

CMP: Rs. 208 Weight: 7%

18/04/2017



STOCK DATA

Market Cap(Rs. cr)	832
Debt	8
Cash	3
Enterprise Value	837
Promoters Holding	45.29%
52 week high/low	215/151.20
Shares outstanding (In Cr.)	4

KEY FINANCIALS

(Rs. in cr)

Y/E March	2013	2014	2015	2016
Revenue	101	156	182	232
Operating exp	83	128	145	179
EBITDA	18	28	37	53
Depreciation	4	5	10	12
Interest Expense	2	2	2	1
PBT	12	21	25	40
Taxes	4	5	5	14
PAT	8	16	20	26

VALUATION

Byke is a compounding machine which we believe will be deliver returns in line with its earnings growth. We believe that it is trading at 26 times FY17 earnings and will grow its revenue at 20%+ consistently for next many years. Its fair P/E is 25 times and will not trade below 20 P/E due to its unique business model and high return ratios.

BYKE HOSPITALITY

Thesis –

At Stallion Asset we have a consistent Philosophy of buying companies that can:

- 1) Grow at more than 25%
- 2) Huge Opportunity Size
- 3) High Return on Equity
- 4) Smart and Ethical Management

Byke Hospitality runs a chain of hotels in India under the leadership of Mr. Anil Patodia. They have two main revenue streams, namely Hotel business (49%) and Room Chartering Business (51%).

Why do we like Byke?

It has a unique Business Model which ensures consistent growth and longevity in the business operations and thus makes us extremely bullish on this counter.

- **Asset Light Model**
- **High ROE**
- **Consistent Growth**
- **Niche Business Model – Chartering**
- **Smart Management**
- **Promoter and Private Equity Buying**

The new Promoters entered the company in 2010 and have turned around the company completely and they made it to Forbes “Best under a Billion” for two consecutive years i.e. 2015 and 2016.

Most of the well-known hotels in the country in 3 star and 5 star categories own their properties. Due to this they face problems like high debt, higher operating costs, more time to breakeven and no guard against cyclicity in the Industry.

We believe Byke will scale from 797 rooms in December 2016 to 1600 in 2020 without any dilution.

About the company

BYKE – History

- Originally known as Sauve Hotels; started its operations in year 2002 under the leadership of Satyanarayan Sharma (Promoter) and had 2 hotels.
- In 2010 the company got a new dimension when Anil Patodia and family became the promoters with 44% stake and company got its name “The Byke Hospitality”.
- He created a niche for the company by creating a lease model (leasing out hotels rather than owning them). Anil Patodia is also on the board of Vakrangee Software and is brother of popular CA Sunil Patodia.

BYKE – Now

- Byke Hospitality has come a long way in last 7 years from 102 rooms in 2010 (ownership) to 797 rooms (owned and leased) under 11 properties (9 Leased and 2 owned).
- Started room chartering business post 2010 and currently has 5 lac room nights.
- In 9MFY17, Chartering business contributed 53%.
- It is the only Hospitality Brand in India which is **Vegetarian only**.

Quick Look at the Numbers

FY 2016	Hotel business	Room chartering business
Share in Revenue	49%	51%
Revenue	113 Cr.	118 Cr.
EBITDA	33 Cr.	20 Cr.
EBITDA Margin	29%	17%
Occupancy %	65	94
ARR (Rs.)	3909	2388

*ARR = Average Room Rent

Understanding Business Model – Hotel Business

Leased out model – (Lease – renovate-create a brand)

Out of the 11 properties which the company is present in, 9 are taken on a long lease of 15-20 Years. The company identifies popular destinations, and then finds properties in that destination which can be turned around profitably by doing some renovation. They then rent hotel rooms under the popular Byke Brand which gets a premium. This reduces the burden on the balance sheet and improves the return ratios. The management has guided to reach 25 Hotels in the next 3 years from 11 hotels currently, all of which will be under the lease model.

	2013	2014	2015	2016
Revenue	58.00	80.00	92.00	114.00
EBITDA	20%	22%	25%	29%

Byke has an operating margin of 29%, which is well above the current industry margin of 12-15%. Byke has higher margin because 53% of its revenues (9MFY17) are from events like conferences, marriages which are high margin business and involves small investments. Byke is into 3 Star hotels which are expected to grow faster due to middle class boom happening in India.

Which is Better Leasing Hotels or Owning Them?

Lease as a Percentage of Revenue				
Byke	2013	2014	2015	2016
Lease Rent	6.9%	6.3%	6.5%	7.9%

Byke pays 6-8% rental cost as a percentage of revenue i.e. on every Rs. 100 of revenue Byke pays Rs. 7 as rent.

FY2016 (cr.)	Fixed Asset	Sales	Fixed Asset Turnover
Byke	87	115	132%
Royal Orchid	240	159	66%
Indian Hotels	6927	4591	66%
EIH	2595	1786	69%

Other Hotel companies who invest directly in the property have a fixed asset turnover of about 65-70%, i.e. if they invest 100 rupees in a hotel; they do revenue of 67.5 Rupees. They don't have to pay lease of course as they already own the property but assuming a cost of capital is conservative 12%, they end up paying Rs. 12 cost of capital for 67.5 Rupees of revenue i.e. about 18% opportunity cost (This cost can be replaced by paying rentals of 7%) hence they end up paying more as compared to a leased based company. This reduces the return on the investment for the owned hotels. Leasing gives more flexibility, and companies can easily expand their base in the leasing model as the investment involved in very small compared to building the hotel.

		BYKE	Other Hotel	Comment
A	Initial Investment	0	100	No Initial Investment for Byke
B	Rental Percentage	7%	0	Rentals 7% taken from AR
C	Revenue	67.5	67.5	Average Fixed Asset Turnover
D	Cost of Capital	0	12%	
E	Rental in Rupees	4.7	0	Rental % * Revenue (B*C)
F	Finance Cost	0	12	Finance Cost * Intial Inv (A*F)
E	Saving For Byke	(12-4.7)/67.5=9.2% of Sales		(F-E)/C= Margin Saved for Byke

The 5 Star Hotel Industry has been struggling for last decade due to high competition, limited pricing power, very high Capital intensive business and high operation cost.

ROCE	
Asian Hotel North	2.64
Asian Hotel West	1.73
Asian Hotel East	1.87
Indian Hotels	2.12
EIH	5.06
Leela	-4.89

The Industry has been struggling a lot with average Return on Equity well below 5%. **Byke on the other hand has Return on capital employed of 34%**, clearly suggesting that BYKE has got it right and is the star of the industry with its unique asset light model.

Understanding Business Model of Chartering Business –

Room chartering is an interesting business model where in the company buys bulk hotel rooms in favourable locations at huge discounts and then sells it via agents during the peak season. This requires lesser investments and the inventory turnover is higher.

It was a clever idea of the management to start with chartering business which means booking of third-party hotel rooms at strategically identified cultural and religious tourist destinations during peak seasons, on a bulk basis, and subsequently letting them out to tourists at a retail level through agents.

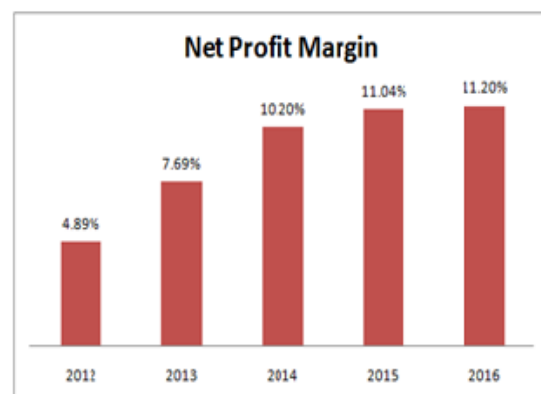
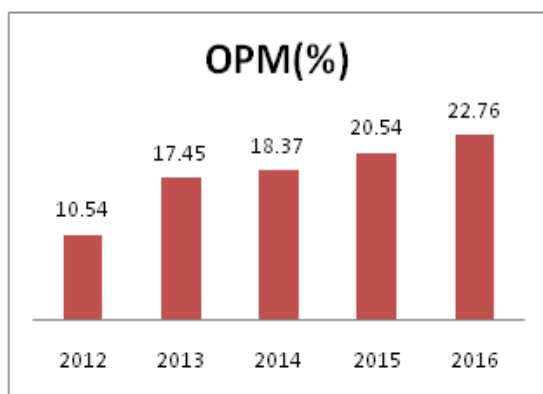
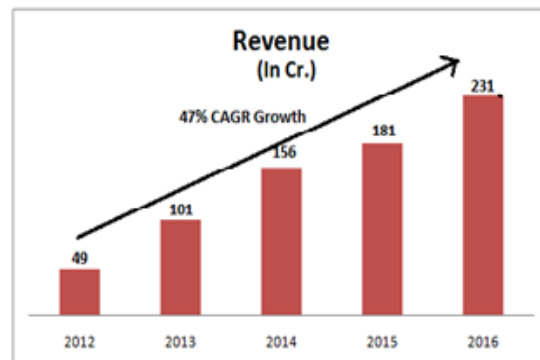
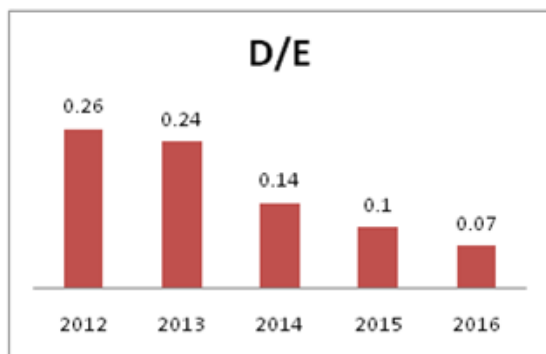
So how exactly does this business work?

The company blocks rooms across hotels in various cities in leading tourist destinations for peak seasons. Typically, small hotels have 25% vacancy even during peak occupancy. By buying out this 25% in advance, Byke gets a discount of 30%. It then resells through 300 agents across the country. Nearly half of its revenues come from chartering. In the last two years Byke has sold more than 90% of the room nights purchased.

Profit in Chartering Business = Revenue – (Chartering Cost + Occupancy Loss + Agent Commission)

The Average room rent for FY2016 was Rs.2,388, occupancy was 94% and agent commission is approximately 9%. **This also helps them to know which place works best for them during different seasons.** For instance, after chartering rooms for four years at Puri, the company has now leased a 54-room hotel.

Consistent Performer

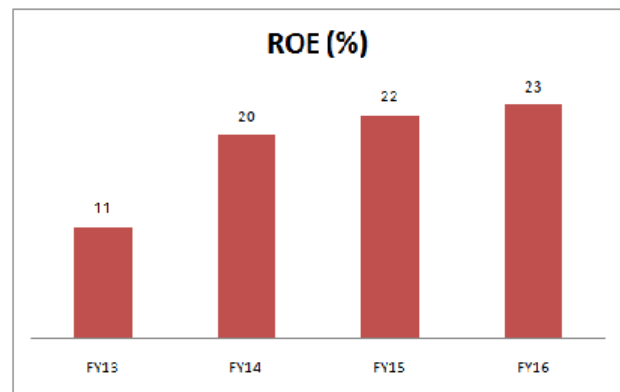
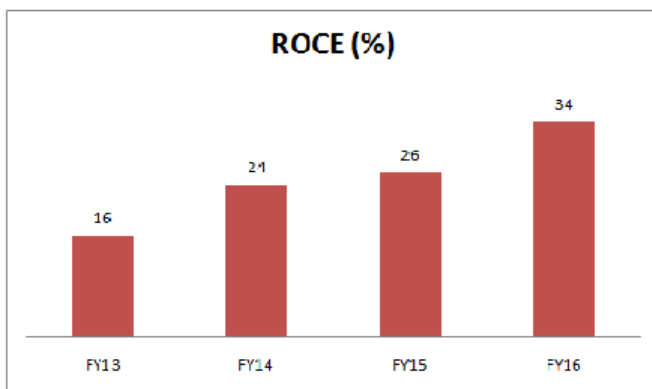


Bykes' Competitive Advantage

Unlike other hotels, Anil Patodia has created a niche for the company by creating a business model which is different from others.

- 1) In the First Chart you can see that unlike most hotels Byke is a Debt Free Company and the management has averse towards debt.
- 2) This is the Fastest Growing Hotel Company and has growth revenues at 47% CAGR and we expect that its growth will remain 20%+ for the next 5 years due to its asset light nature without any dilution.
- 3) Byke has the highest margin in the Industry as 54% of its revenue comes from Events like marriages, conference etc which is a high margin businesses.
- 4) Management has guided for 500 Cr revenue by 2020 and since they have now become a brand, they intend to leverage it by growing aggressively. The management has given a guidance of 25 properties by 2020. This will almost double their room capacity and the charter business will have higher EBITDA Margin of 22% which will contribute more to the bottomline.

Higher Return Ratios



Apart from their asset light model approach, the room chartering business is the reason for higher return ratios. Room chartering business has low capital investment, high margins and low breakeven point.

Increase in Promoter's stake –

Promoter, Mr Anil Patodia has recently bought stake from the open market in the second and the third quarter (3,35,500 Shares) which shows his faith in the strong operational performance of the company. The buy transactions are as given below.

Name of Person	Category of Person *	Securities held pre Transaction	Securities Acquired / Disposed			Securities held post Transaction	Period ##	Mode of Acquisition	Trading in Derivatives			Reported to Exchange
			Type of Securities **	Number	Value				Transaction Type	Type of Contract	Buy Value (Units~)	
Anil Patodia	Promoter & Director	1324500 (3.30)	Equity Shares	30000	5003799.00	Acquisition	1354500 (3.38) 08/12/2018	Market			09/12/2018	
Anil Patodia	Promoter	1266000 (3.16)	Equity Shares	58500	10059328.00	Acquisition	1324500 (3.30) 01/12/2018	Market			02/12/2018	
Anil Patodia	Promoter	1231000 (3.07)	Equity Shares	35000	5954653.20	Acquisition	1266000 (3.16) 22/11/2018	Market			23/11/2018	
Mr. Anil Patodia	Promoter	1189000 (2.97)	Equity Shares	42000	6849151.70	Acquisition	1231000 (3.07) 27/09/2018	Market			28/09/2018	
Anil Patodia	Promoter	1099000 (2.74)	Equity Shares	40000	6504800	Acquisition	1189000 (2.84) 23/09/2018	Market			26/09/2018	
Anil Patodia	Promoter	1139000 (2.84)	Equity Shares	50000	8006795.30	Acquisition	1139000 (2.97) 26/09/2018	Market			26/09/2018	
Anil Patodia	Promoter	1019000 (2.54)	Equity Shares	80000	12960000	Acquisition	1099000 (2.74) 08/09/2018	Market			17/09/2018	

Targeting Middle Class Population

Byke Targets the mass population of the country i.e. Middle Class Population located in 2 and 3 tier cities (which is growing at the fastest rate). The rising purchasing power in the hands of these people will increase spending for domestic leisure trips. Company is a niche player in this segment; offering only vegetarian food in its resorts. This is a big plus point for the company as it helps them get customers specially for their chartering business, where they buy rooms at a discount prior to religious festivals/seasons wherein most people prefer vegetarian food.

Risks –

- Rising competition from online travel portals like Golbibo, Oyo rooms, Make My Trip, etc. could impact the Room Chartering business of the company.
- Any Change in the high Occupancy levels of 94% in room chartering business is a risk for profitability and cash flows. The Company has consistently delivered 90%+ occupancy levels but sustaining it is important

Valuation – We at Stallion Asset are confident that Byke will grow consistently for the next 3-5-10 year for more than 20% CAGR and will maintain 20% Plus ROE. Byke will post an EPS of about 7.5-8 in FY2017 and EPS should double in the next 3 Year. We have complete faith in the longevity of this business model and believe that Byke can easily scale from 797 room to 1600 room without any dilution of equity in next 3 years. The company is well poised to be a compounder in our portfolio for next 2-3 years. There are no immediate comparisons of Byke due to its unique asset light nature of business. **Byke now trades at 26 times FY2017, we believe the fair PE Ratio of Byke is 25x, Byke would never trade below 20 PE ratio due to its unique business model, Debt free status, high ROE and growth without dilution.**

Conclusion – In bull Markets its necessary to be sane when most people are getting insane. In Byke our returns should equal to the earnings growth of Byke. We believe byke is a definite 20-30% Compounder for the next many years. Overall Byke is a textbook stock, where its internal accurals will be sufficient to fund growth for next many years, the business throws cash every year, debt free, and management has its skin in the game, huge opportunity size.

Disclosure: Amit Jeswani & Family have no positions

Analyst Disclosures: No positions

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