenience of foreign travelers and also a well maintained swimming pool with a relaxing atmosphere.

Sunflower Beach Resort, Goa

- The resort is strategically located amidst the shopping area offering quant local handicrafts and it has everything a traveler would look forward to with absolute delight. it is just a minute walk from the Calangute beach
- The resort has variety of rooms with modern amenities and facilities decorated in a royal manner for a comfortable living.

Goan Holidays, Goa

- Each room of the hotel is aesthetically done-up with a private balcony which commands a breath taking view.
- The hotel restaurant serves its special Goan, Indian and Continental Cuisine.



Upcoming Projects

The Byke, Aronda

- The Byke is cementing its positioning in Goa by adding A 5 star category Spa, Rejuvenation Centre cum Resort, with room capacity of over 50, located on the river bank of Terekhol in Sindhudurg on Maharashtra-Goa Border, revolutionizing the concepts of holistic health around the world with options that range from yoga to ayurveda
- The resort will be home to world renowned Spa with exclusive regenerating treatments, fitness & yoga centre, carrying the legacy associated with Indian way of wellness~ Meditation and Naturopathy. The resort will offer individually decorated suites complete with every modern convenience.

The Byke, Khopoli

- Spread on 3.75 acres land with surrounding mountains is already acquired for development of hotel. A 50 room, 5-star category Business Hotel cum Travel Mall strategically located near proposed Navi Mumbai Airport on Mumbai-Pune Express Highway with traveling distance of 1 hour from Mumbai as well as Pune City.

The Byke, Kudal

- A premium class theme based hotel which is aimed to serve as a perfect weekend spot to tourist spread over 15 acres land surrounded by greenery with natural touch. The Place is Located in Sindhudurg District of Maharashtra. The Proposed hotel aims to tap its tourist coming for annual fair or Jatra with room capacity of over 60 would serve to premium class, with expected ARR of ₹2500.

The Byke, Lavasa

- A 5 star category Resort located on the Sahyadri Range of Hills on the bank of Warasgaon Lake adjacent to the proposed two theme parks of international pattern and grade. With its prime location, guests accommodation feature impressive views of the chain of mountain peaks offering a challenging program of year-round activities, it is new in concept and philosophy to utterly delight its guests.

The Byke, Jodhpur

- A 5 star category Hotel in Jodhpur which is also known as "Sun City", with room capacity of 40, keeping in mind the heritage class associated with the city. The luxury hotel created in the spirit of beauty and opulence with extraordinary works of Italian marble, mosaic and glass surround visitors to this international destination, complete with everything from views of famed desserts that welcome and delight guests.

The Byke Kullu-Manali

- The Byke Kullu-Manali is laying out a luxury hotel in the scenic state of Himachal Pradesh with elevation ranging from about 350 metres to 7,000 metres above the sea level. During the 2010, Himachal Pradesh logged record number of tourist in a year. The hotel will comprise of 50 rooms spread across 5 acres and it will be within the vicinity of the city, providing easy access. Presently, the development is In advance stage.

Current Operational scenario V/S expected operational growth

Current Operations	The Anchor	The Byke Resort	The Redwood	Hotel Sunflower	Hotel Sunshine	Hotel Goan	The Byke Paawana
Rooms	240	80	25	22	22	18	18
Occupancy Peak (%)	90%	85%	85%	90%	90%	90%	85%
Occupancy Average (%)	64%	68%	68%	64%	64%	64%	73%
Rentals/ day Peak (₹)	8,000	6,000	4,000	4,000	4,000	4,000	6,000
Rentals/ day Average (₹)	4000	3,500	2,100	2,100	2,100	2,100	2,500

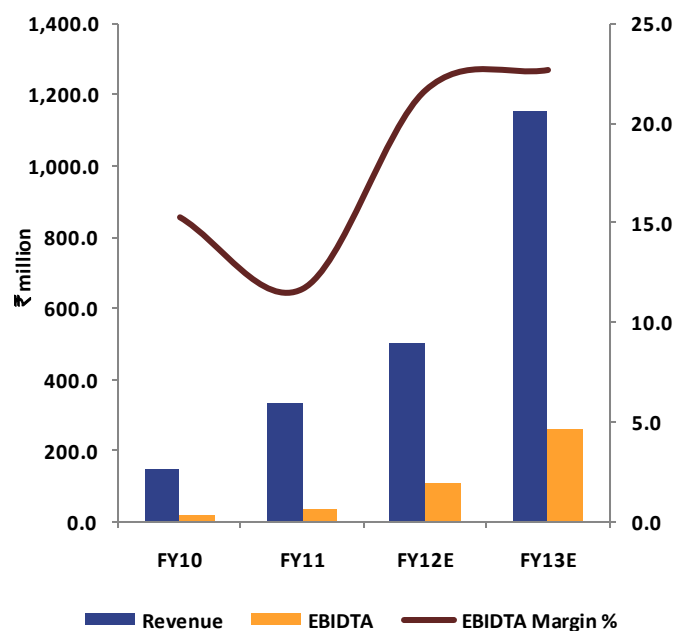
Proposed Projects	The Byke, Aronda	The Byke, Khopoli	The Byke, Jodhpur	The Byke, Kudal	The Byke, Lavasa	Manali / Kullu
Rooms	80	75	60	60	75	50
Expected Occupancy Peak (%)	90%	85%	85%	85%	85%	90%
Expected Occupancy Average (%)	57%	74%	63%	68%	62%	68%
Rentals/ day Peak (₹)	9,000	5,000	5,500	3,500	6,000	6,000
Rentals/ day Average (₹)	5,000	3,500	3,500	2,500	3,500	3,000

Robust Financials

For the first half year ended September 2011, The Byke reported a robust net profit growth of 70.5% at ₹8.2 million from ₹4.8 million a year ago backed by increased operational efficiency, sharp focus on marketing strategy and stringent internal cost control systems of the company. A revenue growth of 13.5% at ₹151.1 million on y-o-y basis and a remarkable 169% growth in other income at ₹11.3 million lifted The Byke's bottom-line.

The Byke's financial performance in the FY'11 were also impressive with a total income growth of 121.2% from ₹150 million in FY'10 to ₹332.4 million in FY'11 driven by the strong growth in operating incomes.

Robust Financial ~ elevated margins expected





Balance Sheet (Standalone)

(₹million)	FY10A	FY11A	FY12E	FY13E
Share Capital	125.5	190.5	200.5	200.5
Reserve and surplus	214.2	435.3	532.7	691.8
Net Worth	339.7	625.8	733.2	892.3
Share App. Money	-	11.0	11.0	11.0
Loan Funds	-	1.8	125.0	114.0
Net Deferred Tax Liability	18.9	20.7	23.0	23.0
Capital Employed	358.6	659.3	892.2	1,040.3
Gross fixed assets	145.9	164.7	199.3	338.8
Less: accumulated depreciation	24.2	32.8	46.0	75.0
Capital Work in Progress	126.3	379.8	501.3	420.7
Net Fixed assets	248.0	511.7	654.6	684.5
Investment	2.2	-	-	-
Misc. Expense	0.8	0.7	-	-
Net Current Assets	107.6	146.9	237.6	355.8
Capital Deployed	358.6	659.3	892.2	1,040.3

Key Ratios

	FY10A	FY11A	FY12E	FY13E
EBITDA Margin (%)	15.3	11.7	19.8	22.4
NPM (%)	6.3	6.8	12.7	14.3
ROCE (%)	4.0	4.6	9.7	22.1
ROE (%)	2.8	3.6	8.7	18.6
ROA (%)	2.7	3.5	7.7	17.3
EPS (₹)	0.8	1.2	3.2	8.3
P/E (x)	121.5	77.1	28.9	11.1
BVPS (₹)	27.1	32.8	36.6	44.5
P/BVPS (x)	3.4	2.8	2.5	2.1
EV/Operating Income(x)	7.6	5.3	3.9	1.7
EV/EBITDA (x)	49.5	45.1	19.7	7.5

Profit & Loss Account (Standalone)

(₹million)	FY10A	FY11A	FY12E	FY13E
Net Sales	150.3	332.4	501.9	1,154.5
Expenses	127.3	293.4	402.5	895.5
EBITDA	23.0	39.0	99.4	259.0
EBITDA Margin %	15.3	11.7	19.8	22.4
Depreciation	8.7	8.6	13.2	29.0
EBIT	14.2	30.4	86.2	230.0
Interest	0.1	0.1	5.0	14.2
Other Income	-	2.1	9.5	19.5
Profit Before Tax	14.2	32.3	90.7	235.3
Tax	4.7	9.6	26.9	69.6
Profit after Tax	9.5	22.7	63.9	165.6
NPM %	6.3	6.8	12.7	14.3

Valuation and views

At current market price of ₹92/-, The Byke Hospitality is trading at PE multiple of 28.9x and 11.1x of its FY'12E and FY'13E EPS of ₹3.2 and ₹8.3, respectively. We have valued the stock at 24 multiples of its FY'13E EPS of ₹8.3, considering the favorable shift toward the Luxury and premium Hotels, the expansion plans of the company to cement its positioning in Indian Tourism space, tied with the quality of asset it has proposed to acquire, the stock is attractively placed. Further, occupancy levels and ARR are also indicating an upward trend with increase in demand of branded hotels. The Byke is well poised to take advantage of this growth with its gradual presence in key cities ~Goa, Udaipur and Maharashtra. By FY'13E total room capacity of The Byke is expected to reach to around 825 rooms with the expansion. We hereby initiate coverage on The Byke Hospitality Ltd and recommend 'BUY' rating with a target price of ₹133/- for long run.



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