

Robot revolution raises fears of inequality
Still not the time to issue e-NAM a score card
No easy way to make money from stocks
Staying away from banking stocks makes sense
Company Analysis: Sinclairs Hotels Ltd.
Key takeaways from a few company AGMs
It's Day 1 forever because Day 2 is death

ETFs Fire Up Stock Indices

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FIVE
MF SCHEMES WITH
POSITIVE ALPHA

Sinclairs Hotels Ltd.

Ready to move in a different orbit

By IE&M Research

Stock market comes with full of opportunities and today's recommendation is one such case. The company has all the ingredients to be a healthy compounder for the next few years. To start with, we are not votaries of hotel companies. Leveraged to core, bleeding with losses, siphoning of funds, under reporting with no prior history of wealth generation turns us off big time. Sinclairs Hotels, though, seems to be an exceptional case which has been managed very efficiently till date. It seems to be a very clean company with an honest pedigree at helms.

Understanding the Business

The company was founded in 1971 as a private limited company by a local entrepreneur from Kolkata. The first hotel by the group was set up in Siliguri in the year 1976; the second in Darjeeling in 1981. The company made a public issue in the year 1986 and its shares were listed on Bombay Stock Exchange and Calcutta Stock Exchange. In 1990, Dr Niren Suchanti and Navin Suchanti acquired majority control of the company.

At present, Sinclairs Hotels and Resorts owns and operates seven properties in India at Burdwan, Siliguri, Darjeeling, Kalimpong and Dooars in West Bengal, Ooty in South India and Port Blair in the Andamans. Siliguri is the main commercial city of North Bengal, and is an important transportation and trading hub. Burdwan is an important district town and is famous as 'the rice bowl of India'.



Key Data	
BSE/NSE Code	523023/ Not Listed
Face Value (INR)	10/-
Current Price `	315/-
52 Weeks H/L	454/275
Market Cap (in crore)	176.93
Promoter's Holding	56.96%
Institutional Investors	13.88%
Others	29.16%

Darjeeling is famous for its teas and the Himalayan range of mountains, Kalimpong is a quaint hill town famous for its orchids and flowers, Dooars is known for its rich wildlife, forests and also teas. Ooty's claim to fame is its blue mountain range while Port Blair in the Andamans is a perennially attractive destination for its beaches, unarguably among the best in Asia.

The company is further constructing another hotel in Rajarhat, Kolkata. It is evident that Sinclair posses beautiful properties in wonderful locations with 454 rooms under its belt. It has further expansion plans to have a total inventory of 600 rooms over the next 2-3 years.

Quarterly results in brief (` crore)					
	Jun'17	Mar'17	Dec'16	Sep'16	Jun'16
Sales	15.61	12.60	12.53	8.39	13.54
Operating profit	7.82	4.90	5.99	2.46	6.68
Gross profit	8.64	4.98	7.58	2.58	6.76
EPS (`)	12.29	3.14	6.57	0.74	5.73

Financial Performance

From a valuation perspective, it is important to understand the dynamics of hotel stocks. On an EV (enterprise value) to EBITDA basis, smaller hotels like Oriental Hotels, TajGVK Hotels, and Sayaji Hotels get a multiple of 12-16 times. Bigger players like EIH and Mahindra Holidays get between 18 and 27 times EV/ EBITDA. The biggest i.e. Indian Hotels, has got an EV/ EBITDA multiple of over 50 times. Debt is a major issue and so are interest costs.

The listed hotel space in India has about ` 14,500 crore in debt and servicing that loan pile does take away quite a bit of profits. Profitability has remained the major concern in the hotel space. Even though the listed hotel space logs over ` 10,000 crore in revenues (consolidated), it has clocked losses of several hundreds of crore put together.

Coming back to the Sinclairs Hotel, as can be seen, it has outperformed the headwinds and closed the last fiscal of 2016-17 with sales and EBITDA of ` 47 crore and ` 20 crore. Net profit stood at ` 9 crore. EBITDA over the last ten years has grown at a respectable speed of around 20%. The company also has liquid cash and current investments of ` 28 crore as on date.

Concerns

Sinclairs Hotels has seen a recent hammering with stock nose diving from ` 425 crore to present levels,

all in a quarter. Over the last few months, Xander Corp a private equity, which owned 28% of the company since last 10 years, fully sold off in the markets. Now a private equity generally exits after holding for an average of seven years. The good thing is, the entire block has been swallowed by the promoters and very strong hands. Promoters bought over 5% stake to take their stake to 57%. With no more quantity left for selling, stock should stabilise at much higher levels.

The company has a debt free stature, and quotes at trailing EV/ EBITDA of less than 8X in the sector which is unheard of. In a bull market, market discounts two years forward and here we are talking about trailing valuations. Downside from present levels look very minimal for this amazingly most efficient yet overlooked small cap counter. Whenever the market will take notice of this company, the stock price could go high pretty fast.

Our Take

The company is confident of growing 20% this year, which further makes it more appealing. It quotes at just around 6.4X EV/ EBITDA as its current year earnings. The company has also announced a dividend of 4 rupees recently. There is a strong rumour in the market that the promoters may sell it to a bigger player at a huge premium to the present market price. In case that happens, Sinclairs Hotels could well move in a different orbit.

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Revisiting some important principles of Investing

- 80% of gains come in 20% of time. So an investor needs enormous patience and conviction to hold stocks or Mutual funds for 10 or 20 years.
- Why not all investors get rich? They like to get rich without going through many years of discipline and patience. Process leads to outcome.
- An inferior strategy you can stick with is likely to produce better results than a superior strategy you cannot stick with.
- Prices change frequently. Value change over a period of time. There lies the opportunity.
- Compounding is back loaded. It works well only over a longer period of time. There is no substitute for time in compounding.
- 99% of the time, doing nothing is the best thing to do in the market. It is good to be a Rip Van Winkle investor. Activity hurts. Sit still.
- You cannot predict or control markets. What you can control is how much you save, investment process and behaviour. Focus only on that.
- Random outcome doesn't invalidate the need for a process. Sound process and consistently sticking to the same increases the chance of luck.
- Investors are human. That's why markets would never be fully efficient.
- Markets usually run ahead or fall behind. Rarely in equilibrium. Over or under valuation can last for long time. Don't time the market.
- Buying and selling is easy. It is holding on through ups and downs is difficult, but ultimately most rewarding.
- Shelby Davis started investing only at age 38 with \$50,000. Died at age 85 with \$900 million. 23.2% annual return for nearly 5 decades.
- Shelby Davis is considered the second greatest (5 decades of successful investing is very rare) stock investor after Warren Buffett.
- Shelby Davis story shows starting late is not a big liability, provided you live long.
- Tiny drops of water make the mighty ocean. Invest regularly. Invest for the long term. You can create huge wealth.
- Not investing in equity is more risky than investing in it. Remember, you need to beat the inflation and retain your purchasing power.
- We see past bear markets as missed opportunities. However, thinking about future bear markets is gut wrenching. Strange investor psyche.
- If someone keeps reviewing the value of his house every day, we may suspect his mental health. But that's what we keep doing with our equities.
- Equity investments are subject to behaviour risks. Always keep a check on emotions while investing.

