Chalet Hotel Limited Q2 FY20 Earnings Conference Call

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MANAGEMENT: MR. SANJAY SETHI – MD AND CEO
MR. RAJEEV NEWAR – ED AND CFO

Moderator: Ladies and Gentlemen, Good day and welcome to the Chalet Hotel Limited Q2 FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjay Sethi. Thank you and over to you.

Sanjay Sethi: Good morning ladies and gentlemen and thank you for joining us for the Q2 and H1 Earnings Call of Chalet Hotel Limited. Rajeev and I will make short opening statements and then we will be happy to take your questions. The hospitality industry has seen some challenges in the last couple of quarter largely driven by general economic environment. As per the ministry of tourism foreign tourist arrivals grew by 2.3% in the first nine months of the calendar year of 2019 compared to a six-year CAGR of approximately 9% so we are clearly seeing a little bit of a slow down on the foreign tourist arrivals. As per DGCA, domestic air passenger traffic grew by only 3% compared to a six-year CAGR of approximately 17.6% for the same period.

Despite this many key markets have performed better in the June, September quarter of this year compared to the last year. This growth is primarily driven by strong corporate demand in major business cities such as Mumbai, Bangalore and Hyderabad. However, the fundamental of the industry on mid-to long-term basis stayed strong with limited new supply in most segments and in most cities. Mumbai hotels continue to benefit from the high barrier to entry. The government scheme focusses on improving India's tourism bodes well for the industry aided by favorable policies and development such as reduction in GST, rates per hotel rooms, e-Visas, expansion of the visa-on-arrival facility, The Incredible India 2.0 campaign and better regional connectivity. This should spurt hotel room demand especially in the higher end of the industry.

Chalet Hotel have paved headwinds these last two quarters to stay on course for ADR-led growth in the room revenue. That said we did see some stress in the F&B business our hotels witnessed some slowdown in the banquet business with both number of events and average number of guest per event lower than before. The good news is that the restaurants and lounges revenue grew over last year. Average spend per cover in our restaurant and lounges also has improved in some of the key restaurants in Mumbai and Bangalore. The revenue challenges were accounted at Chalet with a strong focus on operating expenses which were kept under tight control. We continue to improve employee productivity, our employee to room ratio has dropped further from 1.24 employees per room in Sep 2018 to 1.17 in Sep 2019 and a payroll cost in Q2 were 4% lower than the cost for the same period last year in our hospitality division. This was done despite wage settlement earlier this year at our biggest hotel complex in Powai.

Overall, the hospitality segment revenue saw a marginal drop of 1% in Q2 against the same quarter last year. We were able to reduce segment operating cost by 0.5%. For H1 the segment revenue was flat, and the cost were up only 1%. Savings on non-operating cost have helped the company report a healthy growth in segment and overall profitability.

Non-hospitality segments were supported by growth in rental income and Rajeev will run you through the details in a bit.

A quick update on the pipeline of Greenfield growth:

Hyderabad Hotel is progressing as per schedule that was stated in the last call which is ahead of its original schedule with an estimated date of completion next year. The property improvement designs for converting Renaissance into a Westin are done and renovations have begun. We anticipate the turnaround of Phase-I to be completed by mid-2020 and that will allow us to rebrand the hotel to a higher positioning of Westin. Additionally, in Powai the work on the large Office Tower has also commenced and we had made a disclosure on releasing of the civil contract for that a couple of weeks back. With these two large projects now in Powai underway, there is significant onsite work going on. We would like the project work for these two projects to settle down and reach stable state before we start work on the third project which is the one with the W Hotel and expansion of the conventional center.

We continue to work on getting all the approvals for this phase but will wait for some time before committing capital expenditure on this Phase-III. This holdback will also allow us to reassess changing market conditions and the first two projects to settle down.

However, there has been a delay in the approval for the building of the Hyatt Regency in Airoli. We continue to pursue the approval unfortunately we do not have a timeline for when we get the approval. The preliminary planning work for the project, however, is well underway. We have the local approvals that were required to be taken from local authorities, we are waiting for the MoEF approval that has to come from Delhi.

With this a quick brief of the last quarter. I will now hand over to Rajeev to take you through the final details of the financial performance.

Rajeev Newar: Thank you Sanjay and good morning ladies and gentlemen. Before we start, let me offer the usual disclaimer on forward looking statements and rounding-off of numbers during our conversation. Our presentation has already been uploaded on the stock exchanges as well as on the website. I hope you have had a chance to go through it.

Let me take this opportunity to walk you through the numbers:

For Q2FY20 revenue from operations was at Rs. 2,405 million as compared to Rs. 2,572 million and this marginal drop is essentially on account of couple of things which I will just talk to you in a bit. Prior to IPO the company had invested its fund in interest-bearing ICDs, but immediately post-IPO these were all squared-off. So therefore, the other income for the corresponding quarter of the previous year had some interest income which is not so in the current income.

Apart from that the company also had some unsold inventory in a residential project which was in the corresponding quarter of the last year. Last year from Hyderabad residential project there was a revenue of almost Rs. 166 million for the current quarter it was nil.

If you adjust for these two, the revenues would obviously show an increase. We continue to stay focused on cost and as you will observe that the costs were lower by 6% over the previous year for the quarter excluding an exchange loss of 389 million which was accounted for above the EBITDA in the previous year, there was no such exchange loss in the current quarter. Resultantly overall, the EBITDA for the company was significantly higher at Rs. 867 million as compared to Rs. 541 million for the corresponding quarter of the previous year.

Now let me just talk briefly about the segments:

The hospitality segment which accounts for 85% of our total income stood at Rs. 2,046 million as compared to Rs. 2,075 million in the corresponding quarter of the previous year. I think what is essential to note here is that there was an increase in the ADRs by almost 3% and the occupancy was at a healthy 74%-odd level.

Some noteworthy key takeaways could be that:

- Rate growth notwithstanding the challenges which were being faced by some sectors in the economy
- Effective cost management as I just mentioned the cost was low by 6%.
- Importantly the segment margin was maintained more or less around 37%.

Room revenue continue to account for about 61%, F&B revenue accounted for 31% and the other income accounted for 8% for the hospitality segment. Importantly the portfolio which is spread across three cities Mumbai, Bengaluru and Hyderabad. Mumbai accounted for about 62% of the total revenue, Hyderabad accounted for 19% and Bengaluru similarly about 19%. The retail and the office segment which accounts for about 12% and 0.8% of our total turnover also grew substantially.

For the quarter under review, the revenues from retail and office segment was at Rs. 307 million as compared to Rs. 104 million in the corresponding quarter of the previous year. This was partially on account of the straight-lining and also partly on account of improve occupancies and rental. So, if I was to exclude the straight lining impact the revenues grew from Rs. 77 million to Rs. 105 million which was increase of 36%.

Billing for the Office Tower has also started and for the quarter under review the SLM impact over and above the corresponding quarter of the previous year was almost about Rs. 175 million.

We have been progressively bringing down the ECB on our books which was valued at Rs. 4,920 million on April 1, 2018 and the ECB was substantially repaid over the last few months and ECB in rupee terms is lower at Rs.1,788 million or approximately $25.3 million as on 30th

September, 2019 and the finance cost due to the various treasury initiatives that were continued to be undertaken was significantly lower at Rs. 369 million as compared to Rs. 563 million a saving of Rs. 167 million. The total borrowings continue to be reduced it stood at Rs. 14,494 million as compared to Rs. 27,093 million in March and a debt-equity continues to be healthy 1:1.

Koramangala which was the residential project in Bengaluru, the promoters have continued to subscribe to a 0% non-convertible redeemable preference shares for funding of the outflows relating and the redemption is contingent on the surplus from the project alone. The total value of subscription received from 30th September 2019 was Rs. 1,010 million from the promoters and there is no cost on this as on date.

A brief update on the tax:

The company had the option to either continue with the erstwhile tax rate or migrate to the new tax rate as was announced in the union budget. The company has evaluated the various pros and cons and has decided to continue with the erstwhile tax rates because what it does is since the company has carry forward tax losses., it enables the company to continue to be in the MAT for a longer period and the MAT rates are obviously lower than the minimal rates which has been announced which is around 22% and Therefore the company benefits from continuing to be under MAT.

Our last few lines on the H1 performance:

The total income was about Rs. 4,867 million as compared to marginally above Rs. 5,000 million and EBITDA was at Rs. 1,721 million as compared to Rs. 1,412 million in the previous year so pretty flattish largely because of residential and the unallocated income as I mentioned. The finance cost for the period continues to be lower at Rs. 726 million compared to Rs. 1,399 million for the same period in the last year. With this, we now open the floor to questions.

Moderator: Thank you very much. So we will now begin the question and answer session. The first question is from the line of Aditya Bagul from Axis Capital. Please go ahead.

Aditya Bagul: So I have two questions first if you can give us some sense I know Sanjay you talked a little on the ADR growth , can you give us some sense on how H2 is looking we understand October is likely to be weak in terms of festival season coming ahead this time around, but if you can tell us something on the corporate, MICE or the retail segments how is that shaping up for H2?

Sanjay Sethi: Unfortunately, I cannot give forward looking statements and numbers. Typically, I would like you to look at how traditionally H2 performs vis-à-vis H1 and this time given that H1 was lot weaker I mean the industry should expect a higher delta between H2 and H1. What we have seen is that generally across India this year October was slightly weaker especially in the business districts, but November is looking very strong across India on account of Diwali which is not there in November this year and the movement of bookings look like a very positive scenario for November. We also expect a first half of December to be generally strong for the country before the Christmas season kicks in and then we expect after the first weekend on January business to kick in strong right up to end of March.

Aditya Bagul: Just a follow up on that if you could tell us how is the negotiation on pricing with corporate coming up I know there will be some stress on account of airlines, but I believe H2 is the time and we reopen the negotiations for the rates, so if you can provide some color on that, that would be helpful?

Sanjay Sethi: So, what has happened in the past few quarters is very interesting. We realized the corporates resistance to price increase is far lower this time around. So we have the negotiations cycle starting from August and in the past we would go with Rs. 200, Rs. 300 increases and we would find them resisting it, in fact ask to reduce rates on the previous rates. This time around we do not find the resistance. What has happened is with occupancies country wide growing the room availability has become a problem for lot of the corporate travelers especially from Sunday to Thursday. As a result, they do want to lock in hotel rooms and therefore agree to reasonable price increases.

The second thing that has happened which is a very interesting phenomena for the industry and we had the Marriott team presenting to us a little while earlier on which way they are going. The movement of segments the mix of segments has taken a very positive turn. So, it is seen that the retail segment has been growing from low 20s to almost 30% of the total business or so. Business that is coming to our hotels now and retail segment is the highest paying segment. The corporate segment continues to hold where it was earlier, and there has been some drop-in group and contract segment. Group and contract segments were the lowest segments that were there. So you know 22% to 29% is the movement on the retail side that and that is roughly a third more business coming out of the retail segment which is a great move for the industry.

Aditya Bagul: Rajeev one question with regards to our other operating income, so other operating income if I am not mistaken was about 47, 48 crores last year however this included some component of export benefit that we used to get, so when I look at our first half numbers we are tracking about 5 to 6 crore run rate is that a number that we could look at going forward or just some sense on that would be helpful?

Rajeev Newar: Couple of clarification though. So last year if you look at other income it was Rs. 476 million and the current year is about Rs. 110 million in H1FY20 essentially on account of two or three factors. The first one obviously as I mentioned earlier that in the previous year, we used to have interest income from inter corporate deposits which are not there correspondingly the income which was almost Rs. 131 million last year for H1 has gone down to about 28 million which is basically interest on fixed deposit alone. The other element is that you know SEIS and EPCG benefits last year which we had accounted for September was for a cumulative period which was about Rs. 155 million which in the current year is only for the period which is about Rs. 60 million. So, what you see in the current H1 is more reflective of the trend going forward.

Moderator: Thank you. The next question is from the line of Ritesh Jain from Birla Mutual Fund. Please go ahead.

Ritesh Jain: So basically two quick questions number one is I am not sure whether you covered already in the opening remarks, but Sanjay what happened in the Hyderabad market this time because the occupancy I can see a very sharp drop, so is it some onetime event or has the market deteriorated so much?

Rajeev Newar: So, two things have happened in Hyderabad in fact the demand will continue to grow from here onwards. Because almost 70% of the business comes from out of India that week of election get lost a little bit. Second thing is that we had a new hotel opening with 280 odd rooms, , that is the ITC Kohenur. The good part is that they have now stabilize on their occupancies and they have actually positioned themselves at premium rates avoiding any rate undercutting.

So, this combined together actually both favorable condition for us. We do expect the future quarters to be far stronger for us. So, I do not think it is a market condition, the new supplies got absorbed. So, for a short-term period while the new supply started to get absorbed the existing hotel has seen some drop-in occupancies. However, that is going to get normalization very soon. I would also like to highlight that the market there is very strong, driven by new office space absorption in that market both at the Hitech City area as well as the FinTech city area.

Ritesh Jain: Secondly on the Mumbai portfolio for Chalet if you look at the occupancy they are like 72, 73 at max 74 and FY19 it was 76%, do you think that this 75%, 76% is the max number or do you think there is some scope to improve or go beyond even that FY19 delivered number as well, we should assume like this is going to be like the hilt?

Rajeev Newar: No, I think there is strong headroom for growth. See what happens in lot of these business cities is project come and go and some of these projects are very large projects. So, when the 4G projects of Jio got completed we saw some drop-in occupancies in the city because what happens in projects is that they are long stays which fill up your weekends and that helps you get higher blended occupancies in place. We now see four or five new projects coming into Mumbai which are likely to drive occupancies. One is of course the metro ongoing work, we see the bigger corporates now coming in once the civil works is over. Second is we are seeing the Trans Harbour Link, that is going to drive in large projects movement. The third one is the new airport that is going to drive a lot of projects led business and finally the 5G project I think is not too far from starting and that should give us a good three, four years of project business going forward. So I must highlight here that the corporate occupancies and the retail occupancies have done very well. The only slow down if any was in the MICE business and our belief when we speak to the industry professionals and analyst there is a common view that the MICE business has largely been put on hold by large corporate houses on a wait and watch till there is more clarity on the general economic environment and that we believe will create some pent up demand we have already seen early signs of that kicking in now.

Ritesh Jain: Secondly Rajeev on the consolidated segment I can see a negative loss number in real estate segment that is about 96 million, so I guess this is for the Koramangala project right and this gets compensated by the promoter by way of infusion?

Rajeev Newar: So, you are right Ritesh the Rs. 80-odd million of real estate development cost and the Rs 14 odd millions of exceptional items which is Rs. 94 million it is essentially coming in from the residential Bangalore project itself. From a cash flow perspective there is no outflow from Chalet we are getting it funded as a 0% preference shares from the promoters they are spot on.

Ritesh Jain: So essentially what is happening here is our reported profit is lower, but as far as company is concerned there is no cash loss?

Rajeev Newar: Right.

Ritesh Jain: But then it goes against the principle of accounting I mean the artificially our profit is getting lower and I mean it has to be match right the revenue?

Rajeev Newar: This discussion probably take a little longer but let me share this with you that the redemption of the preference shares is contingent on surplus from the project Koramangala project. So in the interim what the promoter have done is they are bringing a 0% preference shares so that there is no pressure on the company to fund the project, but it is not that it will not be redeemed it will be redeemed from the surplus from the project. So from that perspective we have to follow the accounting norms, but I think what is more important is business around cash flow and from a cash flow perspective there is no pressure on the company. In fact whenever we have surplus from the subscription we actually park it in the OD in fact in the beneficial overall from a cash flow perspective.

Sanjay Sethi: At point of time this project will culminate into closure and at that point of time we expect the P&L to show a positive impact.

Ritesh Jain: And lastly what kind of capital expenditure you are looking at culminate in current year as well as in next year all put together I mean hotels as well as retail and office?

Sanjay Sethi: So look as we mentioned last time we were looking at roughly around Rs. 1,000 to 1,100 crores of CAPEX plan plus in other words 100 crores at hotel level FF&E replacement cost. As I said in my opening statement if you look at just pure projects that we are doing in Hyderabad, Powai, Airoli and the Bangalore commercials. The total cost worth up to roughly on Rs. 1,100-odd crores. Now out of that Rs. 190 odd crores is for the Powai W Hotel in conventional center which for now we are holding back to committing that CAPEX cost, but we would like to do it at some point of time we are going to kick start that project. So overall yes roughly around Rs. 1,100 crore numbers what we were looking at and that is over a period of about four odd years.

Moderator: Thank you. The next question is from the line of Satyam Thakur from Morgan Stanley. Please go ahead.

Satyam Thakur: Just to do a little bit more on the demand situation and on RevPAR so you talked about how October is likely weak because of the higher number of holidays this time and November is looking pretty strong, but is that largely to do with base effects or is that an actual improvement we have seen or put the other way round if I see October, November together then for the two months together is RevPAR showing higher like the 2.3% growth that we have seen in the first half is it like markedly higher, is it like slightly higher and if it is higher then what is driving that improvement in the RevPAR trend, is it an actual improvement uptake in the demand growth or is it more that because of the higher occupancy levels in the second half we are able to charge a little more RevPAR growth?

Sanjay Sethi: I cannot share numbers with you on the call. In general blended together October, November for business districts in the key markets of India should show a positive growth which should be mid to high single digit growth so that is positive this basis the demand patterns that we have seen across the country and some of the numbers that have come up in the recent reports that we have seen. We also study the overall STR and HVS numbers that get throw up and all of that indicate October, November blend of reasonable growth. On the demand and supply pattern, I think whilst demand been little muted in the last couple of quarters on the back of two, three things and let me elaborate those two, three things – One is the general economic slowdown which is also reflected on a passenger growth and the foreign tourist arrivals. We also had this double-whammy of elections both Lok Sabha and State elections during this period. We also had a very strong monsoon this year which in fact hit some of our hotels in Mumbai for three days I remember the month of July where we had actually predicted that we will do extremely well and we had business on the books showing that. Last moment we saw groups and conferences getting cancelled because flights could not fly into Mumbai. So with that impact we did see some amount of stretch in the business for this quarter. Having said that we still manage to grow at about 2.3%, 2.4% on a room revenue side driven largely by rate growth. We do not expect now monsoon to hit in Q3, Q4 and elections are out of the way and with two-third of the portfolio in Mumbai and we see a far more stable performance of growth.

Satyam Thakur: Have you started seeing the spend from the corporate side and F&B weakness we have seen in this quarter for example has that started to reverse a bit with MICE starting to participate a little bit more from the corporate side now or from the corporate side do you think it is still similar kind of trend as in the first half?

Sanjay Sethi: So let me clarify corporate individual traveler had not slowed down. It was MICE business that slowed down which is a certain percentage of the total room MICE that we do. So individual traveler came in as strong as before in fact slightly higher both for the corporate contracted segment as well as for the retail segment and the retail segment we will be able to drive higher rates that is what grew the rates because the MICE segment that went down and also because Jet Airways is out of action compared to last year the crew segment was little lower than last year, but those are the low rated businesses which we are now happy that it has gone, however that does affect occupancies because they give us occupancies from Friday to Sunday in addition to the rest of the day. So that is where we need to focus on we have seen in general a lot more pickup from corporate MICE business. We have also been able to pick up one very good group for Renaissance which needed that business and I think that should help fill up its weekends.

Satyam Thakur: And the ADR growth of 3% that we have seen in the first half, is that all because of the mix improvement that you talked about where your retail share has gone up from 22 to 29 or is it also like-to-like price increases that we have managed to pass through?

Sanjay Sethi: I think retail has played a big part, but when I saw that retail has played a big part you got to remember that lot of the corporate contracts who could not find rooms that are available through their contracts had gone through the retail route. They went and book through OTAs and GDS which allowed them to book same at a slightly higher rate for us. So overall it is a strategy that worked well we are sort of reducing inventory for the corporate travelers increasing in favor of the retail segment and encouraging them to go through the retail route. Also I think recently we had a very good initiative with Expedia which has seen a surge in Expedia booking especially at Powai and that partnership has done very well and Renaissance I can share this with you because it has happened yesterday we came to know that Renaissance got the award for the most improved hotel with Expedia as a partner in Asia-Pacific.

Satyam Thakur: And lastly moving to the supply side so in the past also I have asked that there seem to be lot of hotels lined up for commissioning in Bombay you know does that worry you especially given that some are in your micro market as well like the Lemon Tree Premier has opened up there then another Aurika Property from Lemon Tree will open up in the same micro market then the Chedi hotel is also kind of stuck, but from news flow we gather that lot of people are interested in buying that so potentially that could get revived and is that also because you mentioned something earlier in the call about kind of going slow and not yet deciding when to start work on the Powai W Hotels so is that because of these concerns that you also agree that there is an upcoming supply and is that what is keeping you what is keeping you what is happening there?

Sanjay Sethi: Satyam I do not think we are worried about the supply because we are going to understand that this supply that you are talking about comes on a large base. So percentage wise this supply growth is 3.5% year-on-year for the next three years. So I do not think we should worry too much about it the demand side will continue to outpace new supply that is not the concern. When I am talking about Powai what I was saying is that the first reason that I want to sort of go a little slow on that is that we have got two large projects happening on the side and projects can sometimes be disruptive to the existing guess. We want to pace them out in a fashion that we would see no disruption to the existing guess. So allow these two projects which is Office Tower project and the hotel renovations to rebrand Renaissance to stabilize to a certain pace and you know the initial teething problems get out of the way and then we can start working on this phase of the project. Also there were couple of approvals as we wanted to get we are getting all the approvals in place together, so we do not have to get them piecemeal and then start the work. We will use this opportunity that we have in hand to continue to reset the market. Right now as we speak I do not see a challenge with that additional supply of room inventory because that is a very differently positioned hotel W it should actually drive value to the whole complex along it with churning its own returns and I believe that the convention center that we are adding will be a huge demand generator also, but we got to take care of our guest and we need to make sure that their experience does not get diluted and that is one of the reasons that I want these first two projects to stabilize. On the supply that is coming in, if you really look at it is a fair amount that is coming I do not have the date but whenever it comes it is 600 rooms on a base of about 4,500, 5,000 rooms today and then we have got, and this is going to come over a certain period of time. We have got the Ritz Carlton which is in a completely different market. The Lemon Tree is a completely different segment the Aurika is also going to be significantly lower segment compared to Renaissance and JW Marriott it is more of a competitor to maybe courtyard Marriott or a HolidayInn. So we do not really expect too much of an impact and Aurika is a few years away I am told. Chedi is something that we have been hearing about for very long is 350 rooms as and when they resolve whatever issues they have they have approached us also to look at it as an opportunity. We have not expressed any interest as of now, but no I do not think the supply is a challenge given the base of supply that we come off right now.

Moderator: Thank you. The next question is from the line of Amit Agrawal from Nirmal Bang Securities. Please go ahead.

Amit Agrawal: I just wanted to again focus on the previous participant question more on the future increase in the RevPAR if I may say probably second half might be good, but looking at the economy and you have pointed out yourself in initial remarks on the problems in the economy is the economic slowdown does persists, what kind of RevPAR growth are you looking at a similar RevPAR growth or probably more a lowering of the RevPAR growth as we move forward in next two to three years?

Sanjay Sethi: Very quickly I do not believe that this is a structural slowdown on the economy. I think there would be a turnaround there is a little bit of a challenge on consumption side, but when I look at the restaurant business it continues to do well, but I see corporate travelers continue to do well where we have seen in the country a little bit of a slowdown is two or three areas. We have seen leisure destinations get impacted a little bit I think Goa has reported lower numbers as well as Kerala, Jaipur I am not aware of at the moment, but we have not seen a slowdown in the main segments of retail and corporate contracted segment. We have only seen a slowdown in the MICE segment and we believe that the companies at some point in time have to come back and do the reverse because they are used to basically driving business with business promotion and at the end of the day the only way come out of any challenges on growth for corporate is to intensity the marketing activity. So, we will see a pickup on the wedding segment.

Amit Agrawal: Just one more follow up on this particular thing, just to be bit more specific we have heard from the IT sector of layoff in some of the largest companies so that impact the South Indian market especially for you it will be Bangalore are you seeing any initial signs of a problem from the Bangalore market?

Sanjay Sethi: Not at all in fact if we look at our Bangalore market we have seen two new hotels open in the immediate vicinity of our hotel the Sheraton Grand, and the Dan Hotel in the last one and half years and we managed to hold occupancies and grow our rates. At the same time they are filling up their hotels and with fairly healthy rates. So clearly Bangalore is not seeing any slowdown while we say that some companies have announced reduction in the hiring patterns I have also heard that some companies have announce increase in their hiring patterns both from the BPO and the ITES and FinTech industries.

Moderator: Thank you. The next question is from the line of Nehal from Edelweiss. Please go ahead.

Nehal Jham: Sir, my first question was just delving on the performance in Q2 on ARR and RevPAR if I compare Q1 was obviously a quarter where we saw the impact of the elections more than maybe Q2 and even you had the Jet Airways issue, so in that context should we not expect a better uptick in ARR I know you mentioned about the MICE segment during the call, but anything else that you would want to highlight that the ARR and RevPAR has not improved compared to Q1?

Sanjay Sethi: There is no distinct change in rates that we charge between the two quarters. The rates cycles have a certain period when they get changed. Number two with the occupancies under pressure you are likely to have slightly lower rates. You got to understand that once you did not have the Lok Sabha elections in Q2 you had the Maharashtra elections in Q2. You also had a very heavy and severe monsoon which did affect Mumbai hotel extensively not only the hotels lot of the flights could not land. We had cancellation on account of that both for conferences as well as individual travelers. We had a few dry days in the city because of the elections and we had a few holidays during this Q2 we had right from the extended Ganesh Puja, and we had the 15th August holiday all of that affected us adversely. So Q2 typically has been weaker than Q1 in the past too if you really look at it. So I think it is following a trend where Q1 is better than Q2, H2 is better than H1 and we expect that trend to continue I do expect the H2 to be slightly stronger as from a delta to H1 this year because of the slight underperformance in H1.

Nehal Jham: So on a trend basis was it that July started off with a good month because I remember when we were discussing on the Q1 call you said that things were looking better and maybe towards the end of the quarters things were not as good as maybe the quarter started off?

Sanjay Sethi: Actually July did reasonably well, but July did not do as well as we expected because we did end up with a few cancellations. So July, August, September all three got hit with monsoons pretty severely and Mumbai had heavy rains three days back which was quite surprising of course it did not lead to any cancellations, but clearly the climatic conditions is a cause of concern and we are doing our bit in fact one thing I do want to share since we are speaking today to all of you is that we are working very strongly on the ESG mapping of a hotel lot of work has gone and at some point of time we had to come back to you and present ESG score card there is a lot of work happening at Chalet Hotel on that front.

Rajeev Newar: Nehal apart from this I think that couple of initiatives which the government has also undertaken which Sanjay mentioned in this initial brief, which was the rationalization of the GST rates, the Electronic Visa expansion, The Incredible India 2.0 campaign and all these are also expected to spurt the hotel demand further. So, these are expected to have some positive impact on the industry.

Sanjay Sethi: There may be a little bit of lag impact on that.

Nehal Jham: Just continuing on the GST you mentioned that was announced in the mid of September, so in October did we have a chance of seeing a pricing increase by possibly not passing on the entire benefits to the customers who will get a chance?

Sanjay Sethi: No, Nehal we cannot do that we do not do that. This GST benefit was for the customers or guest as we call them completely. What we believe that will do is make it more viable for them to travel more frequently as many more hotel room night in hotels and therefore we expect that to spur demand, but the GST rate cut may not necessarily increase in rate increases.

Nehal Jham: We got a chance of then taking a bit of a price hike which was still net-net be a lower price of the consumer would end up being?

Sanjay Sethi: We will move with price hikes irrespective of what the GST rates are.

Nehal Jham: Sir, just one more question on the employee sir it is commendable the way we ended up managing the cost, so I just wanted to understand a little more on the nature that is it that there could be a regular attrition which we are not replacing and making our operation more efficient and what is it that we are trying to drive or what are the steps we are taking to rationalize employee cost?

Sanjay Sethi: Couple of interesting things that have happened. One, we worked very hard over the last two, three years on improving productivity levels of employees through right hiring and training initiatives. Second we reworked on our processes and systems and third we worked on using technology. Now when I talk about technology for example a building of high-end quality where our engineer can be sitting anywhere in the world and control it from his phone through an app are sort of initiatives that help you get more productivity in and reduce some manning numbers then we are looking at centralizing a few things for example, in Renaissance Powai we shut down and outsourcing laundry and now in the next step is to cluster three hotels laundry together so we can reduce the overall number of employees. So, Renaissance had saw a reduction in number of employees sometime in October so that number is still not reported you will see that in this quarter. So, these sort of initiatives of clustering, reprocessing our workflows and using automation and technology all have been helpful.

Nehal Jham: Just one more thing what is the normal cycle that we have with most of our corporate for pricing adjustments do we follow Jan to December and the negotiation start now or is it a different cycle that we follow?

Sanjay Sethi: It is a mix bag the global RFP accounts follow a Jan to December cycle and some of the Indian corporate follow in October to September cycle. One thing that has happened increasingly this year is that the Marriot who operate all our hotels have had a significant growth in domestic Indian accounts that they have been able to contract with which helps us reduce risk on large holidays. So let me explain this since there is a holiday in the middle of the week say on a Wednesday a global traveler will probably not come into India for the whole week because it becomes unproductive for him or her, but an Indian traveler can still travel on Monday and Tuesday and come back home on a Tuesday night to celebrate the holiday next day and then come back maybe on Thursday, Friday. So that is what we are trying to do it increases our weekdays a number of days in the weekday cycles it also reduces the number of days that we lose on account of holidays. So with that in mind we are increasing the number of domestic corporate contracts.

Nehal Jham: Just is it possible to give a sense of how the pricing negotiations went for the Indian customers?

Sanjay Sethi: I am sorry I would not be able to disclose that because it is confidential information, but as I mentioned earlier once in the past they registered even Rs. 100, Rs. 200 rate increases. This year they have been more open to increases in higher rates.

Moderator: Thank you. The next question is from the line of Aditya Babul from Axis Capital. Please go ahead.

Aditya Babul: Just had a couple of questions on the Orb, so wanted to understand what is the revenue contribution this time both from the retail and the commercial space, what is it that we are planning for the second half and at maximum capacity say in FY21 what is the revenue possibility from this particular asset?

Sanjay Sethi: Meanwhile a quick update now 15 restaurants are operating, 7 are on the verge of opening and the Footfall in restaurants have improved significantly. On the office side WPP today already has close to 2,900 employees in the office using that office this will culminate at roughly around 4,0000 employees when all of their companies have shifted there.

Rajeev Newar: Aditya if you look at the Orb for quarter we had a revenue total revenue of Rs 105 million and it would breakup into two elements. First, I am going to tell you about the overall retail and commercial and breakup two elements one is what is the revenue from operation and what is the revenue that we have accounted from SLM. So from a operation perspective the revenue has gone up from Rs 77 million to Rs 105 million which is increase of 36%. Now since we have handed over the other projects also we started with the straight lining and correspondingly you could see a incremental revenue of Rs 175 million from the straight lining. Now as I said with passage of time what will obviously happen is that this straight lining the SLM part will obviously start reducing and the operating revenue will start forming a larger component of this. So this is basically where it is and if you are looking at profitability that has also improved significantly Aditya because as I mentioned both the rentals as well as the occupancy have improved over the last year and that is obviously contributed to improve operating EBITDA from the retail and commercial and this is something which we continue to do so. Having said that also relevant to note you know the commercial tower that is coming up in Bangalore and similarly in which we will also have a multiplex so the mall that we have in Bangalore is also going to benefit because of footfalls and in Bombay as Sanjay mentioned that with the incremental number or with the increase in the number of F&B outlets the footfalls in the retail F&B hub is also increasing which is also benefiting the hotel .

Aditya Babul: So Rajeev just wanted to understand we have so far as retail and commercial space the revenue has gone up from Rs. 7.7 crores to about Rs. 10.5 crores, so this incremental of Rs. 3 odd crores most of that would be attributable to the Orb is my understanding correct?

Rajeev Newar: No, it is a combination of both Orb as well as it is a combination of Inorbit in Bengaluru. In Inorbit in Bengaluru we have a new restaurant called HQ which has also contributed to this revenue as well as in the mall in Bengaluru we have also been to improve the occupancy as well as the rates. As occupancies have gone north of 90% and the rates have also improved over the last year. The Orb revenue will truly restart kicking in H2 of the current year.

Aditya Babul: So if I were to look at say FY21 considering meaningful occupancy of almost 90% in our commercial space and 90% in retail would it be fair to assume that you would have a total revenue pool of about Rs. 75 crores coming from the Orb?

Rajeev Newar: Yes going by the current trend when I say Orb I am talking about the WPP also which is the office tower also as a whole building. So on a combined basis on a stabilize basis absolutely.

Moderator: Thank you. As there are no further questions I now hand the conference over to the management for closing comments.

Sanjay Sethi: Well, Thank you to all of you for joining us and sparing the time. We look forward to engaging with you in the next quarter. Thank you so much.

Moderator: Thank you. Ladies and gentlemen on behalf of Chalet Hotels Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.