

For internal discussion

Bhagwati Banquets and Hotels Limited (BBHL) CRISIL IPO Grade 1.0/5.0

Public Issue of 23,000,000 Equity Shares of face value Rs 10 at Rs 30 per share.

Bid/Offer Opens	*
Bid/Offer Closes	*
Shares Offered	23,000,000
As % of post issue equity	78.5%
Shares Outstanding (post issue)	29,286,400
Lead Manager	
Chartered Capital and Investment Ltd.	
Registrar to the Issue	
Intime Spectrum Registry Ltd.	

Shareholding Pattern	Prior to issue		Post issue	
	No. of shares	%	No. of shares	%
Promoters	4,890,000	77.8	7,162,400	24.5
Relatives of Promoters	988,000	15.7	3,260,200	11.1
Others	408,400	6.5	18,863,800	64.4
Total	6,286,400	100.0	29,286,400	100.0

		BBHL	
		2004-05	2005-06*
Operating income	Rs. million	134	230
Operating margins	Per cent	26.6	23.5
Net profits	Rs. million	9	14
Net margins	Per cent	6.8	5.9
ROCE	Per cent	11.9	15.0
RoE	Per cent	8.6	12.0
No. of equity shares	million	4.1	6.3
Networth	Rs. million	123	105
Basic EPS	Rs.	2.23	2.17
Diluted EPS	Rs.	0.31	0.47
Book value	Rs per share	30.2	16.6
Gearing	Times	0.61	1.40

*Bhagwati Caterers Private Ltd., Bhagwati International and TGB Resorts Karnavati were transferred to BBHL in October 2005.

Overall Assessment

CRISIL has assigned a CRISIL IPO Grading “1/5” (pronounced “one on five”) grade to the proposed initial public offer of Bhagwati Banquets and Hotels Ltd. (BBHL). This grade indicates that the fundamentals of the issue are poor relative to other listed equity securities in India.

The grading reflects CRISIL’s opinion that the business prospects of the company’s planned 5-star hotel in Surat are significantly sub-par. The grade also reflects the underdeveloped corporate governance system in the company, the fact that other promoter owned entities operate in similar lines of business and that the current management team may need to be strengthened to carry out the company’s plan of entering the 5-star hotel business. However, CRISIL notes the exceptionally successful track record of the promoters in the catering business in Ahmedabad aided by its large centralized kitchen and large banqueting facilities at ‘The Grand Bhagwati’.

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Business prospects of a 100 room, Rs 777.5 million 5-star hotel in Surat are below par

CRISIL Research is of the opinion that the business prospects of a 5-star hotel in Surat are sub-par. Our view is based on the performance of the sole 5-star hotel in Surat ‘The Taj’. Currently the occupancy rates hover in the range of 60-65 per cent. Besides average room rates (ARRs) in Surat and other comparable cities does not exceed Rs 3,500.

Towards the development of the 5 star hotel BBHL plans to spend around Rs 777.5 million which is at par with what a hotel company spends to build a 100 room 5 star hotel in the metros. However, the room rate prevalent in Surat is less than half of what is charged in the metros. In view of this, CRISIL Research believes that the prospects of generating any respectable return on equity for the company’s large investment in this project are poor.

Management team may need to be strengthened for the foray into the 5-star hotel business

Excellent banquet-specific brand equity lies with BBHL

BBHL currently has excellent banquet-specific brand equity in Ahmedabad. It has positioned ‘The Grand Bhagwati’ uniquely as a banquet hotel with 80% of its revenues coming from its banquet and catering services. BBHL has been able to successfully do this on account of its centralized kitchen, unique banqueting facilities and its largest-sized banquet halls in Ahmedabad. Besides, in times of social crisis, BBHL has been socially responsible. The best example has been distributing food packets during the floods in Surat.

... However, 5-star hotel business needs some specialized skills in our opinion

CRISIL Research is of the view that the management would need to have a more appropriate business plan for its 5-star hotel business. The directors as well as the key people in the organisation have knowledge relevant to the business of catering and their strength lies in banqueting and catering. They also run a 37 room 3 star hotel in Ahmedabad, which focuses on its banquets. However, the company is making a foray in the premium segment category (5 star/5 star deluxe) of hotels, where it currently holds no prior experience. For instance, a more evolved marketing and branding strategy would be needed in order to run a 5-star hotel in Surat and compete with the well-reputed ‘Taj’ brand of Indian Hotels Company Ltd. Among the company’s various strategies, having a common brand for the 3 star hotel ‘The Grand Bhagwati’ in Ahmedabad and a 5 star hotel may not be the best strategy as a brand reflects the type of service and facilities a hotel is providing.

Corporate Governance system is under-developed

The board needs to be strengthened to exercise management oversight. Our discussion with the independent directors leads us to believe that the Board has shown limited ability and willingness to exercise management oversight so far. The involvement of the board in company business plans is currently poor and needs to be improved upon.

Promoter involvement in other similar businesses a potential conflict of interest

Bhagwati Caterers Private Limited, TGB Resorts Karnavati and Bhagwati International have been transferred to BBHL since October 2005. However, the promoters have other entities too, which are in similar lines of businesses, thereby creating a potential conflict of interest. Businesses by other promoter companies outside the purview of BBHL include banqueting (small gatherings accommodating 60 to 200 people), bakery products and a 70-room hotel in Ahmedabad.