“Chalet Hotels Limited Q3 FY-21 Earnings Conference Call”

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MANAGEMENT: MR. SANJAY SETHI – MD & CEO
MR. MILIND WADEKAR – INTERIM CFO

Moderator: Ladies and gentlemen, good day and welcome to Chalet Hotels. Limited Q3 FY21 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 Ms. Ruchi Rudra, Investor Relations Officer, Chalet Hotels. Thank you and over to you Ms. Rudra.

Ruchi Rudra: Good morning, ladies and gentlemen. Welcome to the Quarter 3 FY21 performance call for Chalet Hotels Limited. We have with us Mr. Sanjay Sethi – Managing Director and CEO and Mr. Milind Wadekar – our Interim CFO to take you through the performance and respond to your queries. Let me make the usual disclaimer on forward-looking statement; kindly refer to our presentations for the details of the same. I hand over the line to Mr. Sethi to share his opening remarks.

Sanjay Sethi: Thank you, Ruchi. Good morning ladies and gentlemen and thank you for joining us. Our performance presentation has already been made available on our website and on the stock exchanges and I hope you've had a chance to go through the same. Over the last few months, there have been several positive developments from the vaccine to the general state of the economy with special pace pick up in the last few weeks. Government of India has successfully administered well over 5 million doses to healthcare and essential workers as the phase 1 of the drive picks up. And across the globe this number has crossed 124 million vaccinations mark, both very good numbers better than what was expected 3 months back. The average daily new cases count in India has dropped to circa 12,000 cases per day, with improved recovery rates, As these numbers are trending in the right direction there seems to be some form of herd immunity settling in India. A recent Sero survey in Delhi indicated one in five residents have developed antibodies to the virus. Mumbai numbers are expected to be better.

With this backdrop, we are witnessing improved public sentiment and confidence as increasing numbers of domestic and global companies are scaling up operations and have commenced some form of work travel though cautiously. Project-based travel has already picked up. The same can be seen as the domestic air traffic load is constantly growing. For the quarter October to December, domestic air traffic grew by 113% as against the previous quarter.

The finance minister last week presented a strong budget targeting economic revival with special focus on infra spends, higher FDI in insurance, bad banks to manage NPAs and stable tax regime generating further tailwinds for our sector. Several state governments have been lifting restrictions in a staggered manner across the country, which augurs well for the hotel business across travel, F&B and MICE. We continue to work with the government on furthering the cause of travel and hospitality industry. In fact, the state government of Maharashtra has taken some bold steps to alleviate the pains of the industry and through multiple meetings with the honorable tourism minister, we've been able to get the following:

We were able to get the opening up of the restaurants and banquets sometime in October, we were really struggling at that point of time on the F&B side. We've got a three-month waiver on property tax for hotels that housed doctors under the kindness package. We got a six month waiver on excise fee and finally the much sought after industry related benefits for electricity, water, and property tax. Something that we've been chasing since 1999. This will become effective 1st April of this year. With Maharashtra as the benchmark, we are working for similar initiatives being rolled out in Karnataka and Telangana and we have some progress in both States already.

On the business front, we've clocked a strong sequential improvement across our portfolio on a consolidated basis. We have recorded a positive EBITDA of Rs. 169 million for the three months ending December 31st, 2020, led by improved revenues and key initiatives on the cost front. The hospitality business, revenues grew by 74% sequentially on improved occupancies from 19% in September to 26% in October, 33% in November and 39% in December. The RevPAR also saw 105% growth from September to December, as given in slide #6 of our presentation, driven by increased focus on non-state large corporate bookings, film crew and project-based business. We also had a very good success with the staycation part of this business.

With a 337% jump in F&B revenues from September to December, food and beverage division share has improved to 42%, within the segment and the quarter's revenues from a 26% in second quarter. This was an outcome of easing of restrictions in F&B by the state government in Maharashtra, Telangana and Karnataka, increased social functions and creative revenue streams by the hotels. We are getting weekly updates on extension of timings of our restaurants, bars, and banquet facilities and reduced restrictions on persons for banqueting functions. That's building confidence on ending this financial year on a better note for F&B.

On the cost front, I'm happy to share we successfully maintained approximately 50% reduction in fixed costs for this year thus far, backed by exhaustive cost control measures undertaken since the beginning of the year. We've also been able to get ~75% reduction in our variable costs. You may refer to slide #9 of our investor presentation for more details. Significant part of the fixed cost saving is likely to be permanent in nature. For example, our staff room to room ratio as of December, 2020 was 0.73 employees per room against 1.18 in December of 2019. This will see some increase as hotel occupancies scale up. We expect this to be around the 0.9 employees per room mark in stable business scenario, including contract employees. Payroll costs are now 28% of revenue versus 64% in Q1.

Working on the core principle of effective operations and cost management we have fortified the decentralization of business functions. We concluded centralization of the finance department for all hotels run by Marriott for Chalet. We've also concluded outsourcing of the laundry of two large hotels in Mumbai at the Sahar and Powai.

On the retail and commercial portfolio side; rentals for the assets continued to be unaffected in this quarter and provided steady cashflow. On retail for example, we're seeing pickup in footfall

Inorbit mall, in Bangalore. For The Orb at Sahar which has been lagging in pickup due to the pandemic driven by the fact that we had restaurants over there, we are currently restrategizing this space for a potential commercial office. We envisage a higher demand for Grade A office assets in the market providing stable rental yield for our business. The idea being that we restrategized wherever we see trouble and right now we see a strong opportunity on office space. We've already had initial inquiries which are strong.

Quick update on our project pipelines; as discussed in the last call, we started work on the two commercial development sites at Renaissance complex in Powai, in Mumbai and the Marriott complex in Whitefield Bangalore, cumulative, 1.2 million square feet of leasable office space. The work is progressing at full pace and these assets are expected to be revenue generating by end of FY23 for Powai and end of FY22 for the Bengaluru. The lobby renovation at Renaissance has been completed. The new lobby has been operational since early January 2021. We've had excellent feedback on the renovated lobby. The balance revenue renovation of the hotel will be undertaken in phases. We are currently reviewing demand dynamics for the Hyderabad market and assessing the same for opening the new hotel, depending on work at site, the hotel is expected to take approximately five months for completion from the restart date. Similarly, the need for commissioning additional 88 rooms in Novotel will be reviewed on an ongoing basis and executed at opportune time, given the current occupancy trends at Novotel Pune we may take an early call on taking this forward because the hotels are already up between 65% and 70% occupancies. The two new hotel development 'W' at Powai, Mumbai and 'Hyatt' at Airoli, where the work is yet to commence have been put on hold till we have more clarity on pace of demand before we commit capital to these Projects.

Ladies and gentlemen, the past year has been a learning curve for all of us. I think we are coming out as better and more efficient, as a company. I'm optimistic of improved visibility on the business environment in the coming months and normalcy to return shortly thereafter. I also believe that the moment the foreign travel business travel visas get permitted, there will be pent-up demand and a lot of travel will begin, especially to the hotels, in Mumbai, Hyderabad and Bangalore. I now handover to Milind to take you through some of the key numbers for the quarter.

Milind Wadekar: Thank you, Sanjay. Good morning, ladies and gentlemen, I hope everyone is healthy and safe. There has been an improvement in business sentiments and in personal and business travel over the past few months. Restrictions are being relaxed across several states, positive developments in budget and stable interest rate environment give us better visibility of normalcy.

Let me give you some insights into our financial performance:

Sequentially Q3 FY21, total income has grown by 43% to 916 million and EBITDA for the period was higher by 139 million at 169 million as compared to Q2FY21. Led by our cost management initiatives we have been EBITDA positive at entity level throughout the pandemic. At PAT level that is post charges on depreciation and interest, for the company was negative of

310 million as against negative of 427 million in Quarter 2 of this year, a sequential improvement of 117 million.

The hospitality segment contributed to 68% of total income of the company in Q3 FY21. The revenue grew by 74% on sequential basis to 625 million, with positive EBITDA of 20 million for the quarter. Occupancy for the quarter average at 33% and RevPAR at 1318 as against 1007 in Q2 FY21, a growth of 31%. Food and beverages division performance has picked up with contributions increasing to 42% of hospitality revenues.

On the cost front as mentioned by Sanjay, the company has achieved fixed cost reduction of approximately 50% as compared to previous year consistently since March, 2020. The fixed cost for nine months has been at average of 11 to 12 crores a month and the fixed cost is expected to be largely static going forward. Variable costs have been down by ~75% for the period. The variable costs expected to rationalize as operations scale-up. Total expenses for the quarter were lower by 57% as compared to the previous year and were higher by 30% as compared to Q2 FY20 as operations scaled up.

Steady rental income from commercial assets have kept the revenue and EBITDA from retail and commercial segment at 226 million and 168 million for the quarter respectively. As mentioned by Sanjay we are reevaluating the strategy for The Orb at Sahar Mumbai for potential office space and hedging the portfolio further.

For the first nine months of the year, total income was at 2147 million, total expenses for the period were at 1944 million, a drop of 60% from the previous year same period and EBITDA was at 202 million.

Net debt of the company as at 31st December, 2020 where at 18,110 million as against 16,570 million, that is 1811 crores against 1657 crores, a total increase of 154 crores for the period. The CAPEX spend during nine months FY21 was at 72 crores. Our cash burn that is EBITDA less finance cost for Q3 FY21 has been at 205 million while for the year-to-date December 2020 has been at 966 million led by prudent cash flow and working capital management. The average cost of Rupee loan is now at 8.30% and here I would like to add that 52% of our Rupee loans are at sub-8% interest level. With the reduction in interest rate effective from 1st January 2021 by one of our lenders average cost of Rupee loan is expected to be in the range of 8.05% in the next quarter. I am glad to additionally share that we have received in-principle approval from international finance corporation, IFC for the term loan of approximately USD 50 to USD 75 million subject to due diligence. We expect a sanction from HDFC Limited for 500 crores to 600 crores in next few days. These are expected to be utilized for CAPEX and long-term working capital requirements of the company. We have cash and cash equivalent of 634 million as of December 20. Further, we have undrawn lines of credit of 1403 million for general corporate purpose and 922 million for CAPEX.

There has been no new subscription from the promoter to 0% non-convertible redeemable preferential for funding the outflows relating to the residential project. With this we now open the floor to questions.

Moderator: Thank you very much. The first question is from the line of Aditya Babul from Axis Capital.

Aditya Babul: Sanjay, my first question is to you, just wanted to understand if you could give some texture in terms of our occupancy which is there in December and January. I see December was close to 40% and January was 37%. So, can you give us some texture as to what is the composition of this occupancy, what is retail, business travel, group, I just wanted to understand what is the composition here?

Sanjay Sethi: So look, we have been seeing constant increase in occupancies and its almost weekly improvement now which is a good sign. And I think it's two or three things coming into play. One, our ability to cater to the staycation segment has improved significantly, because we developed products to cater to that segment. Two, we continue to garner a significant part of the special purpose group business, the cruise liner business, the Vande Bharat business, etc., in various hotels. But more importantly I think we now see corporate travel picking-up, and which is very encouraging for us. To begin with, it was project and corporate travel. We now see some individual travel also starting off, and just to give you a flavor of what's happening and then I was looking at the top five corporates that are using us in the last few weeks at our various hotels. And I think this will be helpful for everyone, so I am going to take some time over this. For example, in four points we see Reliance, we see Ikea, we see IBA particles, we see McKinsey, all using our hotels and these are just the top four or five corporates that I am talking about, there are many more. And in January just these top five have consumed about 1000 room nights. And similarly, in quarter three gone by, we had similar sort of accounts with a couple of extras that were there. Westin Hyderabad in the quarter three for example, we saw DPP Aviation, BCG, Wells Fargo, Microsoft, MC Aviation come and use our hotel rooms. Similarly, at Sahar, we got Samsung, BCG, Netmagic, Accenture, McKinsey, all of them taking up the rooms in our hotel, Novotel had Mutual Automotive, NXP, Honda Motorcycles, Proctor & Gamble, Bajaj Alliance, Renaissance has seen, HP, Applied Material, Alstom, Schneider, Cisco. And then Bangalore, Whitefield, we see Novartis, Sun Mobility, GE, Nextgen, Winstron and Apple, Now, what I am trying to communicate with this is that there seems to be confidence building up on business travel. And a lot of this may be project based business travel, but if project based business travel is happening, at least the confidence in travel has happened. And individual travel will follow. As you know we are right now handicapped with a no-visa rule for business travelers from abroad, unless they are coming here for a specific project business in which case special visas are issued. And the moment that opens up I think there will be an opening up of flood gates that will happen. But to sort of summarize the question that you asked, I think it's a mix of everything. Staycations continue to be strong. Project based business continues to be strong. We are now seeing some small conferences happening at hotels, some amount of wedding groups, but all of it heading in the right direction.

Aditya Babul: My second question is actually related to what you said recently. So, in terms of the occupancy, if we try and bifurcate that across the segments that you provided in the PPT, Bangalore and Hyderabad continue to be under pressure. So, is there some reasoning to that especially given lot of IT guys are now transitioning into more of a structural work from home regime, is there a cap to the occupancy that you see?

Sanjay Sethi: Look, in the recent times I see Bangalore, for example, picking up on occupancies and that's clearly an indication that people even in the IT industry and there is no other business there in Bangalore actually, in our Whitefield area at least, are traveling now. And you got to remember that 70% of our business used to come from outside India earlier, high 60s at Bengaluru. And as I said, the moment the visas open up, I see a rush of business coming in. On the work-from-home front, yes, we have a challenge. We have got the mindspace business park around, it's in Hyderabad. The occupancies of that business park continue to be low. And the moment the people are back, we will see business come in again. And an indicator for us from our perspective is that the office spaces around Whitefield, Hyderabad, Powai, and even in Navi Mumbai are not getting vacated, unlike the earlier assumption that there will be vacancies created because of work from home from office spaces. We don't see that happening around us, which means the corporates believe that they will need those spaces in the near future and they are holding onto them and they will come back to work from office space.

Aditya Babul: Two quick questions from my end. One is, we have not seen any material re-negotiations either from WPP or Accenture. Is my understanding correct?

Sanjay Sethi: No renegotiations except there were certain variable cost that we were charging Accenture, for example. Like there was a fixed cost that we used to charge them for tea, coffee service in their office is not being used. There was a certain service cost that we were charging them. There were certain number of maintenance costs, a CAM charge that we were charging them. Now because those are not there anymore to that extent we gave them some relief. And on the rooms that they are not using, the variable part of it was given as a small amount of relief, but that's really-really very small numbers. At the WPP, which is a larger number to work with, there is no rent relief that they had sought. They had sought relief on CAM charges which we were happy to give out because we had reduced the cost there and whatever the cost savings, we had we passed on to them. The other ask was to waive off the parking charges which also we gave them for a certain period of time. But now from January onwards both the parking charges and the CAM charges will be normalized.

Aditya Babul: One last question to Milind. Can you just help me understand what is our debt repayment schedule for 2022 and 2023?

Milind Wadekar: See, our debt repayment for next two years will range between 250 to 275 crores. And for the next quarter, that is Q4 FY21, it is Rs. 41 crores.

Aditya Babul: 41 crores for Q4 and 250 to 275 crores for 2022 and 2023. Is that correct?

Milind Wadekar: That’s right.

Moderator: The next question is from the line of Amandeep Singh from Ambit Capital.

Amandeep Singh: Will it be possible to give revenue contribution from the wedding segment during the quarter given 3Q had a lot of wedding dates which is not in the case in the current quarter or it would be…

Sanjay Sethi: We don't have that ready data right now. We would be happy to share that if it's possible subsequent to the call. Just to give you a sense we had about 250 social functions in Q3 within a 90-day period, we roughly had about 3 to 3½ functions a day in our hotels every day.

Amandeep Singh: And how would be the bookings for the current quarter comparative to this?

Sanjay Sethi: January wasn't strong because January didn't have enough auspicious days, but going forward right up to June there are several auspicious days, so we see that continue to pick up. And with the increasing number of people being allowed for weddings, it will only get better. We have Hyderabad and Bangalore and on a special case-to-case basis even Maharashtra is giving approvals. But the organizers have to go and seek approvals for that and we expect that in the next 2-3 weeks’ time Maharashtra too will ease off that 50 people cap, their cap on the wedding functions.

Amandeep Singh: On a like-to-like basis when the quarterly revenue for the hospitality portfolio is back to pre-COVID what would it be the like-to-like quarterly EBITDA which you would see because I mean, what I am trying to understand is because of better efficiencies along with benefits given by the Maharashtra government, how much your EBITDA would improve on a comparable basis, will it be possible to quantify?

Milind Wadekar: See, we have internally analyzed expected reduction under three major cost rates which is coming from this Maharashtra government notification. One is property tax. Another is water charges and major component is electricity. So, electricity expenses are expected to reduce by around 25% to 26% of our Maharashtra portfolio. And property tax and water charges is somewhere in the range of 28% to 30%.

Sanjay Sethi: Amandeep, we don't want to give exact numbers right now because that will become forward looking statements, but this is the difference between industrial rates and commercial rates that we are sharing with you which is in public domain. But we will give you an indication of how these savings will pan out. As I said earlier, it is a long fought battle. It took us 22 years to get here and we are grateful to the government of Maharashtra. Me and a couple of other industry colleagues have met the Honorable Tourism Minister four times and every time we met him we managed to get something out for the industry from him. It's been a very-very fruitful engagement that we have had over the last three months and there is more to come. We are still working on other stuff.

Amandeep Singh: With the increasing focus on the domestic segment where the LNR that is locally negotiated rates are usually lower than the RFP's for global accounts, will it be fair to assume that it would take much longer time to reach pre-COVID ADR rates despite occupancy is coming back due to the change in business mix?

Sanjay Sethi: So yes, as the segments change, we do expect that the ADRs will move around. But at some point of time when the occupancies do reach the 70 and beyond, we were at 75 pre-COVID, we don't see the mix changing too much. We do expect our foreign traffic mix to come back to more or less near normal numbers. May not happen as immediately after opening out, but over a couple of quarters that will stabilize. At that point of time I don't see a challenge on the ADR front. However, I think what we have done, and this is important for everyone to understand, this pandemic has forced us to innovate and create new segments that become now segments available to us for good. In our business we already always have peaks and troughs of occupancies whether it's weekend and weekday, whether it is holiday season, whether it's summer and winter variants. Now we will be able to leverage and revenue manage the new segments that have been created, blend them into the existing old segments and probably get far better revenue management and play and RevPARs in play.

Moderator: The next question is from the line of Amit Agarwal from Nirmal Bang.

Amit Agarwal: The two questions which I have, firstly January the time when you re-negotiate with corporates. So, first have you done that and have there been any increases, what's the outcome of that? Secondly, coming to the points you mentioned in your initial remarks about the CAPEX on W hotels being limited. So what exactly is the strategy going forward? I mean, the new hotels we planned for are they in complete shutdown mode or is there some kind of plan still on for it? What I want to understand is your strategy as you move in.

Sanjay Sethi: Regarding the rate negotiation the cycle actually begins in September, October, that's the calendar year basis, January to December. Look, it's been very uncertain times for everyone. I don't think the corporates have focused too much on rates. They have agreed, almost all of them have agreed to carry forward previous year's rates. So there is no downward negotiation as far as the global RFP accounts are concerned. When they do come back traveling as FITs, we expect the rates to be similar as pre-COVID times. On the LNR accounts, because we have strengthened our focus on LNR accounts, there obviously there have been new negotiations that have happened and we do expect those rates to be newly negotiated rates in a new environment and therefore there may be some movement on the rates. Overall, as I said earlier, once the stabilization of foreign business travel and domestic business travel happens in India, rates will be back to largely the pre-COVID numbers and I don't see a variance. To address your question about strategy on the development pipeline, it's like this, we have realized through the pandemic on two or three things have happened. One, we found retail to be extremely, volatile.

So from that perspective especially restaurant retail business to be extremely volatile. So at odd where we were proposing to have 28 restaurants, 16, 17 of them had already opened pre-COVID, we have seen a lot of stress over there with those owners who are on leases with us and some of them may fall off. With that in mind and being agile to the situation we have re-strategized and there seems to be in that location, a steady demand for A grade office spaces. So we are now mixing up the op as a mix of F&B and office spaces thereby de-risking the business for the future. The demand that we had seen in the last three or four weeks since we took this call is very-very strong. The rental rates continue to be as per the market numbers pre COVID. So we see no reason why we should not go down this path. On the hotels and the other two office assets that we were developing the demand again, in those two specific locations for Grade A office space is very-very high. Therefore, we decided to recommit capital to those two assets and we started work a few months back. We have got significant amount of people on site, working towards finishing it as per the dates that I shared with you earlier. On the hotel side, we have three hotels and I did cover this in my opening part of the conversation, there's a Hyderabad hotel, the structure was up, largely built. It's a Shell lease and the fit outs had started. We are only five months from completion from the day we started work on site. We will review this in early March through an in-depth analysis of market demand six months later, for that category of hotel at the price point that we are looking at and if that continues to be strong, we will start work in April and open it out by September. It will do two things for us, number one, it will add inventory beginning in this current coming financial year. And secondly, it will give us an opportunity to bid for the next year's RFP rates, which as I said are done in September, October. So we will be ready by January with RFP accounts in place. The other two hotels, which is at W in Powai and the Hyatt Regency in Airoli, we had not put shovels in the ground, given the current demand situation, we are not in a rush to commit capital to it. We will watch it very closely. My best case estimate is, we will probably start Airoli earlier than the W in Powai, because we already have 773 room inventory in Powai and we see Navi Mumbai is scaling up pretty rapidly with the 5G program, the airport work happening rapidly, the Metro expansion happening rapidly and the trans harbor link coming up very quickly. In addition to that Mumbai and Pune corridor is getting built commercially and as a residential usage very-very rapidly. With that strategy in mind, I think by middle of this calendar year, we will take a call on Airoli and maybe start work 3-4 months from then, but that all depends on how the call is taken. W is an open discussion right now.

Amit Agarwal: Last question from my side if you allow, this is more on the overall demand-supply ratio. I understand from what I have heard from other hoteliers that because of pandemic there's a possibility that some of the branded room supply might have gone down. Do you agree with that? And, secondly, do you expect that once normalization does happen that will be in your favor? And on this point, itself if there are distressed assets in the market are you bidding for it?

Sanjay Sethi: I will try and answer all those three questions you have asked me. On the room and demand supply situation, yes, the expected new supply is expected to wean off. We know of specific projects that have dropped off. We know of some projects which are large in nature. They are now sort of heading there by doing mixed use like we have done in the past, where they are putting in a combination office and room supply, the office supply will create demand reduction and room supply will again be favorable for the industry. For the short term, both supply and demand have collapsed, but from a mid to long-term, clearly it is beneficial because supply doesn't come up overnight. It takes years to build supply out and if some projects have dropped out or slowed down, their restart and remobilization and then building it out and opening it up will take several years to come by. So for the next 4-5 years, as demand comes back, this is certainly a favorable situation for everyone including us. The favorite part I have answered. What was the third question? Yes, on the distress opportunities. Yes, we believe that there could be distressed opportunities in the market. They are not currently as strong as people think they are, for 2 or 3 reasons. People have taken advantage of the loan moratorium or the interest moratorium, some of them are banking on the one-time loans restructuring. There was capital available to people, for 2-3-4 quarters. And largely the bottom of the barrel is being scraped out right now. But in 1-2-3 quarters, we do expect an increase in distressed assets in the market. We will keep our gunpowder dry and of course take prudent financial decisions when such opportunities arise.

Moderator: The next question is from the line of from Aditya Bagul from Axis Capital Limited.

Aditya Bagul: Two questions. First, just wanted to understand your interactions with other Marriott and IG affiliates, what are they saying in terms of business travel both domestically and for Asia Pac? If you can talk about a little bit of reading in that, that would be helpful. Second, Milind sir, we talked about the loan sanction from HDFC and IFC. I think the total amount will be 350-400 odd crores from IFC and about 500 crores from HDFC. If you can just indicate what would we be the interest rates on that?

Sanjay Sethi: I take the first part of the question, on the engagements with Marriott, Accor and a lot of other brands also, our engagements are not restricted to Marriott and Accor in terms of understanding what the market dynamics are. We have been discussing with people from the domestic brands also Puneet and everyone else. I did read out the companies that have started using our hotels. And I only listed out the top five accounts in the recent months and weeks at each of the hotels. There are many more. So business travel is happening. We see the demand picking up. 2-3 things that we are looking at is which company has opened out their travel portal for their employees who travel, one. Two, which companies are the ones which are high growth companies or industries which will need business travel to close deals, meet clients, train employees, etc. Three, we are looking at the mix of domestic and foreign companies. When I say domestic I am including MNCs based out of India and there's a large number to be catered over there, and companies that travel in from outside into India. Looking at all of them and understanding what their future travel pattern is likely to be. The general indication that we have got from MNCs in India and domestic companies that business travel is being opened out as we speak now for their employees. So, the travel portals have been opened up for them to apply for travel approvals. From the international companies they are raring to come here. Unfortunately, the business visas haven't been opened up. And as soon as the business visas open up and airlines are allowed to come in on a regular basis, right now they are only restricted users who use airlines, we see traffic picking up.

Milind Wadekar: Aditya, let me clarify first. The sanction from IFCs, it is in-principle approval subject to due diligence. The indicative rate is 8%-8.2% and for HDFC loan it is 8%-8.5%.

Sanjay Sethi: Aditya, but this is work in progress, we haven't closed it yet. We will obviously try and push for as good as possible.

Aditya Bagul: But cumulatively, even if this happens over a period of the next six months, this is enough to fuel the CAPEX requirements in the next few years and many repayments which will come through. So, liquidity per se is not going to be a challenge is what I understand.

Sanjay Sethi: So, in our case we have never really had that liquidity challenge in the last 9-10 months. If you recall, we did not even consider taking the interest moratorium. We have not pursued the one-time loan structuring. In fact, we didn't frankly even look at it because we didn't see the need for it. And an outcome of that is that we have been able to keep our credibility with the banks high which has resulted in a very good drop in interest rates.

Aditya Bagul: Sanjay, just one last question. From the way we are looking at things today and through commentaries that we have heard across the hoteliers, is it fair to assume that FY23 will look very-very similar to what we saw in FY20? Is that a fair assessment to make?

Sanjay Sethi: I don’t give forward looking numbers but I think, yes, we will on an apple to apple basis, we will be similar on similar numbers as far as revenues are concerned. You have to keep in mind that two hotels will be added to the portfolio. Novotel which got added in February of 2020 and then the Hyderabad which is likely to get added, between them they are almost over 400 rooms and if we add the 88 rooms close to 500 rooms added to that, to the 20 numbers. In addition to that there will be stabilization of the Sahar office asset which was partially there in 20 and finally we will be operational in Bangalore and almost operational in the Powai office building which is 750,000 of building space.

Moderator: The next question is from the line of Amit Jain from Ivycap Ventures Advisors.

Amit Jain: Just one quick question. I just want to understand your strategy when you are looking at the rentals. Are you looking at a volume business as is now or improving the occupancy or you are happy keeping because the average room rates has dropped from almost 8,000 to 4,000? And I was reading your report because of this price drops taken by 5 Star hotels, most of the 4 Star hotels and 3 Star hotels will be out of business. That was their average revenues. So what is your strategy you are posting as of now, are you looking at higher occupancy keeping the rates low or do you plan to step up rates and eventually maybe be happy with like a 40%-45% of occupancy?

Sanjay Sethi: It's like this. When you are in a situation like we have been in for the last 10 months, the strategy is to fill out rooms. Our business as far as room business is concerned its perishable in nature. The crisis that we have seen has never been seen before and the priority was to fill out rooms. Also what happened was the regular segments of business were not available at all. So, what did you go to? You went to such different segments of business, group travel, large groups traveling in from outside India into India, and staying for a two-week isolation purposes. Government had fixed those rates. We had doctors stay from BMC in our hotels. Those were obviously extremely low rates in the early part of the quarters. We had BCP, which is a business continuity plan from various companies staying at our hotels. For two months in Hyderabad, we had almost 200-250 rooms occupied by couple of companies. Now these who were people that had been put up in our hotel because our hotel is next to offices, so it was walking distance. It's basically walk from hotel concept into an office. And all these segments were clearly new segments and therefore they were negotiated afresh as individual negotiations as against annual contracts. And in the recent days across the country, there has been a lot of hiring happening in various corporate houses with a finance driven or IT driven corporate houses and a lot of the new joinees which used to earlier stay in 3-, 2- and 4-star hotels, the companies prefer putting them up in 5 star hotels because of safety reasons, and hygiene reasons. And as an outcome, they came to us and they said, listen we will up the rate that we were paying earlier say last year, but we still can only afford a certain amount, will you take them. And it was our call at that point of time to whether take that at that rate and fill up the rooms as long as it was from a margin perspective value accretive we have taken business. The other thing I think I would like to add is which is a significant movement is the food and beverage business. On food and beverage business, we have seen a very rapid jump as I had said earlier. I mean our jump in F&B has gone up from September number of 27 million to 118 million in December and that clearly indicates that F&B is going to pick up, this is without banquets really kicking in. This is largely restaurants and bars. So we see a significant move from standalone hotels or standalone restaurants to five star hotels for F&B also, which again is a positive. Couple of other segments I want to share with you, which are interesting and then again become segments forever for us in future during the valley period. Our segments like film shoots for example our hotel in Powai has done quite a few film shoots. Some of them were very large in terms of the invoicing. And then we have special purpose sports groups like the Mumbai Indians and other cricketing groups staying with us pre-IPL. We now have another group staying at for Four Point Sheraton from cricket. So all that's happening now as I said earlier, these are new segments getting developed and they will only help top up old segments when business comes back to normal. So we see a strong future ahead.

Amit Jain: Just one follow-up question, the banquet revenues, where do you record is it in F&B or is it room or is it in the other space?

Sanjay Sethi: No, banquet revenues always recorded in the F&B revenue. See there are 2-3 things that I want to highlight here, I think it would be helpful for everyone. When we do our revenue breakups as per the global the acceptable uniform accounting system, the room revenue where it comes in and obviously netted off for taxes to beginning of the GST and then the total revenue that comes in, we take out meal credits, if you included breakfast or lunch or dinner, there's an allocation for each of these and we take that off and we call that the net average room rate or net ADR. 99% of the global companies report net average room rate, we reported like that too. If you reported as gross, then it adds to the room revenue and therefore can take your average room rate and rates goes up. But we take out all our F&B revenue from the packages that we have and credited back to F&B. Within the F&B, the segments that we have are restaurants, cafes, coffee shops, bars, room service or in room dining and banquets. Within the banquet segment, you have got socials, corporate division. In social we have weddings, we have birthday function any other parties that are thrown and in corporate you could have things like exhibitions, conferences, incentive meets, annual results, etc. So this is a quick overview, then we have other revenue segment, which is basically regular segments like spa, the travel desk, telephones, internet and all of that comes into that.

Moderator: The next question is from the line of Amit Agrawal from Nirmal Bang.

Amit Agrawal: I'm not sure this question has been asked, I just want to know your CAPEX for FY22 and FY23. Secondly, I also wanted to know, what is the status of construction of the office space which you are building out, when you are expected to start operations?

Milind Wadekar: So CAPEX for '22 will be somewhere in the range of Rs. 550 crore followed up with CAPEX of Rs. 275 crore for FY23 and then we have normal repairs and maintenance CAPEX of hotels and we expect to commence operation in Bengaluru commercial office by FY23.

Sanjay Sethi: End of '22 Bangalore will be completed, and construction and it should become rent yielding in beginning of FY23.

Amit Agrawal: And when is Powai expected?

Milind Wadekar: Powai FY24 it should start, it will become operational.

Sanjay Sethi: So this is conservative state scenario, right now we are looking at March '22 and for Powai we are today as we stand two months ahead of schedule, we may be able to improve that further and close. But I don't want to commit to that. So right now, in all our conversations we are suggesting that you take commencement of rentals in the beginning of FY24 for Powai.

Amit Agrawal: And have you been footing this space around if you have the interest of pre-leasing, any pre-leasing which has been done for these spaces?

Sanjay Sethi: Yes we have got a strong interest for both the sights, obviously it's too early. Typically you start tying up closer to the end date because then you get the best rent yields. So we will try this up roughly around five or six months before completion of projects.

Amit Agrawal: Just speaking on the rental expense, how much our normal maintenance CAPEX for year?

Milind Wadekar: Actually, it ranges between Rs 25 to 30 crore a year.

Amit Agrawal: This for normalize period not in a Pandemic period?

Sanjay Sethi: Our budget and our focus for next year is 12 crores.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question for today. I will now hand the conference over to Sanjay Sethi for closing comments.

Sanjay Sethi: Thank you so much ladies and gentlemen for joining us. We are lot more confident than we were about three or four months back. I think one thing that given us confidence is that the vaccine which we are expecting rollouts to happen sometime in April, start getting rolled out January. So, in our all-internal thinking, I think we have got three months head start on the vaccine front, which gives us an overall positive scenario. So, we wish you well, stay well and we look forward to engaging with you as and when we get an opportunity to meet you. Thank you.

Moderator: Thank you very much. On behalf of Chalet Hotels Limited, that concludes this conference. Thank you for joining us, you may now disconnect your lines. Thank you.