CHALET HOTELS

August 3, 2022

National Stock Exchange of India Limited
Exchange Plaza
Bandra Kurla Complex,
Bandra (East),
Mumbai 400 051.
Scrip Code: CHALET

BSE Limited
Corporate Relationship Department
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai 400 001.
Scrip Code: 542399

Dear Sir / Madam,

Subject: Transcript of the Earnings Call in respect of the Unaudited Financial Results for the quarter ended June 30, 2022

Pursuant to Regulation 30 read with Para A of Part A of Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations'), please find attached herewith the transcript of the Earnings Call held by the Company on July 29, 2022, in respect of the Unaudited Financial Results for the quarter ended June 30, 2022.

Further, pursuant to the provisions of Regulation 46 of the Listing Regulations, the aforesaid transcript will also be disclosed on the website of the Company i.e. www.chalethotels.com.

Request you to take the same on record.

Thanking You.

Yours faithfully,
For Chalet Hotels Limited

Christabelle Baptista
Company Secretary & Compliance Officer

CHALET HOTELS LIMITED MUMBAI

Encl.: As above

Chalet Hotels Limited
Q1 FY2023 Earnings Conference Call

July 29, 2022

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

Moderator: Ladies and gentlemen, good day and welcome to the Chalet Hotels Limited Q1 FY2023 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 this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. Joining us on the call today are Mr. Sanjay Sethi, MD & CEO, and Mr. Milind Wadekar, CFO. I now hand the conference over to Mr. Sanjay Sethi, MD & CEO, Chalet Hotels Limited. Thank you and over to you Sir!

Sanjay Sethi: Thank you, Mitchell. Good morning and thank you for your time today ladies and gentlemen. We have moved from a strong performance in March to a stronger succeeding quarter. After three tumultuous waves of the pandemic, we have witnessed six consecutive good months. I am going to sort of talk you through that and then handover to Milind to share some key numbers from his side and then we will move to Q&A after that.

We are happy to announce a back to normal performance of Chalet Hotels with the best Q1 performance till date. Our hospitality business posted an occupancy of 78% in the first quarter and an ADR of 7457, higher by 37% from the preceding quarter. The division's revenue was 5% higher than Q1 of FY2020, the pre-pandemic year's. The business was assisted by the IPL season in Mumbai, strong recovery of business travel in Q1.

Domestic business segment clocked 100% higher room night rent than 2019 and recovery in room night of foreign travel was 56%. I am glad to share that Westin Powai, JW Marriott Sahar, and Novotel, Pune exceeded revenues of Q1 FY2020. Westin Hyderabad and Four Points Sheraton in Vashi matched FY2020 revenues. However, Marriott Whitefield trailed but is now showing very strong recovery trend in the last few weeks. The portfolio F&B revenue was higher by 14%. When I am saying higher by 14%, I am referring again to Q1 of FY2020.

I am glad to share that the hospitality revenue for the quarter was up 5% from Q1 2020 at 2.3 billion. The divisional EBITDA outperformed the Q1 FY2020 EBITDA by 11%. Reduction of certain fixed costs help deliver GOP for our hotel division at 48% as against 45% in Q1 FY2020. The EBITDA for the division was 950 million for this year. Our room to employee ratio remained a very healthy 0.87 at the end of June despite high occupancies and this includes all employees, including contract and fixed term contracts. We maintained payroll cost at 13% of revenue as compared to 15% in the full year of FY2020. Utilities as a percentage of revenue were at 6% as against an average of 7% in FY2020.

The consolidated revenue for the company for the quarter was Rs.2.6 billion with an EBITDA of Rs.1.1 billion, which is the highest Q1 revenue and EBITDA for the company till date. Our revenue and EBITDA growth over Q1 FY2020 was 6% and 27% respectively. Milind will walk you through the detailed financials and the debt position shortly.

Development of the new commercial towers, now I am talking about the projects in pipeline. So, the new commercial tower in Bangalore and Mumbai are moving rapidly to completion. Conversion of the mall at Bangalore is expected to be delayed by a couple of months but within the same quarter. The second phase of renovation at Westin Powai is underway with the main ballroom and six room floors out of operation. We expect to handover the ballroom by mid August and the room floors by December.

The 168-room new hotel at Hyderabad is expected to be operational by the last quarter of the current financial year. At Novotel, Pune the expansion of 88 rooms is on track for completion by Q3. We are also evaluating the upgradation and conversion of the Accenture Learning Center building at Bengaluru to 190 rooms and add to the existing 324 rooms at Marriott Whitefield. That will take the total inventory in excess of 500 rooms making that again the largest hotel in the city.

On the leasing front, barring the 17,000 square foot of the commercial area of 'The Orb' in Sahar everything else is leased out. I am pleased to share that in Bengaluru, we have an LOI in place for leasing three floors to a single tenant with a potential to move floors being signed by them in a few weeks. The commercial terms have been closed at Rs.60 a square foot, 9% higher than the earlier estimates.

I am delighted to share that we have been declared successful bidders for a terminal hotel at D3 Delhi International Airport and will be working closely with the team at DIAL to take the project forward. The hotel will have somewhere between 350 and 400 rooms and will be positioned in the - 5-star luxury segment. The hotel is expected to be commissioned in or before FY2026. This project will give us a strong foothold in North India and access to the very important market of New Delhi.

Just so that I can elaborate a little more about this project, this building that is going to be built by DIAL and then fitted out by us, is literally the road across the arrival section of the terminal, which means that travelers can potentially just walk in from the terminal building into the hotel with their bags and trolleys.

Moving on, our focus on ESG continues to be high. We get 61% of the electricity from renewable sources as against 53% in March of 2022. We are also making progress in our committed goals to the Climate Group, and we expect to report back significant success from that in the coming months.

I am also very happy to share that this year we have been ranked fourth in the prestigious list of India's great and mid-size workplaces. This is the third consecutive year because the company has been certified by the great place to work institute and this time our rank of 4 makes us the best ranked hotel company in the category.

All in all, ladies and gentlemen a very good quarter, strong business recovery, good leasing traction, an inorganic growth opportunity aligned with a declared growth strategy and a very gratifying recognition of our work culture. We are excited about the business outlook and aim to surpass revenue and EBITDA numbers of FY2020 fairly comfortably in this year, which is a year ahead of our earlier estimate. On that happy note, I now hand over to Milind to take you through some of the key numbers for the quarter. Thank you.

Milind Wadekar: Thank you, Sanjay. Good morning, ladies and gentlemen. Let me reiterate that Chalet has seen best quarter one in April and June 2022. Let me now take you through financials in some more details.

Reported revenue for the quarter was Rs. 2.6 billon which was higher than Q4 FY2022 due to business operations resuming back. As compared to Q1 FY2020 the company marked a growth of 6% backed by a robust recovery in hospitality and higher rental as compared to the base period. During the quarter, the company received an interest income on income tax refund of Rs.30 million and accounted Rs.16 million as reversal of provision for expenses of earlier years. Adjusted for this, EBITDA was little over a billion, which was three times Q4 FY2022 EBITDA and 23% growth for the same quarter of FY2020. The EBITDA margins for the quarter were at 42% for the company.

The company reported profit after tax at 286 million an improvement from loss of Rs. 115 million in the sequential quarter. Defaults after taking into account reversal of deferred tax asset were of Rs. 104 million. The hospitality segment contributed 88% to the total income of the company in Q1 FY2023. Occupancy for the quarter averaged at 78%, higher by 23% point sequentially and 3% points from pre-pandemic Q1 FY2020.

The ADR for the quarter was higher by 37% at Rs.7457 as against Q4 FY2022 and showed a 92% recovery from pre-COVID period. Revenue from hospitality was at Rs. 2.3 billion the quarter and EBITDA was marginally shy of Rs. 1 billion. The segment reported margins of 41.4% for the quarter as against 38.8 in Q1 FY2020, showcasing efficiencies bid over the last two years are at play while business quarter took pre-pandemic level. Favorable demand supply dynamics, points to a strong revival in rates and sectoral upcycle. These along with our efficiencies are likely to result in higher flow through from hospitality.

Two of our major cost heads for hospitality, first payroll cost was 13% of revenue in Q1 as compared to 15% payroll cost in FY2020 and secondly, utility cost as a percentage of revenue reduced to 6% as against 7% in the FY2020. The rental at annuity segment contributed to 9% of total revenue for the company. The revenue and EBITDA from the segment was at Rs. 231 and Rs. 183 million for the quarter respectively with efficiencies of around 80%.

Net debt of the company from March 2022 to June 2022 was flat at Rs. 22.3 billion, while the company spent Rs. 0.9 billion on capex during the period it was largely funded by internal accruals. The company has capex plan of Rs. 7 billion over next four to five quarters to complete under construction, commercial, and hospitality assets.

Business is well-funded with strong internal accruals and available lines of credit. Considering all under construction projects, the company has a total of Rs. 9 billion of CWIP across hospitality and rental assets. These investments are expected to generate revenue over next three four quarters and free up the balance sheet. The average cost of rupee loan was at 7.55%. We have cash and cash equivalent as on June 2022 of Rs. 0.8 billion and Rs 7.5 billion available lines of credit for general corporate purpose and planned capex. On our residential development at Koramangala, we are awaiting last municipal approval and RERA registration. There has been another Rs.250 million new subscription from promoters on 0% non-convertible redeemable preferential for funding the outlook relating to the residential project at Koramangala.

The total subscription now stands at Rs. 2000 million as of June 2022. With this, we now open the floor for questions.

Moderator: Thank you very much Mr. Wadekar. Ladies and gentlemen, we will now begin the question and answer session.

Our first question is from the line of Karan Khanna from Ambit Capital. Please go ahead.

Karan Khanna: Hi. Thanks for the opportunity and congratulations on an encouraging quarter. Sanjay, firstly on the recovery MMR with 65% contribution of the hospitality segment revenue clearly remained an outlier apart from Pune where we have seen an incremental contribution when you compare it with pre-COVID. However, can you give us some sense on the revenue contribution from IPL specifically during the quarter and also your blended occupancy in June was 73% versus 80% in April-May so can you give some specifics how would be the stack across micro markets in June versus the rest of the quarter?

Sanjay Sethi: Sure Karan, thank you for question. Good to connect with you again. Look, IPL was a contributor for the months of April and May, and they moved out sometime in the end of May so we had about 20th May when they moved out and there was that impact in our Mumbai hotel as they moved out from the teams that were staying with us as well as compression in the market got eased up. Having said that, the occupancies have remained healthy since then, true. So the fact that we remained at lower or mid 75% occupancies in the subsequent months indicate that the market is robust even if we exclude one of events that happened in the city and so we are growing from here. The other thing, I want to highlight is remember the foreign travel is not back as yet, only about 56% of the foreign travel is back. UK has improved better than US. US was the largest contributor and the US market is business travel into India is slow because of two reasons, one they have found it difficult to get the visas, so that is getting sorted at the MEA level to improve the speed to give them work visas, and second very importantly because of the Russia Ukraine war they could not take the North Pole route which they traditionally take to come into India, thereby making the flights longer and US travelers did not want to take the headache of coming through either Amsterdam, Frankfurt or London because those airports are in mess right now. But we have now got confirmation of new schedules from couple of US airlines or direct flights into Mumbai, Hyderabad, and Bangalore and that is going to help improve. If you recall in all my earlier conversations, I have said that foreign travel will come back to normal by Q3 of this year, and I think they are well on track for that to happen. Coming to flavor on occupancies, I think June was roughly around 73% occupancies and we have got July again trading at about 75% actually on most occupancies on a month to date basis as of now, so clearly, we are holding the occupancies. If you recall the pre-pandemic occupancy numbers before the pandemic hit in March, we were at 75% so if we exclude March even at the highest occupancies of the 11 months of FY2020, the occupancy was 75%. Now what has happened with this mix of foreign travel versus Indian travel, the rates have not moved up as sharply as they potentially could, but a 37% quarter-on-quarter jump is fairly healthy improvement and as we fill up and get back the foreign travels, I see that blending up pretty rapidly, especially in the second half of the year, so is there anything else I missed?

Karan Khanna: No, I think that pretty much covers the question. Just talking about your Delhi expansion while we understand this is a fairly strategic location and would give you the benefit of being among the first preference given the proximity to the airport, but can you talk about the demand supply dynamics of the micro market in particular Aero City and also with Marriott already having a hotel in the vicinity. What would be your choice of preferred blend here given the Westin will fall under the same umbrella and could cause a conflict of interest?

Sanjay Sethi: So, I do not have the exact numbers of demand supply, but Delhi has been the early starter on recovery on all India basis, after the pandemic. It continues to record high occupancies and reasonably good ADRs, if not better at par with Mumbai and the micro market of the aero city has been the strongest within that NCR region. As I highlighted, the hotel is actually going to be connected with the terminal 3. In additional to T2 is expected to be expanded and renovated also connects to the hotel directly, so basically passengers from T3 and T2 both will get an opportunity to access within very comfortable walking distance the hotel which takes away the complete headache of waiting for a car or taxi or organizing a Uber or Ola. So, I think we see this hotel having a distinct advantage.

On your question regarding the brand early days, we are in conversation with couple of brands and you have mentioned the only two Marriott brands. This suite is opened for brands across the brand portfolio and the brand landscape in India. We are not restricting ourselves only with conversation with Marriott. You rightly mentioned Marriott already has I think 650, 700 or maybe more than that 700 odd rooms operating, and they are building another 1000 rooms there. So clearly, they will be quite stretched with the inventory that they have there. We are exploring all opportunities there. We will come back as and when we firm up a brand partner there.

Karan Khanna: Sure. But talking about the capex here because you have mentioned that the shell will be delivered by Delhi International Airport Limited but the interior and other fitouts will be completely by Chalet, so against that context can you give some sense on the overall cost involved in terms of the auction and capex which was being incurred by Chalet and how do you plan to fund the same given you are already going capex for commercial assets apart from the hotel expansion at Pune and Hyderabad?

Sanjay Sethi: Sure. Milind already shared the lines of credit that we have and the access to capital and you got to remember that Chalet has really never had a problem with access to capital and our ability to get capital even if it is debt at very low rate continues to be strong if anything is getting better. Second, as far as the capex spends is concerned, we expect about 65 lakhs per room from our side besides the shell and façade from that. On a capex cycle keep in the mind, the shell and façade is being built by DIAL so they are ones who will be putting the early capex into this. Our capex intervention will not come in for may be for 18 to 24 months from now. We will probably start actually infusing capital in this particular project 18 to 24 months from now, and by then if you look at our 5-year plan, our debt does come down very significantly by then. So, we will actually have inefficient size of debt for a company that has seen a very sharp growth plan. So, we will be happy to raise more capital in any form that we can to fund this project. We really have no concern from that. Milind, do you want to add something to this?

Milind Wadekar: Hi Karan. Karan capex spend for this project will start in FY2025, and we will start earning EBITDA from our under construction, commercial and hospitality assets from FY2024, and we will be in comfortable debt position in FY2025 to fund this project.

Sanjay Sethi: I just want to emphasize there is no concern at our end on funding of this capex.

Karan Khanna: Lastly, on the leasing front, while you did mention about advanced stage of discussions for the Bengaluru asset is it possible to give some specifics if you would be renting the entire asset to a single tenant and some sense of the tenant profile and expected rentals in case if they start earlier, and also will this include the entire 1 million square feet?

Sanjay Sethi: Very quickly because we have spent a lot of time on this. Karan, I have confirmed that we have signed three floors in an LOI for the new building there which is 11 floors and all so - 3 are already signed with what we call the anchor tenant there. That same anchor tenant is potentially looking at two more floors, and we have other conversation which I am not at liberty to discuss right now for the balanced floors as far as the new IT building is concerned. As far as the conversion of mall to an office space is concerned, we are about two months behind the completion of this IT tower, so we are not rushing into this as you have noticed that we have been able to tie up higher rents than we were expecting earlier. We like to right time our leasing activity for the mall areas also to get the maximum rental benefit out of that. Again, demand is extremely high both in Bangalore and Powai. The other than that, in fact Milind is reminding me to mention that the metro at Whitefield is going to be launched sometime in December this year and the station from an office perspective becomes extremely convenient for us, which is literally at our doorstep there.

Karan Khanna: Sure, thank Sanjay, Milind and all the best!

Sanjay Sethi: Thank you Karan.

Moderator: Thank you. Our next question is from the line of Aishwarya Agrawal from Nippon India. Please go ahead.

Aishwarya Agrawal: A very good performance in this quarter. Sir, I just want to understand how do you see the revenue visibility for this year, for this second half when I know that foreign travel is something which will add to the revenue in a meaningful way. But besides that, do you have some booking and all or do you see any mega events happening like IPL?

Sanjay Sethi: Aishwarya, thank you for the question and thank you for being on the call. Look, we do have a lot of activity on the MICE segment because that gets booked out in advance, both corporate events as well as social events, including wedding seem to be trending extremely strongly and you know our hotels in Mumbai which is the Westin in Powai and the JW Marriott at the airport in Sahar are very banquet intensive hotels so we see that getting up the revenue for us in the second half. In terms of business travel, the lead time is somewhere between 7 and 15 days, but looking at the current trend and the fact that post the compression in the Mumbai market which ended in 20th May, the trends of business travel have been extremely strong and occupancy in the city have remained extremely robust and healthy. Today, if we are reporting 75% occupancy in June, this is remember without the 120 rooms at Powai which are under renovation, and a very significant element for the Powai hotel is its ballroom that has been shut down renovation. If you were to have that back Powai would report much stronger numbers and the 75% occupancy in any case would be much higher. To overview, we expect H2 to be stronger than H1 and we see great recovery being very sharp in H2.

Aishwarya Agrawal: Sir, can you give some idea in terms of occupancy which you see at this point of time for the second half because you already have for MICE activity or from the weddings and all?

Sanjay Sethi: Aishwarya, we have always shied away from giving any forward-looking numbers in the past. I do not want to break that trend. We have of course five-year projections available with us and that gives us a lot of comfort that is all I can share with you at this point of time that things are looking very, very positive.

Aishwarya Agrawal: Sir, one last question in continuation. Like IPL was an event which led to significant improvement in our occupancy and ARRs, can you give an idea that what kind of mega events potentially possible in next one to one and half years?

Sanjay Sethi: We do have large MICE events as I mentioned earlier. I do not have the exact details of the events that are happening but the standard event that happened with us whether they are medical events that happen on annual basis, the gems and jewelry shows, the oil and gas events that happen which are pretty prevalent in Mumbai, all of them look very strong. The wedding business looks extremely strong in the H2, and since we will have the banquet hall back at Powai, we expect a step up on revenues on that front on that segment.

Aishwarya Agrawal: That is very good Sir. Just one last question, because I am not aware, when generally these gem and jewelry and the medical and oil and gas events happen in the year?

Sanjay Sethi: They happen year-round actually and we have already had one or two of them frankly, and then the gems and jewelry and the medical ones I think they are about two or three a year that happens which are really big. We have had one gem and jewelry. We have had one medical one. We see a lot more happening. I do not want to take the names of the company, the big global MNCs which have had events now in our hotelsin India. They have had global events in India already and some of them are booked for the coming months, but unfortunately that is not the data that we like to disclose for their privacy.

Aishwarya Agrawal: That is really good to know. Alright. Thank you very much sir and best of luck. I hope you will do very well. One more question I am sorry but when is the demand and supply part as now there is a significant demand is coming up from the different segments and foreign travel has not yet started, so in that context how do you look at the new hotel supply say next two to three years?

Sanjay Sethi: So, the five-year trend that we have access to as data show a very positive and favorable trend to drive rates and occupancy up. The expected CAGR on supply for the next 5 years is in the range of 4.5 to 5%. Our demand is clearly going to outpace that by a large margin and that is going to probably create at least two or three major step-ups on the rate front in the next maybe two to four quarters.

Aishwarya Agrawal: Great Sir. Thank you very much.

Moderator: Thank you. Our next question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: Can you talk about the pricing power the hotel industry is getting and how sustainable it is considering the pent up demand going to be not there maybe after couple of quarters?

Sanjay Sethi: Firstly, let me address the pricing part. Look, we saw pricing power being put to play when the IPL was happening in Mumbai. Hotels room shot back to Rs.14,000 to 15,000 in fact in some cases it was Rs.12,000 on the visible rates that is the bar rates that are rates available on the general public and that is why the hotels were able to cream the market in that point of time, so revenue management is clearly at play. What we are going to keep in mind we have come out of two very difficult years the stage one for any industry is to first get a strong foothold and consolidate on capacity and very often we all talk about occupancies, and I look at vacancies. When we say we are 75% occupancy, I look at it as 25% vacancy and my aim is always to fill in the vacant rooms with business which is one off or what we can call as MICE and other stuff as against reducing rates for regular business that comes in the form of transient or corporate, those are annual contracts. So, I think the industry is right now consolidating and making sure that they have the base occupancies filled up with long-term business yet keeping the blended rates a little low as far as the business cities are concerned. -Second with the foreigners not back in full stream, in fact, we are only half way down there that itself should take another Rs.800 to Rs.1000 up on the rate front quite comfortably. So, to give you an overview, I think the supply-demand gap will create rate off sight. The other question that you had was if you could just remind me on that.

Sumant Kumar: I was talking about the pent up demand is not going to be there after a couple of quarter?

Sanjay Sethi: So, pent up demand has happened in very small segments. If you look at pent up demand probably happened in weddings to a certain extent. It has happened to some amount of offsite business that happens with corporates, but business travel does not really help pent up demand. If someone has to travel in the past, we at Chalet were traveling throughout the two years for example during the pandemic, wherever we were allowed to travel by government laws. So business travel is need based travel. It is not discretionary. It is not leisure so therefore I do not think there is any pent up demand. What is happening now is stable demand as a business travel is concerned. You may see some pent up demand on the MICE segment but that also I think more or less as a pent up demand is out of the way. If anything, it will be on off sites on leisure destinations. I do not see that happening in the business cities as a challenge.

Sumant Kumar: Okay now coming to our strategy to expand in other key markets and we are entering into New Delhi, and New Delhi is a prominent market and we are entering may be our hotel is opening after five years do you think we can go for the inorganic opportunity and have a hotel in that market to grab the upcycle for the hotel industry?

Sanjay Sethi: You are talking about Delhi right?

Sumant Kumar: Yes?

Sanjay Sethi: Look, firstly let me clarify this. We are looking at three years. Secondly, if there are more opportunities in Delhi we are open to look at them. If you recall our stated strategy was performing in terms of inorganic growth. One, get into couple of leisure destinations, Goa and drivable distance, hill locations were the two micro strategies within the leisure. On the business or big box hotels as we call them, we were looking at Delhi as the primary target location. I think we have actually felt on that. We were looking at may be adding one hotel in Bengaluru from City Centre to the airport that is basically the Northern corridor there. We were looking at may be a couple of other markets that we are not in for example Chennai. We could add one. We are already expanding with a new hotel in Hyderabad. We are expanding capacity is Pune. We are expanding capacity in Bengaluru in our existing hotels so clearly the pipeline of growth is very strong and our focus on the straight strategy completes to be very, very clear and that is the reason that Delhi is probably come up as one of the early announcements. We look forward to announcing some more in the near future.

Sumant Kumar: Thank you so much Sir.

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

Vikas Ahuja: Thank you for the opportunity. Sorry Sir, I missed your opening remarks so sorry if something you need to repeat? Firstly on the margins, hospitality margins improved pretty sharply and I just wanted to understand how much the improvement is because of the better mix because obviously you know the room revenue was much better than the food during this time and this is across for the industry that is number one, and number two is there any change in strategy because we have been talking about adding more property into leisure and commercial and then we do this bidding that is about it these two questions?

Sanjay Sethi: I will get the strategy part out of the way first Vikas. Our stated strategy obviously has been entering Delhi. You can refer back to any of our conversations. Delhi or NCR was always mentioned as an area that we liked to be in to expand our geographical presence and Delhi being the good market we wanted to be there so with that out of the way on your second part on the mix of revenues. Actually, F&B has grown more than the higher percentage than rooms so this is in spite of F&B growing at a higher percentage than rooms that are overall EBITDA margin on GOP that margin is higher. This is driven as Milind mentioned in his opening remarks and I referred to it also that two of the critical costs which is payroll and wages where our cost percentage was 13% to revenue in payroll and wages, lower by 200 bps on the earlier 15%. This is pre-pandemic I am talking about, and on HLP cost like water and utilities we are percentage to revenue at 6% against Q1 FY2020 at 7% so just these two costs if we add up there is a 300 BPS margin efficiency that has been brought into the system, plus there are other costs that we have worked on which are smaller in number but they add up to larger numbers in as whole. We must remember that this has happened without the ADR coming back to pre-pandemic. When the ADR come back, 90% to 95% of the ADR will flow through to margins again.

Vikas Ahuja: Thank you. Sir one last question regarding this I think the Bengaluru and Hyderabad market with most of the IT companies now calling their employees back to office and this has been the trend since the last 15 days. do we think that things should improve in the coming months for those two markets? That's about it. Thanks a lot Sir.

Sanjay Sethi: Yes, in fact they started improving. I touched upon it again in my opening remarks. Our Marriott Hotel in Whitefield has seen a surge in occupancies over the last four to five weeks now and it is doing extremely well. If you recall the original hotel of 324 rooms and then we had 67 rooms in the Accenture Learning Centre which we have now added to the inventory. Even with that count that hotel is now at par with our overall blended occupancies in July for the portfolio, which is roughly around an occupancy of 70% odd. Over the last few weeks those occupancies are hovering at much higher numbers so that is

Bengaluru. Hyderabad it has been showing good occupancies for almost about three to four months now. So, Hyderabad in July is hovering around the 80% mark.

Vikas Ahuja: Thanks a lot.

Moderator: Thank you. Our next question is from the line of Poonam Joshi from Nirmal Bang. Please go ahead.

Poonam Joshi: Thank you for taking my questions. Sir, I have two questions. First is given the expansion plan wherein we are going to add roughly around 250 rooms in FY2023, so are we going to see any rise in variable components fixed components had it been like staff to room ratios or any other costs and what percentage of cost reduction we can see that would be sustainable in nature compared to pre-COVID levels that is my first question. The second question I would also like to highlight on how leisure demand is panning in domestic market, especially compared to that of COVID times wherein people preferred to take vaccinations in India? Has the demand scenario changed compared to COVID times or it is still the same?

Sanjay Sethi: Poonam as far as your question about cost on expansion, Chalet has been always very efficient on delivering high margins. As you can see, we have only improved on that in this last quarter compared to even the pre-pandemic numbers and with the ADR upside that will improve further. Any addition will only improve because from our perspective we see because two orders in fact one, two and three hotels that we are working our expansion and capacity, which basically means that the costs both fixed and variable as a ratio will be lower than before so that will actually add higher margins to the portfolio as against impacting it negatively, so I see a positive outcome of that. On the leisure side, we do not have a leisure hotel in our portfolio, however we do have staycations happening in some of our hotels as I have spoken about in the earlier calls. Powai for example, the Westin Powai is a fabulous location for vacations, and we see that that doing extremely well with staycations over there. It is drivable within the city, beautiful lake front, beautiful night skylines and great products and F&B offerings. So, I really do not have any inputs to share on the larger leisure market in India right now.

Poonam Joshi: Just a follow-up question so what percentage of cost reduction can we compare to pre-COVID level if you can quantify, in case those capacity expansion comes into play?

Sanjay Sethi: So, wherever there is expansion to existing capacity in that location, we expect at least 100 to 200 BPS improvement in that particular hotel or location. On the new ones obviously they will go as per the trails the Chalet has been sort of give as far as positive results are concerned so we see that being very much in line with our past performances.

Poonam Joshi: Sir, last question so you talked about the international demand picking up somewhere in Q2 FY2023. Just wanted your understanding on what occupancy level can we expect in FY2023 in case the demand picks up later in the second half of 2023?

Sanjay Sethi: Poonam, I will not be giving forward-looking numbers. My comment on foreign travel was actually referring to H2 which is Q3 onwards. We see that ramping up pretty sharply then, which has helped with the rate, but I am not leaving any predications right now.

Poonam Joshi: Sir, last question so basically once this commercial project gets commenced, when can we expect the rental commencing for this under construction project? Do we take time for this fit out and any relaxation period which we give to the tenant once they start paying to us so just wanted a rough understanding on this? Thank you.

Sanjay Sethi: So, Poonam the last input for you and we can have a conversation later on in the cycle. The standard terms that are there for leasing activity in India will apply to all our leasing that we do in our office buildings, and so therefore there are rent free periods in that particular market we follow the norm on that.

Poonam Joshi: Understood, thank you.

Moderator: Thank you. Our next question is from the line of Ritwik Sheth from DFC. Please go ahead.

Ritwik Sheth: Good morning and thanks for the opportunity, Sir. Sir I have just one question on commercial. The first one is a basic question. We have two commercial operational buildings right now. One is the Orb, which is half million and one is the Whitefield which is 0.4 million square feet. What will be the occupancy here in Q1 FY2023?

Sanjay Sethi: **So** ook, Orb which is about little more than half a million actually is almost full. It is I think 93% as per the commercial space is concerned. It is already occupied and yielding rents. As far as Whitefield is concerned, I did share a little earlier that we have just signed a LOI recently. The building will be ready for fit outs in October and whatever the times the tenants take for fitting them out they do take their time and they will move in.

Ritwik Sheth: So, Whitefield there is no revenue that we are getting currently. It is only the Rs.22 Crores that we have mentioned in the presentation is only from the Orb?

Sanjay Sethi: It is only from the Mumbai office rental at the airport nothing else. To add to that, Whitefield almost a million square foot, Powai about 750,000 square feet, and whatever balance is left is Orb.

Ritwik Sheth: So, my next question was on that only, the upcoming projects which you just mentioned Powai and Whitefield. So, what is the status of leasing at Powai?

Sanjay Sethi: Powai, it is very much like Whitefield. We do not like getting into confirming any leases till the building is almost ready because we do not want to discounts the leasing because the rent will anyway start at a fixed time, so we would like to get as close to completing the building. That is when we will get best value from our leasing activities. As we speak the building is being installed and the funnel two and a half floors are being completed. When we have the façade up and about, it is a stunning building. There is a lot of interest. There is interest from multiple large companies for that building. Many of them want to take the whole building also, but we do not want to get into confirming or signing any LOIs till we are closer to the day of completion, and for the Powai one we are looking at Q4 completion.

Ritwik Sheth: Right. Would it be fair to assume that both these buildings would take about four to six quarters to get leased out about 80% odd, would that be a right assessment?

Sanjay Sethi: I think Bengaluru will happen much quicker. Bengaluru should be closer to 90% to 95% in the next at least the tenants would have been signed up in the next may be three months actually, and moving in may be six to nine months from now. As far as Powai is concerned, because we will start the leasing activity in Q3 of this year, we expect people to start moving in from may be from August-September next year.

Ritwik Sheth: Okay. So basically, you are getting one million at Bengaluru and about 0.75 million square feet at Powai in FY2023 end?

Sanjay Sethi: Yes, that is right.

Ritwik Sheth: Thanks for the clarification. Thank you.

Moderator: Thank you. Our next question is from the line of Rajiv from DAM Capital. Please go ahead.

Rajiv: Good morning Sir and congratulations on a great set of numbers. Sir, my question is on the capex side, so ALC conversion of 190 rooms if I heard it right, if you were to start it today, how much time does it take and how much capex does it will entail?

Sanjay Sethi: We are looking at roughly may be design time of three to four months and then start work on that. Since it is in one building where the building is already done, I think the fit-out time will be around three quarters at maximum, and the total capex amount that we are looking at there is Rs.70 Crores to Rs.75 Crores and that includes renovation of the existing 67 rooms.

Rajiv: Great and Sir on this cold shell arrangement with DIAL so how are the EBITDAs different in this case? Do we share something with DIAL as a commission separately?

Sanjay Sethi: We will come back to you with the DIAL terms. We need to jointly agree to go public with this. This is a bidding process that was based on who gives the highest minimum guarantee. There were three bidders who were qualified bidders. We were declared the winners from that bid process. There will be two forms of payments to DIAL for the shell and the land that they give us. Shell includes the façade work also, and the two forms of payments will be revenue share, which is a fixed percentage or minimum guarantee either of the two, whichever is higher.

Rajiv: Sure, and Sir on the Novotel acquisition because now we have crossed this Rs.5000 ARR and the revenue anyways get high from the last other quarters, can you just touch upon what are the EBITDA margin just to see what is the turnaround from the time you have acquired this?

Sanjay Sethi: So, look I think recent turnaround margins look very encouraging and this is still not full capacity. We have got to remember that we are adding 88 rooms to this hotel, which will take its inventory up from 223 to 311 keys. The EBITDA margin for this hotel was 34% for Q1 FY2023. We see this going to higher numbers, above 40 for sure, probably mid 40s when all the 311 keys are in operation because the fixed cost of operating those rooms are being extremely low. We see very healthy flow through on that one.

Rajiv: Sir, just one clarification you said that you are seeing 75% occupancy in July. Can you touch upon what is the ARR you are seeing for the month of July so far?

Sanjay Sethi: ARR is very similar to June.

Rajiv: For Mumbai, are we seeing substantial decline?

Sanjay Sethi: No. There is no substantial decline. Mumbai is actually looking pretty decent. Why should we decline? June did not have IPL, in any case right.

Rajiv: Alright, and lastly one question from me Sir. Sir, on the opex side so especially on the employee cost bit this Rs.33 Crores which we see for this particular quarter and now we are seeing most of the hotels at pretty decent occupancy. Is it a good run rate for the entire year baring the traditional capacity which is getting added?

Sanjay Sethi: Rajiv yes. We have already factored in increments for the current year and our target is maximum to go up to 0.9 against our 0.87 so we do not see any increase material increase as compared to cost.

Sanjay Sethi: Actually, we do not see an increase Rajiv, and if anything we should be able to get more efficiencies as the rates go up and also as the growth happens on the inventory side.

Rajiv: No, I was just referring to the comparison against Q3 of FY2022 that is Rs.26 Crores going to Rs.33 Crores and even that quarter was pretty decent quarter, so there is Rs.7 Crores I was just referring to all the hikes have been?

Sanjay Sethi: If we look at the flow through between revenue and margin you will find the flow through has been very healthy in Q1.

Rajiv: Thanks a lot. That is all from my side.

Moderator: Thank you very much. Our next question is from the line of Pratik Poddar from Nippon India. Please go ahead.

Pratik Poddar: Hi Sanjay. Just one question. Can you give me an idea of the expected IRRs on the New Delhi project given that there is an element of MG you said even lease rental, right?

Sanjay Sethi: Pratik, this is going to be in healthy teens. I think I had shared earlier that we set up an investment matrix and we are going to be guided by that of all investments going forward, and I think we are looking at healthy teens IRRs on the project after deducting the rent that we will be paying them.

Pratik Poddar: I was asking that was post tax right? The IRRs are post tax right for you when you say healthy teen?

Sanjay Sethi: Yes.

Pratik Poddar: Is this levered in your assumptions the debt equity ratio?

Sanjay Sethi: I think it is equal mix of debt equity ratio in the new project. We are also looking at interest rate of course we provided for slightly higher interest rates given the interest rate cycle that we are witnessing right now so we have provided for all of that and then assess the investment.

Pratik Poddar: Got it, and lastly from an acquisition perceptive, is it fair to say that this made more sense than deals on the table, if at all they were there?

Sanjay Sethi: So look, each deal is sort of assessed on its own merit and just it is not as if we are constrained by carrying only one deal and we will do only hotel if three are on the table. Anything that makes sense to us and gives us good returns it is something that we will look but it has to be within the defined strategy that we have. Defined strategy has a mix of locations that we want to be at, the type of hotel or resort that we would like to have and the size of hotel and resort that we would like to have, and of course then it has to be mapped with which partner brand partner to work with who will provide us the best value for investments.

Pratik Poddar: Thanks.

Moderator: Thank you. Our next question is from the line of Achal Kumar from HSBC. Please go ahead.

Achal Kumar: Good morning gentlemen. Thanks for the opportunity. I have only two questions actually if I may. So first of all, on the hotel side, the flight tickets has been very expensive now and that has sort slowed down the traffic growth significantly so the domestic demand has halted actually so now given that of course that may not have any impact on the cost of demand because that is not a very price sensitive but the immediate demand is highly price sensitive and looks like that has halted the demand how do you see that has impacted the demand for the hotels or do you think the customers behavior has changed now and that the people are preferring to drive down more to the destinations rather than taking a flight and that will certainly help the hotel demand so how do you see the overall equation versus the flight equation, the slow leisure demand and the changing customer behavior and of course linked to that do you think that could have a positive impact on the length of the stay so leisure demand probably the leisure passenger travelling they would prefer to stay slightly longer than they would have probably thought less expensive? How do you see that overall passenger behaving changing? My second question is about MICE business? How do you see MICE business? Do you think recovery is now pre COVID levels or in the next six months do you see the recovery much higher than the pre-COVID levels given the price that you are expecting a very strong pickup and the wedding season and all, so how do you see the MICE basically? Thank you.

Sanjay Sethi: Achal great questions. On the air fares getting expensive a very valid point. We have not been seeing that impact corporate as yet. My personal view is that with the addition of more airlines as well as more capacity in airlines with Akasa or Jet Airways, Air India, all having major plans for India within the domestic as well as international circuit will ease that pressure on pricing, and thereby open up the skies within India a lot more. On the length of stay yes, we have witnessed an increased length of stay at our hotels. I think that is driven by the fact that people want to conduct more business when they are on a trip and not have to come back on a weekly basis so that is something that we have already noticed at all our hotels which is a very positive sign again. On the MICE part, we think it has ramped up very quickly and very close to and in fact it is probably at pre-pandemic levels now and we have not even reached the best part of the MICE season which is basically October to March so to answer your question MICE is up back to pre-COVID and we see an upside there to.

Achal Kumar: Sir on the first question, you said that it got no impacts on the corporate demand yes and of course there is no impact on the corporate demand because the corporate traffic is any way is not a very price sensitive? I was actually talking about the leisure demand. How do you see the leisure impact? Do you see the change in the passenger behavior? Of course, you pointed that new airlines will come in and that will ease the pressure of the air tickets? Of course, that is definitely the case but now do you see the change in the behavior of the leisure travel, because what I am hearing is that now given that plane tickets are very expensive leisure travelers are still travelling but they are actually preferring to take their own cars and all and spending more on the hotels than the flight ticket? That is what exactly I wanted your opinion please?

Sanjay Sethi: Chalet does not have a leisure product right now. That is why I refrain from answering something that is beyond our conversation agenda today. If you would ask me as a consumer and as someone who spent 40 years in the industry, I think leisure demand continues to be strong. You are right drivable distance seems to be the preferred option because prices of flights are high but I think for the people who want to travel they are not going to be deterred by it too much by these prices and on the prices front as I said earlier, I think the addition of Akasa and Jet Airways, expansion with an Air India, all of them point to more growth in capacities which will ease the pricing pressure.

Achal Kumar: Thank you so much and wish you good luck.

Moderator: Thank you. Our next question is from Tanay Shah from Dolat Capital. Please go ahead.

Tanay Shah: Just on the opex front, basically this was a quarter with practically no COVID disruptions and you have already eluded to the fact that you see the second half being much better than the first half with weddings and MICE events. So, apart from the efficiencies in employee cost and power and fuel inching up, do you see the entire opex basket trending higher especially in the second half or do you see this continuing this range and seeing some margin expansion in the second half?

Sanjay Sethi: Let me put it like this that there may be an increase in opex cost as revenues go up but the flow through of any incremental business, especially if it is rate driven business, is going to be higher than the current EBITDA margins which means it should actually add further value to our EBITDA performance.

Tanay Shah: Understood fair enough. That's it from my side. Thank you.

Moderator: Thank you. Our next question is from Vignesh Iyer from Sequent Investments. Please go ahead.

Vignesh Iyer: Congratulations on a good set of numbers, Sir. I just wanted to ask because I missed the earlier part where you were explaining about capex so you talked about 7 billion capex so could you elaborate as to what that amount means and it is related to you are spending into which business if you could explain it, I missed that part?

Sanjay Sethi: Thank you Vignesh for the congratulations. I will let Milind give you the inputs on this.

Milind Wadekar: Vignesh, so out of 7 billion major components is for our two commercial buildings that is in Powai and Bengaluru and some part is going into 88 rooms in hotel, refurbishment of Westin Powai and Westin 2, which is coming up in Hyderabad.

Vignesh Iyer: So, this is entirely for FY2023 right? Rs.700 Crores?

Milind Wadekar: There will be some spillover in FY2024, mostly project raters will be paid and cash outflow may happen in FY2024. In the current year FY2024, you are right.

Sanjay Sethi: Can I throw in a flavor just to make comments a little more interesting, so we have got an Rs.1000 Crores. I am just giving capital work in progress. The Rs.1000 Crores capital work in progress is likely to yield stabilizes EBITDAs of about Rs.220 Crores to Rs.225 Crores, incremental EBITDAs. I am just sharing this so that you have a reference point of how important this capex outflow for us.

Milind Wadekar: Right, so Vignesh to add it further, when we say Rs.220 Crores or Rs.225 Crores EBITDA this will be for four projects which is Bengaluru commercial office, Powai commercial office and new hotel which is coming up in Hyderabad and additional 88 rooms in Pune. Apart from that, we are putting up one more commercial office in Powai that will add other Rs.175 Crores EBITDA but that is around two and a half to three years away.

Vignesh Iyer: Thank you for the detailed explanation, and Sir in regard to the new the hotel at T3 in Delhi, can you give me what is estimated cost of that project?

Sanjay Sethi: It is Rs.55 lakh per room. We are looking at roughly around somewhere between 375 to 400 rooms for the hotel. That you can do the maths from that basically looking at Rs.275 Crores, about Rs.275 Crores including IDC, design fee, overheads and all that included.

Vignesh Iyer: Sorry, the last part again Sir, sorry?

Sanjay Sethi: This Rs.275 Crores includes construction cost, IDC, design cost, overheads, site overheads, etc.

Vignesh Iyer: Right, thank you. That is all from my side. All the best Sir.

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

Sanjay Sethi: Thank you so much ladies and gentlemen. I hope you are as excited as we are about the future of the hospitality industry and Chalet in particular. I think the games changes for us, is the sharp recovery that has happened in my opinion about two quarters before I expected to happen. I had maintained that we will probably have a full recovery by October of this year. I am glad that it has happened in the quarter of April to June, and we had anticipated that the FY2024 will be a full year with full recovery. We see that now being far healthier than that. We are also very excited about the new announcement of the terminal three airport, which will get us a foothold into New Delhi region and the key advantage there is that this is a terminal hotel connected with the two important terminals of T2 and T3 and this is primarily going to be a room-based hotel so we see high margins over there. With that I am going to sort of thank you all and close the proceedings for the day. Have a great weekend everyone.

Moderator: Thank you Mr. Sethi and Mr. Wadekar. Ladies and gentlemen, on behalf of Chalet Hotels Limited that concludes this conference call. Thank you for joining us. You may now disconnect the lines.