

SRS LTD : Diversified Products Portfolio ; Average Issue

IPO Note: High PE ratio of 24.0

Rating : **

Issue details

| | |
|------------------|-----------------------|
| Price band (Rs) | Rs.58-65 |
| IPO Opening Date | 23/08/10 |
| IPO Closing Date | 26/08/10 |
| Issue Size | Rs.203 - 227.50 Crore |

Valuations & Recommendation

The issue has been offered in a price band of Rs58-65 per equity share. Based on the EPS of Rs 3.59 for the fiscal years ending March 31, 2011 the P/E comes at 22x at the lower price band while, it comes at 24x at the upper price band on fully diluted equity. The company has reported a rise of more than 56% in its total income for FY11 to Rs 2,077.71 crore as compared to previous financial year. Net profit in the same period jumped 43.4% to Rs37.51 crore. The company is well placed in the diversified sectors.

Average ticket price and lack of presence in any lucrative metro city may become key negatives for SRS' foray into the cinema exhibition business. While evaluating its main jewellery business, accounting for 70 per cent of revenues, the offer is expensive, given that players such as ShreeGanesh Jewellery and Gitanjali Gems trade at much low at 2.67 and 10.79 PE multiples with turnover of Rs.5240 crore and Rs.5122 crore. At this price, it seems little bit expensive, so we suggest to enter the stock at lower level after listing but investors with high risk aptitude can take little exposure in this issue as there may be listing gain.

Highlights

- ◆ Diversified business portfolio with presence in businesses like cinemas, retailing, food & beverages (F&B) and jewellery segments
- ◆ Strong revenue and profit growth, mainly driven by the jewellery business
- ◆ It is yet to identify the proposed locations for the outlets to be set up from IPO proceeds; ability to timely identify them and commence satisfactory operations will be critical to maintain future profitability
- ◆ Nearly half the IPO proceeds, of around Rs 227 crore, are to be spent on setting up cinema halls. The business now contributes less than two per cent of the group's overall revenues.
- ◆ During FY11, revenues for the company grew by 56.2 per cent over the previous fiscal to Rs 2077.7 crore, while net profits expanded 43.6 per cent to Rs 37.5 crore.

Company Introduction

Incorporation & Promoters

SRS is a diversified company with a business portfolio comprising of Cinema Exhibition, Food & Beverages, Retail and Manufacturing and Retailing of Jewellery. The company was incorporated on August 29, 2000 with the objective of trading in FMCG Goods and it later entered into other business segments. The major four business verticals of the company enable it to profitably exploit the business synergies, as well as smoothen out seasonal business fluctuations. The four business verticals of the Company area Cinema Exhibition, Food & Beverages Retail and Manufacturing and Retailing of Jewellery.

Cinema Exhibition: SRS Cinemas is the cinema exhibition brand under which the company operates a chain of cinemas spread across six cities. This includes 11 properties at strategic locations having 30 screens and 7,608 seats. It is a brand that is fast spreading its footprint



www.srsparivar.com

Financial Summary

| Particulars | 0903 (12) | 1003 (12) | 1103 (12) |
|-------------|-----------|-----------|-----------|
| Sales | 5003.49 | 13077.65 | 20408.01 |
| OPM% | 4.57 | 5.16 | 4.94 |
| Net Profit | 55.91 | 263.35 | 373.88 |
| EPS (Rs)* | 3.58 | 2.53 | 0.06 |

RANKING METHODOLOGY

| | |
|-----------|-------|
| WEAK | * |
| AVERAGE | ** |
| GOOD | *** |
| VERY GOOD | **** |
| EXCELLENT | ***** |

across the major cities of North India. SRS brand is a well recognized film exhibition brand in North India.

Food & beverages segment: In the food & beverages segment, the company operates a chain of food courts, fine dining restaurants and banquets across several cities. The food courts are run under the SRS 7dayz brand and currently, the company operates 11 food courts across North and Central India. The fine dining restaurants are operated under the brand Punjabi Haandi and currently the company operates three Fine Dining Restaurants that are located at Faridabad, Gorakhpur and Ludhiana. All these outlets are strategically located at high footfalls areas such as malls and high street markets to ensure higher visibility and walk-ins.

Retail

The company operates a chain of retail stores under the brand name of SRS Value Bazaar that offer FMCG products including food and groceries, apparels, cosmetics / home care /personal care products, crockery, appliances, accessories, etc. SRS Fashion Wear is the other brand under which the company retails multi-brand apparels. The company has 23 retail stores in North India with a total floor space of more that 0.132 mn. sq. ft. Apart from this, the company is also active player in the cash & carry business.

Jewellery business

In its jewellery business the company procures jewellery from its 100% subsidiary having manufacturing facility at Patparganj, New Delhi and through third parties. In this division, the company is into whole-selling and retailing of jewellery. It sells a wide range of gold and diamond jewellery under the brand name of SRS Jewells. The product portfolio includes gold coins, necklaces, rings, pendants, bracelets, earrings, bangles etc.

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