CRISIL RESEARCH

INDEPENDENT EQUITY RESEARCH

Savera Industries Ltd

Q4FY11 First Cut

Enhancing investment decisions

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (- 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

Additional Disclosure

This report has been sponsored by NSE - Investor Protection Fund Trust (NSEIPFT).

Disclaimer:

Savera Industries Ltd

Q4FY11 first cut – Steady growth

Fundamental Grade	**2/5 (Moderate fundamentals)**
Valuation Grade	**5/5 (CMP has strong upside)**
Industry	**Hotels Restaurant & Leisure**

Savera Industries Ltd's (Savera's) Q4FY11 revenue and earnings were in line with CRISIL Equities' expectations. Revenue growth was healthy on the back of stable room rent and food & beverage (F&B) income. We attribute the 6% y-o-y decline in EBITDA margin (had already factored this in our estimates to higher renovation costs incurred on the Bangalore property, though we are yet to confirm this with the management. Consequently, PAT margins declined by 67 bps. We maintain the fundamental grade of **2/5**.

Q4FY11 result analysis

- Savera's Q4 revenues grew by 31% y-o-y to Rs 131 mn on the back of stable room rent and strong F&B income. However, on sequential basis, revenue grew by only 10.4%. For the full year, revenue grew by 36.6% to Rs 480.3 mn
- EBITDA margin declined by 592 bps y-o-y to Rs 26.7% due to higher expenditure on the Bangalore property. However, for the full year, EBITDA margin expanded by 334 bps y-o-y to 29.1% primarily due to the high margin F&B business.
- PAT grew by 21.8% y-o-y to Rs 11 mn due to sales growth. For the full year, PAT grew by 57% to Rs 57 mn.

Valuations: Current market price has strong upside

We continue to use the EV/adjusted room basis to value Savera. We have assigned a multiple of Rs 4.5 mn on EV/adj.room, which translates into a fair value of Rs 73 per share. Based on the current market price, our valuation grade is **5/5.**

KEY FORECAST

(Rs mn)	FY09	FY10	FY11#	FY12E	FY13E
Operating income	397	352	480	506	538
EBITDA	117	95	140	148	160
Adj Net income	5	25	57	70	83
EPS-Rs	0.4	2.1	4.8	5.9	7.0
EPS growth (%)	(91.7)	435.4	1.2	0.2	0.2
Dividend yield	2.7	1.2	3.0	3.4	4.0
PE (x)	53.7	23.0	8.5	6.9	5.9
P/BV (x)	1.1	2.4	1.7	1.5	1.2
RoCE(%)	17.4	16.4	26.1	26.7	29.1
RoE(%)	2.1	10.7	23.4	22.6	22.6
EV/EBITDA (x)	4.1	8.0	4.7	4.0	3.2

NM: Not meaningful; CMP: Current Market Price

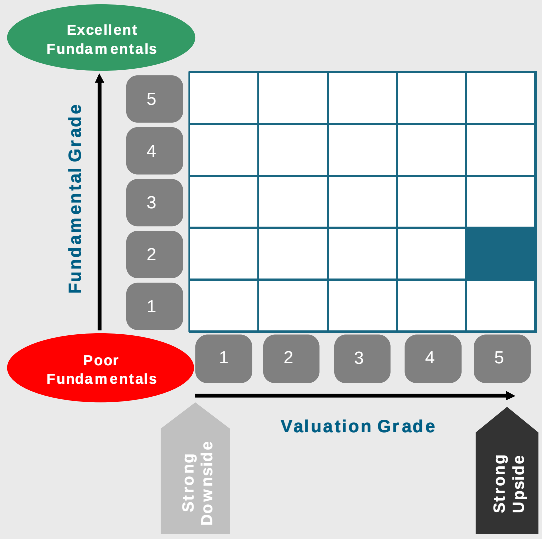
#FY11 numbers based on the abridged financials

Source: Company, CRISIL Equities estimate

May 16, 2011

Fair Value Rs 73
CMP Rs 38

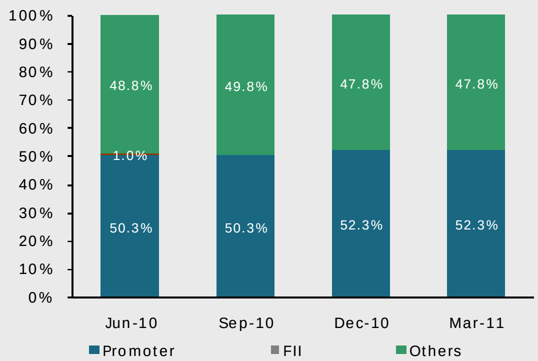
CFV MATRIX



KEY STOCK STATISTICS

NIFTY	5499
NSE ticker	SAVERA
Face value (Rs per share)	10
Shares outstanding (mn)	11.9
Market cap (Rs mn)/(US$ mn)	488 / 11
Enterprise value (Rs mn) /(US$ mn)	665 / 15
52-week range (Rs) (H/L)	119 / 29
Beta	1.1
Free float (%)	47.8%
Avg daily volumes (30-days)	5,515.6
Avg daily value (30-days) (Rs mn)	0.2

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
SAVERA	-9%	12%	-32%	n.a
NIFTY	-6%	4%	-9%	10%

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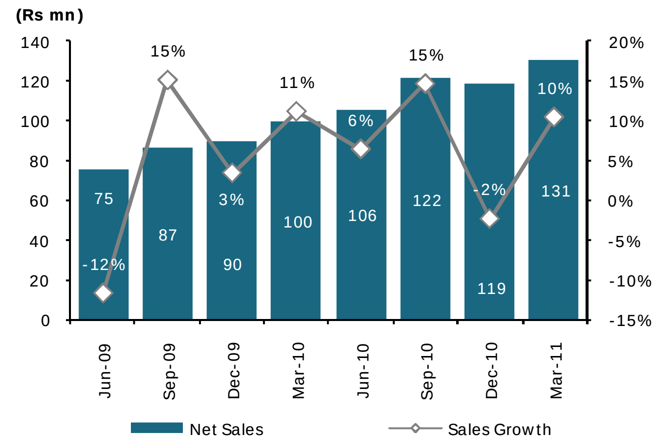
Q4FY11 Result Summary

(Rs mn)	Q4FY11	Q3FY11	Q4FY10	q-o-q (%)	y-o-y (%)	FY11	FY10	y-o-y (%)
Net sales	**131.19**	**118.80**	**99.72**	**10.4**	**31.6**	**480.3**	**351.6**	**36.6**
Raw materials cost	16	15	14	9.9	18.9	105	91	14.4
Raw materials cost (% of net sales)	12.5%	12.6%	13.9%	-6bps	-133bps	21.8%	26.0%	-423bps
Employees cost	24	23	21	5.4	17.7	91	74	23.4
Other expenses	55	48	33	16.1	69.4	144	96	51.3
EBITDA	**35**	**33**	**33**	**6.0**	**7.7**	**140**	**91**	**54.3**
EBITDA margin	**26.7%**	**27.8%**	**32.6%**	**-112bps**	**-592bps**	**29.1%**	**25.8%**	**334bps**
Depreciation	6	6	5	5.9	38.4	23	21	7.5
EBIT	**28.5**	**26.9**	**27.8**	**6.0**	**2.5**	**116.8**	**69.2**	**68.8**
Interest and finance charges	6	6	6	1.8	2.4	24	25	-7.2
Operating PBT	**23**	**21**	**22**	**7.1**	**2.6**	**93**	**44**	**113.0**
Other Income	-	-	-	-	n.m.	-	1	-100.0
Extraordinary Income/(expense)	-	-	(4)	-	-	(4)	-	0.0
PBT	**23**	**21**	**18**	**7.1**	**23.9**	**89**	**45**	**100.5**
Tax	12	3	9	275.3	26.0	32	19	66.7
PAT	**11**	**18**	**9**	**(39.3)**	**21.8**	**57**	**25**	**126.0**
Adj PAT	**11**	**18**	**9**	**(39.3)**	**21.8**	**53**	**25**	**126.0**
Adj PAT margin	**8.3%**	**15.2%**	**9.0%**	**-684bps**	**-67bps**	**11.2%**	**7.2%**	**474bps**
No of equity shares (mn)	12	12	6	2.1	96.0	12	6	92.0
Adj EPS (Rs)	**0.9**	**1.5**	**1.4**	**(40.6)**	**(37.9)**	**4.5**	**4.1**	**17.7**

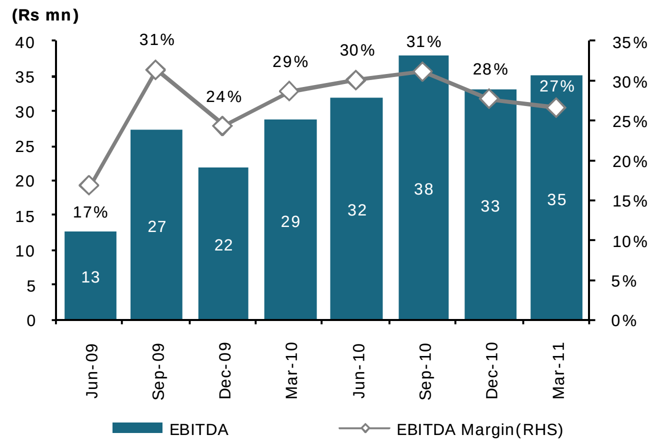
Source: Company, CRISIL Equities

Stable growth in revenues



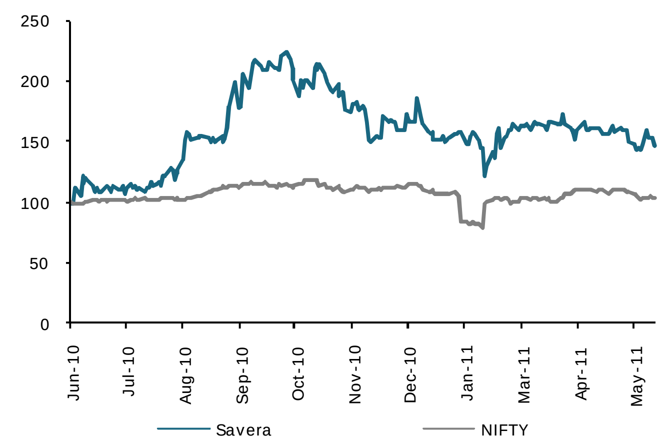
Source: Company, CRISIL Equities

EBIDTA and EBITDA margins



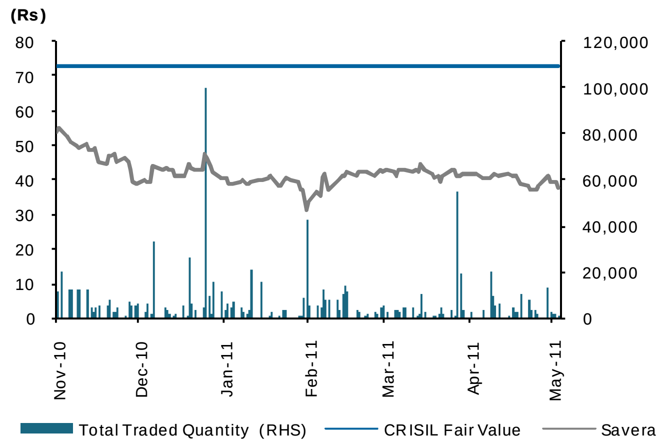
Source: Company, CRISIL Equities

Share price movement vs. NIFTY



Source: Company, CRISIL Equities

Fair value movement since initiation



Source: BSE, CRISIL Equities

Savera Industries Ltd

CRISIL RESEARCH

FINANCIALS

Income statement

(Rs mn)	FY09	FY10	FY11#
Operating income	**397**	**352**	**480**
EBITDA	**117**	**95**	**140**
EBITDA margin	**29.5%**	**26.9%**	**29.1%**
Depreciation	30	21	23
EBIT	**88**	**73**	**117**
Interest	51	25	24
Operating PBT	**37**	**48**	**93**
Other income	(8)	(3)	-
Exceptional inc/(exp)	-	-	(4)
PBT	**29**	**45**	**89**
Tax provision	24	19	32
Minority interest	-	-	-
PAT (Reported)	**5**	**25**	**57**
Less: Exceptionals	-	-	(4)
Adjusted PAT	**5**	**25**	**53**

Ratios

	FY09	FY10	FY11#
Growth			
Operating income (%)	(13.3)	(11.3)	36.5
EBITDA (%)	(25.1)	(19.0)	54.3
Adj PAT (%)	(91.6)	435.4	126.0
Adj EPS (%)	(91.6)	435.4	17.7
Profitability			
EBITDA margin (%)	29.5	26.9	29.1
Adj PAT Margin (%)	1.2	7.2	11.2
RoE (%)	2.1	10.7	23.4
RoCE (%)	17.4	16.4	26.1
RoIC (%)	9.6	10.9	19.8
Valuations			
Price-earnings (x)	53.7	23.0	7.9
Price-book (x)	1.1	2.4	1.7
EV/EBITDA (x)	4.1	8.0	4.7
EV/Sales (x)	1.3	2.3	1.4
Dividend payout ratio (%)	146.9	28.1	22.3
Dividend yield (%)	2.7	1.2	2.8
B/S ratios			
Inventory days	12	14	14
Creditors days	36	64	25
Debtor days	18	15	15
Working capital days	3	(4)	(1)
Gross asset turnover (x)	0.6	0.5	0.7
Net asset turnover (x)	0.8	0.8	1.1
Sales/operating assets (x)	0.8	0.8	1.1
Current ratio (x)	1.3	0.9	1.8
Debt-equity (x)	1.0	0.8	0.7
Net debt/equity (x)	1.0	0.7	0.6
Interest coverage	1.7	2.9	5.2

Per share

	FY09	FY10	FY11#
Adj EPS (Rs)	0.4	2.1	5.2
CEPS	2.9	3.9	7.1
Book value	19.5	20.5	23.9
Dividend (Rs)	0.6	0.6	1.2
Actual o/s shares (mn)	11.9	11.9	11.9

Balance Sheet

(Rs mn)	FY09	FY10	FY11#
Liabilities			
Equity share capital	60	60	119
Reserves	173	185	165
Minorities	-	-	-
Net worth	**232**	**245**	**285**
Convertible debt	-	-	-
Other debt	231	186	186
Total debt	**231**	**186**	**186**
Deferred tax liability (net)	4	4	4
Total liabilities	**468**	**435**	**475**
Assets			
Net fixed assets	440	431	434
Capital WIP	-	-	-
Total fixed assets	**440**	**431**	**434**
Investments	**0**	**4**	**2**
Current assets			
Inventory	8	9	12
Sundry debtors	17	13	17
Loans and advances	36	27	35
Cash & bank balance	7	9	24
Marketable securities	-	-	-
Total current assets	**69**	**58**	**89**
Total current liabilities	**52**	**65**	**50**
Net current assets	**17**	**(7)**	**39**
Intangibles/Misc. expenditure	**11**	**7**	**-**
Total assets	**468**	**435**	**475**

Cash flow

(Rs mn)	FY09	FY10	FY11#
Pre-tax profit	29	45	95
Total tax paid	(24)	(19)	(33)
Depreciation	30	21	22
Working capital changes	(13)	26	(31)
Net cash from operations	**22**	**73**	**53**
Cash from investments			
Capital expenditure	60	(9)	(18)
Investments and others	-	(4)	2
Net cash from investments	**60**	**(13)**	**(16)**
Cash from financing			
Equity raised/(repaid)	-	-	60
Debt raised/(repaid)	(84)	(45)	(0)
Dividend (incl. tax)	(7)	(7)	(16)
Others (incl extraordinaries)	10	(6)	(66)
Net cash from financing	**(81)**	**(58)**	**(22)**
Change in cash position	1	1	16
Closing cash	7	9	24

Quarterly financials

(Rs mn)	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Net Sales	**100**	**106**	**122**	**119**	**131**
Change (q-o-q)	11.1%	6%	15%	-2%	10%
EBITDA	**27**	**32**	**38**	**33**	**35**
Change (q-o-q)	25%	17%	19%	-13%	6%
EBITDA margin	**27.4%**	**30.2%**	**31.3%**	**27.8%**	**26.7%**
PAT	13	9	18	18	11
Adj PAT	**13**	**13**	**18**	**18**	**11**
Change (q-o-q)	165%	-3%	46%	-2%	-39%
Adj PAT margin	**13.1%**	**11.9%**	**15.2%**	**15.2%**	**8.3%**
Adj EPS	**1.2**	**1.1**	**1.7**	**1.6**	**0.9**

#FY11 numbers based on the abridged financials

Source: Company, CRISIL Equities estimate

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