

Mid-Cap Pulse Edging Forward...

Mahindra Holidays & Resorts India



Highlights

- Strong branded play on the high potential timeshare industry
- Aggressive room addition planned; strong member addition
- Upward financial trajectory

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Rating	BUY
Price	Rs283
Target Price	Rs366
Implied Upside	29.3%
Sensex	18,709
Nifty	5,676

(Prices as on October 08, 2012)

Trading data

Market Cap. (Rs bn)	23.7
Shares o/s (m)	83.8
3M Avg. Daily value (Rs m)	4.4

Major shareholders

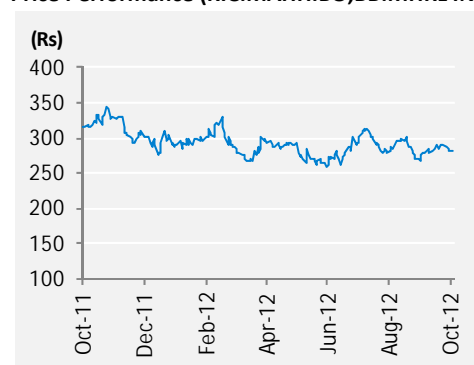
Promoters	82.69%
Foreign	3.68%
Domestic Inst.	0.77%
Public & Other	12.86%

Stock Performance

(%)	1M	6M	12M
Absolute	1.4	(4.1)	(10.7)
Relative	(4.4)	(11.1)	(25.9)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	15.6	13.5	16.1
2014	22.1	16.0	38.1

Price Performance (RIC:MAHH.BO,BB:MHRL IN)


Source: Bloomberg

Mahindra Holidays & Resorts India (MHRL), a part of the US\$14.4bn Mahindra Group, is a leading leisure hospitality provider in the country, with 42 resorts across 35 diversified locations. Being the largest within the timeshare industry in India, with a member base of 147K, it provides quality holidays through the vacation ownership model - a significantly under-penetrated model in India.

- Strong expansion underway, member addition to follow:** MHRL has nearly doubled its room capacity to 2049 in the FY09-12 period, with 425 rooms added in FY12 and a target of 700 in FY13. Besides increasing availability to the existing members, the plan is to aggressively increase its member base which stands at ~143K as of March 2012. Members have increased at 15.6% CAGR over FY09-12 which is expected to increase to 16.7% between FY12-14.
- Addressing complaints to drive new sales:** In order to live up to its 'Mahindra' brand, the management's focus is to address the key complaint of non-availability of rooms. The three-pronged strategy to increase inventory ahead of member additions, restrict giving out rooms to non-members and setting up a transparent online booking system is already helping in reviving referral sales.
- Robust model ensures capex funding from internal sources:** MHRL has maintained a debt-free model as resort running expenses and majority of the corporate expenses are funded from recurring income streams. Therefore, membership fees need to fund only the member acquisition costs and a small part of running expenditure, leaving a large chunk for capex requirements.
- Valuations:** We have valued MHRL on an 'Average of DCF and PER'. At present, on account of capex, FCF generation is negligible. However, at the end of 25 years when the rooms are re-sold to new members, FCF generation shall accelerate. The DCF value stands at Rs359. Although MHRL has a much stronger growth & return profile, it trades at a PER of 12.2x FY14 as compared to 17x for its peers. At 17x FY14, the value stands at Rs372. Our target price, Rs366 is based on an average of the two values. We rate the stock **'BUY'**

Key financials (Y/e March)	2011	2012	2013E	2014E
Revenues (Rs m)	5,004	5,781	7,661	9,946
Growth (%)	5.7	15.5	32.5	29.8
EBITDA (Rs m)	1,232	954	1,456	2,238
PAT (Rs m)	1,002	1,023	1,312	1,855
EPS (Rs)	12.0	12.2	15.6	22.1
Growth (%)	(14.7)	1.7	28.2	41.4
Net DPS (Rs)	4.0	4.0	4.0	4.2

Profitability & Valuation	2011	2012	2013E	2014E
EBITDA margin (%)	24.6	16.5	19.0	22.5
RoE (%)	21.4	19.2	21.5	25.5
RoCE (%)*	19.4	17.8	20.1	24.0
EV / sales (x)	4.6	4.1	3.1	2.4
EV / EBITDA (x)	18.7	24.8	16.3	10.5
PE (x)	23.6	23.2	18.1	12.8
P / BV (x)	4.7	4.2	3.6	3.0
Net dividend yield (%)	1.4	1.4	1.4	1.5

Source: Company Data; PL Research

* Without Deferred Income

Investment Arguments

- Strong expansion underway, member addition to follow
- Strong potential for the timeshare industry in India
- Change of guards to drive the next leg of growth
- Upward financial trajectory: Margins & Return ratios to strengthen

Strong expansion underway, member addition to follow

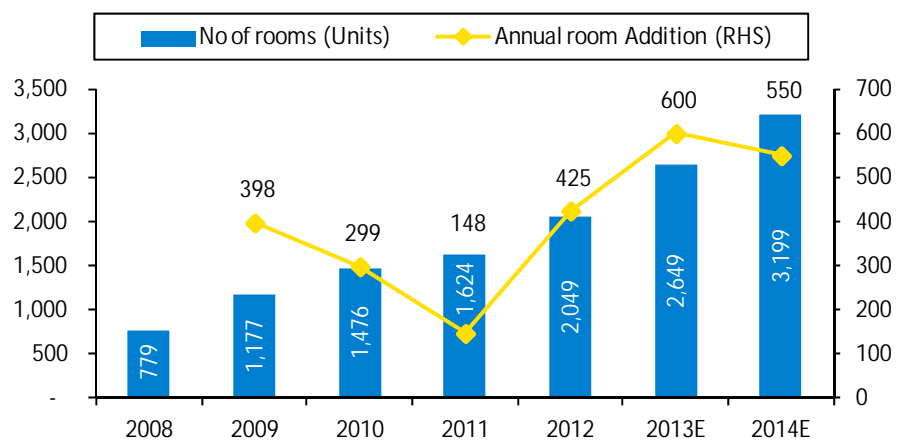
Sizeable increase in room inventory

Through a combination of owned and leased rooms, MHRL has nearly doubled its room inventory in the last four years, from 1177 rooms in FY09 to 2049 rooms in FY12. The company is focused on increasing its inventory; it has increased annual addition from a mere 299 and 148 rooms in FY10 and FY11, respectively to additional 425 rooms in FY12, registering a significant increase in the total inventory to 2049 rooms in FY12. This offers members a choice of 42 resorts across 35 destinations.

MHRL currently has a land bank of 225 acres spread over 10 locations. In FY13, the room addition target stands at 700 rooms. However, we are estimating an addition of 1150 rooms over FY13 & FY14 which is a 56% increase in inventory over the current levels.

The increase in room inventory gives the company the ability to increase its member base, especially in the peak season categories, which in turn, drives higher revenues. The objective of aggressively adding inventory ahead of member acquisitions is a conscious shift from its earlier 'Just-in-Time' model to ensure room availability to existing members.

Exhibit 1: Aggressive room addition planned

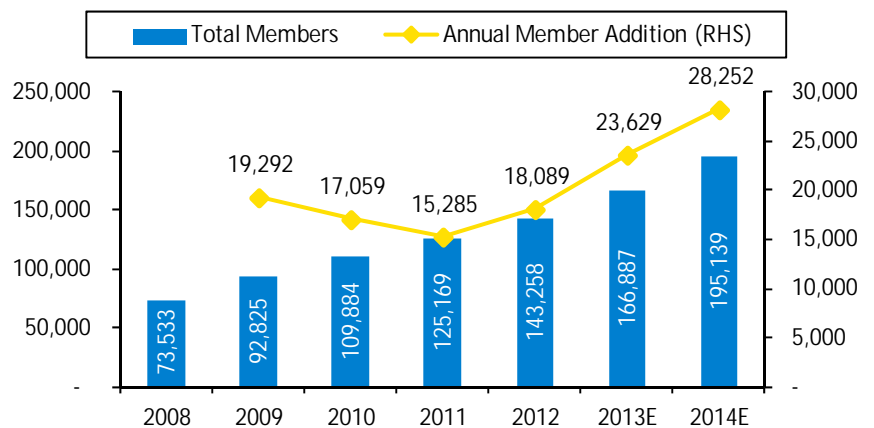


Source: Company Data, PL Research

Strong upward trajectory for member additions

Besides increasing the availability of rooms to the existing members, MHRL has plans to focus on strong member acquisitions post aggressive addition in rooms. The company also plans to target onsite sales which include 1) existing members upgrading to a larger unit or a better season, whereby, the cost of acquisition is extremely low and 2) focusing on corporate sales, which in turn, can help the company get personal membership from employees who enjoyed the Club Mahindra experience. The company is also focusing on drawing NRIs based out of Dubai, Colombo & Bangkok by increasing sales presence in these countries. Members have increased at 15.6% CAGR over FY09-12. Despite being the weakest quarter for company on account of post vacation slackness, Q1FY13, too, saw an addition of 3780 members, a growth of 12% YoY. The strong addition in members certifies that the company is able to generate interest even in a tough macro-economic scenario. We expect an increase in members at 16.7% CAGR over the next couple of years.

Exhibit 2: Steadily increasing member base



Source: Company Data, PL Research

Offers a choice of diversified destinations

MHRL's 42 resorts are well diversified in many senses. Besides being present in popular holiday destinations like Goa, Mussoorie & Ooty, it is also present in new & exotic locations like Binsar, Kumbalgarh & Coorg. MHRL has proven extremely successful in setting up resorts in new, pristine locations and popularising the same as tourist destinations. Members, therefore, get an opportunity to not only visit their favourite holiday destinations but also try new exotic locations.

The resorts also cover a variety of location in terms of beaches, hill stations, green landscapes and others. In terms of a geographical diversification, the resorts are well spread across Western, Southern and Northern India and are currently focusing to increase their presence in Eastern parts of India so that it can attract members from there as well. Abroad, the company is present in Bangkok, Malaysia and Austria.

MHRL has a strong room addition plan lined up which includes room addition through owned and leased rooms. The most recent addition to the company's list of destinations on offer is Jaisalmer, a famous tourist spot in Rajasthan. Besides, two more resorts are under construction: Tungi Resort in Lonavala, Maharashtra and Virajpet in Coorg, Karnataka.

Exhibit 3: Varied resorts available for different holiday types

Sr	Region	Resort	Holiday Type	Location Type	Sr	Region	Resort	Holiday Type	Location Type
1	North	Binsar valley Resort	Himalayas	Pristine	23	South	Thekkady, Tusker Trails	Hill Station / Jungle	Pristine
2		Corbett, Safari Resort	Jungle	Popular Vacation Spot	24		Kodaikanal, Hill country	Hill Station	Popular Vacation Spot
3		Mashobra, Whispering Pines	Himalayas	Pristine	25		Kodaikanal	Hill Station	Popular Vacation Spot
4		Naukuchiatal, Dancing waters	Waterfront	Pristine	26		Munnar, Lake view	Hill Station	Pristine
5		Mussoorie, Hilltop	Himalayas	Popular Vacation Spot	27		Ashtamudi, Backwater retreat	Waterfront	Pristine
6		Manali, Snowpeaks	Himalayas	Pristine	28		Ooty, Derby green	Hill Station	Popular Vacation Spot
7		Dharamshala, Kangra valley	Hill Station / Himalayas	Popular Vacation Spot	29		Poovar, Island resort	Waterfront	Pristine
8		Binsar, Manipur villa	Hill Station	Pristine	30		Coorg, Kodagu valley	Hill Station	Pristine
9		Club Mahindra Kanatal	Hill Station	Pristine	31		Coorg, Virajpet	Hill Station	Pristine
10		Club Mahindra, Shimla	Hill Station	Popular Vacation Spot	32		Masinagudi, Zest Masinagudi	Jungle	Pristine
11	East	Gangtok, Royal Demazong	Himalayas	Pristine	33		Yercaud, Lake forest	Hill Station	Pristine
12		Baiguney, Club Mahindra	Waterfront	Pristine	34		Puducherry, Zest Puducherry	Beach	Pristine
13	West	Kumbhalgarh, Fort Kumbhalgarh	Dessert	Pristine	35		Swamimalai, Zest Swamimalai	Hill Station	Pristine
14		Gir, Safari resort	Jungle	Popular Vacation Spot	36		Kumarakom, Club Mahindra	Waterfront	Pristine
15		Goa, Emerald Palms	Beach	Popular Vacation Spot	37		Club Mahindra, Ooty	Hill Station	Popular Vacation Spot
16		Goa, Jasmin	Beach	Popular Vacation Spot	38	Abroad	Pattaya, Hill resort	Beach	Popular Vacation Spot
17		Goa, Varca Beach	Beach	Popular Vacation Spot	39		Bangkok, Citadines Bangkok	Beach	Popular Vacation Spot
18		Nawalgarh, Roop villas	Dessert	Pristine	40		Bangkok, Grand Tower Inn	Beach	Popular Vacation Spot
19		Udaipur, Flora	Dessert	Popular Vacation Spot	41		Austria, Bon Alpina	Hill Station	Popular Vacation Spot
20		Club Mahindra, Mahabaleshwar Sherwood	Hill Station	Popular Vacation Spot	42		Malaysia, Heritage suites	Beach	Popular Vacation Spot
21		Jaisalmer	Dessert	Popular Vacation Spot					
22		Tungi Resort, Lonavala	Hill Station	Popular Vacation Spot					

Source: Company Data, PL Research

Strong potential for the Timeshare industry in India

Given the large size of the Indian Tourism industry estimated at Rs3,835bn, 84% of which is from domestic tourism, the scope for the timeshare business is huge. The current size of the timeshare industry in India stands at Rs7.5bn which is a mere 0.2% of the Indian tourism industry as compared to the US, where the timeshare industry is 2% of the tourism industry. The vacation ownership industry in the West has been quite popular, with leading hospitality chains and prominent hoteliers, such as Starwood, Wyndham, Accor, Hyatt, Hilton, Marriott, Disney, Melia, Fairmount, and Four Seasons Hotels.

Even considering that the timeshare market grows to 1% on the Indian tourism industry, the scope is five-fold. According to another research by group RCI and Cushman and Wakefield in 2009, the size of Indian timeshare industry is projected to grow at annual rate of 16% between 2006 and 2015.

The demand from the younger demography is relatively higher. Young upwardly-mobile consumers are getting onto the bandwagon - with the resources to make timeshare purchases early in life. They are also committed to annual holidays, for welcome breaks from highly stressed work environments. With younger profiles, the timeshare experience has started evolving in India.

Though, in India, the timeshare industry is still at a nascent stage and will require its own gestation period and space to grow in scale and content, the scope to grow cannot be underestimated

Exhibit 4: Indian vacation ownership players have large room for expansion

	Revenues (\$ m)	Members	Resorts	Units
Wyndham	1150	813000	162	20803
Marriott	634	425000	50	12768
Disney**	385*	160000*	11*	3500*
Starwood*	703	235000	14	4834
Hilton	690	237000	39	6037
Sterling#	13.58	64500	19	1382
Mahindra Holidays#	105	147300	40	2049

Source: Vacation Ownership WORLD Magazine, March – April 2012 (based on 2011 data)

**Reflects 2010 data published in Vacation Ownership WORLD Magazine, March – April 2011

* Reflects 2008 data published in Vacation Ownership WORLD Magazine, March – April 2009

dollar assumed @ Rs 55.

Change of guards to drive the next leg of growth

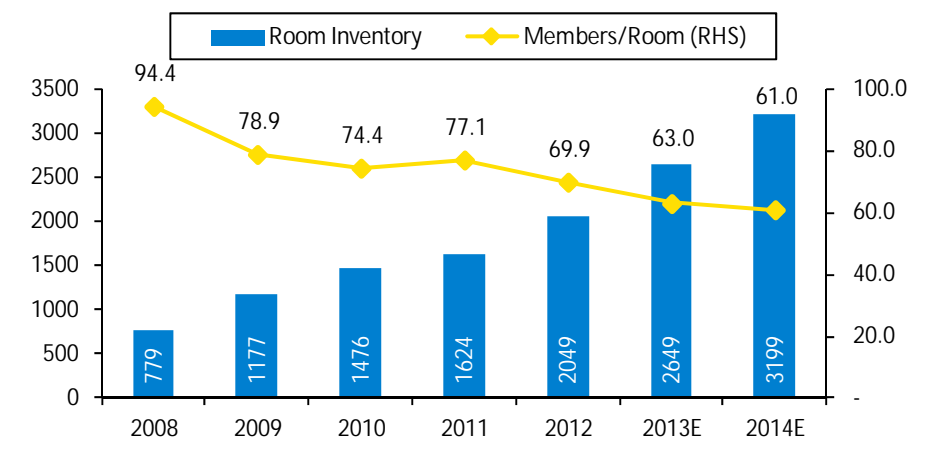
MHRL's leadership has gone through a change in FY12 which has resulted in key initiatives to address the key customer complaint of room availability. The new management has adopted the strategy of 'Members First' which is a three-pronged strategy to increase room availability for members and thereby, ensure satisfied members and positive referrals.

Increasing inventory

The key aspect of this strategy is to achieve a significant increase in choice of destinations and inventory for members. The management is moving from a 'Just-in-Time' model where the room/member equation was kept tight to a model which ensures ample room availability ahead of member addition.

With the increase in room inventory, the ratio of total number of members/room shall decrease despite an annual increase in membership which shall lead to increase in room availability for members.

Exhibit 5: Increasing room availability for members



Source: Company Data, PL Research

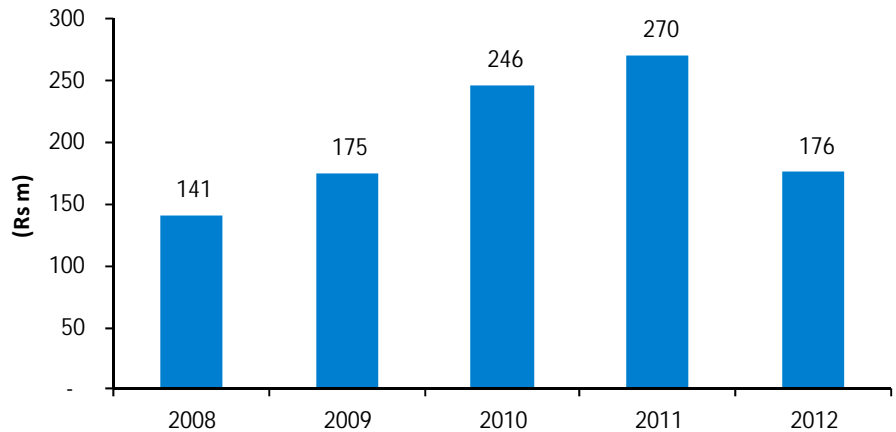
Although mathematically, the room availability at current levels of room inventory seems sufficient, given that the current member base is at 143k, ~22k members are not yet eligible to use their week* (since they are on the EMI scheme & the minimum threshold has not been achieved) and generally not more than 70% of the eligible members use their week every year; the total number of members using their week works out to ~85k. At the current levels of room inventory of 2049, the room-weeks available with the company is >100k which gives a decent buffer. However, season-time availability continues to be the issue which the company is attempting to resolve.

Week - Members are allowed to one week at any resort every year for a period of 25 years*

Curtailing inventory to non-members

MHRL has consciously reduced giving out rooms to non-members in order to increase availability for members; this is reflected in MHRL's revenues from room rentals which declined by 54% in FY12. Earlier, 15% of the occupancy was given out to non-members; this number has now declined to 4%.

Exhibit 6: Decline in room rentals as rooms given to non-members have reduced



Source: Company Data, PL Research

However, going ahead, the strong addition in inventory ahead of member addition shall leave the company with a good amount of inventory to sell to non-members which can firm-up this revenue stream once again.

Increasing transparency through on-line booking option

As a part of the 'Members First' initiative, MHRL implemented a complete online booking & payment solution to increase efficiency & transparency in the holiday booking process. This initiative has been successful as 13% of the bookings were made online as of Q4FY12. Further, the company is looking at making the holiday booking process more interactive where members will get information on holiday options based on their preferences.

The company is also ensuring that relationship managers call members to inform them of room availability and urge members to utilize their vacation week.

The implementation of this strategy is already taking effect which is evident from the fact that referral sales are once again increasing.

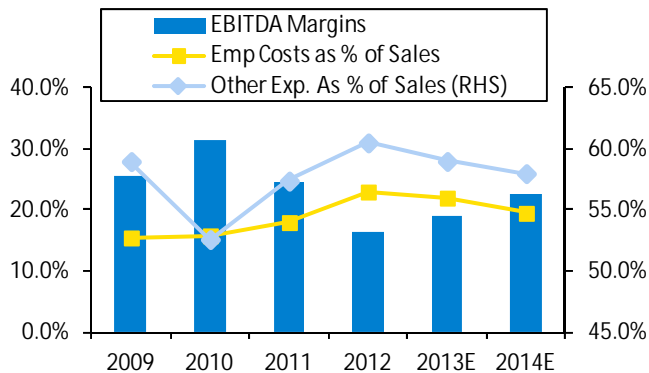
Upward financial trajectory: Margins & Return ratios to strengthen

MHRL's EBITDA margins, which have witnessed a declining trend, are likely to look up from here on with the company's strategy to rationalize expenses. Staff costs, which moved up sharply in FY12 on account of the massive room expansion undertaken along with the change in top-level management, are likely to trend downwards as a percentage of sales as the costs will get absorbed over a larger member base.

Further, MHRL is focusing on controlling member acquisition costs by reducing freebies and increasing memberships through references and upgrades. Besides, the company is also looking at increasing the percentage of owned properties as against leased properties from 65% to 75% which shall also help to improve margins. Further, with increase in inventory ahead of member acquisitions, room occupancy through non-members shall increase which shall further help firm-up margins.

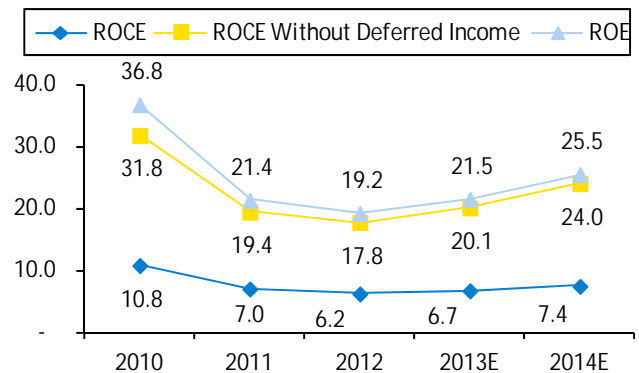
The improving financial performance at the P/L level is likely to translate to improving return ratios, whereby, return ratios are expected to improve. RoE & RoCE are expected to increase from 19.2% and 17.8% in FY12 to 25.5% and 24.05% in FY14, respectively.

Exhibit 7: Margin profile likely to improve



Source: Company Data, PL Research

Exhibit 8: Improving return ratios



Source: Company Data, PL Research

The Business Model

Major revenue heads

Income from sale of vacation ownership: This is a major revenue head for the company which is 68.7% of the total revenues. This constitutes the membership fee charged for the 25-year term. This fee is received upfront; however, only 60% is booked in the P/L, while the remaining 40% is carried to the balance sheet as deferred income and brought into the P/L through the membership term.

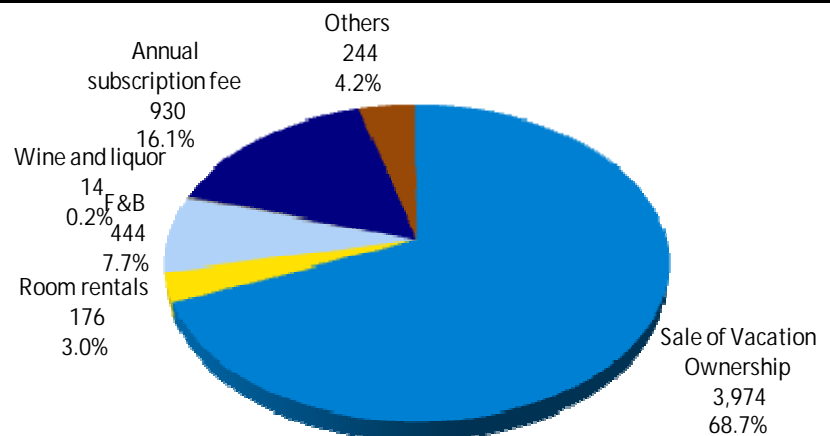
Accounting practise: Membership fee is collected either in full up front, or on a deferred payment basis. Admission fee, which is non-refundable, is recognized as income on admission of a member. Entitlement fee, which entitles the vacation ownership member for the vacation ownership facilities over the membership usage period, is recognized as income equally over the usage period.

Based on opinion of several accounting firms, the '60:40' ratio has been arrived upon for immediate recognition: income deferral, on the basis, that majority of expenses incurred towards each membership is incurred at the time of member acquisition itself.

Annual subscription fee (ASF): ASF is the fee charged to members on an annual basis which is linked to growth in the WPI which hedges the company from cost increases in the long term. This fee is currently in the region of ~Rs10k p.a. & forms 16% of the company's revenues.

Resort Income (RI): This is the income earned from rooms given out to non-members as well as F&B and other resort level income. All these put together amounted to 19% of total revenues in FY11; however, it declined to 15% in FY12 on account of the company's decision to restrict rooms to non-members.

Exhibit 9: Revenue break-up - FY12 (Rs m)



Source: Company Data, PL Research

Cost Structure

Member Acquisition Costs: This head includes all direct and indirect expenditure incurred to acquire members. This includes advertisements, promotions & free gifts, schemes, salary of sales staff, incentives, costs of running sales desks, Holiday World etc. Member Acquisition costs account for nearly 35% of the total membership fees.

Resort Expenses: All expenses at the resort level are covered under this head. It includes F&B expenses, running & maintenance of the resorts, lease rentals for resorts, expenses towards member relations, resort level salaries and others. As per our estimate, these expenses constitute ~30% of the total expenses of the company.

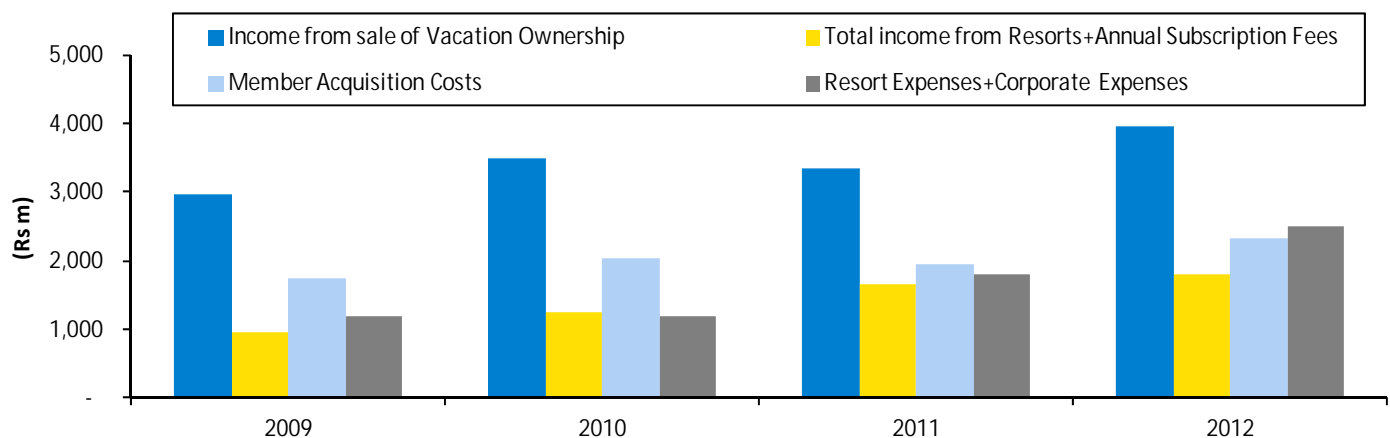
Corporate Expenses: This forms ~15-17% of the total income or ~20% of the total expenses. It constitutes all corporate level expenses as well as management salaries.

Room capex: The capex incurred per room amounts to ~Rs6-6.5m which is funded from internal accruals since the company has no debt on its balance sheet. Further it incurs maintenance capex of ~Rs0.3mn on soft renovation every 3-4 years and ~Rs1mn on hard renovation every 10-12 years.

Steady resort occupancy ensures coverage of resort-level expenses

With occupancy levels in the late 70s, RI, along with the ASF, funds ~30-50% of corporate level & 100% of resort running expenses. Since these two streams of revenue fund majority of the corporate level & resort-level expenses, the membership revenues that the company earns needs to fund only costs associated with member acquisition (i.e. ~35% of membership fees) as well as the remaining uncovered portion of the corporate level expenses.

Exhibit 10: Majority of the running expenses covered from recurring income

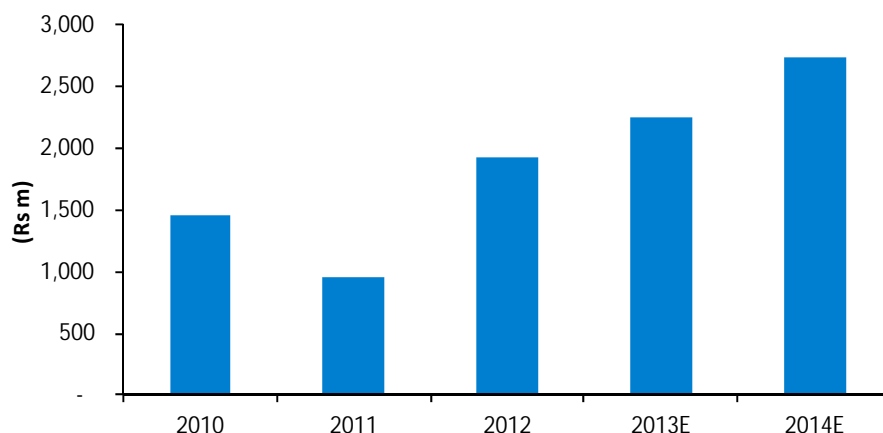


Source: Company Data, PL Research

Debt negligible, membership fees funds capacity expansion

MHRL's strategy is to fund capex from membership fees and maintain debt at negligible levels. Since majority of the resort and company levels expenses are funded through RI and ASF, income from the sale of vacation ownership is used to fund member acquisition costs and a part of corporate expenses, while the remainder is used to fund room expansion.

Exhibit 11: Capex towards inventory addition



Source: Company Data, PL Research

The company has funded its capex from its operational cash flows and has hence been able to maintain debt at near-zero levels. Besides, the company has maintained a dividend payout of 30%+ for the last few years.

Exhibit 12: FCFF statement - Capex funded through operational cash flows

	2010	2011	2012	2013E	2014E
PAT	1,171	1,003	1,023	1,312	1,855
Depreciation	196	221	231	290	398
Working Cap Changes	(831)	(2,663)	(92)	(2,758)	(3,733)
Deferred Income (Adv towards members facilities)	1,680	2,230	947	3,703	4,737
Change in Fixed assets	(1,462)	(952)	(1,922)	(2,244)	(2,733)
Free Cash to Firm (FCFF)	753	(160)	187	303	524

Source: Company Data, PL Research

About the Company

MHRL, incorporated in September 1997, is one of the leading leisure hospitality providers and part of the US\$14.4bn Mahindra Group. The company is the largest within the timeshare industry in India. It provides quality family holidays through vacation ownership memberships and other allied services required for a complete holiday experience. Members can choose to holiday at any of the fully operational resorts, for seven days each year, in a season and apartment type of chosen entitlement. It offers complete holiday solutions to its customers, drawing on its wide range of products and services.

Products



Source: Company Presentation

It's Parentage

The Mahindra group of companies is one of the leading and largest business groups in India. It is among the top 10 industrial houses in India. The Group's activities are spread over various areas such as automotive, farm equipments, engineering, forging, steel, infrastructure development, leisure hospitality, information technology, systems and technology, consultancy and software services, general retailing, trade and financial services. Being the part of the Mahindra Group, Club Mahindra, which is a part of the Mahindra Group, has absorbed its corporate values and principles and adhered to the established corporate governance practices.

Strong brand & parentage provides comfort to customers

Having leveraged on the well established Mahindra brand, 'Club Mahindra' has the highest brand equity amongst timeshare companies in India and, was awarded the 'Product of the Year 2012' in the 'Holidays & Hospitality' category based on independent consumer survey carried out by Nielsen ('Product of the Year' has been awarding companies in 28 countries for 25 years and enjoys global success). The company's strong parentage and strength of the brand lends immense comfort to its members which are the key to the success of the brand.

Management Profiling

MHRL's leadership has gone through a change in FY12 which has resulted in key initiatives like 'Members First' paving the way to address customer complaints. The current management consists of:

Mr. Arun Nanda, Chairman: Mr. Arun Nanda, a degree holder in law, is a fellow member of the FCA and FCS. He joined the Mahindra Group in 1973 and over the years has held several important positions within the Group. He is the Founder Director and Chairman of MHRL since 1998. His professional guidance and expert proficiency in understanding the holiday needs of Indian families and providing quality tailor-made products in the holiday space has been instrumental in the successful growth of the company. He was also behind the company's successful IPO. His deep entrepreneurial insights have helped MHRL enjoy a dominant position in the country's vacation ownership industry

Mr. Rajiv Sawhney, Managing Director and CEO: Mr. Rajiv Sawhney, a bachelor's degree holder in economics, is an alumnus of IIM Bangalore and has 29 years experience in FMCG and Telecom. Before joining MHRL, he looked after the telecom interest of Essar group in India and Africa.



Mr. Alope Ghosh, Chief Financial Officer: He graduated with a degree in Commerce from the University of Calcutta and is an Associate Member of ACS and AICWA and also a Member of CMA. He was with CMS Group & Systime Global Solutions prior to joining MHRL. He was recently selected as one of the top 100 CFOs in the country based on career achievement by a distinguished jury from the Industry, subject matter experts and other key stakeholders.

Mr. Indranil Chakraborty, Chief Marketing Officer: An alumnus of IIM Lucknow, he has an experience spanning over almost two decades in FMCG Marketing & Sales in both, Domestic and Global markets, in Retail and in Telecom. Apart from being responsible for the turnaround of one of the biggest and oldest brands in Unilever, he has also successfully completed many "entrepreneurial" start-ups in the above sectors. Prior to joining MHRL, Indranil was with Tata Teleservices as Vice President and Head - Strategic Marketing & Revenue Planning.

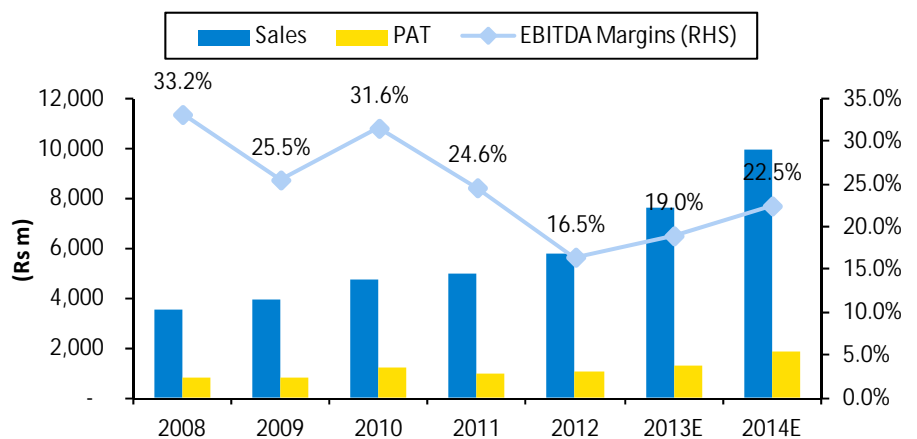
Mr. Sujit Paul, National Head – Member Relations and Customer Service: A Science Graduate topper from Delhi University, he has done his Post Graduate Diploma in Business Management from AIMA. He has an experience spanning over 17 years in Operations and Customer Service in the ITES, Financial Services and Insurance sectors. Prior to joining MHRL, Sujit was with TATA AIG General Insurance Company as Head – Customer Services and Retention based in Mumbai.

Financials

Strong revenue growth, better margin profile to spur earnings

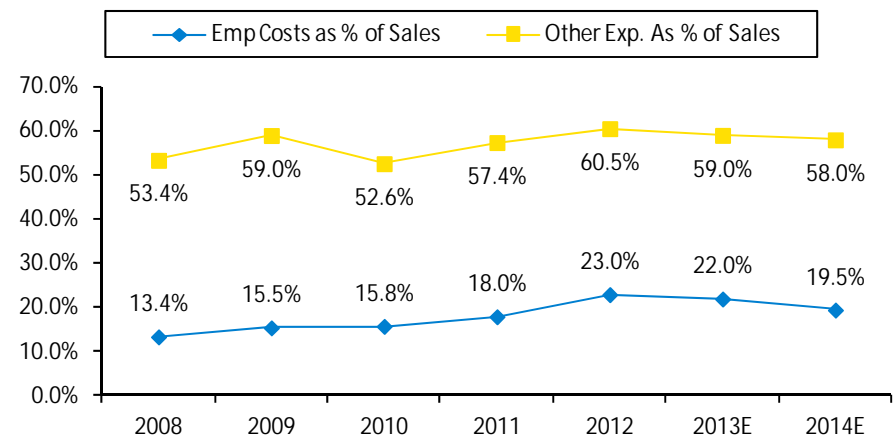
On the back of the increasing member base led by strong inventory addition, we expect revenues to grow at 31.2% CAGR from FY12-14. EBITDA margins are also likely to expand from 16.5% in FY12 to 22.5% in FY14 which will result in PAT growth of 34.7% CAGR over the same period.

Exhibit 13: Increasing sales to boost margins



Source: Company Data, PL Research

Exhibit 14: Employee cost & Other expenses as % of sales to reduce with increase in sales



Source: Company Data, PL Research

Valuations

We have used an 'Average of DCF and PER' methodology to value MHRL.

DCF Methodology

Being a debt-free model, the company's operating cashflows are used to fund its room expansion. The current free cashflow position would be negligible. However, as the 25-year membership period expires for its existing members, the company shall sell the same rooms once again and only a maintenance capex would be required then. At this point, the company's free cash generation shall accelerate. Being a 15 year-old company, the new term for members will start from 2022 onwards where we expect free cashflows of ~Rs5bn from the current FY12 levels of Rs300m.

We have discounted the company's cashflows using a WACC of 13.6% and a terminal growth rate of 4% which gives us a value per share of Rs359.

Exhibit 15: Summary Of DCF

PV of Cash Flow	12,213
PV of Terminal Value	18,190
Total Value	30,403
Less: Net Debt	(6)
Equity Value	30,409
No. shares outstanding	85
Value per Share (Rs)	359
Assumptions	
WACC	13.6%
Terminal Growth Rate	4%

Source: PL Research

Peer Group Comparison

Since the Indian peer set is limited to Sterling Holidays which has a similar business model, being a loss-making company currently, we are not using it for the purpose of comparison.

As compared to its International peers, MHRL has a much stronger growth as well as return profile. However, in terms of PE valuations, it trades at a discount. On a FY14 basis, MHRL trades at 12.2x as compared to the average of 17x for its peers.

We believe, MHRL, given its strong profitability and return profile shall get re-rated upwards and value the same at 17x FY14 which gives a value of Rs372.

Exhibit 16: Peer Comparison (Growth Parameters)

	MCap	Sales			Sales Growth (%)			EBITDA Growth (%)			EBITDA Margins (%)		
		FY12	FY13	FY14	FY12	FY13	FY14	FY12	FY13	FY14	FY12	FY13	FY14
International Peers (US\$ m)													
Orient Express Hotels	936	584	626	658	(0.7)	7.1	5.0	26.6	15.5	7.8	18.3	19.7	20.2
Choice Hotel Intl Inc	1,874	682	722	738	6.7	5.8	2.2	12.9	6.9	6.4	29.8	30.1	31.3
Hyatt Hotels Corp	1,863	4,047	4,365	4,744	9.4	7.9	8.7	40.0	15.1	13.0	15.8	16.9	17.6
Wyndham Worldwide	7,536	4,506	4,778	4,962	5.9	6.1	3.8	4.4	7.9	5.4	23.3	23.7	24.1
Starwood Hotels & Resorts	11,566	6,277	6,283	6,553	11.6	0.1	4.3	22.2	3.3	8.0	18.7	19.4	20.0
Marriott International	13,050	11,595	12,516	13,663	(5.9)	7.9	9.2	12.2	12.7	13.2	9.9	10.3	10.7
Pinnacle Entertainment Inc	763	1,218	1,324	1,367	6.7	8.7	3.2	22.6	8.8	3.5	24.0	24.0	24.1
Morgans Hotel Group Co	192	190	202	225	(8.6)	6.6	11.2	115.4	45.5	19.9	15.1	20.7	22.3
Marriott Vacations World	1,215	1,652	1,734	1,804	2.4	5.0	4.0	(30.2)	19.2	25.6	7.9	9.0	10.9
Indian Peers (Rs m)													
Mahindra Holidays & Resorts	24,795	5,781	7,661	9,946	15.5	32.5	29.8	(22.6)	52.6	53.7	16.5	19.0	22.5
Sterling Holiday Resorts	5,044	747	1,217	2,174	75.7	63.0	78.6	28.0	(74.7)	(495.7)	(36.6)	(5.7)	12.6
Cox and Kings	18,035	8,376	22,338	24,454	69.3	166.7	9.5	(26.9)	301.2	15.9	20.1	30.3	32.1

Source: Company Data, Bloomberg, PL Research

Exhibit 17: Peer Comparison (Valuation Parameters)

	EPS Growth (%)			P/E (x)			P/B (x)			EV/EBITDA			ROE
	FY12	FY13	FY14	FY12	FY13	FY14	FY12	FY13	FY14	FY12	FY13	FY14	FY12
International Peers (US\$ m)													
Orient Express Hotels	(110.5)	200.0	27.0	124.4	28.2	25.2	1.0	0.9	NA	15.1	13.0	12.0	(8.7)
Choice Hotel Intl Inc	4.2	(1.1)	7.1	16.0	16.2	14.8	(6.6)	(8.8)	(67.9)	9.7	9.1	8.5	NA
Hyatt Hotels Corp	(7.8)	49.8	34.6	17.5	11.7	8.5	1.3	1.3	1.2	10.6	9.2	8.1	2.3
Wyndham Worldwide	23.7	14.9	12.5	16.7	14.8	14.1	2.0	1.8	NA	10.9	10.1	9.6	16.2
Starwood Hotels & Resorts	(2.2)	7.7	14.7	22.6	21.1	18.1	3.4	3.0	2.6	11.0	10.7	10.0	18.0
Marriott International	202.1	18.9	19.8	22.1	19.3	16.9	(11.2)	(11.3)	(11.4)	13.1	11.7	10.3	NA
Pinnacle Entertainment Inc	NA	(6.7)	12.1	13.2	14.2	12.9	1.4	1.3	1.2	6.8	6.3	6.0	(0.5)
Morgans Hotel Group Co	(52.6)	(36.6)	(54.2)	(3.7)	(5.7)	(7.0)	(1.0)	(1.0)	(1.0)	24.9	17.1	14.3	NA
Marriott Vacations World	(121.9)	35.3	27.8	29.9	22.5	17.6	1.1	1.1	NA	14.5	12.1	9.7	NA
Indian Peers (Rs m)													
Mahindra Holidays & Resorts	1.5	28.2	41.4	23.6	18.4	13.0	4.3	3.7	3.0	25.2	16.6	10.7	19.2
Sterling Holiday Resorts	9.9	(84.2)	(508.3)	(14.3)	(82.1)	19.5	12.3	NA	NA	NA	NA	NA	NA
Cox and Kings	(37.6)	472.7	34.4	45.8	8.1	6.0	1.6	1.3	1.1	34.4	130.0	130.0	3.5

Source: Company Data, PL Research

Target Price Calculation

To arrive at our target price, we are using an average of the value arrived at by the DCF methodology i.e. Rs359 and the value arrived at by the PER methodology, i.e. Rs372 which gives a value of Rs366.

The upside from the current levels stands at 26%. We rate the stock 'BUY'.

Concerns

Diluting promoters stake to adhere to regulations

To adhere to regulations, promoter's stake in the company, which is currently at 82.69%, needs to be brought down below 75% by March 2013. The sale of promoter's stake in the secondary market could exert pressure on the company's stock price.

Delay in room addition

In the short term, several factors can lead to delay in room addition which includes regulatory hurdles, delay in land acquisition, construction delays and others. Even the acquisition of rooms on lease can get delayed on account of inability to identify properties that match the Mahindra standard as well as delays in negotiations. The delay in room addition would have a direct impact on member acquisition as the company is running quite tight on capacity.

Annexure

Membership Details

MHRL leads the leisure hospitality services in India and offers customized vacation ownership membership services to different age groups and different classes of people. The classic membership plan offers 7 night holidays annually for 25 years across all the Mahindra resorts in the country. Club Mahindra Holidays is their flagship service offering. As part of growth strategy, they diversified their portfolio by introducing new vacation ownership offerings like Zest, Club Mahindra Fundays, and travel and holiday related services through Club Mahindra Travel. Members have the option of choosing to holiday outside their season and apartment of their entitlement by using exchange program. There is further flexibility accorded to the members in being able to bring or carry forward their annual entitlement subject to certain limits. In addition, members can choose to access a range of resorts globally through RCI affiliation of Mahindra Holidays.

Exhibit 18: Company products include...

Products	Target segment	Offerings
Club Mahindra Holidays	30-55 years	Family holidays for 7 days every year
Zest	Young urban families	6 days every year for 10 years
Club Mahindra Fundays	Corporate membership	Corporate
Mahindra Homestays	Launched in UK & India	Accommodation in private homes
Club Mahindra Travel		One stop shop for family holiday & travel related services
Terra	Camping & adventure holidays	

Source: Company Data, PL Research

Key Features:

Club Mahindra Holidays

1) Holiday Seasons:

For each resort destination, the year is divided into four seasons: Purple, Red, White and Blue, based on demand for such resort during the year. The season classification may vary from year to year for any resort and varies from resort to resort.

Purple: The season with the highest tourist traffic to the particular destination. For example - weeks around Christmas and New Year and the Carnival in Goa.

Red: This season would typically encompass school holidays, such as the summer and winter vacations, and other festival vacations.

White: This season may be a good time to visit the destination but may not necessarily coincide with school vacations.

Blue: This is the season with lower tourist traffic for the destination, appealing only to a limited target group of young families without children, for example, the monsoon season in Goa.

2) Membership Fees:

The membership fee payable by members comprises a non-refundable admission fee towards enrolment and an entitlements fee towards the provision of entitlements through the membership period. An application for membership is accepted on payment of 25% of the admission fee which is based on the season and type of apartment chosen by the member. MHRL provides financing options, up to a term of 48 months for the purchase of membership.

3) Holiday Entitlement

Holiday Entitlements of a member commence as per the payment plan selected by a member and ranges from three months to 12 months from the end of the month after admission as a member, depending on the financing plan chosen by the member. The members are entitled to various intricacies like split, accumulate, advance, gift, transfer or exchange their membership. Once the member is in the resort, he is entitled for varied amenities, facilities and privileges like fun dining, a la carte dining, bar, spa, kids club, champs, fun zones, etc.

Zest:

This product is meant for the youth for rejuvenating over weekends. Resorts under Zest are located at Kodaikanal, Ooty, Masinagudi, Puducherry, Swamimalai and Yercaud.

1) Holiday seasons

Zest is a short-break service offering. The entire calendar year has been divided into three seasons: Verve, Buzz and Pep. The season classification can vary from year to year and from resort to resort.

Verve: includes the most sought after time of the year, such as the summer and winter vacations.

Buzz: includes the high seasons to visit the resort.

Pep: includes times which are the lower seasons for the resort.

2) Membership Fees

Member is required to pay a Zest membership fee at the time of enrolment and an annual subscription fee each year thereafter. The membership fee and the annual subscription fee depend on the type of season chosen by the member. The company provides convenient financing options up to a term of 36 months for the purchase of membership to our prospective members.

3) Holiday Entitlement

Holiday entitlements of a member commence as per the payment plan selected by a member and ranges from 15 days to one month from the end of the month after admission as a member, depending on the financing plan chosen by the member. The members are entitled to various intricacies like split, accumulate, advance, gift, transfer or exchange their membership. Once the member is in resort, he is entitled for varied amenities, facilities and privileges like fun dining, a la carte dining, bar, spa, kids club, champs, fun zones, etc.

Club Mahindra Fundays

Club Mahindra Fundays is targeted at corporate customers. It is based on a points system, where different season-apartment combinations are valued at points per day, as specified from time to time. A corporate customer purchases a specific number of points that are credited to their account every year for the 10-year term of membership. A corporate member may offer family holidays to their employees. This system is flexible to use and suitable for corporate members who constantly change their requirements.

Under this product, all the resorts, seasons and facilities are applicable as in Club Mahindra Holidays and Zest.

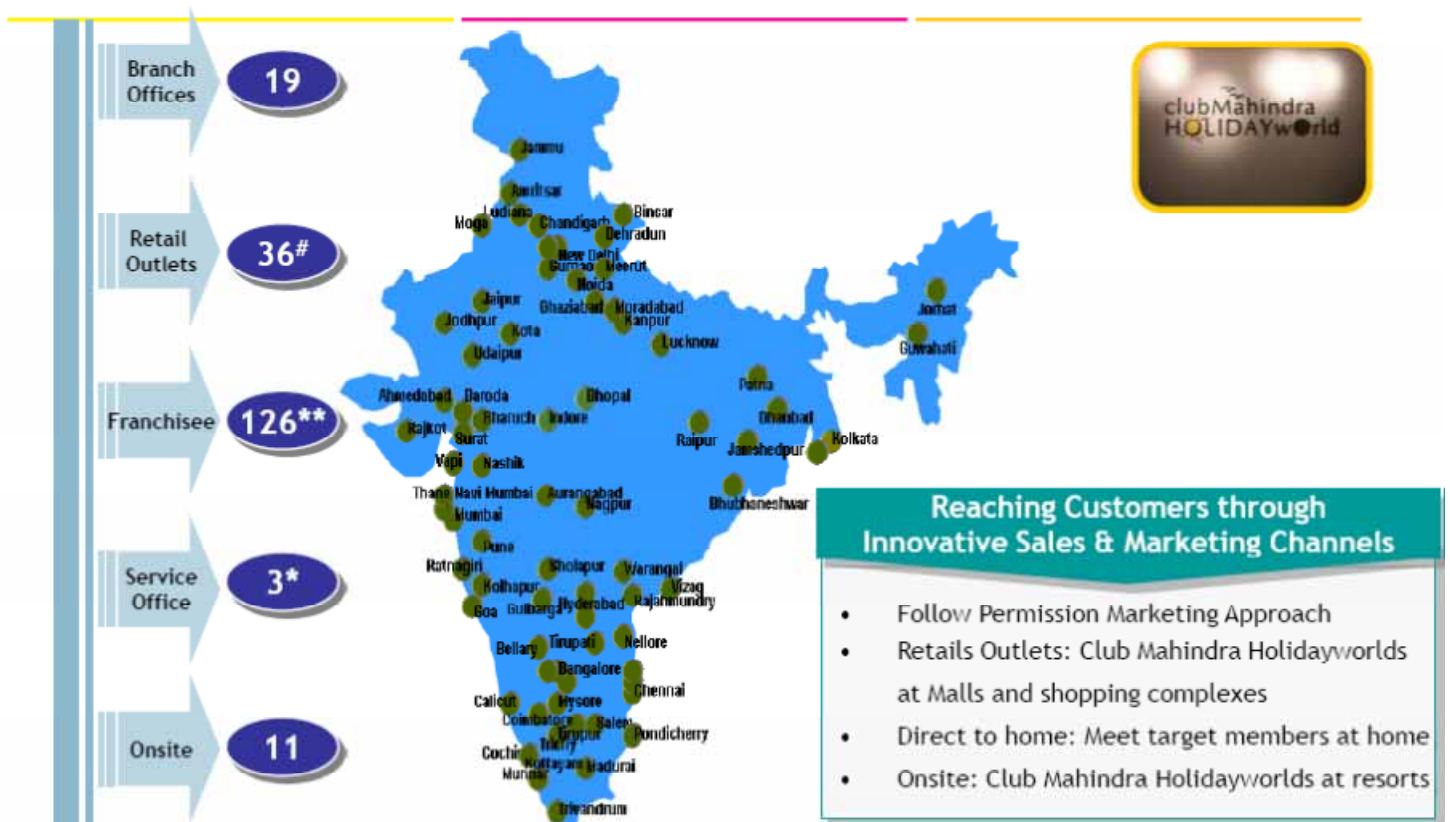
Mahindra Homestays

Mahindra Homestays chosen by MHRL are run by the respected families of the area and are the hub of activity and culture. They have good standards of service and maintenance. The home stays are available across India and one can book it online by paying for the same. It is also available in UK.

The Marketing & Sales network

MHRL's marketing initiatives are present across mediums of print media, television, direct mail, e-commerce and out-of-home advertising. From time to time, they have joint marketing promotions with well known brands in India as well as on ground promotions supported by telemarketing, where interested target customers are requested for an appointment. The sales team meets the sales opportunities generated and enrolls members through a consultative, technology enabled, interactive sales presentation. Member acquisition process is conducted through a pan-India multi-channel presence through direct and franchisee sales teams.

Sales and marketing is conducted through number of different channels as follows:



*Dubai ; **including Dubai & Kuwait; # 29 Direct and 7 Franchisee

Source: Company Presentation

Industry Overview

Vacation ownership is an ownership or right to the use the property. These properties are resort condominium units, in which numerous parties hold rights to use the property, and each sharer is allotted a period of time (generally one week) in which they may use the property. Units may be on a part-ownership or lease/right to use basis, in which the sharer holds no claim to ownership of the property.

Vacation ownership is majorly categorized into deeded and right to use contracts. Other types includes Fixed week ownership, Floating, rotating, Vacation clubs, points program, etc.

With deeded contracts, the use of the resort is usually divided into week long increments and these are sold as fractional ownership and are real property. As with any other piece of real estate the owner may use his or her week, rent his or her week, leave it to his or her heirs or sell the week to another prospective buyer. The Owner is also liable for his portion of real estate taxes, which usually are collected with condominium maintenance fee.

In the 'right to use' scheme, the purchaser has the right to use the property in accordance with the contract. However, at some point, the contract ends and all rights revert to the property owner. In other words, the right to use contract grants the right to use the resort for a specific number of years. In many countries, there are severe limits on foreign property ownership. So this is a common method for developing resorts in countries such as Mexico.

The vacation ownership industry in the West has been quite popular, with leading hospitality chains and prominent hoteliers, such as Starwood, Wyndham, Accor, Hyatt, Hilton, Marriott, Disney, Melia, Fairmount, and Four Seasons Hotels have been building and converting upscale hotels in order to satisfy the Vacation ownership membership demand.

This business model has been most controversial in the whole world. There are many who find this to be boon for holidaying with quality and satisfaction that and people who disagree with this concept and the ways employed in selling such packages.

In India, the penetration of timeshare industry is very low. The idea of shared ownership has started attracting the Indians very recently. With the fact that the size of the tourism industry in India is estimated at Rs3,835bn, 84% of which is from domestic tourism, the scope for the timeshare business is huge. In the US, the timeshare market is estimated at around 2% of the total travel and tourism market. Even if one assumes a much lower 1% share for India, the potential size of the timeshare industry in India is Rs38bn, whereas the current industry size is merely Rs7.5bn. Besides, the hospitality sector in India is witnessing significant activity over

the last few years. According to research done by Cushman and Wakefield, the sector will have a cumulative demand of 690,000 additional room nights between 2009 and 2013. According to another research by group RCI and Cushman and Wakefield in 2009, the timeshare industry is skewed towards the Western part of India, particularly Mumbai, Pune, Ahmedabad, Surat and the size of Indian timeshare industry is projected to grow at annual rate of 16% between 2006 and 2015.

The demand from the younger demography is relatively higher. Young upwardly-mobile consumers are getting onto the bandwagon - with the resources to make timeshare purchases early in life. They are also committed to annual holidays, for welcome breaks from highly stressed work environments. With younger profiles, the timeshare experience has started evolving in India. Now it also includes holidaying as per specific activities like fishing, water sports, scuba diving, skiing, rock climbing and trekking. Extended in-house facilities could include health clubs, games rooms, play-parks for children, upgraded laundry and dining options. Some resorts even have a compact course for the golf-inclined.

Exhibit 19: Typical profile of Timeshare Consumers in India

Average age	42 years
Average household size	4 people
Typical children count	Between 1 and 2
Membership gender	89.8% male

Source: AIDA

Growth outlook of the industry in India: According to AIRDA, there are 45 vacation ownership companies operating in India promoting 80 resorts and 5000 units. The entire vacation ownership membership in India is about 250,000. The growth of time share industry will come from 1) expanding base of the domestic tourism market 2) a robust economy 3) proliferation of nuclear families having higher disposable incomes and 4) the changing trend of holidaying as conscious lifestyle option.

Though, in India, the timeshare industry is still at a nascent stage and will require its own gestation period and space to grow in scale and content, the scope to grow cannot be underestimated. Many international players like Wyndhan, Marriott, Disney and Starwood are planning to expand their network in India for vacation ownership.

Brief profile of few international players:

Starwood: As of Q2CY12, Starwood has 20 resorts, 365 hotels and 95000 rooms. Starwood members also get membership of Interval International which has over 2,600 resorts across 75 countries that one can exchange through for a small fee. In Starwood, the weeks are given on a deeded property basis, but each week has a value of options, which is used to book reservations at any of its 20 resorts, with no additional exchange fees.

Marriott Vacation Club: This is a deeded ownership program, where the purchaser's interest is represented by Vacation Club Points. An annual amount of vacation points are credited every year. These vacation points can be used in any vacation option in its four Collections: Marriott Vacation Club Collection, Marriott Collection, Explorer Collection, and World Traveller Collection. The Marriott Vacation Club Collection offers vacation choices in over 50 purpose built resorts. The Marriot collection offers nearly 3500 properties. The World Traveller Collection consists of over 2500 non-Marriott resorts that are available via Interval International exchange and the Explorer Collection consists of over 60+ exciting new, exotic vacation opportunities as well as over 2000 cruises

Wyndham: Wyndham Vacation Ownership has developed or acquired more than 160 vacation ownership resorts throughout the United States, Canada, Mexico, the Caribbean and the South Pacific that represent approximately 20,500 individual vacation ownership units. It develops, markets and sells vacation ownership interests and provides consumer financing to owners through its three primary consumer brands, *CLUB WYNDHAM®*, *WorldMark by Wyndham* and *Wyndham Vacation Resorts Asia Pacific*. The company boasts of 813,000 members worldwide.

Disney Vacation Club: The Disney Vacation Club also offers members the chance to purchase a real estate interest in Disney. This vacation ownership program features a flexible points-based system. As a DVC member, one receives a predetermined allotment of points each year, points that can be exchanged for numerous vacation opportunities.

Disney Vacation Club members can exchange, using their points value at the eleven DVC resorts, seven of which are at Walt Disney World Orlando (with an eighth one coming in 2013), while the other four being the DVC resort at Disneyland in California, as well as resorts in Oahu, Hawaii, Vero Beach, Florida and Hilton Head, South Carolina. Resorts and destinations are each assigned a point value in which high demand, red season weeks and larger units require the greatest number of points.

Hilton Vacations club: The Hilton brand owns about 39 resorts worldwide, so it is possible to exchange timeshare for another resort within Hilton's network. Hilton Grand Vacations Club timeshares are affiliated with RCI (Resort Condominiums International), the world's foremost exchange company. Hilton resorts can be found in desirable resort destinations in many high-demand exotic locations like Cancun, Vilamoura, or Oahu. Every Hilton timeshare owner is enrolled in the Hilton HHonors program automatically. The Hilton HHonors program allows a Hilton owner to exchange his or her timeshare among a network of Hilton and affiliated hospitality brands.

Indian Competition

Sterling: Sterling Holiday Resorts (India) is the closest competitor for Mahindra Holidays within the country. This company was incorporated in 1986 and currently has 19 resorts located in Corbett, Darjeeling, Gangtok, Goa, Karwar, Kodaikanal, Lonavala, Manali, Munnar, Mussoorie, Ooty, Puri, Thekkady, Yelagiri and Yercaud. However, the company has gone through a fair amount of financial trouble and currently in the process of restructuring. The company also has 13 additional sites where it plans to add new resorts in the coming years.

Exhibit 20: Peer comparison

	Revenues (\$ m)	Members	Resorts	Units
Wyndham	1150	813000	162	20803
Marriott	634	425000	50	12768
Disney**	385*	160000*	11*	3500*
Starwood*	703	235000	14	4834
Hilton	690	237000	39	6037
Sterling#	13.58	64500	19	1382
Mahindra Holidays#	105	147300	40	2049

Source: Vacation Ownership WORLD Magazine, March – April 2012 (based on 2011 data)

**Reflects 2010 data published in Vacation Ownership WORLD Magazine, March – April 2011

* Reflects 2008 data published in Vacation Ownership WORLD Magazine, March – April 2009

dollar assumed @ Rs 55.

Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Net Revenue	5,004	5,781	7,661	9,946
Raw Material Expenses	—	—	—	—
Gross Profit	5,004	5,781	7,661	9,946
Employee Cost	900	1,329	1,685	1,939
Other Expenses	2,872	3,499	4,520	5,769
EBITDA	1,232	954	1,456	2,238
Depr. & Amortization	221	231	290	398
Net Interest	(457)	(709)	(764)	(929)
Other Income	460	716	774	941
Profit before Tax	1,468	1,432	1,929	2,769
Total Tax	465	409	617	914
Profit after Tax	1,003	1,023	1,312	1,855
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	1,002	1,023	1,312	1,855
Avg. Shares O/S (m)	83.6	83.8	83.8	83.8
EPS (Rs.)	12.0	12.2	15.6	22.1

Cash Flow Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
C/F from Operations	791	2,109	2,547	3,257
C/F from Investing	(522)	(2,444)	(2,602)	(3,145)
C/F from Financing	85	(151)	10	10
Inc. / Dec. in Cash	354	(486)	(45)	121
Opening Cash	283	637	151	106
Closing Cash	637	151	106	227
FCFF	(2,016)	(186)	(3,612)	(4,636)
FCFE	(2,074)	(199)	(3,602)	(4,626)

Key Financial Metrics

Y/e March	2011	2012	2013E	2014E
Growth				
Revenue (%)	5.7	15.5	32.5	29.8
EBITDA (%)	(17.6)	(22.6)	52.6	53.7
PAT (%)	(14.4)	2.0	28.2	41.4
EPS (%)	(14.7)	1.7	28.2	41.4
Profitability				
EBITDA Margin (%)	24.6	16.5	19.0	22.5
PAT Margin (%)	20.0	17.7	17.1	18.7
RoCE (%)	19.4	17.8	20.1	24.0
RoE (%)	21.4	19.2	21.5	25.5
Balance Sheet				
Net Debt : Equity	(0.1)	—	—	—
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	23.6	23.2	18.1	12.8
P / B (x)	4.7	4.2	3.6	3.0
EV / EBITDA (x)	18.7	24.8	16.3	10.5
EV / Sales (x)	4.6	4.1	3.1	2.4
Earnings Quality				
Eff. Tax Rate	31.7	28.6	32.0	33.0
Other Inc / PBT	31.3	50.0	40.1	34.0
Eff. Depr. Rate (%)	3.8	3.2	3.0	3.1
FCFE / PAT	(206.9)	(19.4)	(274.6)	(249.3)

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	5,001	5,634	6,553	7,996
Total Debt	102	89	99	109
Other Liabilities	10,657	11,603	15,305	20,043
Total Liabilities	15,760	17,326	21,958	28,148
Net Fixed Assets	6,091	7,922	9,876	12,211
Goodwill	—	—	—	—
Investments	1,133	1,262	1,227	1,227
Net Current Assets	8,536	8,142	10,855	14,709
<i>Cash & Equivalents</i>	637	151	106	227
<i>Other Current Assets</i>	9,820	10,477	13,804	18,165
<i>Current Liabilities</i>	1,921	2,486	3,055	3,683
Other Assets	—	—	—	—
Total Assets	15,760	17,326	21,958	28,148

Quarterly Financials (Rs m)

Y/e March	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Net Revenue	1,350	1,445	1,735	1,469
EBITDA	230	254	366	170
<i>% of revenue</i>	<i>17.0</i>	<i>17.6</i>	<i>21.1</i>	<i>11.6</i>
Depr. & Amortization	52	50	53	50
Net Interest	(162)	(173)	(191)	(148)
Other Income	163	174	192	149
Profit before Tax	340	377	504	269
Total Tax	100	112	132	79
Profit after Tax	241	265	372	190
Adj. PAT	241	265	372	190

Key Operating Metrics

Y/e March	2011	2012	2013E	2014E
New Members Added	15,285	18,089	23,629	28,252
No Of Units	1,624	2,049	2,649	3,199
Occupancy (%)	77.7	76.6	76.0	74.0

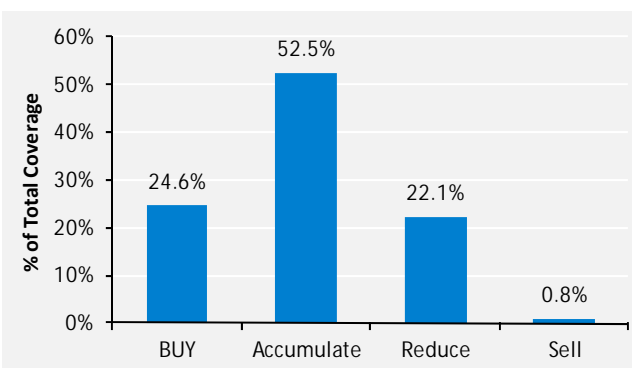
Source: Company Data, PL Research.

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

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

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