"Chalet Hotels Limited
Q4 FY2020 Earnings Conference Call"

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

Moderator: Ladies and gentlemen, good day and welcome to Chalet Hotels Limited Q4 FY2020 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjay Sethi, MD and CEO, Chalet Hotels Limited. Thank you and over to you Sir!

Sanjay Sethi: Thank you. Good morning to everyone and apologies for the slightly delayed start. I believe there was long queue in waiting; we were trying to get as many people in as possible. Thank you for joining us for the earnings call of Q4 FY2020. I sincerely hope each one of you and your families is safe and continue to remain so. Our focus this quarter will primarily revolve around the COVID-19 pandemic, its impact on our business and how we have been staring through this crisis. Since our last call in February 2020, the impact of the pandemic on the hospitality industry has transformed the operating landscape. On this call we will endeavor to address matters that we understand are critical to business and therefore for you.

As the situation evolves we have been diligently evaluating all areas of business with immediate and prime focus being a prudent cash flow roadmap and the health and well-being of our guests and colleagues, especially those standing ground at the hotels. For the hospitality portfolio of Chalet hotel, the average rate has grown by 3% for the year and the occupancy level was 71% for the financial year. Excluding the period of the larger impact of the pandemic that is the month of March therefore if we count just 11 months till February we witnessed a rate growth of 4% improvement over last year, this marks the third consecutive year of rate growth, while occupancies held a very strong 75% mark.

At Chalet hotel, the quarter ending March 31, 2020 commenced well with the signing of Novotel in Pune in early February marking the beginning of a tie-up with Accor Group. We grew our portfolio to six hotels across seven brands with 2554 keys in four key cities in the upscale positioning. Back then we saw the Indian market as one with strong dynamics and were driven with growth strategy of strengthening and expanding our portfolio to new geographies with strong demand potential. Indications of travel decline started in late February and by March the writing was on the wall that the hotels were facing their toughest run even more severe than the global financial crisis. Our teams moved swiftly with early warnings and insights from China through our global partners Marriot and Accor putting into place measures that helped us brace for the times to come. As China is the head of the business curve and since it was the first country to suffer from the pandemic, it will also be interesting to observe how they are performing now. The country had hit rock bottom occupancy levels in mid to end January with the decline of 89% from normal levels of occupancies and has started showing recovery trends in middle of February. This positive trend continues through March, April and May with mainland China now touching peak occupancy levels of 50% in the last two weeks of May as per the most recent reports from STR (Smith Travel Research). The return of regular business can also be seen in Mainland China's market performance from April onwards as weekly trends gain ground with Tuesdays to Thursdays being busy and a regular drop on Sundays as a weekend. These indicators are promising for the Indian markets and we will be gearing up to serve our guests accordingly.

On the operating front Q4 has witnessed a mixed performance with steady occupancies in January and first half of February which resulted in the company clocking stable ADR across the portfolio while occupancies dropped to 61% led by travel restrictions in the last four weeks of the fourth quarter of the year. We explained this further in the presentation that you will probably have access to where we have given month by month occupancy and ADR performances and we will be happy to talk you through that later in the conversation. April and May performance for Chalet hotels achieved an overall occupancy of 17% and 22% respectively across the six properties. I must point out that two of the six properties were shut down and did not have any occupancy at all. We continue to be cost-effective which will be seen in our operating margins. Q4 saw an EBITDA margin of 34.2% for the hospitality business and overall consolidated margins stood at 30.9%. We expect Chalet hotels to break even at operational level in the second quarter of the current financial year and early roll out of the no regret action plans have resulted in sustainable cost efficiencies and maintaining liquidity since the start of the crisis.

We are reworking one of our largest cost items the payroll cost by rationalizing salaries and numbers to align with business requirements for the near to midterm. Our other large cost item of heat, light and power primarily electricity has also contributed to a downward trend in our fixed costs. We also successfully renegotiated our AMC and other contracts to achieve an incremental saving of nearly Rs. 20 Crores for the financial year. In addition, we have worked with our brand partners to get some levy on costs and expenses on the fees of the charges along with these cost savings current revenue, cash in books and lines of credit, I am happy to share that we are reasonably comfortable to meet our short to mid-term cash flow requirements. The recent opening of the skies for commercial airlines goes well for the hospitality industry. Further lifting of restrictions from key business cities in the country will be critical to quantify how soon normalcy will return. At Chalet Hotels the last couple of months has seen participation in various engagements with policymakers to recommend mitigation plans. The senior management of the company has actively been working with various hospitality industry associations like FAITH, HAI, FHRAI, CII and FICCI in engaging with the government to seek relief for the industry.

We are working with the states for relief on benefits as an industry for electricity tariff, excise fee waiver, property tax reduction and ease of labor laws. Similarly, the company is closely engaging with its operating partners and stakeholders to assess consequent impact and recalibrate the way in which business is going to be conducted going forward. I would like to add here that the hospitality industry as a whole, Chalet Hotel included has played a fundamental role in supporting state machinery with rooms being allocated for medics etc., and I will share a little bit of that in a bit, but I must say that I cannot be more than grateful to all the employees who have been working on the ground at our hotels, very often against the wishes of the family and working shoulder-to-shoulder with each other to work through this crisis. On our new projects I am sure you are keen to understand where we are on those. We continue to monitor the development on the ground and look at our strategy with a new lens. In the new normal, the nature of demand is likely to change and we are adapting to that.

Our company has developed pipeline for new projects in the hospitality sector which has been suitably modified to maintain positive cash flows and right time the projects based on market dynamics. The proposed 'Hyatt Regency' hotel in Airoli and the 'W' at Powai as a consequent been deferred for now. The launch of the proposed 'Westin' at Hyderabad will be reviewed some time in third or fourth week of July for potential openings in the second half of FY2021. The completion and addition of 88 rooms in hotel in Pune will be deferred to the next calendar year similarly the new project pipeline in commercial real estate space consisting of commercials in Mumbai and Bangalore has been staggered over a longer period. Work for now has been halted because of the lockdown situation. We will review the conditions and decide when to recommence work there. How are we supposed to handle the future, while Chalet hotels continues to prepare in multiple ways for the future in addition to the no regret action plans that I spoke about earlier, we have put in place a strategy as we reboot, reinvent and relay ahead to align ourselves with the new normal while we keep lines of communication highly active at work with our teams across locations we also stay connected with our customers, key accounts who play an important role in our ability to track nature of demand in the new normal. As the saying goes we must reinvent the future free of blinders so that we can choose from real options and at Chalet hotels we will evaluate all existing options and tailor more new ones in the times to come.

We believe that standard convention may cease to exsist and our values of agility, efficiency and collaboration will augur well for us. The company shall continue to assess emerging consumer behavior and demand drivers there by suitably realigning our business and its strategy with a view to being a dominant player in the market share. The management team at the hotel continues to proactively engage with the key stakeholders and guest, the idea being that we should come out strong as markets open and retain a superior market share of what is available in the market. We are also ensuring stringent protocol and structural training modules for our teams on ground with newly mandated health and safety operating standards, each hotel is also strengthening their brand health standards to include Global Benchmark guidelines, which create a fine balance between health and safety and luxurious hospitality in the new environment. One can expect that new construction of hotels will be slow over the next 12 to 24 months as financing is expected to be constrained until we see signs of recovery, with limited supply in the industry we can expect some additional tailwind for the occupancy movement. I must take a moment to thank our colleagues across the hotel again and more so their families who are going through tough times during this cycle. Our teams have adapted quickly to guest request, new sanitization requirements and perform lean operating staff, amazingly with their heartwarming stories of resilient and commitment.

Allow me to also share some rare good news. Our company during the last couple of months has been certified as a great place to work by Great Place to Work Institute India. This recognition comes as a testament to the team's effort to constantly evolve and adopt best practices.

While these are extraordinary and difficult times, we are certain that our business model backed by our group’s legacy, our robust talent pool is well placed for sustained long-term growth. Add to that the spread that we have across real estate asset classes within Chalet that will help us derisk the business to a certain extent. Without a doubt travel will bounce back and when it does, we at Chalet will be ready to welcome our guests and help them experience wonderful hospitality all over again. With that, I turn the call over to Rajeev to take you through some of the key numbers. Thank you.

Rajeev Newar: Thank you Sanjay and good morning, ladies and gentlemen. I hope everyone is staying healthy and safe. Before we start, let me offer the usual disclaimer on forward-looking statements and rounding of numbers during conservation. Our presentation has been uploaded on the stock exchange and has been made available on our website. I hope that you had a chance to go through the same. As you will appreciate these are unprecedented time and the company is taking necessary steps to effectively manage and conserve cash flows.

Let me start by giving you a financial overview for the quarter and year-ended March 2020 followed by some insights on the cash flow management initiatives that the company has undertaken. Starting with the quarter, the total income for the quarter ended March 31, 2020 was Rs.2,376 million which showed a drop of 14%, COVID-19 did have an impact on the quarter as we all know and more particularly in the month of March 2020. Resultantly, the EBITDA was lower at Rs.735 million. Now, there were some one off costs during the quarter if those costs were adjusted to arrive at a like-to-like comparative number and you would see that the cost has actually gone down not by 5% by almost double-digit and the company continues to proactively work on its cost structure and these adjustments that I spoke to you about are essentially the capital work in progress that we were carrying in the books of one of the subsidiaries, which is Chalet Kerala and these were certain expenses relating to the activations of Belaire which we acquired in the Q4 which could not be capitalized.

Hospitality segment continues to be the dominant segment accounting for 85% of our total income and within this the pattern also remains pretty much the same. Room income almost 60%, F&B income almost 32% and 8% being the other income. The segment profit before interest, depreciation and tax was at Rs.686 million with a reasonably healthy margin of 34% notwithstanding the impact of COVID-19. The retail and commercial segment has increased its share in the overall pie of the revenue and accounted for 11% of the total turnover. The revenues for the quarter were higher at Rs. 263 million as compared to Rs. 91 million in the previous year same quarter. As you would notice the commercial segment continues to remain resilient during these times and acts as an annuity shield. On the treasury front, the finance cost for the quarter was significantly lower at Rs. 397 million as compared to Rs. 561 million for the previous year quarter. This improvement was on account of two things, the rate of interest went down from about 9.7% to 9.2% and the borrowing levels also went down significantly and the combination of these two resulted in lower finance cost for the quarter.

Coming to Koramangala where we have a residential project, which is currently dormant the promoters continue to subscribe to a 0% non-convertible redeemable preferred shares for funding the outflows to the residential project at Koramangala at Bengaluru and the redemption is contingent on the surplus from the account. The total value subscription as of March 31, 2020 was Rs.125 Crores.

Let me give you a quick update for the year, the total income for the year once again crossed the 1,000 Crores mark as it did last year. The EBITDA was fairly similar to what we achieved last year at Rs. 365 Crores. For the company ARR improved by 3%, as Sanjay mentioned earlier, though occupancy, which is also healthy got impacted towards the end of the year and therefore it was lower. The profit for the year was just shy of 100 Crore mark at Rs. 996 million compared to a loss of Rs.76 million in the previous year. Relevant to mention here that during the year we also accounted for deferred tax asset on loss from house property to the extent of Rs. 253 million for the previous years and Rs. 119 million for the current year.

Coming to the borrowings, the total borrowing in the books stood a shade below Rs. 18,000 million of which almost Rs. 2,000 million was the ECB loan now it is relevant to note that while the ECB loan is about $25 million odd, we had paid off $15 million during the year. However, when we acquired Novotol hotel at that point in time, it also came with ECB of almost $15 million.

Company is very cautious of its cash flows and has opted to draw down from its existing lines of credit in the month of March and therefore when you see the balance sheet you will see higher closing cash and bank balance of Rs. 1350 million with debt net of cash and bank reserve therefore stood at almost Rs. 16,500 million as on March 21, 2020 you would recall that not very long ago the borrowing level use to be close to about Rs. 27,000 million now it is hovering around Rs.17000 to Rs.18000 Crores. The development pipeline is proposed to be aligned with cash flows and as of today it may be worthwhile to mention we have almost Rs. 2,660 million of undrawn lines of credit and as I mentioned earlier with the cash in bank that is available with the company almost to Rs.1000 million is placed in various bank deposits. With this we now open the floor to questions.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. We take the first question from the line of Archana Gude from IDBI Capital. Please go ahead.

Archana Gude: Sir thank you for the opportunity. I have two questions. Sir first of all I would like to have outlook on the demand and supply scenario for the organized industry let us say for next three quarters?

Sanjay Sethi: Archana thank you for your question. We are not in a position to give you forward-looking statements we have already exceeded a brief by sharing performances of April and May with you, it can only get better from here but beyond that I do not see we can actually give you indicative numbers. You have got to keep in mind that it is a very fluid situation right now. Whilst domestic airlines have opened up, the challenge is that they operating with 20% capacity with only limited flights happening in India, international airlines we do not have a visibility on right now and we do not see that beginning till at least August if you are lucky but there is a lot of nonregular business that is available in the market and Chalet continues to sort of pickup a lion’s share of that nonregular business and that is why we have been able to record occupancies way above the industry occupancy. If you look at our presentation slide it gives you a reference of occupancy for March, April and May we were close to 20% in March, 17% in April and a little short of 22% in the Month of May and whereas India average occupancies are far lower, they were below double digits. Also keep in mind this occupancies across the whole portfolio with two of our six hotels shut so clearly we are picking up a good share of the market that is available we will continue to do that but we do not have clear visibility right now for us to give you sense of what the market should look like in the next few quarters and frankly we have never done that in the past season. So if you look at our past conversation we have never given forward-looking indicators and numbers.

Archana Gude: Sure sir my second question is on our retail and commercial segment, Sir has been there any negotiation on the rentals and how we should see this, I know this is again slightly forward-looking but we want to know what exactly is happening on the ground level, has there been negotiation on the rentals about the payment?

Sanjay Sethi:: Archana I can tell you that the malls were shut. Yesterday was the day one of opening in Bangalore, Mumbai obviously still has not been allowed to open so it is very difficult. Right now we do not have any direct request for rent waivers etc., whatever did come in they have been denied or we will have conversations around that to make sure that this is a viable proposition, it is a win-win for everyone on the office side we continue to get the rentals.

Archana Gude: Sure and Sir one small questions if I can squeeze in you mentioned the deferment of the projects we are undertaking so have we decided internally when to resume the work or still there is no clarity on that.

Sanjay Sethi: No so we will review in the next three or four weeks' time we are reviewing them very closely, literally on a weekly basis. I believe that there will be some traction for hotel business post Diwali for sure. Now is that traction going to big enough for us to open another hotels is something that we need to review so the Hyderabad hotel which has 170-odd rooms is about three months away from completion so depending on what the demand indicators are we will work backwards by three and half month and commence work on that site accordingly. Our next detailed review while we review this on a weekly basis will be third week of July. So if we do review and decide to go ahead in third week of July and kick start work over there in August we will be good for opening in mid November because we need to discuss and understand demand drivers.

Archana Gude: Sure. Thank you so much and all the best Sir.

Moderator: Thank you. We take the next question from the line of Aditya Bagul from Axis Capital. Please go ahead.

Aditya Bagul: Hi good morning everyone, thank you for taking my question and congratulations on a good set of numbers. Sanjay and Rajeev couple of questions from my end, firstly just to understand the breakeven levels that you talked about, Sanjay in your opening comments, so if I want to think about our overall leverage which is about 18 billion INR which would imply Rs.160, Rs.170 Crores of interest cost so if I were to back calculate what is the kind of occupancy that you think you would require to sort of service this Rs.160 Crores of interest cost purely through operations not through lines of credit or cash in hand.

Sanjay Sethi: Aditya thank you for the question. Let me sort of put in a few things and then Rajeev can may be step in. Look there are a lot of moving parts in this question of yours or the answer to the question. The first moving part is the occupancy, the second moving part is at what rates that occupancy will come at and the third moving part is what is going to be the F&B revenues, add to that the cost elements. So let me talk you through three or four of these things. On occupancy front, if were to take say 70% of the whole ADR we would need about 40% of occupancy to get EBITDA level breakeven and in my opening statement I was talking about operational breakeven, so 40% occupancy level with ADR which are compromised extensively given the current situation which should have EBITDA breakeven. I think we will have to get about 55-odd percent occupancy levels to take care of EBITDA plus our cash flows on the debt front.

Aditya Bagul: Okay understood, that is actually quite helpful. Rajeev would you like to add something on especially in terms of the cost front?

Rajeev Newar: So see from a cost structure I mentioned in my part also that we are looking at a very frugal cost structure, so as far the current year is concerned, we have also said that we will base our capex as per cash flow so basically the operating cash flow opportunities then we have line of credit which is available and one thing which I probably did not cover extensively during my initial part of the conversation was that there is some working capital opportunities as well and the combination of these three makes us really comfortable when we look at our internal estimation of what the forecast could be, now we need to appreciate that the future is uncertain. We cannot give you forward-looking statements, but as per assessment we do our forward-looking position on hand and we do keep evaluating as a dynamic statement and a combination of these three makes us comfortable.

Sanjay Sethi: May I just add to what Rajeev said I think you should draw comfort from the fact that we did not take the benefit of the moratorium.

Aditya Bagul: Yes that is quite commendable actually Sir.

Sanjay Sethi: Thank you.

Aditya Bagul: Sir a couple of questions to that end mostly book keeping, firstly Rajeev with our Accenture and WPP commercial properties is it fair to assume that for the year of FY2021 we would have approximately Rs.60 Crores of EBITDA coming from there?

Rajeev Newar: Yes you are fairly on the ball absolutely.

Aditya Bagul: Okay and that should sort of sustain through or bring you the cash flows that are also required to that end, perfect.

Rajeev Newar: I did mention in my opening comments that the retail and commercial continued to be like an annuity shield for the company that continues and even during this period also the money has been coming in, there has been no concern whatsoever from the commercial front and therefore we do not anticipate any concern going forward also and the people who are occupying like WPP and Accenture have a lot of credibility in the market.

Aditya Bagul: In your slide you talked about occupancy excluding Novotel hotel, which is the second property, which is not operational at the moment?

Sanjay Sethi: Right now Four Points Sheraton and Novotel were not operational. Four points has recently been given approval to start taking in some guests, which are repatriation guests' people travelling on flights. We did get some guests in the last week or so, but we try to keep it close and concentrate all our business into three or four hotels so that we do not increase our expenditure.

Aditya Bagul: Sure the reason for asking that was trying to understand how much would that 22% numbers change if we had a consolidated number, but given that the point is a smaller property I do not think that number will change materially?

Rajeev Newar: It will actually improve because 22% occupancies on the whole portfolio, which does not account for almost 370 odd rooms between Novotel in Pune, Novotel of course was a shorter period because it is only for about 50 days or so.

Aditya Bagul: Great. Thank you so much for taking out the time and answering these and really best of luck for the quarters to come.

Moderator: Thank you. We take the next question from the line of Amandeep Singh from Ambit Capital. Please go ahead.

Amandeep Singh: Sir firstly in hospitality where we have a breakup between domestic and international and can you help us understand the outlook across this segment over the next two to three years if possible?

Sanjay Sethi: Amandeep I am sorry we will not be giving forward-looking numbers, but let me share what the Q4 and FY2020 numbers were on foreign and domestic. For Q4 54% of the room nights came out of foreign guests and 46% from domestic guests, financial year 58% of the room nights came from foreign guests and 42% from domestic guests and this is improved in favor of domestic guests over the months I think if you recall in the last two or three calls we mentioned that one of our strategies is to increase our share of the domestic market we have been working on it for over a year now with Marriott and now with Accor and that will continue to be our focus for the year and that start that we had about 12 months back is helpful as things open out in India because we do expect domestic business traffic to be the first one to kick off before anything else.

Amandeep Singh: Sure Sir thanks. Sir can you help us quantify the savings via cost control initiatives across payroll, energy and brand fees that the management has taken and how much of this cost reduction would be sustainable once the business normalize?

Sanjay Sethi: Amandeep we actually working with brand new way of doing business, we are completely reengineering the business and aligning ourselves in terms of manning numbers with the rest. If you recall our hotels about a year back used to operate with 1.2 employees to a room and we have brought it down to 1.17 in our last call I do not have the exact number, but I think it was around 1.17 when he spoke last. Before the lockdown in the month of February we were already down to 1.03 employees to a room so it is a continuous improvement cycle that was happening in any case. This environment of this crisis has actually accelerated our initiatives towards getting higher productivity at our hotels. Internally hoping that we can target 0.75 ratio to rooms, this includes all employees in hotels including contract employees that is my midterm sort of vision, I hope to come back to you at some point of time in the next few quarters and tell you that we have achieved that. We are working towards it so that pay roll process will be directly impacted with the number of people working at hotels. On the heat, light and power front we have had two or three initiatives and we have been working on this regularly in fact if you look at our slide in our presentation somewhere it gives you the key matrices are electricity cost on a per day basis for the financial year was already down to 52 units per room as against 56 units to a room in the last year, so this is a constant drive towards efficiency and beside payroll cost, which is the largest cost we have also worked on heat, light and power. Look at our water consumption it is down from 0.7 units to a room to 0.61 units to a room, so it is considered as improvement, I am not going to be able to quantify right now at this stage what will be the final saving on our payroll cost and electricity cost or the AMCs that we have renegotiated or the work that we are doing with the brands, but at some point I will quantify and come back to you. I just throw one number we have an absolute cost saving of Rs.20 Crores of a renegotiated annual contract that we have with our various vendors. Your final question was around whether they are sustainable absolutely except the variable nature of the energy cost on the payroll cost we are determined that we will get that far more efficient than anyone else has ever had in India. We have already the most efficient we will make it efficient by another 25%.

Amandeep Singh: Sure Sir that is really helpful and Sir lastly if I could squeeze in, so Sir given the deferment of upcoming project can you help us with capex guidance each year for the next couple of years or will it be too early to comment on right now?

Sanjay Sethi: We had shared initially that our capex for the next couple of years for the project or the development pipeline was in the region of Rs.1300 to Rs.1400 Crores, we are conscious of the cash flows and the timing and therefore whilst each of these projects are value accretive, but we are sensitive to taking it up only when the cash flows are supportive and the situation demands the thing, so for the current year we will take it quarter by quarter we will see how the situation goes and what we do believe that we should be in a position to involve on this sooner than later.

Amandeep Singh: Sure Sir. Thank you.

Moderator: Thank you. We take the next question from the line of Vikas Ahuja from Antique Stock Broking. Please go ahead.

Vikas Ahuja: Good morning everybody thank you for taking that question. The color you have given around the lockdown and cost management is really great, but my first question is in your presentation you have said that you offer rooms to medical teams of BMC engaged with fighting COVID so what percentage of overall occupancy you have achieved in April and May, this is contributed by rooms offered to them and secondly are you facing any payment challenges as media reports suggest many of the hotels are struggling to get the payments from those BMC staff and from the government?

Sanjay Sethi: To answer your first part of the question a significant percentage has come from Medix in the month of April and largely more in May, but you have to remember that we have got three or four other types of segments that are in our business right now, so let me take you through the segments that we have active right now in our hotels. So first is the long stay guests that were already staying with us in our hotels, so whether it was JW Marriott Sahar, whether it was Marriott Executive Apartments, whether it was Marriott Whitefield or The Westin Hyderabad. We had some long stay guests that were staying in hotels they continue to stay and especially at Marriott Executive Apartments and Sahar we have a higher number with us. In addition to that we had 67 rooms with Accenture, which are tied up for a seven-year fixed basis in Bengaluru, so that continues to yield revenues in business for us. The other segment that we have had is the medics that we spoke about, this was largely at the Renaissance where one tower was, we also think of health and safety, so Renaissance has the advantage of three towers, which are fairly segregated, so whilst Marriott Executive Apartment house have long stay guests the tower one of the Renaissance housed the medics and roughly around 250 to 260 rooms a day have been occupied there for some time. The third tower has been used for repatriation passengers coming in which need to sort of quarantine themselves in hotels and earlier they were expected to stay for two weeks, which has been reduced now to one week so that is one segment that is with us. Now in the recent days we have had an interesting segment, which I do not want to expose to the general market because that gives away secret, but that is giving significant number of rooms for slightly longer stay to us, in fact I will give you an indication it is close to 400 rooms per day between our two towers and that segment has been a very encouraging segment for us, which comes at reasonable rate and from everyone, so let me just now take you through the payment cycle. The long stay guests are paying as usual. The repatriation people were expected to pay on their own so that payments have all come in. The new business that we have is all advanced paid. There is another segment, which I forgot to mention was a BCP segment, a business continuity segment that we had at our Hyderabad hotel and some rooms at some of our other hotels too, which was all paid for in advance and therefore the significant number of hotel rooms by the way, for the period that we have them we had almost about 140 to 150 rooms from that segment and the advance paid. The only segment that was not advance paid is the one that is come from the medics, around 8% of the rooms that we had during this period has come from that segment; however, the invoices that we have done have been shared, have been accepted by the BMC, there was a process of recognizing the vendor and going through that part of the process that has been done and in due time we get our payment. I think it takes slightly longer, but that is being the case with even our typical key accounts and airline businesses, but we will get our business very assured, you are going to remember that at the end of the day that we owe BMC money on an annual basis for property tax and other taxes also, so it will either get paid as a separate incoming into cash or get settled against that, in any case we will get paid.

Vikas Ahuja: Sure that is helpful and secondly the medics and repartition I think that would be close to around 20% of the overall occupancy, you would be giving them those rooms on a significant discount right is more of a part of the CSR activity what other hotels are also doing?

Sanjay Sethi: So let me bring it as a two separate segment, so do not mix up the two. The medics community is something that the BMC is sending to us for them to stay close to their places of work, so it makes it convenient for them and that way they also do not have to travel and they save time and therefore they are available at short notice at the hospitals, these are doctors, nurses, engineering teams, admin teams from hospital that are staying with us. This part of the team is being catered to an outsourced agency at very low cost per meal and the revenues obviously are extremely discounted. Per room cost is actually defined by BMC it is not something that we negotiate, but you are right this is literally doing this business at cost for these people and I am very glad that we are doing this because it does give immense amount of helping hand to the medical community and our employees have stood strong in serving these guests without fear for their own safety, but I must admit that Marriott has done a fabulous job on the protocol for safety of employees and our guests and we have had tremendous amount of success on safety front in spite of lot of people.

Vikas Ahuja: Sure that is helpful Sir and finally I just want to know, I know you do not give guidance, but if you can give us any qualitative color in terms of the occupancy or pricing you are looking at in FY2021, clearly we are two months behind China and when we look at the China data their occupancy have reached 50% now, 95% of the closed hotels are opened, so their business activity is actually improving, so do we think that obviously India will take a little bit longer than what happened in China, but any kind of a color on those maybe quantitatively or anything around that would be really helpful?

Sanjay Sethi: I am not expert on medical issues, but my understanding is that the COVID-19 in India has not peaked yet and whilst we have started opening out the economy there is a peak that is yet to be attained and after that will be the plateau and that will sort of define the travel decisions of lot of people who were traveling and as I said earlier I think one indicator is 20% load from airlines, domestic airlines were operating right now. I believe Indigo is operating 200 flights roughly a day as against almost 1500 to 1600 flights earlier so that is a small part of the fleet that they are operating right now and they are having 20% load factor. We do not know when things will open up, we do not know when we will travel, on what basis do I give you a definite answer of when our guest will start traveling and coming to our hotels. China is an indicator I do not think we can get the risk of extrapolating that data exactly for India it could be slightly different for us, but it cannot be very different because we also have a large domestic demand like China and like US. US operating 32%, 33%

occupancies that is as of mid May I expect that has gone up since then, so we may not be able to exactly extrapolate that, but I think there is a trend and the trend could be largely relied on given the large base of domestic demand. The international travel will take a little longer to come back let me talk you through what my view on that is. I think the first business will be domestic business travel followed by domestic leisure travel to drivable distances or destinations followed by long stay international business travel. So people who do not have to take multiple flights thereby limit the risks, but have to take one flight to come to a destination and have work there for a few weeks or a few months in the destination will feel far more comfortable of doing the travel and we have traditionally had a lot of that business in our hotels whereas Hyderabad, Bangalore, Mumbai in all three destinations we have had that, so that would come later followed by MICE in smaller quantity followed by MICE in larger numbers. I have encouraging news that though largely wedding sizes are very small right now, as we speak for the month of June alone we have four weddings planed in our Hyderabad hotel alone the first one is actually on June 10, 2020 I think tomorrow, these are small, 50 people at a time weddings, but it is an encouraging thing because at the end of the day people are looking for health and safety and whether to get the respect that when Five Star Hotels especially if you got global protocol being followed because of the global earnings with the international brands.

Vikas Ahuja: That is really helpful. Best of luck for coming quarters. Thank you.

Moderator: Thank you. Next question is from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Thank you so much and good morning to the entire management. Sir I had two questions. First is you mentioned obviously on the customer mix for that you want to take it more towards the domestic side and we currently have around 55% coming from the international travel, two parts to it is it right now in the interim because international travel is blocked and is it a long-term thought of making it more domestic and the second question related to that is that ideally we have seen that the domestic travelers in the midmarket segment where they are or I would say are in the lower range compared to the range that we operated, so how do we plan to bridge that gap or you think we will have to reduce our rates to get more domestic travel?

Sanjay Sethi: I just want to first highlight again that this is not something recent it is over a year that we have been pursuing the domestic segment as a target and we are not saying we do not want the international travel; we are saying our pie of the domestic segment was low. We have worked on it, we have increased our share over there and we have now in the last one year found multiple contracts with what we call LNR account, which is locally negotiated rate over the last few quarters, which has helped us grow that business and the reason that we wanted to go down this route was not because of international or domestic, but because the weekends and holidays are shorter with the domestic travel. So whether it is a Christmas or New Year's Eve we do not have 20-day write-off like for international travelers. Domestic tends to travel for more days, so we wanted to derisk ourselves from those areas and thereby decided to go domestic over a year back and we have had very good success on that, if you look at our numbers our domestic numbers even pre-COVID were much better than the year before that, so success there and as far as the rates are concerned there are enough people on the domestic segment who have a preference for Five Star Luxury Hotel that is the reason why there are lot of Indian brands that have a significant market share on that front and we want to be able to have market share and that is what we have been working towards. So we do not need to drop rates for that segment to mid segment hotels. One advantage I do want to highlight, these luxury hotels do not have someone else driving the rates down. We have the flexibility today at Chalet of taking business even if it comes at the lower rate because of cost structures extremely tightened efficiently. We can afford to take moderately low rated business and yet make reasonable returns in fact very good returns from that business just purely driven by our cost efficiencies in our portfolio. So I do not think we have a challenge in taking any lower rated business. At the end of the day hotel rooms are perishable, we will do the right thing to make sure that we optimize that inventory and it works for us because of our cost structures.

Nihal Jham: Absolutely. Sir if I understand whether the LNR contracts the main would be signing with domestic corporates right?

Sanjay Sethi: That is right. I would also just highlight one more thing. I think it is very important we have to understand that when we look at foreign and Indian, I am talking about Indian nationals right, but there are 100s of MNCs in India, who have offices in India who employ Indian people they get categorized against the segment also. We have to differentiate between foreigners and Indian traveling and Indian companies and MNCs.

Nihal Jham: Get that Sir. Sir last question from my side at the start of the call we have mentioned that around 40%/55% occupancy will be hitting operational and interest breakeven, just wanted to get a sense what is the kind of ADRs that we are building in doing this assessment?

Sanjay Sethi: I will be giving forward looking numbers in ADR if I was to give that number. We expect ADRs to be under pressure during most of the year. We expect them to come back to near normal in Q4, but I think they are still be discounted in Q4 to Q4 last year, but I cannot give you the numbers that we report into our forecast right now.

Nihal Jham: Absolutely fine Sir. That is it from my side. Wish you all the best. Thank you so much.

Moderator: Thank you. We take the next question from the line of Venkat Samala from Tata Asset Management. Please go ahead.

Venkat Samala: Thanks for the opportunity. Sir firstly if you could let us know what was the expense run rate that you were incurring in the month of April and May that would be really helpful in understanding what kind of cash outflows you are facing?

Sanjay Sethi: I think it was roughly around the 20 Crores mark. If you look at our non-loan stuff it is 25 Crores without the EMIs and the interest element, so if you look at our publications on and Regulations 33 that would kind of give you that understanding.

Venkat Samala: April and May.

Sanjay Sethi: So it is around the 25 Crores mark.

Venkat Samala: Okay, sure and what kind of debt repayments do you have towards the principle in FY2021?

Sanjay Sethi: It is close to around 200 Crores.

Venkat Samala: So you are looking to refinance that or pay it along based on your undrawn credit lines and the cash that you have?

Rajeev Newar: Good question. As I mentioned that we are looking at our operating cash flows, we have some working capital opportunities and we have some undrawn line of credit between the three of it and we believe that as you say the situation is dynamic and it can change from day to day, but we believe that we have prepared for our own consumption of reasonable set of estimates, which as I said give us reasonable comfort where we should be able to manage and this is what we have mentioned earlier also.

Sanjay Sethi: Also I just want to add once we have not share and you guys do not have access to our forecast. Whatever we had forecasted for Q1 this year internally I think you are going to beat that by 20%, we do not share the Q1 number forecast with you, so we are obviously conservative in our forecasting for cash flow from the management perspective.

Venkat Samala: Right and the 25 odd Crores that you incur towards the impairment expense of the Belaire Hotels so that is kind of a one off and that is not expected to recur in any near time future right?

Rajeev Newar: Just to clarify this 25 Crores is not for Belaire, so I just need to take a minute to explain that.

Venkat Samala: Yes. That would be very helpful.

Rajeev Newar: The write-off firstly in the consolidated book I am just rounding off numbers to make it easy. In the consolidated book the write-off is close to 6 Crores, so Chalet Hotels is a standalone company has a subsidiary on Chalet Kerala. In Chalet Kerala there is a project, which has been dormant for quite some time for lot of approvals and other issues. In that company there was a CWIP, which has an economic value; however, as a prudent measure and a conservative approach we decided to provide for it. So the 6 Crores of CWIP that was there in the subsidiary company was provided for and therefore in the consolidated book you would see a write off of Rs.6 Crores . Now when you look at the Chalet standalone books you will see impact of 25 Crores the reason being that you see when you prepare a consolidated book the investment of a parent in a subsidiary gets eliminated so that elimination will never impact the consolidated book, but since now what we have done is we have also passed the entry in the respective standalone book, so we have passed an entry in the Chalet standalone book also, we have passed an entry in the Chalet Kerala book also, so therefore every book aligned. Effectively net-net impact is 6 Crores, which does not mean that the value has got eroded from an accounting principle we decided to provide for it.

Venkat Samala: Yes. That was very helpful.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions I would now like to hand over to Mr. Sanjay Sethi for his closing comments. Over to you Sir!

Sanjay Sethi: Thank you so much and thank you everyone for your time. Once again we stand resilient; we stand confident that as we come out of this crisis Chalet will bounce back with a superior market share and with a very strong base of talent pool that is going to drive or continue to keep us on leadership position as a hotel company. Our combination of mixed use assets continue to be a boon in this environment and generate cash flows, which have been extremely helpful. Thank you so much for your time. Stay well. Stay healthy.

Rajeev Newar: Stay safe. Stay healthy. Thank you.

Moderator: Thank you. On behalf of Chalet Hotels Limited that concludes this conference. Thank you all for joining. You may now disconnect your lines.