

June 22, 2009

Rating	SUBSCRIBE
Price Band	Rs275-325

### IPO Fact Sheet

Opening Date:	June 23, 2009
Closing Date:	June 26, 2009
BRLM's:	HSBC, Kotak
Issue Size (Rs bn):	2.53 - 3.00

### Issue Details (m shares)

Pre-issue equity	78.3
Shares offered	9.2
Of which	
QIBs	5.6
Retail	2.8
Non-institutional	0.9
Post-issue equity	84.2

### Share Holding

(%)	Pre Issue	Post Issue
Promoters	93.64	83.09
Public	-	11.00
Employees	1.36	1.26
Non Promoter	5.00	4.65

Source: RHP

- **Issue details:** Mahindra Resorts and Holidays (MRHL) is making an initial public offering of 9.2m shares at a price band of Rs275-325 per share. The company will raise funds between Rs1.6bn to Rs1.9bn through this offer at an implied market capitalization between Rs23.bn and Rs27.3bn.
- **India's largest holiday timeshare company:** MRHL is India's largest holiday timeshare company enjoying a market share of over 70% in the industry. The company currently has 27 resorts, with 1261 apartments/cottages and over 96,000 members. MRHL, with a highly respected promoter group, excellent execution of projects and a track record of delivering an apparently good holiday experience to members, is the strongest player in the timeshare industry in India.
- **Track record of high growth:** MHRL's membership enrolments have grown at a CAGR of 32% over the last three years. Its revenues and net profits have grown faster at a CAGR of 41.3% and 58.6%, respectively over this period. Given the high hotel costs, time-share is proving to be an attractive option for many domestic travellers. MHRL, with its leadership position in this industry and capital infusion from the IPO, would be in a strong position to accelerate its recent growth.
- **High entry barrier, annuity-based business model:** Timeshare is a very high entry barrier business model that requires relatively low equity capital and generates predictable annuity revenues. It is an excellent business if executed well.
- **Valuation and Recommendation:** Its high entry barriers, low capital intensity, annuity characteristics and high growth make MRHL an excellent long-term investment. At about 7.1x post-issue book value (at the higher end of the band), the stock is not cheap. Nevertheless, it will prove to be a good long-term investment. **Subscribe.**

Key financials (Y/e March)	FY06	FY07	FY08	FY09
Revenues (Rs m)	1,567	2,413	3,772	4,421
<i>Growth (%)</i>	47.6	54.0	56.3	17.2
EBITDA (Rs m)	446	793	1,440	1,521
PAT (Rs m)	200	425	840	798
EPS (Rs)	4.0	5.6	11.0	10.4
<i>Growth (%)</i>	136.7	40.0	96.4	(5.7)

Source: Company Data; PL Research

Profitability & valuation	FY06	FY07	FY08	FY09
EBITDA margin (%)	28.4	32.9	38.2	34.4
RoE (%)	60.2	71.5	76.8	47.1
RoCE (%)	8.8	12.2	15.7	10.8

Source: Company Data; PL Research

Apurva Shah  
ApurvaShah@PLIndia.com  
+91-22-6632 2214

Tushar Manudhane  
TusharManudhane@PLIndia.com  
+91-22-6632 2238



## The issue

MRHL is making an initial public offering of 9.2m shares at a price band of Rs275-325 per share. Out of the total shares, 5.89m will be fresh issue while 3.36m will be on offer for sale from the promoters. The company will raise funds between Rs1.6bn to Rs1.9bn through this offer at an implied market capitalization between Rs23.bn and Rs27.3bn. The total shares outstanding post the offer will be 84.2m, with an initial free float of 11%.

### Capital Structure

	Shares (m)	% of total
<b>Pre-Issue</b>		
Promoters	73.35	93.6%
Non-Promoters	4.98	6.4%
<b>Total Pre-Issue</b>	<b>78.33</b>	<b>100.0%</b>
<b>Issue</b>		
Fresh Shares	5.90	63.6%
Offer for Sale	3.37	36.4%
<b>Total Issue</b>	<b>9.27</b>	<b>100.0%</b>
<b>Post Issue</b>		
Promoters (one year lock-in)	69.99	83.1%
Others (one year lock-in)	4.98	5.9%
Financial Institutions	5.56	6.6%
Public	3.71	4.4%
<b>Total Post-Issue</b>	<b>84.23</b>	<b>100.0%</b>

Source: RHP



## Investment Highlights

### India's largest holiday timeshare company

MRHL is India's largest holiday timeshare company enjoying a market share of over 70% in the industry (going by RCI registrations). The company currently has 27 resorts, with 1261 apartments/cottages and over 96,000 members. Of the 27 resorts, five (having 72 apartments) are on short-term lease while the rest are either owned or on long lease with the company.

The time share concept has been catching on in India again over the past five-seven years. But given that members pay in advance and receive benefits over a 25 year period trust, positive references from existing members and branding play a crucial role in the long-term success of the business. MRHL, with a highly trusted promoter group, excellent execution of projects and a track record of delivering an apparently good holiday experience to its members, is the strongest player in this field. It receives about 35% of its new members based on word-of-mouth reference from the existing members.

### Track record of high growth with ample future growth potential

MHRL's membership enrollments have grown at a CAGR of 32% over the last three years. Its revenues and net profits have grown faster at a CAGR of 41.3% and 58.6%, respectively over this period. The long-term macro environment for the company is very positive. Despite the fluctuating international tourist inflow into the country, domestic tourism is rising every year. With rising disposable incomes and steadily improving infrastructure at tourist spots, the outlook for domestic tourism appears good. However, given the high hotel costs, time-share is proving to be an attractive option for many travelers. MHRL, with its leadership position in this industry and capital infusion from the IPO, would be in a strong position to accelerate its recent growth.



### High entry barrier, capital light and annuity-based business model

There exists a network effect in the timeshare business which creates high entry barriers. Wider the company's existing network of resorts, the more new members will flock to it. And the more new members sign up, the faster one can expand the network of resorts. MRHL is now clearly in a virtuous cycle of growth. Also, since much of the expansion is based on member's contribution, the business is also relatively asset-light and generates high return on capital. It is noteworthy that nearly all growth of the past few years has been financed through internal accruals with very little external capital infusion. The annuity-based nature of the business model also allows for long-term strategic planning which results in better capital utilization.



## Company background

MRHL is a part of India's leading industrial house - the Mahindra & Mahindra (M&M) Group. It was formed in 1996 and is today India's largest holiday timeshare company with over 96,000+ members, 1600+ employees, 27 resorts and 300 acres land bank for future development. The company had revenues of Rs4.42bn and PAT of Rs798m in FY09.

The management team is led by Mr. Arun Kumar Nanda (Chairman and Non-Executive Director). Mr. Nanda is the founder director of the company and is one of the key people responsible for taking the company to its present size and standing. He is also on the board of several M&M Group companies. Mr. Ramesh Ramanathan, an economics graduate from Madras University and a management graduate from IIM (Kolkata), is the Managing Director of the company and is largely responsible for driving the long-term strategy and execution. He has been with the company since inception and is a member of the Board.



## Valuation & Recommendation

MRHL's unique business model raises tricky accounting and valuation issues. The company recognizes the non-refundable portion of the membership fees (about 60% of total) in the year of booking. The remaining (about 40%) is recognized evenly over 25 years (the membership period). Annual subscription fees, F&B charges, interest income, etc. are all recognized on accrual basis. All expenses are recognized on accrual basis. We find the revenue recognition policy somewhat aggressive since it is unlikely that 60% of the costs of servicing a member are incurred in the first year. The number is more likely to be closer to 30-40%.

However, this issue should not cloud the excellent investment opportunity that the stock offers. Its high entry barriers, low capital intensity, annuity characteristics and high growth make MRHL an excellent long-term investment. At about 7.1x post-issue book value (at the higher end of the band), the stock is not cheap. Nevertheless, it will prove to be a good investment. **Subscribe.**



## Income Statement

(Rs m)

Y/e March	FY05	FY06	FY07	FY08	FY09
<b>Revenue Break up</b>					
Income from sale of vacation ownership	739	1,135	1,811	2,835	2,973
Annual Subscription fee	127	199	228	323	456
Income from Travel services & homestays	-	-	-	1	12
Income from Resorts	150	193	284	368	491
<b>Total</b>	<b>1,017</b>	<b>1,527</b>	<b>2,323</b>	<b>3,527</b>	<b>3,932</b>
<b>Revenue</b>					
Income from sale of Vacation ownership & Other services	1,017	1,527	2,323	3,527	3,932
Other Income	45	40	90	245	489
Sub Total	1,062	1,567	2,413	3,772	4,421
<b>Expenditure</b>					
Employee Cost	143	195	283	474	608
Other Expenses	646	927	1,337	1,858	2,292
Sub-total	789	1,122	1,620	2,332	2,900
<b>PBIDT</b>	<b>273</b>	<b>446</b>	<b>793</b>	<b>1,440</b>	<b>1,521</b>
Interest	43	33	36	33	70
Depreciation	67	77	89	113	168
Adj. on account of restatement	11	8	(3)	(2)	(1)
<b>PBT</b>	<b>153</b>	<b>328</b>	<b>671</b>	<b>1,296</b>	<b>1,284</b>
Provision of Tax	70	128	246	456	486
<i>Tax Rate (%)</i>	<i>45.6</i>	<i>38.9</i>	<i>36.6</i>	<i>35.2</i>	<i>37.8</i>
<b>PAT</b>	<b>83</b>	<b>200</b>	<b>425</b>	<b>840</b>	<b>798</b>
Dividend	-	-	87	140	235

Source: RHP



## Balance Sheet

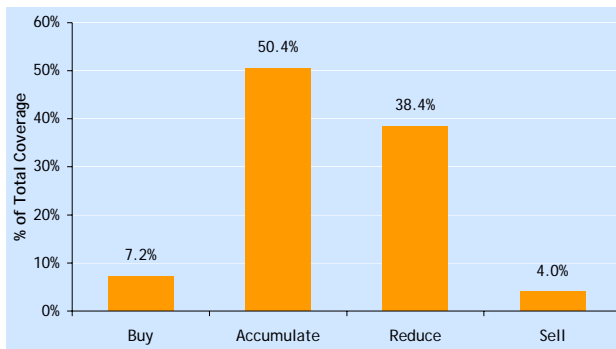
(Rs m)

Y/e March	FY05	FY06	FY07	FY08	FY09
<b>LIABILITIES</b>					
<b>Net Worth</b>					
Share Capital	284	284	284	764	770
Esops	-	-	-	0	-
Reserves and Surplus	0	149	473	666	1,188
Less: P&L account Debit Balance	52	-	-	-	-
Minority Interest	-	-	0	0	0
Total	233	433	757	1,431	1,958
Average Net worth	233	333	595	1,094	1,695
<b>Loan Funds</b>					
Secured Loans	220	268	60	201	247
Unsecured Loans	13	-	-	-	-
Advance towards member's facilities	1,640	2,263	3,242	4,825	6,410
Total	1,873	2,531	3,302	5,025	6,657
Deferred Tax Liability (Net)	(22)	92	202	236	295
<b>Total Capital</b>	<b>2,083</b>	<b>3,056</b>	<b>4,261</b>	<b>6,692</b>	<b>8,910</b>
<b>ASSETS</b>					
<b>Fixed Assets</b>					
Gross Block	1,493	1,917	2,257	2,734	4,293
Less: Depreciation	235	307	383	479	641
Net Block	1,257	1,610	1,874	2,255	3,652
CWIP	18	22	127	450	513
Investments	45	0	59	0	0
<b>Current Assets, Loans &amp; Advances</b>					
Inventories	6	9	18	35	53
Sundry Debtors	782	1,457	2,187	4,034	4,826
Cash And bank balances	39	77	94	76	328
Loans & Advances	188	262	419	621	665
<b>Less: Current Liabilities and Provisions</b>					
- Current Liabilities & Provisions	251	380	406	609	821
- Provisions	2	3	112	171	306
<b>Total Capital</b>	<b>2,083</b>	<b>3,056</b>	<b>4,261</b>	<b>6,692</b>	<b>8,910</b>

Source: RHP



#### Rating Distribution of Research Coverage



#### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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