"Chalet Hotels Limited FY 2018-19 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 the Chalet Hotels Limited Financial Year 2018-19 Earning Conference Call.

I would now like to hand the conference over to Mr. Sanjay Sethi - MD & CEO. Thank you and over to you sir.

Sanjay Sethi: Good evening ladies and gentlemen, it gives me immense pleasure to welcome you on behalf of Chalet Hotels to our first earnings call. Allow me to give you a quick overview of the industry and our business, and my colleague Rajeev – ED & CFO of Chalet Hotels will take you through the numbers in greater detail. We will take questions post that.

We successfully concluded our first public offering in January and have been listed since February. We raised Rs. 950 crores for paying down debt and for general corporate purposes at that point of time. As of today, we utilized all of the funds that were raised and our debt stands at Rs. 1494 crores. Allow me to share a few macroeconomic drivers for our business. India's GDP continues to outperform the large economies of the world and it is expected to continue the strong numbers in the coming years. According to World Bank, India's GDP grew at 7.1% in 2018 and is expected to grow to 7.5% over the next 2 years driven by continued investment strategy, particularly private consumption and improved export performance and resilient consumption.

India's tourism statistics shared by ministry of tourism states that in 2018, foreign tourist arrivals in India grew by 5.2% over the previous year to 10.6 million tourists. As per Airport Authority of India, air passenger traffic grew at a healthy 16.5% over the previous period to about 309 million. As per IATA, the number of passengers flying to, from, or within India will double in the next 20 years.

On the hospitality front, the demand-supply dynamics that drive the performance in the industry continued to create an arbitrage in favor of demand, which continues to further upcycle for the industry. As per the recent HVS report, supplies anticipated grew at 4% and demand by about 7% in 2019. HVS estimates that the pan-India RevPAR growth will be about 9.5% in 2019. In 2018, the industry witnessed RevPAR growth of about 9.6% to arrive at an absolute RevPAR of Rs. 3,927 and average rates grew by approximately 6% outpacing occupancy growth rate after several years.

Meanwhile at Chalet, the operating performance of the hotel portfolio which contributes 88% of the company's revenue continued to deliver a healthy performance in the year. This was driven by strong top line growth and active focus on costs. The segments profit for the hotel segment stood at a healthy 40.7% before the impact upon exchange loss. Our market share grew in 4 out of the 5 hotels namely JW Marriott Sahar, Renaissance, Westin Hyderabad, and Marriott Whitefield. The occupancy in Four Points, Vashi dropped marginally but it reported a very healthy 85.3% occupancy and that combined with a robust 10% growth in rates creating overall robust performance for our Hotel too.

On the cost front, we continued to focus on employee cost and power and fuel costs. Our employee cost stood at 14% of revenue and power and fuel costs were 7% of revenue. The consolidated revenue for the company grew by 22% to 1034 crores. Consolidated EBITDA at 369 crores grew by 22%. Portfolio occupancies were 76% against 73% in the previous year. Average room rates grew by 5% in the year and stood at 8218. RevPAR for the portfolio grew at 10% and stood at 6283. Mumbai hotels where two-thirds of inventory lies grew at about 11% year-on-year on the RevPAR basis. F&B revenue for our hotel grew by 7% to 302 crores and forms approximately 33% to 34% of the hotel revenues.

In line with the growth strategy, we proposed to add 3 new hotels and 2 office towers to the portfolio. Allowed me to share a brief overview of the state of the development pipeline of the company. I am happy to share that the Hyderabad hotel is progressing ahead of schedule. We are targeting the opening of the hotel in Q1 of FY21 which is roughly around 3 to 4 quarters before what we had earlier planned for.

The W Hotel and Westin Convention Center in Powai is in final stages of approvals and is on schedule for opening in September 2021 as stated earlier by us. The property improvement plans for converting Renaissance into a Westin Hotel in Powai is in design stage and we expect to start renovations in July this year and finish by the end of the financial year.

The proposed Hyatt Regency in Airoli, we have received the fire and the MIDC approvals and are awaiting the approvals from Ministry of Environment & Forests. At Orb which is the F&B hub at Sahar in Mumbai, 7 outlets have already opened and several others are expected to open in the next few weeks. Fit out for the office and business center space at Sahar are underway and we expect the tenants to start occupying the space in the 2nd quarter of this year.

Finally, the construction of the new office star in Bengaluru of around 4 lakh square feet of leasable space is progressing well and the substructure work is almost complete onsite.

Moving on, we have leveraged the opportunity of contract renewals that we had by negotiating contract extensions and replanning in the case of Powai Hotel Complex. We have also signed a few new contracts, allow me to run you through them. We have entered into an MOU with Marriott for rebranding the existing Renaissance Hotel and Marriott Executive Apartment Powai in Mumbai to a Westin Hotel. This will be done immediately after renovations are complete.

Also being developed on the same land parcel, we have entered into an MOU for a proposed W Hotel with Marriott of around 150 keys. We have signed an MOU for term extension of the existing Westin in Hyderabad and that extension will be valid from the time that the contract ends in about a year and a half from now.

An LoI has also been signed for a proposed hotel in Airoli in Navi Mumbai of 260 rooms. The hotel will be branded as Hyatt Regency and will be run on franchise basis by the company. This is in line with our strategy of spreading the portfolio of brands beyond a single operator.

Finally, another MOU for the proposed Westin Hotel in Hyderabad has been executed. This will add approximately 170 keys to fortify our position in the new business district of Hyderabad. This business district of Hyderabad continues to be one of the top-performing business districts in the country today. And with this addition of 170 rooms, we will have close to 600 rooms in that market. Beyond the stated pipeline, we believe we can leverage on our ability to actively asset manage and drive consistent improvements in operating efficiencies and hence are constantly evaluating avenues of growth through organic and inorganic opportunities.

With this, now I will hand over to Rajeev to take you through some of the finer details of the financial performance of the company.

Rajeev Newar: Good evening ladies and gentlemen. And thank you for having taken this time out on a Friday evening for the call. An eventful year for Chalet which got listed on National Stock Exchange and Bombay Stock Exchange on February 7, 2019. You would recall that the company did a fresh issue of 33.9 billion shares and an offer for sale of 24.7 million shares by the promoters pursuant to which the non-promoter holding in the company now stands at 28.6%. On behalf of Chalet, we thank you all for your support. Now, if you would recall that on March 31, 2018, Chalet, had a total borrowing of Rs. 2700 crores. The IPO proceeds of 919 crores net of issue expenses and the internal accruals were progressively deployed to reduce the borrowings which went down from Rs. 2700 crores to Rs. 1500 crores and consequent, the debt-equity ratio for the company now stands at 1:1.

Also, whilst we were pairing down the debt, we were conscious of the foreign currency borrowings on our balance sheet. So, the company had ECB which was valued at 492 crores at the beginning of the year with an intent to progressively insulate the P&L from the foreign exchange fluctuations. The ECB was substantially repaid during the year and at the end of the year, the ECB was Rs. 180 crores down from 492 crores which in US dollar terms is just about $27 million.

For this year, Chalet achieved a revenue of Rs. 1035 crores and an EBITDA of Rs. 367 crores which is 22% both on revenue front and on EBITDA front as compared to previous year. Now, the hospitality segment which accounts for 88% of the total turnover is actually the dominant segment. For this segment, revenues grew by 9% over the previous year and the segment profit margins before interest and depreciation stood at 39%.

Now, what is relevant to notice that the EBITDA for the hospitality segment was also impacted by exchange losses and the provision that we made for Jet Airways. If we were not to have done that, the profit margins would have been 41%. Room revenue for the hospitality accounted for 58%, F&B 33%, and the balance was from other income. As you would know, that the portfolio is located across 3 cities - Mumbai, Hyderabad, and Bengaluru. Mumbai accounted for 65% of the total revenue and the balance coming from Hyderabad and Bengaluru.

What is pertinent to notice that the RevPAR for the year grew by 10% which was contributed equally by both rate and occupancy.

The retail and office segment which accounts for 4% of our total turnover at the moment, grew by 62% in revenue terms and the segment profits grew by 32%. And as Sanjay mentioned earlier, the revenues from commercial tower at Sahar will commence from the current year.

The finance cost was higher for the year at Rs. 266 crores compared to Rs. 212 crores in the previous year. Now, this increase was largely on 2 accounts; one, exchange losses and the second thing, in the previous year, some part of the interest was capitalized. If we were to isolate the impact of these 2 elements, then the interest for both the years are fairly comparable. And with the borrowings having got reduced by Rs. 1200 crores during this year, one should logically expect lower finance cost going forward.

During this year, the impact of Ind-AS 115 resulted in reversal of revenue and cost which was previously recognized for the residential segment and consequently if you look at the balance sheet, the inventory, and the customer advances were restated accordingly.

With this, we now open the floor to questions.

Moderator: Ladies and gentlemen, we will now begin the question-answer session. We will take the first question from the line of Roshan Pauniker from JM Financial. Please go ahead.

Roshan Pauniker: Sir, my first question is we have seen that Bengaluru witnessed a supply in the region in 2018. Further, there are nearly 5000 rooms expected in Bengaluru market by FY22. Additionally, Mumbai market also expects a significant supply to come in by FY22. How are we dealing with the increased hotel room supply in the markets that we operate in?

Sanjay Sethi: We have got hotels in 3 cities right now and we haven't had any significant supply addition right now in Mumbai but Bengaluru and Hyderabad both cities experienced new supply coming in within the micro markets that we operate in. Let me begin with Bengaluru first. Bengaluru had 2 hotels open up. There was a Den Hotel that opened up with about 280 odd rooms and similarly another 280-room Sheraton Grand that opened in Whitefield. These 2 hotels opened within close proximity of our hotels and I am pleased to share that in spite of this 560-room capacity addition in that market, we have actually done very well in that market.

If you were to look at our Bengaluru operating performances, our Bengaluru occupancies during this year actually grew from 75% to 77%. There was an initial concern with the opening of the new hotels, we may face some challenges there but we have managed some of the occupancies by 200 bps over there. We have also seen some improvement in the rates, not too much, but about Rs. 140 odd increase which is about 2%. Given that the supply in Whitefield more than doubled during this period, we are extremely happy with the outcome. The new supply has got absorbed. Both these hotels are already doing well and there is no new major supply coming into this micro market of ours. We are very happy with the performance there.

Similarly, in Hyderabad, we had ITC open a hotel over there with about 180 odd rooms and we saw that as direct competitor to our Westin Hotel there. There again, we are happy to state that ITC supply has got absorbed. In fact, the spare capacity sitting at Trident and Sheraton have also got absorbed and we have actually had a positive growth ourselves in Hyderabad. On Hyderabad front for example, our occupancies grew from 72% to 76% for the year and the average rate grew by roughly around Rs. 310 odd which is about 4% growth. So, there was a 9% RevPAR growth in Hyderabad in spite of the ITC opening there. Again, we are happy with the outcome and we are very glad that the new supplies got absorbed, and therefore, the business is largely de-risked from this.

Mumbai doesn't have too much of supply coming in there as The Chedi that is scheduled to open sometime with 330 rooms which is in the North Mumbai market. So, it will be in the complete set but let us look at the market itself. It is close to 4500 to 5000 room market. So, 330 rooms opening there are small in terms of percentage. The demand growth in Mumbai is strong enough to give us the growth. And Mumbai has done extremely well actually if you look at the performance of our Mumbai hotels, we have had 11% RevPAR growth and 6% out of the 11% has come out of rate which is again extremely healthy.

Roshan Pauniker: Sir, my second question is are we currently looking at any assets for acquisitions and if yes, what will be the key parameters that we will be looking at before considering the opportunity?

Sanjay Sethi: We have got a portfolio of assets that performs well. To a certain extent, we are spoilt with that performance. Yes, we will be looking for comparative opportunity of returns on investment for any new hotels that we look at. If there are opportunities in the market where there are ready hotels which easily can be turned around and within a reasonable period of time to give us similar returns, we would certainly be open at looking at those. From a growth opportunity, we think 7 cities as the top focus areas for us besides the cities that we already operate in. We need to grow our portfolio in the markets of Chennai, Pune, NCR, and maybe Goa is the only leisure market.

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

Satyam Thakur: I had a couple of question. The first question was in fiscal 19 now you have reported that you had almost 10% RevPAR growth which makes it pretty much industry-leading RevPAR performance I think, congratulations on that. But how is the expectation on the fiscal 20 RevPAR and especially ADR growth given that you did share in your opening remarks that HVS expects 9% plus RevPAR growth but given that April and May based on some channel checks seem to have gone a little softer because of the impact of the Jet Airways going away and therefore higher airfare prices and also because of the impact of the elections itself and any slowdown in the overall economy it kind of brings. So, have you also, 1) Seen that kind of a slowdown in April and May, and 2) What is the expectation for fiscal 20 in that context?

Sanjay Sethi: Satyam, I think our portfolio will remain more or less in line with the RevPAR growth that the country would experience and if HVS numbers are numbers to go by, I think we should be able to match that. I cannot give forward-looking statements and absolute value, but you have seen our portfolio in the respective markets sort of exceed performances of the rest of the market. We will continue to do that. April and May, yes, they were softer than we expected them to be with a combined impact of the flight seats as well as elections, largely elections actually. It is an extended election period of 6 to 7 weeks. We are seeing a lot of pent-up demand building up for the month of June for sure. In fact, June looks very positive. So, if it is on account of flight seats, then June wouldn't look so positive. So, we believe it is more driven by elections which is good because that means it is a short-term impact. We see the rest of the quarters looking extremely strong.

Rajeev Newar: A little over 50% of our guests are actually foreign nationals for the rooms. So, that segment it will help us over a period of time.

Sanjay Sethi: And the good part is the H1 is slightly softer than H2 in any case, and if I was to look at my H2-H1 comparison in the last year, our H2 performed by 15% over H1. So, we are glad that we have got the elections out of the way in Q1 itself.

Satyam Thakur: And the second question that I had was on the EBITDA performance. The results just came out, just a little before the call. So, apologies if I am missing it and it is already mentioned but what was the impact in these numbers on account of the losses at the Koramangala residential property and on account of the forex losses that we had above EBITDA, because on the reported basis, EBITDA growth seemed a little lower than what one thought. So, just wanted to understand how much is the mix of that.

Rajeev Newar: Satyam, for Koramangala, at an EBITDA level, the impact is around Rs. 25 odd crores. And if you will recall that the promoters have subscribed to preferential share which is 0%, nonconvertible, redeemable preferential share to fund any outflow for this project. And therefore, it is practically an accounting impact and any redemption will only happen from surplus from this project. That's about 25 odd crores. As far as exchange loss is concerned, a part of the exchange loss has been accounted over the EBITDA which is Rs. 19.9 crores and in the finance cost, you have about Rs. 33 odd crores. So, cumulatively about Rs. 52 odd crores.

Sanjay Sethi: Just to recap, your question about before EBITDA what is the impact, it is 25 crores on account of Koramangala and roughly 20 crores on account of exchange loss, so total 45 crores in that.

Rajeev Newar: Having said that, Satyam, it is also pertinent to note that at the beginning of the year, we had an ECB of almost 67 million but at the end of the year, we have repaid most of the ECB which only stands at little less than 200 crores.

Sanjay Sethi: You may want to factor in one more thing, Satyam, on this. Rajeev mentioned earlier that we have written of all the outstanding debt of Jet. That itself is about 5 odd crores there. So, just from your perspective, it is Rs. 45 on account of forex losses and Koramangala plus Rs. 5 out of here, it is almost about a Rs. 50-crore impact.

Satyam Thakur: So, the Jet impact of Rs. 5 crores is also above EBITDA.

Rajeev Newar: Yes, it is there in the other expenses.

Satyam Thakur: This is what like, you will switch there and that's what we are writing off right now?

Rajeev Newar: We have created a provision for doubtful debts.

Satyam Thakur: And no other adjustments or one-off costs above EBITDA or below EBITDA really, right?

Rajeev Newar: No, the adjustments would be in the normal course. For example, if you had projects last year, then some of the expenses relating to payroll would have got capitalized and so on and so forth. So, those are normal operating expenses. So, therefore, you will probably see that gap in the payroll because last year some of the payroll costs were capitalized and we have some vacancies.

Sanjay Sethi: Something on account of provident fund which was very minor in nature as per the new Supreme Court rulings.

Moderator: We will take the next question from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Sir, my first question was that if I look at our exit occupancy in FY18, we ended all the 3 cities at close to 70% plus. In that background, are we satisfied with the kind of ARR hikes we have seen in FY19 or is it that we expected it to be higher?

Sanjay Sethi: Let me sort of give you a little flavor of how Q4 went by but I will give you a little bit of dynamics on the industry. For the last 3 years, the RevPAR growth was almost all of it was driven by occupancy-led growth because there was spare capacity sitting in most hotels across the country. In the last few quarters, we have seen the ADR or ARR growth sort of kicking in. And if you look at Q4 where the RevPAR growth in that quarter was 11%, seven out of that eleven came out of average room rate growth. So, clearly the average room rates in the more recent quarters have started kicking in. If you look at H1, our overall ARR growth was only to the tune of about 3.5%. That has now gone up to 5% because H2 performed much better. So, recent quarters are showing a positive trend. Also, what has happened is, we have closed with an occupancy in Q4 of 82% at the portfolio level which is again extremely healthy. 83% in Mumbai, 83% in Bengaluru, and 82% in Hyderabad. And this is almost 300 basis points higher than last year. So, it continues to be strong occupancy performance backed by 7% ADR-led growth in the quarter.

Nihal Jham: Sir, if I could continue nk in H2 which is the season time, we have seen a better improvement in the ARR. So, any specific reason because we have heard about companies highlighting that because of the shifting of Diwali, maybe Q3 may have not been the best quarter for a lot of companies in the hotel space? So, any reason why Q4 has seen a good pickup at this point in time?

Sanjay Sethi: What did happen was in Q3 this time October was very good because Diwali last year was in October. In this financial year, Diwali fell in November. So, this year while October showed a mid to high teen growth rate, December showed 13% odd, a little less rate of growth. As a result, November did get impacted because Diwali was mid-week, it was a Wednesday if I remember correctly which meant practically the whole week went, Saturday to Sunday went. And because foreign travelers wouldn't take risk coming in Diwali in the middle of a holiday, that whole 9 days went off as business. However, rest of November and December came out very strong. As a result, quarter 3 did reasonably well. Quarter 4 as we can see did very well 11% RevPAR growth. Overall, I think the performance of H2 has been good.

To come back to your question on rates, typically H2 outperforms H1 rates also and that's because typically occupancy being higher, we have the ability to take the retail rates up and thereby grow the average room rates. Now, to give you a sense of what our H1 and H2 rates grew by, our rates in H1 were 7757 and in H2 our rates were 8662. So, this is a 12% difference in the rates between H1 and H2.

Nihal Jham: As you mentioned on the retail side, is the 7% ARR hike that is seen in H2 more to do with the fact that you had a higher share of retail customers or that's the kind of increase in the corporate side also you have been able to take advantage of?

Sanjay Sethi: A mix of everything over here, Nihal, because the contracting cycle also would have impacted it. In January, we get the new RFPs kick in and therefore, the rates would have gone up. We have seen the negotiated rates go up as well. We have also played with the mix. Therefore, revenue management has come into play and we have been able to take the rates up during the high peak days which is typically 4 days a week.

Nihal Jham: Any possibility of giving a sense of what has been the hike in the negotiated rates that you have taken?

Sanjay Sethi: It is very difficult to average it out because different contracts, different hotels, it is very difficult exercise to average it out, but I also wanted to draw your attention to one fact that let us say that the average rate increase taken was 5% across the corporate contract. About half the business comes through corporate contracts. What typically that does is this 5% increase would be in the lower end of the room category which fill up very quickly. So, typically, the travelers then have to take the higher category rooms pushing the rates up for us. So, we had noticed in Sahar in the current one that has ended – we saw that when we increased 5% average rate in that hotel, the net average rate increased from just the corporate contracted segment ended up at almost about 9% because of the play of the category of rooms and that's probably what is driving up this rate increase for us at 7% also. So, it is a mix of contracted rates which I think would have been in the 5% to 5.5% - and I am hazarding a guess here - and the revenue management play in terms of room category.

Nihal Jham: Sir, the second question I had was more on the property side that looking at the Mumbai region, how have the 2 major properties - one is the Renaissance and the JW Marriott - have performed separately? Because I do understand at least from the recent data that we have shared that JW Marriott was at much higher occupancy and it has seen good ARR growths also, so if you can just give a sense separately of the two in Q4 and even if FY19 you would want to share the details?

Sanjay Sethi: Let me begin with the JW Marriott Sahar first. In Q4, JW Marriott Sahar reported an occupancy of 83% versus 80% last year and an average rate of Rs. 10,121 as against Rs. 9249 which is a 9% growth on average room rate at JW Sahar. RevPAR as a consequence grew by 13% there. For the year, JW Marriott Sahar grew from 73% to 77% occupancy and the average rate grew from 8500 to 9173 giving a RevPAR growth of 13%. Renaissance grew its occupancies in Q4 from 76% to 82% and rates from 7635 to 7910 giving us a RevPAR growth of 12%. For the full year, Renaissance grew its occupancies from 69% to 75% and rates from 7208 to 7474 giving us a RevPAR growth again of 12%. Does that answer your question?

Nihal Jham: That does, sir. Just one last question on the margin side and I am specifically looking at the hospitality segment here. I know that excluding the adjustments that we have had, we would have done an EBITDA margin of around 41% for the hospitality segment. Now, as I see in the past, we have had I guess cost increases which have been I guess of lower rate than what we have done in this year. So, is this the kind of margin we are satisfied with, with this segment or is it that there is still scope to improve that?

Sanjay Sethi: I believe there is scope for improving it. I will tell you where the opportunity lies. 1) I think the first opportunity lies with the revenue side which is the rate increase and rate increase typically flows down to margins very quickly and very efficiently. So, we expect the rate increases to drive increased margins in the business. In addition to that, we expect on the cost side further efficiency improvement on account of productivity improvement on people cost as well as on energy cost. We have been able to improve that marginally over last year to this year. We expect to continue with that trend of improvement in the coming year.

Nihal Jham: Is there a specific guidance or expectation you have in this segment?

Sanjay Sethi: I don't think now is the time for guidance. We will come back to you if there is any specific guidance that we want to share with you.

Rajeev Newar: But as you must have possibly seen that in the last couple of years, the margins have been improving and we will continue with that endeavor.

Moderator: We will take the next question from the line of Nitesh Jain from Birla Sun Life Mutual Fund. Please go ahead.

Nitesh Jain: I am referring to your presentation and the slide #15 which gives the ADR occupancy and the RevPAR growth. There is a full year comparison, FY19 over FY18, but if you can share 3 broad numbers like for Q4 FY19 particularly, how it panned out? What is the percentage increase versus the last year's Q4?

Sanjay Sethi: I did share that a little year, Nitesh.

Nitesh Jain: It was like hotel wise, but I was wondering if you can give like for Q4.

Sanjay Sethi: Q4 our occupancies grew by 300 basis points from 79% to 82% and the average room rate grew by 7% to 8852. The RevPAR as an outcome grew from 6546 to 7294 which is an 11% growth.

Nitesh Jain: Secondly, what Rajeev mentioned in the beginning of the call, there is a 20-crore forex loss impact above EBITDA. I was wondering like what is the nature of this forex loss which is coming up before the EBITDA item?

Rajeev Newar: This is a part of the accounting standard that when you have a foreign currency loan as well as your rupee loan and because of exchange loss if it goes beyond a certain threshold, then to that extent, you have to show it above the EBITDA. The nature of this is essentially on account of the foreign currency loans.

Nitesh Jain: Lastly sir, if I refer to the same slide #15 and one very interesting observation which I have is the Mumbai region rates, ADR, are far lower than Bengaluru and Hyderabad. I guess it is maybe because of the one hotel which we have in Vashi which is actually pulling down the MMR rates, but nonetheless, it is lower than Bengaluru and Hyderabad. You think that this is the normal phenomena for the company because the location of the Chalet at Bengaluru and Hyderabad is such a premium thing which can actually command higher rates for them compared to the Mumbai hotels or other way to look at it you think that the Mumbai rates are actually lower than what it should be?

Sanjay Sethi: We strongly believe that there is a lot of headroom for growth on the rates in Mumbai. Mumbai and Hyderabad actually both can go through rate improvements. You are right, we do have 152-room hotel of Four Points Sheraton which is positioned at a slightly lower positioning than rest of the portfolio, which delivered an average room rate for the year of Rs. 7000. So, that drags the average a little bit lower. We have also got to remember that Renaissance which was low occupancy last year has now caught up with occupancies with a more aggressive approach towards occupancies, has in addition to that grown the rates by 4%, and that operates at an average room rate of 7474. So, between Four Points Sheraton Vashi and Renaissance, the rates drag the JW Sahar's rates down a bit. Just to highlight, JW Sahar, however, has delivered the highest rate in the portfolio. If you look at the financial year rates, JW Sahar was at 9173 and in quarter 4, it delivered an average rate of 10,121. And these are all net rates just to be clear.

Nitesh Jain: And one last question I have is what is the total CAPEX you incurred in FY19 and what is the expectation given your growth plan? What the number can be in FY20?

Rajeev Newar: We have a couple of hotels in the development pipeline which are in early stages. So, the spend on that account is low. For the Project Pipeline which relates to the hospitality project, the capitalization was about Rs. 22 crores which you will see in the addition. Largely, this is because of the renovation that we did at Renaissance where we introduced a new renovated coffee shop. In terms of investment properties, we have continued to build the Bengaluru commercial project where we had certain expenditure. These are the 2 expenditures we really had during the year. We should see a ramp up as we see in 19-20 and 20-21.

Nitesh Jain: One last question. At the time of IPO, I remember that there was one ICD given by Chalet to the promoters and it was supposed to be paid back to Chalet post IPO. Has that happened?

Rajeev Newar: Yes, that has happened. As per Chalet loan is concerned, all the group loans, lending's have all got squared off and we had a zero loan on Chalet standalone books. Having said that, I just wanted to add one more point to your previous question that we had a retail and commercial block at Sahar and that was also capitalized at the beginning of the year 18-19. So, that addition you will also see in the investment property section of the asset.

Moderator: We will take the next question from the line of Ritika Agarwal from Quest Investment. Please go ahead.

Ritika Agarwal: Sir, I wanted to ask if the company is looking for expanding its customer base to other hotel companies as well?

Sanjay Sethi: I did share a little bit earlier in my opening speech that while currently all our hotels are operated by Marriott or branded by Marriott, in the past, we had 2 brands that used to operate our hotels - The Starwood Hotels and Marriott - but they merged. So, they all are with Marriott right now, but as we grow to build the portfolio, the Airoli Hotel in Navi Mumbai for example, which is a 260-room hotel, we signed an LOI with Hyatt for a Hyatt Regency brand there. We will be running that on a franchise basis ourselves. So, yes, that is in line with our strategy to diversify the brand portfolio within the company. And we are open to looking at other brands.

Ritika Agarwal: My second question is how you see the current economic slowdown impacting the hotel industry or as you mentioned that June would be a strong quarter but when do you see airline's issue subsiding and how do we see going ahead in the year?

Sanjay Sethi: I am sorry I can't answer for when the airline issues will subside but I don't think the stress or any slowdown in occupancy is an outcome of airline largely. I think it is more because of the elections and once the election results are announced whichever way it goes, I think business will be back to normal within a week or so.

Ritika Agarwal: We see on the industry-wide base a demand growth fairly being much higher than the supply growth rises at 7% and 4%. Do we see this continuing ahead with so much room supplies coming in the years going ahead?

Sanjay Sethi: In fact, I don't think there is so much of room supply coming to the market. In fact, if you really look at the last 10-15 years of Indian hotel industry cycle, you will find that there was a supply surge between the period of 2007-08 right up to 2015 where supply outpaced demand by a large margin and that's what caused the slowdown in the business of the industry, but since 2015, demand has continued to outpace supply. As a result, a positive arbitrage is driving the upcycle for us and we believe this is an early part of the cycle because this is a brick and mortar business and especially in the higher category of hotels, it takes a while to get the hotel up and running. We have studied as well as we have looked at all the reports that have studied the proposed or planned supply in various markets and the proposed supply for the next 4 or 5 years is only expected to grow at mid-single digit numbers. At 5% to 6%, supply is not going to outperform demand and therefore, the occupancies and demand for rooms will continue to grow.

Ritika Agarwal: My last question would be, we expect the company to do a RevPAR growth on similar lines of 9% to 10%. How much do you think should be contributed by ARR and how much by occupancy?

Sanjay Sethi: I am afraid we can't give forward-looking statements on these numbers.

Ritika Agarwal: Or maybe on industry-wide or….

Sanjay Sethi: I think you saw the industry-wide numbers in the HVS report that I spoke about earlier. They expect the growth in demand to generate occupancies. But large part of the 9.5% growth as per them is going to come out of rate growth. I see no reason why the story for Chalet will not be similar.

Moderator: We will take the next question from the line of Tarang Agarwal from Old Bridge Capital. Please go ahead.

Tarang Agarwal: I really have 3 questions. First, in the luxury segment that you operate in, what is the historical ARR trend that you see in any present markets and if you can probably give a sense on them for the next years? Question #2, at what level of occupancy would you prefer taking a price hike versus improving occupancy in the markets that you are operating in? The 3rd question is I just wanted to check that I guess approximately 50% of your occupants are foreign tourists. Have I got it correct?

Rajeev Newar: 55% for the current year, the room guests are of foreign nationality.

Sanjay Sethi: Tarang, just to answer your questions on average room rates and occupancies, on the historical trend if you look at the last peak that you had which was in the period of 2007-08 and compare that with the rates of 2018, we don't have comparative data for all-India for 2019 yet, but if you are to compare it for 2018, 2018 was operating at somewhere between 30% to 40% discount to 2008 numbers, 10 years later. So, is there an upside and headroom for growth on rates and aggressive headroom? Absolutely.

Future trends, again I reiterate, we on an industry basis, if the industry is expected to grow at 9% to 9.5%, I think a large part of the growth will come out of rates now because most of the hotels have started reaching peak occupancies for at least 3-4 days a week and we have seen that happening in our own hotels too. For us to hit an average of 76% occupancy last year between 3 cities means that there must be 4 days a week we are in excess of 95% in fact close to 100% occupancies in those hotels. And the logical thing to do then is to take your rates up sharply and exercise revenue management practices. Also I would like to highlight that lot of the consumers have now understood that for the peak days in a week, rooms are going to be expensive. So, the large block and group movements have started getting pushed back to end of the week.

Let me explain this a little further. What we have noticed is that in last few quarters, a lot of the group movement that used to come between Monday to Thursday, i.e., conferences, etc., has now shifted to Thursday and beyond which is great for us because we are able to now release more rooms at later date with higher rates for individual travelers during the high peak days and the days when we had lower occupancies, we are able to fill up with group movement. So, that works brilliantly for us and that is what leading to occupancies as high as 82% because we are able to now fill out weekends too.

On your occupancy at what point will you take the rates up, I think we are there now. I think it is time that the hotel industry started taking the rates up aggressively. There is no reason for any company not to do so now. We as an industry would be shooting ourselves in the foot if we do not take aggressive rate growths from here onwards for the next 3 years.

Moderator: We will take the next question from the line of Anant Mundra from Mytemple Capital. Please go ahead.

Anant Mundra: My question is how much is the average annual maintenance CAPEX that you incur as a percentage of your revenue just to keep the properties running well and good?

Rajeev Newar: Anant, when we look at our repairs and maintenance, we are very conscious because we are running luxury and upper upscale hotels. So, we keep investing in our properties on an ongoing basis to ensure that the properties are kept well. Having said that, if I was to look at what has been capitalized effectively, that would be typically in the range of about 10 to 15 crores at best on an operating CAPEX on an annual basis.

Also while we are on the subject, it is important to note that if you look at our portfolio, most of our portfolio is substantially renovated or new. So, if you look at JW Marriott at Sahar, that's a new property. The Marriott at Bengaluru is a new property. Westin has gone through renovation but when I was answering for the operating CAPEX, those were recurring CAPEX which is normal maintenance CAPEX which is very low. So, we keep taking the renovation cycle also periodically that the operating CAPEX is very low.

Anant Mundra: So, your CAPEX that you capitalize is around 10 to 15 crores, correct.

Rajeev Newar: Yes, not more than that.

Anant Mundra: And if you average it out over the lifespan of a hotel, like say 20 years average, how much would you keep as a percentage of your revenue that you will keep capitalizing every year into your CAPEX?

Rajeev Newar: Typically our portfolio is new. The only hotel which is old is essentially Renaissance but as I said that what we believe is a 3% thereabouts would be fairly adequate to keep the properties in the status where they are ought to be.

Sanjay Sethi: May I just add very quickly that in our industry, we also have regular repairs and maintenance which to a large extent actually extends the life of the assets that we have and that comes in the operating cost of the hotel itself. So, you have got to remember that the EBITDA numbers that we share are significant amount of repairs and maintenance cost has already been absorbed in that. The CAPEX that Rajeev is talking about is what can be termed as CAPEX in the books of accounts.

Moderator: The next question from the line of Ritesh Badjatya from Asian Market Securities. Please go ahead.

Ritesh Badjatya: My question is with respect to our conference business. Do we see any kind of the serious competition from the coworking guys because they are also offering very competitive rates for organizing the conference and all these things?

Sanjay Sethi: Ritesh, we believe that all alternate form of F&B or accommodation is competition to us. So, we are aware of it, we like to track it, and we like to have strategize around that. Having said that, in our conferencing - we actually call it the group and catering business - it is a mix of formal conferences, social events, and weddings. The one favorable thing that has happened in the favor of the hotel industry is that a lot of the unorganized sector on the wedding side which is your wedding lawns and banquet halls have come under the tax purview with the GST regime, which creates a more level playing field for us to work with. As an outcome, most people have started preferring, coming and doing their weddings, etc., and social functions in hotels because you could remember typically in a wedding lawn, you end up spending far more sometimes 5x the amount of F&B on decoration, etc., and hotel that is readily available asset because of banquet hall interiors. So, we have seen growth in that segment which cannot be sort of replicated by the social working spaces. The other thing is a lot of the other corporates, especially the large corporates have specific requirements which are catered to by higher end hotels arranging from security issues to audiovisual facilities to the sizes of the halls that we need to give and the expertise that we bring along with the food and beverage. All of that combined together, I think, is this strong performance but as I said earlier, we keep our eyes wide open for any alternate form of competition.

Ritesh Badjatya: With regard to like wedding-related business you are talking about, do we have any plan to tap any destination wedding related place in the years to come or in the near future?

Sanjay Sethi: When I spoke about the markets that we would like to be in, I think we had listed Goa as one of those markets. The reason why we are looking at Goa and no other leisure market is very simple. We like to take concentrated bets from cities. We like high EBITDA values to come out of an asset so that return on management time pans out efficiently. We believe Goa is a deep enough market to deliver on an asset anywhere between Rs. 40 to 70 crores of EBITDA and if that is the case with an asset that is available, we would certainly look at acquiring there. And that could then cater to the destination wedding thing. Having said that, Renaissance which is in Powai, because it sits on the lakefront has almost become like a destination wedding location. The people even from Mumbai would actually lock up their houses and come and take rooms in the hotel and move everyone there and have a 2- or 3-day wedding event over there at the hotel.

Moderator: The next question from the line of Satyam Thakur from Morgan Stanley.

Satyam Thakur: I just had one additional question. Hotel brands have started talking about intense competition for management contracts in India today and because of which they even have commented that they are seeing some pressure on fees. You are obviously on the other side of that equation. Are you also seeing lower fees in the newer contracts that you are signing or about to sign? What kind of savings do you anticipate coming through on that count?

Sanjay Sethi: Satyam, you know what has happened is we have renewed 2 contracts - one in Powai and one in Westin. Whilst we have got favorable terms - I have a confidentiality clause and therefore I can't talk about numbers - but I can say that we have had some benefit come out of those renewals that we have done. More importantly in the Powai renewal, the fact that we have changed the brand from Renaissance to Westin is a big plus because we are now saying that we are going to position this hotel 2 notches up which means the potential opportunity of earning maybe 8% to 10% premium on the average room rate itself. So, these are the benefits that we have taken from renewal of contracts.

Specific fee-related questions, I am not in a position to answer right now.

Satyam Thakur: And the conversion of the property to a Westin, for that I believe an MOU was signed and on which was mentioned in the RHP and it had a timeline to it of March end or something which has been converted now into….

Sanjay Sethi: We have extended that to June because we were busy with the IPO and all that. So, we have extended that contract to June and our lawyers and the Marriott lawyers are discussing the finer print of the contract. The basic terms have already been agreed upon.

Satyam Thakur: At Powai, because of the renovations that will start now, do you expect any disruption in the business there or any loss of revenues on that account?

Sanjay Sethi: Two things Satyam. One, we are doing the renovation during the slower period of the year. Secondly, 473 rooms out of the 773 rooms are already renovated, they don't require renovation. The balance 300 rooms are due for renovation this year. It was a part of our 5-year plan in any case, both in terms of CAPEX to be deployed as well as the inventory being taken up for renovation. The plan is to do these 300 rooms in 2 or 3 phases without disrupting the business too much. You have got to remember that we have got 600 more rooms sitting in Sahar and we have got Four Points Sheraton Vashi. So, there are enough rooms in this market for us to push business to in case there is any additional demand that we can't cater to at Renaissance but we would get most of the renovation out of the way during the monsoon period.

Moderator: The next question from the line of Ritika Agarwal from Quest Investment. Please go ahead.

Ritika Agarwal: It is a continuation from the last question just because on your management contract, sir if you could give an idea of the average fees for a management contract as a percentage of the total revenue the hotel owns?

Sanjay Sethi: Let me put it like this. We have 2 kinds of fees in management contracts - the base management fee and the incentive fee. Base management fee is a certain percentage of the top line. Incentive fee is a certain percentage of the operating profits of the hotel. Typically, I think we end up paying somewhere around 5% of the top line between these 2 fees. And there are a couple of other fees that have come into operating cost itself which are reimbursables, which is actual cost being incurred on our behalf.

Ritika Agarwal: So, this 5% will not include the reimbursements that you are talking about?

Sanjay Sethi: No, this does not include the reimbursement. Reimbursement is cost that they are incurring on our behalf, we are reimbursing them. If they were not operating the hotel for us, we would be incurring those cost directly.

Ritika Agarwal: So, that as a percentage of total revenue or the total management fees would be around how much?

Sanjay Sethi: I think I can give you a very rough number. The total combined fee is south of 10%.

Ritika Agarwal: Of the total revenues earned by the hotel?

Sanjay Sethi: Total combined payout is south of 10%.

Moderator: Ladies and gentlemen, I would now like to hand the conference over to Mr. Sanjay Sethi for his closing comments.

Sanjay Sethi: I just want to thank all for taking time off to have this conversation with us on a Friday evening. Wish you a great weekend and look forward to the election results. Thank you so much.

Moderator: On behalf of Chalet Hotels Limited, we conclude today's conference. Thank you for joining. You may disconnect your lines now.