

Buy
Savera Industries (SIL)

Face Value	Rs 10
Last Price	Rs 98
Target Price	Rs 150

Industry: Housing & Construction

Market Cap (Rs Crs)	58.84
Year High/Low (Rs)	112/56

Holding Pattern (%)

Foreign	1
Institutions/Mutual Funds	1
Corporate Holding	11.4
Promoters	55.5
Public	31.1

(As on 30 September 2007)

Performance (%)	1M	3M	12M
Stock (AHCL)	11	42	36
BSE-200	1	17	49.8
BSE-500	1.7	18	51.7

Price Chart: (Monthly)


SAVERA Industries stock had earlier shown a good rally. Thereafter, it entered a consolidation phase, a rising channel as shown by the 2 trendlines in the above chart. It is moving within the channel. A breakout above the upper trendline at Rs 115 will lead the stock to the first target of 147 and thereafter at 168.

Company Description:

The Savera is one of the leading classified four star hotels. Strategically located in Chennai, Tamil Nadu with an easy access to all parts of the city, the hotel has a grand tradition to hospitality and service. The location inter connects the main arterial roads in the city and the new highways leading to places like Mahabalipuram and Kanchipuram. The hotel has 260 rooms and 9 conference halls with all facilities. Besides the Chennai hotel, the company also owns a pub in Bangalore and a restaurant cum pub in Hyderabad.

Highlights:

Recognising the potentiality of two tier cities in Tamil Nadu, during FY07, SIL acquired one existing hotel property at Madurai and two properties at Coimbatore to develop as hotel properties. The project at Madurai, the temple city of South India, took off with the commencement of speciality restaurant and a permit room during FY07. The upgradation of rooms is in progress. The projects at Coimbatore are at planning stage.

The company successfully launched two speciality restaurants at Hyderabad, one at Kukatpally and another at Banjara Hills which are well received and patronised by its guests in addition to the existing units. SIL has also taken on lease a property at Toli Chowki near IT Corridor of Hyderabad, suitable to develop as hotel property of 40 rooms and a restaurant. It would be ready for operation by December 2007/January 2008.

As a part of diversification, the company acquired floriculture business, with effect from 21st July 2006, by investing 85 % in equity shares of Elkhill Agrotech (P) Ltd. Ooty, Tamil Nadu, which is a private limited company. After the farm preparatory works, its commercial operation are commenced from May 2007.

Moreover, the lowering of cost of air travel and introduction of new airlines is leading to a trend towards increased travel, especially amongst the middle class. Budget hotels like Savera will be a beneficiary of the changing trends. The company would see increased topline and bottomline in the coming years.

Key Financial:

(Rs Crore)

Year End March	H1FY08	FY07	FY08E	FY09E
Income	23.3	38.4	51	70
Other Income	0	0.2	0.3	0.3
PBIDT	8.4	11.2	18.4	24.1
Interest	1.3	2	2.6	3
PBDT	7.1	9.2	15.8	21.1
Depreciation	1.3	2.1	2.7	3
Tax	2.1	2.8	4.5	6
PAT	3.7	4.3	8.6	12.1
Equity		6	6	6
Reserves		15.6	24.2	36.3
Book Value (Rs)		36	50.3	70.5
EPS (Rs)		8.6	14.3	20.2
OP Margin (%)	36	29.2	36	34.4
NP Margin (%)	15.9	11.2	16.9	17.3
P/E (x)			6.9	4.9

Advantage-Hotel Industry:

The services sector growth continued to be broad based with its sub sectors viz. trade, hotels, and transport and communication services witnessing significant growth boosting the overall growth rate of the services sector to double digit rates for the fourth consecutive year. Rapid growth in the Airline Industry resulting in 33 % growth in passenger movement and the services sector's significant growth rate, had a positive impact on the hospitality industry.

While 2005-06 had brought about buoyancy and further consolidation in the year 2006-07, there has been significant growth trends witnessed globally. The Travel and Tourism Industry grew by 8.2% in South Asia, 6.9% in Sub Saharan Africa, 6.6% in North East Asia and by 6.3% in South East Asia.

The trade volume in tourism equals or exceeds that of food products, automobiles or even oil exports, making it one of the largest categories of international trade. South Asia, with India as the single largest destination, is projected to receive 10 million visitors by 2010 and 19 million by 2020.

The strong performance in tourist arrivals reflects the strong sense of business and investment confidence in India inspired by India's growing GDP performance, increase of ties with the developed world and opening of sectors of the economy to private sector and foreign investment. The increase in the tourist arrivals led to the increase in higher occupancies.

The World Travel and Tourism Council (WTTC) Report released in 2007 acknowledges India as a major tourist destination on account of several positive factors like cultural endowments, presence of several World Heritage Sites, excellent price competitiveness, low ticket taxes and airport charges, welcoming attitude towards foreign travelers etc. The Travel & Tourism Competitiveness Index (TTCI) ranks India around the middle of the 124 countries considered.

Tourist travelers and business travelers are at increasing trend contributing to the growth of the industry. The recent notice of 'Medical Tourists' who come to India for speciality medical treatment started contributing to the performance of the hotel industry.

Valuation & Recommendations:

The outlook for the hospitality market in India is buoyant and is expected to grow. Major international and domestic players in the hospitality industry are developing hotel properties in Chennai, in view of the growth in business travelers and tourists. SIL is also in the race, looking for a bright future.

With infrastructure developments taking place in Chennai and huge Commercial space being added, business in the city is bound to increase. The hotel room rates in the past few months have gone up by 20-25 % in Chennai and this adds straight to the bottomline of hotels.

The company currently does not have a tie-up with any International hotel chain. However, given the kind of property that the company owns, a tie-up in the near future cannot be ruled out. This will give more visibility to the hotel and may work well for the valuations of the stock on the bourses.

At CMP of Rs 98 the share is trading at a P/E of 6.9 on FY08E and 4.9 on FY09E. We recommend BUY on the stock with a price target of Rs 150 in the medium-to-long term.



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Member: National Stock Exchange (Capital, F&O & Debt Market) & The Stock Exchange, Mumbai
SEBI Registration Numbers: NSE: INB 230676436 BSE: INB 010676436

Maker Chamber IV, 14th Floor, Nariman Point, Mumbai: 400 021
Tel: (+91-22) 66 36 96 69 *Fax:* (+91-22) 66 31 86 38 *Web-site:* www.sunidhi.com

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