COUNTRY CLUB INDIA

INR 274

Edelweiss
Ideas create, values protect

Membership-led growth

Not Rated

October 1, 2008

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Strong growth over the past two years

Country Club India's (CCIL) business model is a combination of club membership fees, annual subscription fees, and revenues from others (recreation, food and beverages, leisure, room rent, and others). Members are charged annual subscription fees for regular upkeep and service costs of the club.

CCIL's revenues have grown at a CAGR of 120% over FY06-08 on account of strong growth in membership revenues. As on June 30' 2008 there are 167,535 members compared to 91,533 in FY06. With the strong increase in the number of members, the share of membership fees and annual subscription fees in total revenues has increased from 73% in FY06 to 93% in FY08.

Regionally focused: Strong player in the South

CCIL's locations are skewed towards southern India with 31 of its 49 Indian properties located in the South; it has two properties located overseas. Revenues from members in South contributed ~70% of the membership fees in FY08.

Recently, the company acquired four properties in India, one in Dubai, and an open plot near Chennai, which it intends to convert into a resort. CCIL has total 51 properties (including the recently acquired ones) in India and abroad.

Club additions to drive growth

The company intends to have 70 operational properties across metros and tier-I cities in India over the next two years via the organic and inorganic route. Currently, CCIL has 51 properties and 250 affiliations with various clubs across India. These affiliations will enable existing members utilise the services of various clubs on a pan-India basis. The company has outlined a capex of INR 200-250 mn per club on ownership basis.

Outlook

Although there are no direct club membership plays, we view the small and mid-sized hotels and a player like Mahindra Holidays and Resorts which provides holidays through vacation ownership memberships as a proxy for comparison. Listed players in the peer group are available at an average P/E of 6.5x FY08 earnings.

At the CMP of INR 274, the stock trades at a P/E of 7.8x and 6.3x diluted FY08 and Q1FY09 annualised consolidated earnings of INR 35.1 and INR 43.7, respectively. This stock is currently not under our coverage.

Reuters	:	COUN.BO
Bloomberg	:	AMI IN

Market Data		
52-week range (INR)	:	1,110 / 240
Share in issue (mn)	:	15.5
M cap (INR bn/USD mn)	:	4.2 / 90.4
Avg. Daily Vol. BSE ('000)	:	13.4

Share Holding Pattern (%)		
Promoters	:	40.1
MFs, FIs & Banks	:	14.8
FIIs	:	7.4
Others	:	37.7

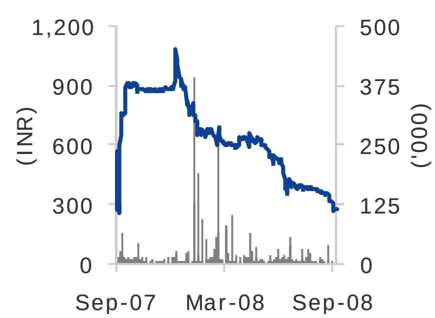
Relative Performance (%)

	Sensex	Stock	Stock over Sensex
1 month	(5.8)	(24.0)	(18.2)
3 months	(5.1)	(47.2)	(42.1)
12 months	(19.4)	(49.4)	(30.0)

Financials

Year to March	FY05	FY06	FY07*	FY08*
Revenues (INR mn)	340	650	1,543	3,147
Growth (%)	-	*91.1*	*137.2*	*104.0*
EBITDA (INR mn)	30	108	576	1,205
Net profit (INR mn)	(26)	141	334	650
Growth (%)	-	*NM*	*1,080.0*	*94.6*
Shares outstanding (mn)	8.7	8.7	10.9	18.5
EPS (fully diluted) (INR)	(3)	3.2	30.7	35.1
EPS growth (%)	-	*NM*	*845.2*	*14.5*
Diluted P/E (x)	NM	84.5	8.9	7.8
ROAE (%)	NM	22.9	95.0	20.0

* Consolidated

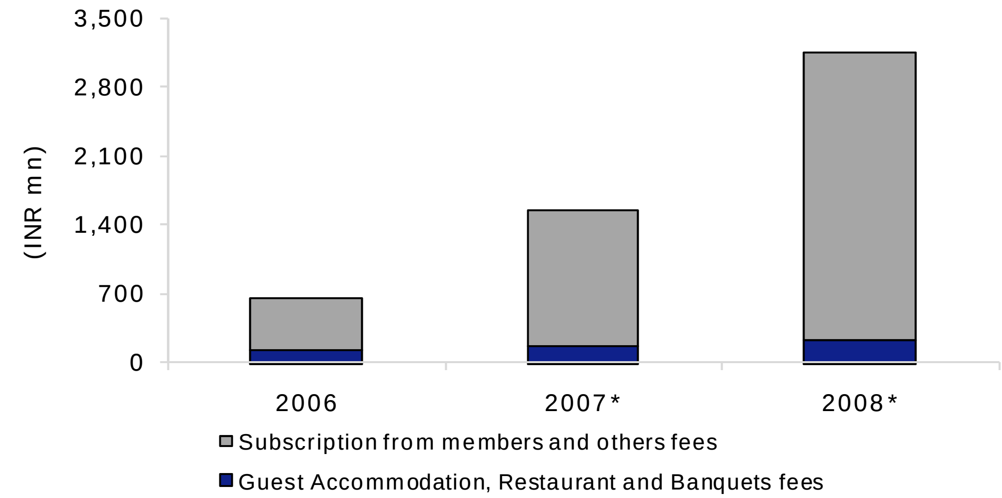


Strong growth over the past two years

CCIL's business model is a combination of club membership fees, annual subscription fees, and revenues from others (recreation, food and beverages, leisure, room rent, and others). Members are charged annual subscription fees for regular upkeep and service costs of the club.

Its revenues have grown at a CAGR of 120% over FY06-08 on account of strong growth in subscription revenues. The company posted strong revenue growth of 99.2% Y-o-Y (INR 1.1 bn) and net profit growth of 53.2% Y-o-Y at INR 202 mn for Q1FY09. However, in terms of the business model, revenues from membership fees are at a dominant 93%, while facilities, guest accommodation, restaurant fees, and banquet fees contributed only 7% of the revenues in FY08, compared to 73% and 27% in FY06, respectively.

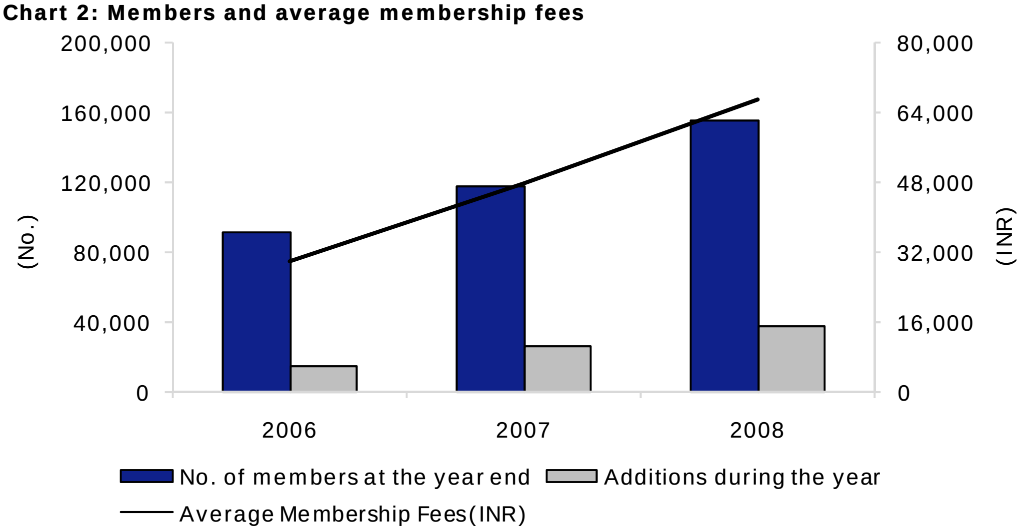
Chart 1: Revenue break-up



Source: Company, Edelweiss research

The number of members have grown at a CAGR of 30% over FY06-08 and as on Q1FY09, there are ~167,535 members compared to 91,533 in FY06. On Y-o-Y basis, membership has grown 70% in Q1FY09 (an addition of 12,052 member versus 7,068 members added in Q1FY08).

Chart 2: Members and average membership fees



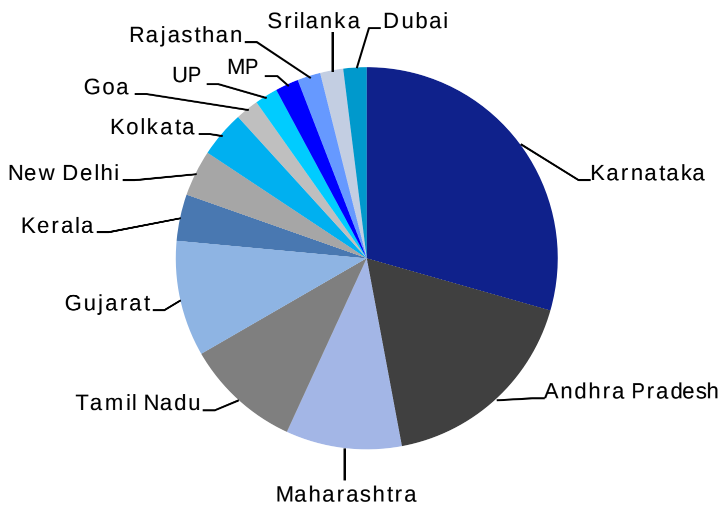
Source: Company, Edelweiss research

With a strong growth in the number of members, there has also been strong growth in realisations of average membership fees (INR 66,927 in FY08 compared to INR 30,060 in FY06).

Regionally focused: Strong player in the South

CCIL's locations are skewed towards southern India with 31 of its 49 Indian properties located in the South; it has two properties located overseas. Revenues from members in South contributed ~70% of the membership fees in FY08; 80% of the members are based out of southern India as on FY08.

Chart 3: Southern dominance



Source: Company, Edelweiss research

Recently, the company acquired four properties in India, one in Dubai, and an open plot near Chennai, which it intends to convert into a resort. With this, CCIL has 51 properties in India and abroad.

The company acquired the Dubai property for INR 1.75 bn; it intends to have an international presence and cater to Indian residents in the United Arab Emirates. This property is strategically located 15 minutes from the Dubai Airport and currently has 102 rooms operational.

Club additions to drive growth

The company intends to have 70 operational properties across metros and tier-I cities in India over the next two years via the organic and inorganic route. With this, CCIL also plans to utilise the Dubai acquisition as a strong platform expand into the Middle East geography with a medical tourism foray to offer naturopathy and ayurvedic services.

The company intends to continue its growth trajectory and maintain 100% CAGR growth over the next two years through member addition at its new properties and by increasing penetration levels at existing properties.

Currently, CCIL has 51 properties and 250 affiliations with various clubs across India. These affiliations will enable existing members utilise the services of various clubs on a pan-India basis. The company has outlined a capex of INR 200-250 mn per club on ownership basis.

By 2012, CCIL intends to set up 100 operational properties in metros and tier-I cities across India. With the low debt equity and substantial cash on the books as on FY08 we believe, the capex could be funded through debt and internal accruals.

Table 1: Peer group analysis

	FY08					
	Kamat Hotels	Oriental Hotels	Taj GVK Hotels	Asian Hotels	Mahindra Holidays	Country Club
Revenues (INR mn)	1,552	2,456	2,575	5,138	3,750	3,147
EBITDA (INR mn)	592	854	1,210	2,270	1,406	1,205
PAT (INR mn)	295	533	704	1,302	805	650
EPS (INR)	22.3	29.9	11.2	57.1	-	42.0
PE (x)	4.4	7.2	7.6	6.8	-	6.5
ROCE (%)	12.2	20.7	35.6	12.3	-	15.1
ROE (%)	18.3	17.6	30.2	8.8	-	19.9
Fixed asset turnover (x)	0.5	1.2	1.0	0.3	-	0.7
Revenue CAGR FY06-FY08 (%)	38.0	22.4	16.7	24.9	56.7	120.0
PAT CAGR FY06-FY08 (%)	37.3	33.6	23.3	51.1	100.4	114.6

Source: CapitalLine

Note: Market price as at October 01, 2008

We view the hotels and recreation business as a combination of services such as food and beverages, restaurants, spas, health services, nightclubs, and other ancillary services. Across the industry, contribution from non-room revenues has increased.

Although CCIL is not a full-fledged hotel and there are no direct club membership plays that are listed, we view small and mid-sized hotels and a player like Mahindra Holidays and Resorts India (filed DHRP) as a proxy for comparison. Listed players in the peer group are available at an average P/E of 6.5x FY08 earnings.

In terms of peer group analysis, CCIL's asset turnover ratio is not high, despite a huge increase in membership, indicating high real estate cost or focus on a low value-led subscription model. Based on these factors, we believe the company looks reasonable on P/E basis, based on FY08 and Q1FY09 earnings because of the higher growth in revenues and net profits over FY06-08.

Table 2: Recent fund raising through equity route

Equity Capital	(INR mn)	Remarks
As on FY07	87	As on 31st March 2007
Part FCCB conversion (At INR 515)	4	Part conversion in October 2007
QIP (At INR 770)	19	Raised January 2008
GDR (At INR 770)	44	Raised January 2008
As on FY08	155	As on 31st March 2008
Warrant (At INR 600)	6	Conversion till 15th May 2009
FCCB conversion (At INR 515)	17	Conversion till 2011
Warrant (At INR 770)	7	Conversion till FY09
Post Conversion in FY09	**185**	

Source: Company, Edelweiss research

With the funds raised, CCIL acquired a Dubai property for INR 1.7 bn and spent INR 964 mn on various properties in Chennai, Pune, Delhi, Kolkata, Ahmadabad, Vadodara, and Surat as part of its strategic expansion.

Company Description

CCIL was incorporated in year 1989 by Mr. Y. Rajeev Reddy and Mrs. Manjula Reddy. It is a chain of family membership-based clubs in India with a nationwide presence of 49 properties and one property each in Dubai and Sri Lanka. It has more than 220 affiliations across the globe and also has a RCI affiliation, which enables members to have access to 3,900 RCI resorts.

It provides a wide array of services like health clubs, multi-cuisine restaurants, business centres, and swimming pools. A unique benefit available to members joining CCIL is the facility to transfer membership from one city to another, paying the differential membership fee, in case membership fee is higher at the city of transfer.

The company is recognised as India's biggest chain of family clubs by the Limca Book of World Records. CCIL has over 160,000 members, comprising 600 corporate clients like Microsoft and Satyam Computer.

Table 3: Subsidiaries:

Subsidiary	Holding(%)	Business Activity
Aakruti Engineers	100	This company was acquired during 2006. The income of the company is the rental income received from M/s CCI for renting out the property and receives a lease income.
Aquarian Realtors	100	This company has a property which is leased out to CCIL. This company receives a lease income from the holding company
Bush Betta Howar	100	This company has a operational property.
Country Club Babylon Resorts	100	This company has a operational property in Srilanka.
Chanakyapuri Resorts	100	This company was acquired in the year 2008 with one operational resort at Kolkata.
J.J Arts and Entertainment	100	This company was acquired in the year 2008 with one operational resort at Narakkal Village, Cochin
Jade Resorts	100	This company was acquired in the year 2008 with a open plot of 3 acres at Nemelli Village, Chennai.
Kolet Resort Club	100	This company was acquired in the year 2008 with one operational water park at Village Kolat, Ahmedhabad
Bright Resorts	100	This company was acquired in the year 2008 with one operational property at Thiruvallam, Kerala.
Maruthi Water Park	100	This company has a operational property in Hubli.
Country Vacation International	100	This company was acquired during the year 2009 with one operational property in Dubai

Source: Company, Edelweiss research

Key Risks

CCIL has an aggressive revenue recognition policy as the company books revenues from membership fees in the year of admission, whereas benefits of the same are provided for the lifetime of the member.

Delay in capacity addition.

Regulatory risk.

Financial Statements

Income statement (INR mn)

Year to March	FY05	FY06	FY07*	FY08*
Income from operations	340	650	1,543	3,147
Total operating expenses	310	542	967	1,942
Consumables and provisions	30	37	48	80
Employee cost	96	179	392	840
Upkeep and service cost	85	87	127	146
Advertisement	-	-	123	387
Selling and administrative expenses	99	240	277	488
Miscellanous expenses	0	0	0	0
EBITDA	30	108	576	1,205
Depreciation and amortisation	22	33	49	68
EBIT	8	75	527	1,137
Interest	34	32	61	126
Profit before tax	(26)	43	466	1,011
Provision for tax	-	15	132	360
Core profit	(26)	28	334	650
Prior period adjustments	-	113	(0)	-
Profit after tax	(26)	141	334	650
Profit after minority interest	(26)	141	334	650
Shares outstanding (mn)	8.7	8.7	8.7	15.5
EPS (INR) basic	(2.9)	3.2	38.3	42.0
Diluted shares (mn)	8.7	8.7	11	18.5
EPS (INR) diluted	(2.9)	3.2	30.7	35.1
Dividend per share (INR)	0	0	2.0	2.0
Dividend payout (%)	-	-	6.1	5.6

*Note: *Consolidated*

Common size metrics- as % of net revenues

Year to March	FY05	FY06	FY07*	FY08*
Operating expenses	91.1	83.4	62.7	61.7
Consumables and provisions	8.8	5.6	3.1	2.6
Employee cost	28.3	27.5	25.4	26.7
Upkeep and service cost	24.9	13.4	8.2	4.6
Advertisement	-	-	8.0	12.3
Selling and administrative expenses	29.0	36.9	17.9	15.5
Depreciation and amortisation	6.5	5.0	3.2	2.2
Interest expenditure	9.9	5.0	3.9	4.0
EBITDA margins	8.9	16.6	37.3	38.3
Net profit margins	(7.5)	4.4	21.7	20.7

Growth metrics (%)

Year to March	FY05	FY06	FY07*	FY08*
Revenues		91.1	137.2	104.0
EBITDA growth		256.2	433.2	109.3
PBT		NM	980.3	116.8
Core net profit		NM	1,080.0	94.6
EPS		NM	845.2	14.5

Balance sheet (INR mn)

As on 31st March	FY05	FY06	FY07*	FY08*
Equity capital	87	87	87	155
Warrants	-	-	-	36
Reserves & surplus	(34)	107	423	5,825
Shareholders funds	53	194	511	6,016
Membership fees	684	917	774	664
Secured loans	103	3	6	10
Unsecured loans	287	189	1,224	910
Borrowings	390	191	1,230	921
Deferred tax (Net)	45	55	72	114
Sources of funds	**1,172**	**1,358**	**2,587**	**7,715**
Gross block	723	1,007	1,736	3,575
Depreciation	137	166	202	259
Net block	586	841	1,534	3,316
Capital work in progress	279	286	78	965
Investments	-	9	0	0
Inventories	2	1	2	6
Sundry debtors	62	67	43	46
Cash and bank balances	4	8	1,145	2,930
Loans and advances	405	329	244	1,172
Total current assets	472	405	1,434	4,154
Sundry creditors and others	132	183	222	636
Provisions	32	-	238	86
Total current liabilities & provisions	164	183	460	723
Net current assets	308	222	974	3,432
Misc expenditure	0	-	2	1
Uses of funds	**1,172**	**1,358**	**2,587**	**7,715**
Book value per share (BV)	6	22	58	386

Note: *Consolidated*

Free cash flow

Year to March	FY05	FY06	FY07*	FY08*
Net profit	(26)	141	334	650
Depreciation	22	33	49	68
Others	307	-	-	0
Gross cash flow	304	174	383	718
Less: Changes in working capital	304	(90)	(385)	673
Operating cash flow	-	264	768	45
Less: Capex	-	295	533	2,741
Free cash flow	**-**	**(31)**	**234**	**(2,695)**

Cash flow metrics

Year to March	FY05	FY06	FY07*	FY08*
Operating cash flow		264	768	45
Financing cash flow		45	891	4,481
Investing cash flow		(295)	(533)	(2,741)
NET CASH FLOW		13	1,126	1,786
Capex		295	533	2,741
Dividend paid		-	20	36
Share issuance/(Buyback)		(0)	0	4,894

Ratios

Year to March	FY05	FY06	FY07*	FY08*
ROAE (%)	NM	22.9	95.0	20.0
ROACE (%)	1.4	6.0	26.8	22.1
Inventory (days)	1	2	1	1
Debtors (days)	33	36	13	5
Payable (days)	115	190	131	147
Cash conversion cycle	(80)	(153)	(117)	(141)
Current ratio	2.9	2.2	3.1	5.7
Debt/EBITDA	12.9	1.8	2.1	0.8
Interest cover (x)	0.2	2.3	8.7	9.0
Fixed assets turnover (x)	1.2	0.9	1.3	1.3
Total asset turnover(x)	0.6	0.5	0.8	0.6
Equity turnover(x)	12.8	5.3	4.4	1.0
Debt/Equity (x)	7.3	1.0	2.4	0.2
Adjusted debt/Equity	7.3	1.0	2.4	0.2

Du pont analysis

Year to March	FY05	FY06	FY07*	FY08*
NP margin (%)	(7.5)	4.4	21.7	20.7
Total assets turnover	0.6	0.5	0.8	0.6
Leverage multiplier	22.0	10.2	5.6	1.6
ROAE (%)	(95.9)	22.9	95.0	20.0

Valuation parameters

Year to March	FY05	FY06	FY07*	FY08*
Diluted EPS (INR)	(2.9)	3.2	30.7	35.1
Y-o-Y growth (%)		*NM*	*845.2*	*14.5*
CEPS (INR)	(0.4)	7.0	43.9	46.4
Diluted P/E (x)	NM	84.5	8.9	7.8
Price/BV(x)	45.0	12.3	4.7	0.7
EV/Sales (x)	8.2	3.9	1.6	0.7
EV/EBITDA (x)	91.7	23.8	4.3	1.9

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Coverage group(s) of stocks by primary analyst(s): Miscellaneous:

Opto Circuits India, Everest Kanto Cylinders, Ballarpur Industries, Graphite India, Greenply Industries, Mcleod Russel, Navneet Publication, Nucleus Software, Page Industries, Philips Carbon Black, Repro, Riddhi Siddhi Gluco Biols, Shanthi Gears, Bajaj Electrical, Phoenix Lamps, Nitin Fire Protection, Lakshmi Energy & Foods.

Country Club

Recent Research

Date	Company	Title	Price (INR)	Recos
04-Sep-08	**Everest Kanto Cylinders**	Globetrotting to fuel growth; *Initiating Coverage*	291	Accum.
01-Aug-08	**Phoenix Lamps**	Revenues disappoint despite expanded capacities; *Result Update*	129	Buy
01-Aug-08	**Navneet Publications**	Margin pressures; *Result Update*	71	Accum.
31-Jul-08	**Phillips Carbon Black**	Exchange losses dent margins; *Result Update*	159	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution*	111	62	17	7	207

* 9 stocks under review / 1 rating withheld

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	84	73	50

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 20% over a 12-month period
Accumulate	appreciate up to 20% over a 12-month period
Reduce	depreciate up to 10% over a 12-month period
Sell	depreciate more than 10% over a 12-month period