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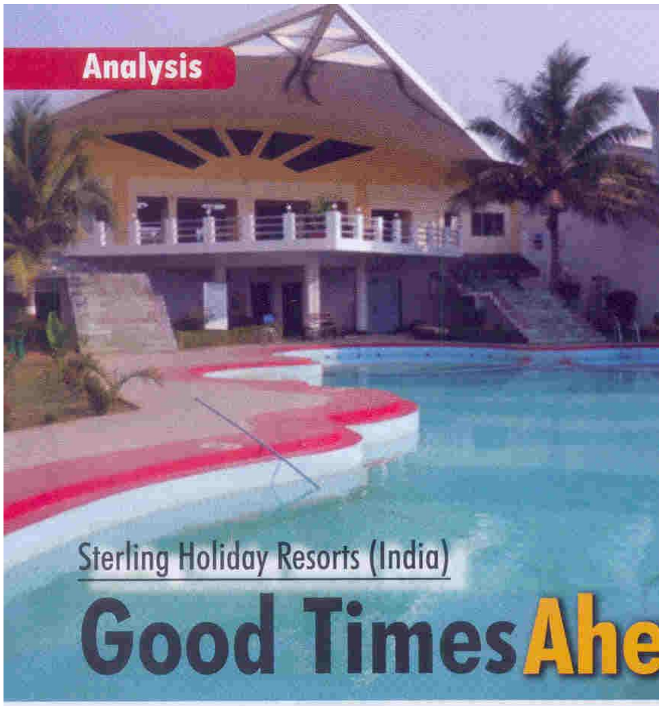

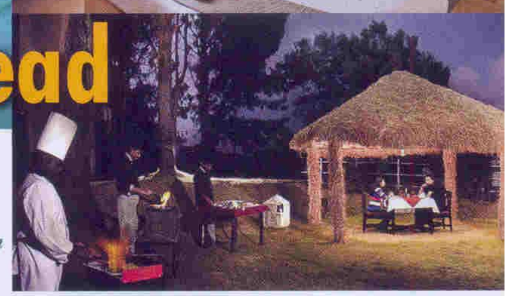

Analysis

## Sterling Holiday Resorts (India)

# Good Times Ahead

*It pioneered the concept of vacation ownership in India and enjoys the first mover advantage in terms of owning properties at strategic locations bought at cheaper rates. Sterling Holiday Resorts is poised for a bright future on the back of its expansion plans which will be supported by its recent fund raising*

Sterling Holiday Resorts (Sterling) was recently in the news as ace investor Rakesh Jhunjhunwala and veteran investor Radhakishan Damani made investments in the company through preferential allotments and warrants. After the conversion Rakesh Jhunjhunwala will hold 25 lakh shares (3.85 per cent) while Damani will hold 31.25 lakh shares (4.80 per cent) post dilution. Both have acumen of finding good investment opportunities in stocks which are yet to catch public fancy but are on the cusp of change. This indicates, Sterling which had witnessed some kind of a troubled past seems to be taking some steps in terms of restructuring. The company has recently raised Rs 130 crore thorough a preferential allotment and warrants for the refurbishment of its resorts. Even the appointment of Ramesh Ramanathan, (who played an instrumental role in the success of Mahindra Holidays) as a Managing Director indicate towards the restructuring efforts. However this is not the first time that Sterling is diluting its equity and putting in restructuring efforts. In the past too, equity dilution has happened but hardly yielded any results, ultimately impacting the stock price on the bourses. We got in touch with the newly appointed Managing Director to get more insights on the growth prospects, expansion and restructuring strategy so as to understand where the company is heading towards.

### Troubled Past And Change In Strategy

Established in 1986 the company's pioneering idea of vacation ownership in India initially witnessed a good response and within 10 years of operations its customer base crossed the one lakh mark. However, subsequently the sales and operations got impacted on account of adverse market conditions and a wrong strategy of aggressive land acquisition. This resulted in higher debt levels and inability to service the debt, and also in developing and maintaining the resorts, eventually resulting in loss of customers. So it was a series of events that resulted in a failure of investor confidence. To tackle the situation the management took various steps. However, all these efforts could not yield desired results. So how will the recent fund raising be of any help? Ramesh Ramnathan explains "The fund raising has provided us with the much required funds for the renovation and refurbishment of resorts and the up-gradation of the IT systems leading to a better quality, better experience and making it top class again to service the client better". He further adds, "Earlier efforts did not pay off, as the focus was not on the vacation ownership segment which eventually resulted in losses. Our focus now will be on the vacation ownership segment which has high growth opportunities". The impact of this is obviously becoming visible, as till FY11 around 75 per cent of the company's revenues came from resort operations and only 25 per cent from vacation ownership.

But in Q1FY12 this has changed to 50:50. "Till last year we were not selling memberships and hence there was no growth. Currently we have 56000 active memberships and with higher inventory of refurbished rooms there is a good scope of growth" adds Ramnathan.

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>
> RAMESH RAMANATHAN,
> *MD, STERLING HOLIDAY RESORTS*

### Refurbishment Of Resorts

Currently it has 15 resorts (10 owned and 5 leased) with 1258 rooms. The important aspect of the resorts is the experience it provides. Hence Sterling has gone ahead with the refurbishment of all of its resorts. It started the efforts in August 2010. While some rooms have been already refurbished currently work is in progress in six resorts. The refurbishment includes painting of the resorts outside as well as inside, change of interiors and furniture, change of lining fabric and putting up the latest entertainment equipment in each of the rooms. The best part is after the refurbishment the Goa, Munnar and Kodai facilities will be provided a five-star rating. Going ahead the company will refurbish its remaining resorts also.

### Expansion Plans

Along with the refurbishment of the resorts Sterling is also going ahead with its expansion plans. The company plans to add another 11 resorts to its kitty in the next three years. "It will be mainly on a leased model and hence expansions will be without much capital expenditure" says Ramnathan about the company's plans. It has identified Igatpuri and Alibaug (Maharashtra), Coorg (Karnataka), Peernedu (Kerala), Bhimtal and Corbett (Uttarakhand) as the probable locations. The rest will be also declared soon and the expansion will take the total number of rooms to double. The properties at Igatpuri and Alibaug are expected to go on stream soon. This is expected to drive the growth from the vacation ownership segment.

To drive sales the company has not only added to the sales force but has made sure that it has quality people selling their concepts convincingly to its customers. While its peers distinguish between different categories on the basis of membership fees, Sterling offers an advantage of redeeming points. The company has divided the year in three main seasons; Red (Peak Season) White (Mid) and Blue (Off Season). One can buy a minimum of 14 units and a maximum of 42 units per year (for the next 25 years). The membership charges are based on per unit that you buy. About the usage, the redemption of points will be higher in the peak season and lower in the off season. Similarly if someone wants to go for a larger apartment, the redemption in terms of points will be higher and vice versa. So, there is a good amount of flexibility for the members. Further the membership fee is much lower as compared to Mahindra Holiday Resorts and even Country Club. With Sterling already having the properties at prime locations as it had entered the business quite early, we feel the advantage will be there for its members. So growth from membership is expected to be good.

**MONTHLY STOCK MARKET RETURNS**


| FINANCIALS FOR FY11 | ₹ In Crore |
|---|---|
| Sales | 38.66 |
| Total Expenditure | 52.56 |
| EBITDA | -13.90 |
| Other Income | 0.00 |
| Depreciation | 4.26 |
| Tax | 0.20 |
| Net Profit | -25.75 |
| Equity Capital | 48.93 |

### Financial Performance

The financial performance of the company has been poor. Although the company posted a good topline growth for FY11 of Rs 39.47 crore as against Rs 30.55 crore in FY10, the losses only increased. However there are certain positive points we would like to mention. First is, the company is on a growth path as with the economy improving, a number of middle-class families are warming up to the idea of vacation ownership. Secondly the company is virtually a debt free company. So in a scenario of rising interest rates this is an added advantage.

Another factor that goes in favour of the company is the change of guard at the management as well as the operational level. The newly appointed MD, Ramesh Ramanathan is the erstwhile Managing Director of Mahindra Holidays & Resorts, a company which he successfully managed for a period of 11 years.

On the valuation front one needs to look at a few factors other than the financial performance. The company is making a sincere attempt to revamp its business and this adds some strength to our conviction in the capability of this company to do well going forward. This is expected to increase the number of membership significantly and hence help getting a better valuation for the business. It has a portfolio of properties which were bought long ago and hence the expansion of these properties will be much cheaper as compared to someone who wants to create new properties. Further, it has also the right kind of vigilant and successful investors like Rakesh Jhunjhunwala and Radhakishan Damani who have entered the counter at Rs 75 per share. Hence considering these factors we feel the scrip can touch the Rs 150 if someone can stay invested in it with a perspective of 18 months.

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