

Taj GVK

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Shareholding (%)

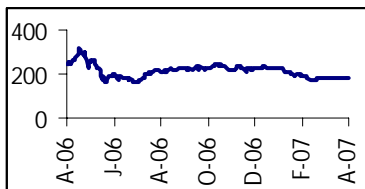
Promoters	74.6
FII's	1.8
MFs	6.4
FI's/Banks	1.7
Others	15.5

Share price performance

52-week high/low (Rs)	342/159		
	-1m	-3m	-12m
Abs (%)	-1.0	-20.1	-27.7
Rel* (%)	-8.3	-21.4	-44.4

*to Nifty

Stock chart



Improved ARR and Steady Occupancy levels drive growth

Taj GVK Ltd. (TGL) reported Q4FY07 results marginally above our expectations. During the quarter, the company's net sales grew by 11.2% to Rs677.5mn from Rs609.5mn in Q4FY06. Average Room Revenue (ARR) increased by 9% to Rs8,000 from Rs7,325, while occupancy levels remained steady at 82%. Net profits increased by 21.5% to Rs187.3mn from Rs154.2mn resulting in an EPS of Rs2.99 as against Rs2.46 in Q4FY06.

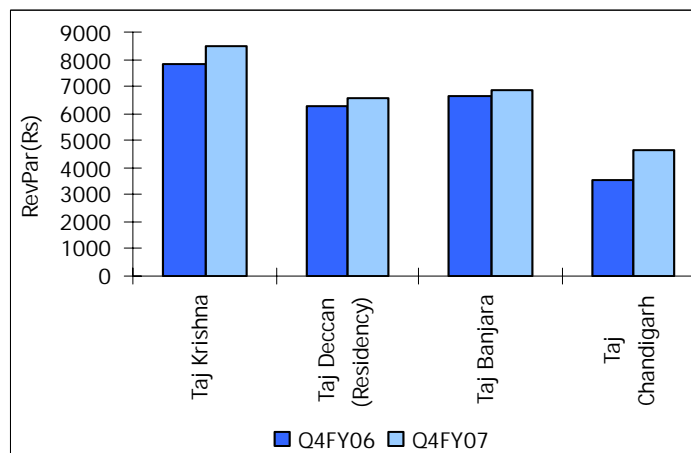
Demand in Hyderabad is expected to grow at 10% annually; we believe this growth would help maintain ARR and occupancy levels despite supply inflow by 2009. TGL with its dominant presence in Hyderabad (three properties) along with further expansion plans is likely to benefit from this growth in the city.

At the current market price of Rs179, the stock trades at 16.5x FY08E and 11.7x FY09E. We continue to maintain 'Buy' on the stock.

Key highlights of Q4FY07 results:

- ▲ **RevPar (Revenue per available room) growing strong:** TGL's net sales increased from Rs609mn in Q4FY06 to Rs677.5mn in Q4FY07, growth of 11.2%. This increase was mainly driven by 9% YoY growth in ARR, from Rs7,325 to Rs8,000. Occupancy levels have been steady at 82%. As a result, RevPar increased by 9% from Rs6,085 to Rs6,648 (see chart below).

Chart 1. Property-wise RevPar growth



Source: IISL research, company

BUY

Rs 179

April 24, 2007

Market cap

Rs bn 11

US\$ mn 269

Avg 3m daily volume

69,721

Avg 3m daily value

Rs mn 13

Shares outstanding (mn)

63

Reuters

TAJG.BO/TAJGVK.NS

Bloomberg

TAJG IN

Sensex

14,137

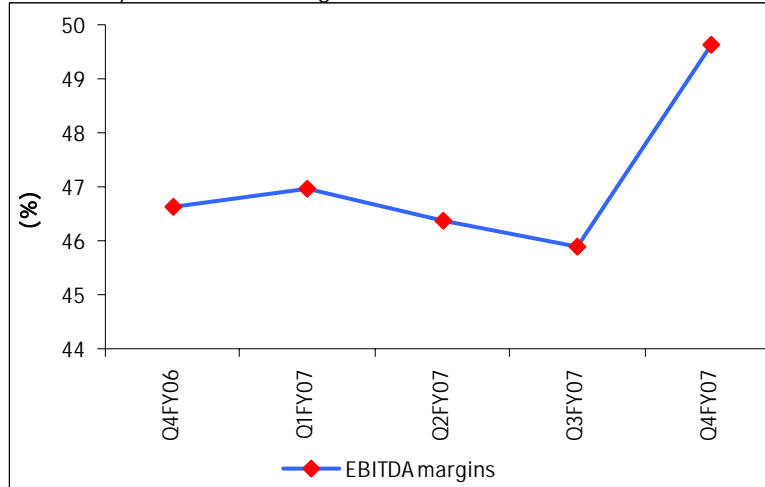
Nifty

4,142

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Improved EBITDA margins: During the quarter, TGL's EBITDA increased by 18.3% YoY to Rs336mn from Rs284mn. The strong growth in Revpar, supported by improved operational efficiency, resulted in 300bps rise in EBITDA margins to 49.6% from 46.6%.

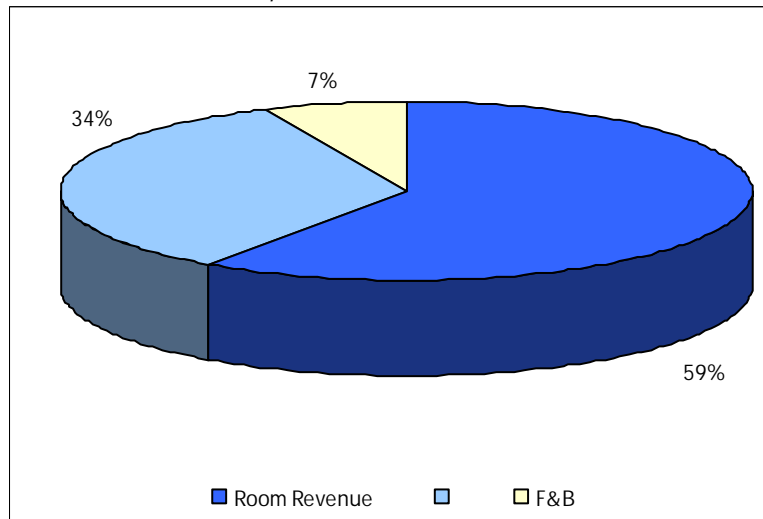
Chart 2. Improved EBITDA margins



Source: IISL research, company

Revenue break-up: Growth in ARRs and steady occupancy levels has enabled TGL to increase room revenue by 9.3% to Rs403mn from Rs368mn. Revenue from food and beverages (F&B) increased by 10% YoY to Rs230mn from Rs207mn. Going ahead, we believe F&B segment would exhibit a growth of 15-16% on account of TGL promoting its restaurant business, patronised by its customers and other walk-in guests.

Chart 3. Revenue break-up



Source: IISL research, company

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- ▲ **Increased net profit and margins:** Net profit increased by 22% from Rs154mn in Q4FY06 to Rs187mn in Q4FY07. Similarly, net profit margins also improved by 240bps to 27.7% as against 25.3%.
- ▲ **Delay in commissioning of Chennai property:** The commissioning of TGL's Chennai property, earlier expected to be operational by June 2007, has been delayed to October 2007. Chennai market is expected to see a growth in business activity on account of manufacturing units set up by automobile companies and IT companies setting up new facilities. We therefore believe, that the operation of this 215 room property will enhance the company's growth going forward.
- ▲ **Break-up of Customer:** About 50-60% of TGL's customers are on annual contracts through tie-ups with the GDS (Global Distribution System) of the Taj Group, while the remaining are walk-in-customers; these contracts stand for renewal in January each year and the company has been able to renegotiate them at higher ARR's.
- ▲ **Capex plan:** The green-field and brown-field projects undertaken by the company would require capex of Rs4,150mn and an additional sum of Rs350mn as on-going maintenance capex. The company would fund this through a mix of debt (Rs2,500mn) and internal accruals of Rs2,000mn.
- ▲ **Valuation:** Considering the delay in commissioning of Chennai property, we have revised our earning estimates downward by 5% to Rs10.8 in FY08E. Currently, the stock is trading at 16.5x FY08E and 11.7x FY09E earnings. Given the expansion plans of the company and the favourable industry conditions, we continue to maintain a 'Buy' on the stock.

Table 1. ARR and Occupancy level comparison

	Rooms	Q4FY07		Q4FY06		% growth in ARR	Q3FY07		% growth in ARR
		ARR	OL	ARR	OL		ARR	OL	
Taj Krishna	261	10000	85	9000	87	11.1	9500	77	5.3
Taj Deccan (Residency)	151	7500	88	7000	90	7.1	7500	76	0.0
Taj Banjara	122	8000	86	7500	89	6.7	7400	75	8.1
Taj Chandigarh	150	6500	71	5800	61	12.1	6500	72	0.0

Source: IISL research, company

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Table 2. Quarterly result table

Rs mn	Q4FY07	Q4FY06	YoY (%)	Q3FY07	QoQ (%)
Net Sales	677.5	609.5	11.2	604.7	12.0
Total Expenses	341.3	325.3	4.9	327.2	4.3
F&B cost	53.8	45.3	18.9	52.8	2.0
Staff Cost	84.9	96.3	-11.8	84.9	0.0
Power and Fuel	23.9	21.1	13.2	33.6	-29.0
Other Expenses	178.8	162.7	9.9	155.9	14.7
EBITDA	336.2	284.3	18.3	277.5	21.1
Other Income	7.0	0.4	1844.4	2.4	194.5
PBIT	343.2	284.6	20.6	279.9	22.6
Interest	7.2	12.1	-40.6	2.4	197.2
Depreciation	27.7	39.4	-29.7	30.5	-9.2
PBT	308.3	233.1	32.2	246.9	24.8
Tax	120.4	79.0	0.0	83.6	44.1
PAT	187.9	154.2	21.9	163.4	15.0
Equity	125.4	125.4	0.0	125.4	0.0
EPS (Rs)	2.996	2.46	21.9	2.61	15.0
Key Ratios (%)					
EBITDA Margin	49.6	46.6	3.0	45.9	
Interest / Sales	1.1	2.0		0.4	
Tax / PBT	39.1	33.9		33.8	
NPM	27.7	25.3	2.4	27.0	

Source: IISL research, company

Financials

Profit & Loss

In Rs million	FY06	FY07E	FY08E	FY09E
Net sales	1,887.4	2,427.6	2,654.8	3,625.3
YoY (%)	63.4	28.6	9.4	36.6
Total expenses	1,045.8	1,279.4	1,416.2	1,898.2
Upkeep Services	123.1	199.6	163.1	215.5
Raw material cost	152.8	326.2	189.6	254.3
Staff cost	278.1	341.1	384.9	525.7
Power and fuel cost	103.0	123.6	153.3	190.0
Lisencee Fee/Operating Fee	175.8	219.1	247.3	337.7
Other expenses	213.0	247.9	278.0	375.0
EBIDTA	841.6	1,148.2	1,238.7	1,727.1
YoY (%)	94.4	36.4	7.9	39.4
EBIDTA (%)	44.6	47.3	46.7	47.6
Other income	6.5	14.1	7.7	0.6
PBIDT	848.1	1,162.4	1,246.3	1,727.7
Interest	39.7	31.4	63.0	127.7
Gross profit	808.4	1,131.0	1,183.3	1,600.0
Depreciation	108.9	123.5	164.5	166.8
PBT and extra ordinary	699.5	1,007.5	1,018.8	1,433.3
Extra ordinary items	0.0	0.0	0.0	0.0
PBT	699.5	1,007.5	1,018.8	1,433.3
(-) Tax	237.0	357.3	338.6	476.4
Tax/ PBT	33.9	35.5	33.2	33.2
PAT	462.5	650.2	680.2	956.9
Adjusted net profit	462.5	650.2	680.2	956.9
YoY (%)	109.4	40.6	4.6	40.7

Key Ratios

	FY06	FY07E	FY08E	FY09E
EPS (Rs)	7.4	10.4	10.8	15.3
Adjusted EPS (Rs)	7.4	10.4	10.8	15.3
CEPS (Rs)	9.4	12.2	13.8	18.4
Book value (Rs)	23.6	31.3	40.1	53.4
Dividend per share (Rs)	2.0	2.0	2.0	2.0
Debt-equity (x)	0.6	0.9	1.0	1.0
ROCE	31.4	27.5	20.9	23.8
ROE	31.3	33.2	27.0	28.6
Net fixed assets turnover	0.806	0.775	0.620	0.612
Working Capital turnover	(50.1)	166.3	182.0	186.9
Inventory Days	3.98	4.25	4.18	3.66
Debtor Days	10.6	13.1	13.9	12.8
Creditors Days	12.8	14.7	13.8	13.8
Net working Capital Cycle	1.8	2.6	4.3	2.7
Valuations				
PE (x)	24.3	17.3	16.5	11.7
Cash PE (x)	19.0	14.7	13.0	9.7
Price/book value (x)	7.6	5.7	4.5	3.4
Dividend yield	1.1	1.1	1.1	1.1
Market cap/sales	1.2	0.9	0.8	0.6
EV/sales (x)	1.6	1.6	1.8	1.5
EV/EBIDTA (x)	3.5	3.4	3.8	3.1

Balance Sheet

In Rs million	FY06	FY07E	FY08E	FY09E
Equity capital	125.4	125.4	125.4	125.4
Preference capital	0.0	0.0	0.0	0.0
Reserves	1,352.1	1,834.8	2,389.5	3,221.0
Net worth	1,477.5	1,960.2	2,514.9	3,346.4
Total borrowings	858.2	1,764.3	2,635.6	3,202.1
Deferred tax	65.0	83.2	103.6	132.2
Total liabilities	2,400.7	3,807.7	5,254.0	6,680.7
Gross block	2,656.8	3,656.1	3,706.1	4,756.1
Less: Acc. depreciation	608.9	745.5	910.0	1,076.7
Net block	2,047.9	2,910.6	2,796.1	3,679.3
CWIP	494.2	622.0	2,235.0	3,135.0
Investments	0.0	431.9	383.1	30.0
Current assets	363.8	396.8	420.2	470.0
Inventories	25.0	29.8	31.0	41.6
Debtors	73.5	95.1	107.3	146.5
Cash	142.4	140.0	150.0	150.0
Loans and advances	122.9	131.9	131.9	131.9
Current liabilities	350.0	382.2	405.6	445.9
Provisions	155.2	171.4	174.8	187.7
Net current assets	(141.4)	(156.9)	(160.1)	(163.6)
Miscellaneous expenses	0.0	0.0	0.0	0.0
Total assets	2,400.7	3,807.7	5,254.0	6,680.7

Cash Flow

In Rs million	FY06	FY07E	FY08E	FY09E
Net profit	462.5	608.0	680.2	956.9
Depn and w/o	108.9	136.6	164.5	166.8
Deferred tax	18.5	18.2	20.4	28.7
Change in working cap	89.2	13.1	13.2	3.5
Other income	0.0	0.0	0.0	0.0
Operating cash flow	679.1	775.9	878.3	1,155.8
Other income	0.0	0.0	0.0	0.0
Capex	(507.2)	(1,127.1)	(1,663.0)	(1,950.0)
Investments	0.0	(431.9)	48.9	353.1
Investing cash flow	(507.2)	(1,559.0)	(1,614.1)	(1,596.9)
Dividend	(125.4)	(125.4)	(125.4)	(125.4)
Fresh equity	(17.6)	0.0	0.0	0.0
Debt	88.1	906.1	871.2	566.6
Financing cash flow	(54.9)	780.7	745.8	441.2
Others	13.1	0.0	0.0	0.0
Net change in cash	130.1	(2.4)	10.0	0.0
Opening cash	12.3	142.4	140.0	150.0
Closing cash	142.4	140.0	150.0	150.0

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