



Dated 24th July 2023

Praveg Ltd

View - BUY

Cmp Rs 465 52wk Hi/Low 612/122 Mkt Cap Rs 1040.62 crs

Target Price: Rs 672 (In next 12 to 18 months)

Q1FY24 Business Update

Key Business Developments post FY23 Financial Results –

1. Praveg Limited is coming up with a luxury 5-star hotel in Ahmedabad on a long-term lease of 10 years, which may extend for another 10 years. The hotel will be located in the prime location at Ahmedabad on the Sindhu Bhawan Road. Praveg's new hotel will be the only pure vegetarian 5-star hotel in the city known to abide by traditions

Praveg Limited will be getting this hotel property worth of Rs 130 crs on long-term lease with a lease investment of Rs 5 crs in the hotel for cutlery, service equipment, computers, and other service-related inventory. In addition to the above, the management expects a revenue potential of Rs 35 to 40 crs annually from the hotel

This premium hotel will feature 76 rooms with beautiful city views and plush amenities, like Infinity Pool, Open Sky Dining, Meditation Room specially designed for social functions, a Swimming Pool, among other facilities.

This hotel will also offer exceptional amenities for social functions and destination wedding facilities like occasion-wise special arrangements, aesthetic Banquets that can host up to 2400 guests, Special Bridal Room and Honeymoon Suites with Jacuzzi. Additionally this hotel will be well-equipped with business event/conference amenities for up to 1000-1200 delegates

Wedding is one of India's largest industries with size of \$140 Billion or Rs 11.6 lakh crs. This premium hotel property specializes in weddings and providing large Banquet halls. The hotel already has robust bookings for FY 2023-24 as it has pre-sold its venue for the upcoming wedding season of 2023 & 2024

2. Secondly Praveg Limited, has also signed the implementation of its first new project at Dholavira, Gujarat spread across 48461 square meters, this project in its first phase will house 30 premium cottages and a restaurant

Praveg has also earmarked additional areas for expansion & can add 30 more luxurious cottages, taking the total capacity to 60 cottages. This project is expected to be operational this year & is expected start business this season

This project is situated one and half km away from the famous UNESCO World Heritage Site, Dholavira, which is one of the five largest Harappan sites & most prominent archaeological site of the Indus Valley Civilization in India.

UNESCO has described Dholavira as an ancient city, which is one of the most remarkable & well-preserved urban settlements in South Asia dating from the third to mid-second millennium BCE

Praveg plans to create a remarkable project that will harmoniously blend with the cultural and historical significance of the area

More importantly along with this heritage site, tourists can also experience the White Rann desert at Dholavira. As this site will be operational across the year (except for rainy season), visitors can experience the White Rann also across the year

With the addition of this resort, Praveg will have 14 properties in India, including 10 under development

3. Praveg has also approved the issue of 7,75,000 (Seven Lakhs Seventy Five Thousand Only) equity shares of face value of Rupees 10/- each of the Company to the proposed allottees, on a preferential basis.

Additionally it has also decided to issue 8,75,000 (Eight Lakhs Seventy Five Thousands Only) warrants each convertible into, on exchangeable for, 1 (one) fully paid-up equity share of the Company of face value of Rupees 10/- each to the proposed allottees, on a preferential basis within a period of 18 months from the date of issue

The issue price of the Equity shares & Warrants would be decided in accordance with Regulation 164 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

According to our estimates the issue price is likely to Rs 487 which will mean the company will aggregate Rs 80.36 crs via both Equity Shares & Warrants

The post issue Equity Capital for the company after this preferential offer will be Rs 23.77 crs from 22.12 crs earlier.

Post this preferential offer the promoters will hold 53.32% stake in the company from 57.30% earlier.

Praveg's Networth post this preferential offer will total Rs 171 crs.

Business Outlook & Stock Valuation –

Praveg will witness the commissioning of 10 projects (Adalaj, Velavadar, Varanasi Udaipur, Ranthambore, Jawai, Daman 2 Diu 1 & Diu 2 Ghogala beach) Daman 1 already commissioned in May 23, over the next 12 months (In FY24) of which 4 are high hospitality projects which include Jawai, Velavadar, Ranthambore & Udaipur where ARR's are expected to be in the super premium category which will help it get higher margins from these properties here.

Additionally Praveg has 2 running businesses at Kevadia and Rann which makes 12 total projects in its kitty.

The Sindhu Bhawan Road premium hotel and Dholavira UNESCO property will also be operational in FY24 taking Praveg's total count of 14 properties in India

Praveg is also likely to make an international foray into Kenya & Tanzania – For which plans are being made by the company

As far as the luxury 5-star hotel in Ahmedabad is concerned, on the Sindhu Bhawan Road, the company expects this property to start contributing to Praveg from mid October 23 onwards.

We expect conservatively around Rs 15 crs revenue and a PAT of Rs 6 crs in FY24. For FY25 we expect a revenue of Rs 40 crs plus with a PAT of Rs 16 crs

As far as the Dholavira UNESCO property is concerned here also we expect this to get started by Oct 2023 onwards which will mean six months revenues booked in FY24 and full contribution expected in FY25.

We expect 40% utilization of this property in FY24 with sales estimated at Rs 8 crs & 75% capacity utilization in FY25 with sales estimated at Rs 14 crs

On a rough cut basis, in FY24E, Consolidated Topline is expected to touch Rs 163.94 crs followed by Rs 278.66 crs in FY25

On the bottomline level we expect the company to record a PAT of Rs 55 crs in FY24E which is expected to bounce back to Rs 100 crs in FY25

Thus on a conservative basis, Praveg should record an EPS of Rs 24.86 for FY24E which is expected at Rs 42.07 for FY25E

FINANCIALS –

For Year Ended March RsCr\$	FY20	FY21	FY22	FY23	FY24	FY25
Kevadia (Tents)	10.15	10.41	18.67	25.59	26.98	26.85
Events Pvt Business				3.42	4.00	5.00
Conference/Events Kevadia				18.47	22.00	27.00
Total Kevadia Sales	10.15	10.41	18.67	47.48	52.98	58.85
Rann	5.47	5.61	10.04	6.52	7.18	8.98
Varanasi	0.00	0.00	0.00	4.03	21.42	35.43
Daman& Diu	0.00	0.00	0.00	0.00	22.34	30.90
Jawai Dam	0.00	0.00	0.00	0.00	1.20	7.02
Velavadar	0.00	0.00	0.00	0.00	1.50	5.35
Udaipur	0.00	0.00	0.00	0.00	6.07	11.76
Ranthambhore	0.00	0.00	0.00	0.00	2.25	11.37
Adalaj Stepwell	0.00	0.00	0.00	0.00	6.00	25.00
Exhibition	44.38	28.98	16.29	26.72	20.00	30.00
Dholavira	0.00	0.00	0.00	0.00	8.00	14.00
Sindu Bhavan Hotel	0.00	0.00	0.00	0.00	15.00	40.00
Net Sales	70.15	55.42	63.67	84.75	163.94	278.66
EBIDTA	6.00	16.00	20.00	44.92	81.97	142.12
EBIDTA %	8.55	28.87	31.41	53.00	50.00	51.00
Interest	0.00	0.00	0.00	0.69	0.75	0.80
Depreciation	0.00	2.00	3.00	6.09	8.50	9.75
Non Op Other Income	0.00	0.00	0.00	0.38	0.50	0.60
Profit Before Tax	5.00	14.00	17.00	38.52	73.22	132.17
Profit After Tax	4.00	11.00	12.00	28.43	55.00	100.00
Diluted EPS (Rs)	2.16	5.95	5.95	13.59	24.86	42.07
Cash Profits	4.00	13.00	15.00	34.52	63.50	109.75
CPS Rs	2.16	7.03	8.12	16.50	28.71	46.17
Equity Capital	18.48	18.48	18.48	20.92	22.12	23.77
Reserves	-4.00	1.00	9.00	91.53	146.53	243.53
Borrowings/Lease	2.00	4.00	3.21	0.40	0.50	0.60
Gross Block	3.00	5.00	9.00	40.00	80.00	100.00
Investments	0.00	0.00	0.00	22.00	12.00	12.00

Source – Co, Our Estimates

Looking at Praveg's steady financial track record, strong hospitality portfolio and unique offerings and its asset light business model and strong promoters we expect the stock to get re rated in future. We had earlier suggested the Praveg stock in July 2021 at Rs 90 after which it exceeded our earlier TP of Rs 249 by touching a high of Rs 255 on 9th November 2022

In our Q3FY23 update we had revised our TP on Praveg to Rs 600

We continue to be positive based on the company's future growth outlook in the hospitality sector & believe that it is one of the cheapest hospitality stocks available as on date as compared to other hotel peers like IHCL, Lemon Tree, Royal Orchid & Chalet Hotels.

While Praveg is small in size in terms of room capacity as compared to other peers, we believe that with aggressive property additions in FY24 and more properties likely to get added in FY25 also, we believe room inventory would significantly increase making it derive benefits of scale and higher inventory which also minimizes its concentration risk going ahead on few properties currently. Praveg also enjoys a profitable events & exhibition business which is also very profitable unlike other peers which do not have this business vertical

Our belief further gets reinforced by the ROCE & ROE expected over the next 2 years (FY24-FY25) which would be in the range of 45% & 46%

Current PE on FY24E & FY25E earnings is around 19x & 11x which we believe can easily trade at 20-21x going ahead looking at the sharp earnings growth in next 2 years, very strong growth seen in the hotel/hospitality sector as of now and having a large market share in the luxury tent asset light segment resorts which is unique and presents a more enjoyable ambience to visitors of Praveg resorts

Hence we believe that the Praveg stock should be purchased at the current price for a price target of around Rs 672 over the next 18 months