CHALET HOTELS

February 1, 2024

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 and nine months ended December 31, 2023

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 January 25, 2024, in respect of the Unaudited Financial Results for the quarter and nine months ended December 31, 2023.

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 BERNADETTE BAPTISTA
Digitally signed by CHRISTABELLE BERNADETTE BAPTISTA
Date: 2024.02.01 20:59:44 +05'30'

Christabelle Baptista
Company Secretary and Compliance Officer

Enclosed: As above

"Chalet Hotels Limited's Q3 FY'24 Earnings Conference Call"

January 25, 2024

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

Moderator: Ladies and gentlemen, good day and welcome to the Third Quarter-ended FY'24 Earnings Conference Call of Chalet Hotels Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sanjay Sethi – M.D. and CEO, Chalet Hotels Limited. Thank you and over to you, sir.

Sanjay Sethi: Good morning, ladies and gentlemen. Thank you for joining us for the Chalet Hotels Earnings Call for the Quarter-ended December '23 and for being a part of Chalet Hotels journey of growth and innovation.

Allow me to provide you with some key highlights of the last quarter. Globally, the hospitality industry is witnessing an uptick in occupancy and rates, led by increasing international tourists, which as per WTO is 88% of pre-pandemic levels for the year 2023. This was aided by improvement in business travel, stronger group activity and resumption of large events. This comes against the backdrop of a volatile geopolitical environment. Our India story continues to be of resilient growth and the country remains as the fastest growing large market.

Corporate demand in the country has also seen consistent improvement, and office space absorption and increase in business travel is expected to grow at a CAGR of 8% over the next eight years as per IMARC Group. We also see tier-2 cities emerging as key hubs for new ecosystems with a slew of infrastructure projects in the pipeline.

Chalet Hotels continues to ride the uptrend, and I'm pleased to report that our Q3 revenue has reached a record Rs.3.8 billion, representing an 18% increase compared to the same period last year. The results are a testament to the strength of the asset portfolio of Chalet Hotels' backed by an overall resurgence in the hospitality industry in the country.

In Q3, our RevPAR or revenue per available room grew by 18% year-on-year to Rs.7,838. Average room rates grew to Rs.10,974 and grew at 8% for the portfolio. However, on the same-store basis, the average room rates grew by 11% year-on-year to Rs.11,253. The occupancy for the quarter was at 71%, an expansion of 6% points over Q3FY23, and this is despite higher inventory of rooms in the portfolio. This was led by an accelerated improvement in the Mumbai market, further supported by growing demand in Bengaluru and Hyderabad. Our Powai hotels saw several large events and high demand from groups, which led to 11 percentage points increase in the Mumbai occupancy for our portfolio. F&B revenue also did very well with 27% growth over last year.

During the quarter, hospitality segment achieved a revenue of Rs.3.4 billion and our EBITDA for the quarter was Rs.1.6 billion, a robust 29% growth in revenue and a 46% rise in EBITDA when you compare it with the same quarter last year. We continue to be diligent in managing costs and optimizing operating efficiency, contributing to healthy EBITDA margins. Employee costs continue to be stable at 12% of revenue and utilities as a percentage of revenue improved further with a drop of 80 bps to 4.8% of the total revenue for the quarter. Our hospitality EBITDA margin has expanded five percentage points over the same period in FY'23 to 46.3% now. The consolidated EBITDA for the quarter was Rs.1.7 billion, reflecting a 44% increase over the same period last year on a like-to-like basis.

A quick update on some of the projects:

Leasing activity has picked up pace in Powai and we've signed our first tenant for one floor there. Additionally, we expect a closure of two more floors very soon. We are also in advanced discussions with potential tenants for the rest of the spaces in Bengaluru and Powai.

Our ongoing renovation and inventory additions at The Dukes Retreat and the Marriott, Bengaluru are as per schedule.

As you're aware, the work at the new hotel, the Taj at New Delhi Airport, has commenced. Work at Hyatt Regency, Airoli will commence in next quarter after receipt of the revised construction approvals.

Sales velocity has been very promising for our residential project at Raheja Vivarea at Koramangala, Bengaluru. We have sold 38 units since the last earnings call, and Milind will share some more details in a little bit.

On the ESG front, I'm pleased to share that The Westin Hyderabad HITEC City has recently been certified as USGBC LEED Gold.

Ladies and gentlemen, with a strong pipeline for expansion, healthy operating performances and a team that continues to excel, I remain excited about the foreseeable future of our company.

I'm now going to request our CFO, Milind Wadekar, to take you through some of the finer aspects of the financial results. Milind.

Milind Wadekar: Thank you, Sanjay. Good morning, ladies and gentlemen.

We have been consistently delivering strong performances and are well poised and confident in continuing the same going forward. The last quarter has been one of the best quarter for Chalet both for Revenue and EBITDA. RevPAR had a double-digit growth of 18% to reach Rs.7,838. We also continue to work on our core competencies of optimizing efficiency in our existing portfolio. Our testament to the same is four of our existing big box business hotels, that is JW Marriott and The Westin Powai in Mumbai, The Westin Mindspace at Hyderabad and Marriott at Bengaluru, have reported their highest ever quarterly revenue in Q3 FY'24. These hotels are expected to reach new peaks as we move forward.

Total revenue in hospitality segment grew by 29% to Rs.3.4 billion for the quarter-ended December '23, led by strong occupancies, improving ADR and aided by strong F&B trends.

Reported hospitality EBITDA for the quarter was at Rs 1.6 billion, with EBITDA growth of 46% year-on-year basis. The margins for the quarter were at 46.3% which is an expansion of 500 basis points over the last year through continued focus on variable cost and on the back of robust revenue growth. Our other hotels, including recent additions are on growth trajectory and are expected to contribute significantly to Company's growth.

Consolidated revenue for the quarter was at Rs 3.8 billion, a growth of 18% year-on-year basis. Consolidated EBITDA was at Rs 1.7 billion for Q3 FY'24 with a growth of 44% and a margin of 45%, and expansion of five percentage points over last year's like-to-like performance.

PAT for the quarter was at Rs 0.7 billion as against Rs 1 billion in the corresponding quarter which had one-time exceptional non-cash adjustment to the tune of Rs 0.86 million. Adjusted for this, the PAT grew 3X. The net debt of the company declined by Rs 314 million from March '23. The company spent around Rs 300 crore in CAPEX, which was largely met out of internal accruals. Reiterating confidence in our debt, India Ratings and Research upgraded our credit rating to (A-) with positive outlook. This is the second instance of debt upgrade in this financial year. Out of the net debt of Rs 24 billion, around half is allocable to capital work-in progress and assets yet to be operationalized, leaving the company at healthy leverage and return ratios on invested capital. The cost of finance as on 31st December '23 was at 8.74%. The company has CAPEX plan of around Rs 8 billion for the next 15 months for the projects which are already announced and this CAPEX will be largely funded through internal accruals. The details of the projects are included in our “Investor Presentation.” The company has available lines of credit and undrawn overdraft limits of Rs.6.3 billion.

Lastly, a quick update on our residential project at Bengaluru. We had received occupancy certificate for four residential buildings in Q2 and expect OC for five more buildings in the next few days. Construction for two new residential building is in full swing. The project had unsold inventory of 238 flats admeasuring 5.7 lakh square feet adjusting for 83 flats sold earlier. Sales commenced from September 2023 and we sold 42 flats till December 2023 with a total area of 1.1 lakh square feet which is around 19% of unsold inventory.

We see a strong demand for residential flats in Koramangala and expect to close entire sales much earlier than our original estimates. Faster sales will accelerate our cash flows from this project, which is expected to fund significant CAPEX for next financial year. The company has collected Rs.76 crores from this project as on date. The commercial tower of 1.5 lakh square feet will be sold post receipt of OC in FY'26.

With this, let me open the floor for questions and answers.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Archana Gude from IDBI Capital. Please go ahead.

Archana Gude: Sir, I have three questions. Firstly, since you spoke about Mumbai market, can you also give some insights on the other markets? How the 16% growth in ADR was driven, was there any particular market behind it or more of broad-based growth in the ADR?

Sanjay Sethi: Look, we don't give individual city ARRs because then it becomes sensitive information within the comp set that we have. So, we're sort of clubbing the ADRs for Mumbai together and the rest of the cities. We've had largely 4% growth in MMR on the average room rates and all of it almost driven by the JW Sahar. And then on the Powai hotel, where we focus on occupancies, given that's a 777 key property, we focused on occupancies, we've been able to drive up occupancies quite sharply over there, resulting RevPAR growing at 21% in the Mumbai market. Hyderabad, Bengaluru, Pune have all done their bit but we are not in a position to give you a breakup of each city because they're just one hotel in each of these cities.

Archana Gude: Secondly, on this corporate contract renewal for calendar year '24, so how has been the growth in the rates on YoY basis and overall demand for the number of rooms?

Sanjay Sethi: So, from our perspective, we've said that we'll target double-digit rate growth from corporate contracts and thus far the RFP process, the contracts have been negotiated is in the range of 12% to 20%.

Archana Gude: Any guidance on the demand front?

Sanjay Sethi: Demand continues to be stronger. The corporate travel is really doing well, especially the domestic corporate travel in India, of course, aided by a lot of MNCs in India, and then the MICE segment is just doing brilliantly well, and combined together, we're in a position to continue to grow the rates and at the same time optimize occupancies. I think there's a lot of headroom for growth in occupancies also in most of our hotels.

Archana Gude: Milind, how we should look at this debt repayment for Q4 of this year and FY'25 and '26?

Milind Wadekar: Annual repayment ranges between Rs 350 to 400 crores. I mean if there is bullet repayment for any of the loan we normally get it refinanced. Excluding that the average is around Rs 350 to 400 crores.

Archana Gude: For '25 and '26 together, right, like each year?

Milind Wadekar: Yes, should be in the range of Rs 350 crores.

Moderator: The next question is from the line of Karan Khanna from Ambit Capital. Please go ahead.

Karan Khanna: My first question is just continuing on the previous participant's question as well. If we look at your Mumbai portfolio, so a couple of other listed real estate companies have reported performance for their hotels also in Mumbai and we've seen double digit ARR growth for their portfolio. But in your case, Mumbai seeing 4% growth and we've seen corresponding supply addition in Vikhroli and at the airport area. So, going forward, how should we think about your earlier guidance on double-digit ARR growth continuing for next couple of years in light of both supply getting added in these micro markets?

Sanjay Sethi: Karan, thank you for your question. #1, the double-digit indication that I had given was Pan-India growth rate, but I see no reason why Chalet shouldn't grow at similar rates. There will be aberrations in markets and cities. As I mentioned earlier, Powai was on a base of very low occupancy last year and our attempt has been at stabilizing occupancy at Powai. So, if we were to sort of exclude Powai, the growth within Mumbai market is in the range that we were talking about. And more importantly, as you will see the 16% growth in the average room rates in the other cities which is a combination of Hyderabad, Bangalore and the Novotel in Pune tell the story to you. And this is despite Novotel adding 88 rooms in its portfolio in this quarter. So whatever area growth that's come out of it is on enhanced inventory, which typically when you open new inventory out, you try to grab market share by lower rates, which hasn't happened in our case.

Karan Khanna: Second question is, have you narrowed down on any micro market where you could possibly look to add more leisure or commercial supply by organic route?

Sanjay Sethi: Several conversations are on. As I said, last time we were busy…business development team that's looking at opportunities, Chalet's theme for some years has been inventory addition and growth, inorganic growth will continue to go down that path, whether it's in form of Greenfield acquisitions of land parcels or opportunities to acquire ready hotels, but you must also keep in mind we have a fairly large pipeline that is under development now. And if you add all of them together, my vision of hitting 5,000 rooms in the next few years is going to pan out fairly easily.

Karan Khanna: Sanjay, like you've received a board approval for possibly raising funds up to Rs 20 billion. While it is early stages at this point, but assuming you get the shareholder approval and go ahead with this, how should one think about deploying this towards paring down debt as well as organic and inorganic growth?

Sanjay Sethi: Karan, as you said yourself, early stage, there are certain steps to get to actually starting the capital raise process. All in good time. As we've stated in our press release, the intent is to of course pay down some debt, and more importantly, look at opportunities that come our way in the next couple of years.

Karan Khanna: Milind, if you could reiterate the leasing timelines for your commercial assets and what kind of revenues are you expecting over the next two to three years?

Milind Wadekar: We have three commercial buildings which are almost ready. In Bangalore, tenant has moved in. So Bangalore, we expect entire building of 6.5 lakh square feet will be leased out by this end of financial year. The mall converted to commercial office may take three more months. And leasing for Powai building has started. We expect around 4,50,000 to 5,00,000 to be signed by this year end and balance in the next financial year. In Q4 of next financial year, I mean, everything will be leased out and we start earning rentals from the same.

Moderator: We take the next question from the line of Vikas Ahuja from Antique Stockbroking. Please go ahead.

Vikas Ahuja: My first question is again on the ADR growth we have seen this time. If I look at the first half, we did almost 29% growth in ADR and now I understand the base is also catching up and on apples-to-apples, we grew like 11% ADR. Just want to understand because in the opening remarks you also talked about 12% to 20% increase in corporate hike, and with this overall momentum, which is going, is it reasonable to assume this kind of a growth looking at maybe 12 months from here somewhere at the start of double digits?

Sanjay Sethi: Vikas, thank you for the question again. Look, the segment that we spoke about, which is 12% to 20% RFP segment that we're looking at, is only part of the business. There are several other segments that come into play. For example, the contract or the airline crew segment, which typically comes at a lower rate… though the rates have grown and they've grown by somewhere between 65% and 80% from where they were pre-pandemic actually. And in larger hotels we'd like to get a base occupancy of these contracts which support the overall RevPAR for the portfolio. And then we've got big city hotels that need to be supported by MICE. We've got convention centers and banquet halls, and then we have valley periods every week during the weekend and the holiday seasons, whether it's Diwali, Christmas, Easter, all of them come into play. And when you blend all that together and you look at the segments that we use as a mix to optimize the RevPAR for the hotel, you may not see on the base that was there already last year in Q3, Q4 rate increases what you've seen in the previous quarters, but all of these blended together, we're still targeting to get to RevPAR which are very interesting; we reported 18% growth on RevPAR with additional room inventory this year. 88 rooms over here in Novotel, 168 new hotel in Hyderabad, and we had the Dukes Retreat that got added to the inventory. So, despite all of those additions and 18% RevPAR growth is a healthy growth coming on a base of Q3 last year which was a very good quarter.

Vikas Ahuja: Last question. If Mumbai ADR was around 4%, right? So if I understood it correctly this is one because there was a Novotel room addition, and secondly, the Powai Westin mix was higher because occupancy there was higher. So, if I look at Sahar and Powai Westin on standalone basis, the ADR was still in double digits? Finally, is there any one-off in the margins or it was all are -?

Sanjay Sethi: So one correction there, Novotel is actually in Pune, it's not in the Mumbai metropolitan region. And as I've explained earlier, it is the Powai Hotel which is the Westin and Marriott Executive Apartments, which has an inventory of 777 rooms where occupancy was very low last year, it was in the 50s. We were tempted that going the occupancy route in that hotel in the last quarter to get it to normalize occupancies, and therefore the focus was on filling up the hotel. In terms of margins, I think all hotels have done extremely well and contributed very well to the portfolios. JW Sahar I think the Rock Star Hotel is within that. But overall all hotels have contributed positively.

Vikas Ahuja: So, there was no one-off in margins?

Sanjay Sethi: Yes.

Moderator: The next question is from the line of Jinesh Joshi from Prabhudas Lilladher. Please go ahead.

Jinesh Joshi: Sir, I have a question on our foreign guest mix. So if I look at the nine months number that we have reported, I think we are at 34% and this is despite the fact that we had T20 World Cup, etc., So what exactly is the issue because if I compare this number with the earlier year, we were at 35% and I think during the COVID was at about 50%-plus. So, any specific reason why we are still short of the earlier years despite these events? And one follow up again is in the opening comments, Milind sir mentioned that we have had two upgrades in our debt rating. But, if I look at our interest rate from the last financial year to this year, I think it has come down only from 8.75% to 8.74%. So also if you can highlight the reason behind that?

Sanjay Sethi: Milind will come in immediately after I give you my answer on the mix of nationality. Look, in my opening statement, I did mention that the foreign business travel globally hasn't come up to pre-pandemic levels yet. And one way to look at it is this is potentially the upside going forward, right, as that stabilizes. You've got to remember that there are two conflicts going on globally, which hinder flight paths for long-haul flights, the Ukraine-Russia situation has created a long-haul flight path into India from East and West Coast of the US, and then the Middle East situation is not helping that. We did expect at some point in time this will be sorted out and there would be stabilization of foreign segment within our hotels. It has grown. As a percentage it may not show it's grown too much, but in absolute numbers it has grown by I think about 7,000-odd room nights on a base of 62,000 room nights last year. So it is a 10%, 11% growth still. The other thing is the domestic demand in India just so strong, it seems to be coming at a price point, there's really no reason to prefer one over the other. We'll take business from wherever it comes at the price points that work for us.

Milind Wadekar: On this interest rates, one of our lending banks has increased PLR for the last few months and we expect that to stabilize as we move forward. And what is going to happen in the next two or three quarters is, we may get further upgrade from rating agencies, and part of our loans will get converted into LRD so which will bring down our cost. So this is a temporary phenomenon which we expect to get stabilized in next quarter or so.

Jinesh Joshi: So, if I look at our leased area, I think that has increased from about 0.5 million square feet in FY'23 to about 0.8 million square feet as of the last quarter. But, if I look at our quarterly revenue run rate over the last three to four quarters, it has more or less remained stable in the band of about Rs 20 to 30 crores despite increase in the lease area. So, if you can just explain the reason behind that? And also in your opening remarks, you mentioned that for Powai where the leasing has already begun, we have signed one tenant and closure for two more floors is expected very soon. So, explicitly for Powai in the next quarter, how much additional area are we planning to lease out?

Sanjay Sethi: If you look at quarter-on-quarter movements in our lease income, which was in the range of Rs 20 crores in the first three quarters of last financial year, it is averaging to Rs 26 crores and last Q2 it was 29 crores So, what we do, I mean, whenever we sign lease agreements and tenants move in for fit outs, we straight line the revenue and start recognizing in books. This is a requirement as per accounting standards. To answer your question on Powai, last quarter of the next financial year, the revenue will start kicking in the books. So, we expect from Q3, there will be some revenue and we will start accounting it from Q1 and it will peak in the Q4.

Jinesh Joshi: Actually, I was looking out for the exact amount of area because I think in the presentation we have mentioned that out of 0.9 million square feet, we have leased out 0.04 and Sanjay sir mentioned that first floor I mean for tenant more floors are closed out. So, I was trying to get a sense that this 30 crores run rate which we saw in Q2, can we see a big jump in 4Q? So, that was the thought behind asking the question around the lease area especially for 4Q?

Sanjay Sethi: So you will see major jump in Q1 FY'25. There was an increase in last quarter but major jump will see in Q1 FY'25 and it will go up every quarter after that, there will be significant increase on quarter-on-quarter basis.

Management: Basically we don't give forward-looking numbers and that's the reason Milind hesitated to give you the exact numbers, but as we said, we expect sharp pickup in Q1 whilst there'll be some pickup in this quarter also.

Moderator: The next question is from Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: This quarter we have seen a 27% growth in F&B, so might be at a region of Powai hotel we have opened the room. So, can you talk about any other reason for the higher growth of 27% in this quarter?

Sanjay Sethi: Typically Q3, which is the October-to-December period is a high demand period for weddings and MICE events. So, this is a play out of that. Personally, I felt we underperformed in Q3 of the previous year, and now this is sort of normalization of the numbers that we see. We are seeing a tremendous demand on large banquet events, weddings, social events in the last year, year and a half or so. The supply side besides the JIO Center that opened out or the convention center that opened out, there's not much that's come up, and likely to come also. After the JIO World Center, there are just two or three hotels which have the banquet halls that are there in our portfolio. So, the natural flow then is to us that along with the very good quality hotels given that we now renovated the Powai Hotel and rebranded it to Westin, the response has been very, very positive, the banquet halls come out very well, we've got large pre-functions over there, we've got multiple rooms to work with. All of that is large MICE and wedding business and of course the room inventory is high. So that allows large conferences to come and gives us the revenue. But it's largely demand on weddings and MICE.

Sumant Kumar: And when we talk about 12% to 15% corporate rate hike, so can we see a double-digit growth in mid-term or maybe the next year for retail segment?

Sanjay Sethi: I have always stayed away from speculative numbers on this. The retail segment will play the revenue management route depending on how the demand is looking like 30 days out, 60 days out, 90 days out. They will decide the retail rates at the hotel levels, but clearly, the supply side being weak on the inventory. Every hotel will take advantage of the current situation.

Moderator: The next question is from the line of Hrishikesh Bhagat from Kotak Mutual Fund. Please go ahead.

Hrishikesh Bhagat: Just if you can break up the debt number between what is backed by commercial and what is on the hotel side, that would be helpful?

Milind Wadekar: Hrishikesh, our net debt position as on December is Rs.2,400 crores. As on date, I mean not more than 500 crores we have taken by LRD route, but 50% of debt which is around 1,200 crores is used for assets which are under construction or not yet operationalized.

Hrishikesh Bhagat: So, the backdrop of this question is largely the fund raise proposal that you have put. Now, when I look at it based on our past commentary, clearly, we used to say that the LRD route will bring some cost of debt lower and incrementally clearly, the potential if I look at it once the Taj at Delhi starts and coupled with this probably the real estate portfolio maturities, the surplus that we could accrue whenever it happens. I'm just saying that incrementally and in your comment also you said that internal accrual should take care of our growth CAPEX from here on. So, just thought that how should we look at this then fund raise proposal of somewhere around Rs 2,000 crores, is it that probably we are looking at fairly larger CAPEX beyond 27 or 28, that's how we should look at it because I believe the cash flow will be reasonably better at least based on the current growth plans?

Sanjay Sethi: Hrishikesh, the idea is not necessarily to activate and sit on new capital without it being productive. We would like to keep the gunpowder dry for inorganic growth opportunities. And that's one of the reasons for this fund raise. And remember, it is an accrual up to Rs 2,000 crores. Clearly, we're prudent about how much we finally end up raising and how the deployment will be. We don't think it is productive use of capital to come to a zero-debt situation, especially not equity returns, and therefore we will only use capital or take advantage of the capital that we can potentially draw down provided there are good growth opportunities available in the market. I am not talking about just standalone hotels. We could also be looking at that from these at some point of time.

Hrishikesh Bhagat: Just one feedback. I still believe that simply considering the comfortable cash flow situation will be likely post '26, I still believe replacing the cheaper cost of debt with higher cost of equities is not something a good financial decision.

Sanjay Sethi: I completely agree with you and all of us in the table over here and across this Polycom are aligned with that.

Moderator: The next question is from Prashant Biyani from Elara Securities. Please go ahead.

Prashant Biyani: What would be the airline crew segment mix for this year, how much was it last year, and how much it could be for next year?

Sanjay Sethi: So I'm giving you a contract segment. There may be some non-crew, very small amount that could be in that. Our contract room nights in Q3 FY'23 was 10,600-odd room nights. It is now 15,500-odd room nights. And whilst there may be small deviation on that on other contracts, majority of this is going to be airline crew. So, overall, 5,000 room night growth on a base of roughly 10,000, so that's a 50% growth in room nights from airlines.

Prashant Biyani: And for next year sir, how much would we be looking at?

Sanjay Sethi: I think we've more or less optimized the rooms that we have let out to crew now. Now, we don't want to continuously add to that part. Large part of all growth will now come out from other segments.

Prashant Biyani: And secondly, sir, what would be your plans for increasing presence in leisure tourism, especially religious circuits that have been developed and are also developing, if you can throw some light on that?

Sanjay Sethi: So Prashant, we look at all opportunities with the lens of returns on investment and we do not want to dilute the returns that we're able to deliver right now. So, any opportunity that comes on beach resorts, hill resorts or leisure resorts needs to be able to match up to the expected returns what we're delivering right now for us to look at it seriously. There is some amount of aggressiveness in the recent weeks in terms of announcing assets or growth in Ayodhya. We got to remember, religious tourism is not necessarily the highest paying tourism and actually revenues have their own restrictions, I'm talking about F&B here and leisure activities, etc., So, we'd like to really study opportunities in any of these destinations very carefully before we step into them. We've been doing well with what our strategy has been thus far, and we are not going likely to tweak it unless it's very compelling opportunities on the other side.

Prashant Biyani: So beyond religious tourism, I mean, in the larger leisure tourism market, you would have interest in Goa and Jaipur market which are almost 365 days is the market now.

Sanjay Sethi: I agree with you. In fact, it's our strategy to look at leisure, for example, Goa and Jaipur and we've already spoken about in the last few calls. We've also continuously spoken about drivable distance destinations from Mumbai and Delhi. In fact, the acquisition of Dukes was in line with that. We continue to pursue opportunities in Goa and Jaipur, drivable distance from Delhi. All of this is various conversations at our BD desk in terms of growth, but as I said, they'll all need to meet our return criteria before we start spending money on them.

Prashant Biyani: The hindrance right now is meeting the return criteria or appropriate availability of assets?

Sanjay Sethi: I think it's a mix of both. I think Goa has been an elusive market for a while now on count of two things. Number one, it is an expensive market to enter, barriers to entry are high, and then there is also the barrier of getting clean titles sort of situations with the land parcel that we looked at. We are by naturally cautious on all that stuff. And therefore it's taken us a little longer time, but we will get there very soon.

Moderator: The next question is from Meet Jain from Motilal Oswal. Please go ahead.

Meet Jain: Like in our presentation we have mentioned the Westin Powai rooms to be 604. Are there addition of four rooms in that?

Sanjay Sethi: Yes, Meet. When we were renovating and we reduced the suite count a little bit and therefore four new rooms have been added to the inventory there.

Meet Jain: So, this has been done in this quarter?

Sanjay Sethi: Yes, they're operational now.

Meet Jain: Just a clarification on the Dukes. How many total rooms are we going to operate there, like currently we're running 80 rooms, so it will be 150 rooms target we are -?

Sanjay Sethi: It's an 80-room property when we acquired it. More than half the inventories is out of action as we speak for the last three or four months for renovation and expansion. We'll end up somewhere between 140 and 150 rooms at the end of after we've completed the renovation expansion by Q3 of the next financial year.

Meet Jain: This Bangalore Marriott, Whitefield expansion of 128 rooms, so the expansion is in progress, and are we going to add in the existing room of 391 or it's a separate hotel?

Sanjay Sethi: No, it will be added to the existing inventory. The fixed costs are already covered. These 130-odd rooms are going to come with higher margins.

Moderator: The next question is from Nihal Mahesh Jham from Nuvama. Please go ahead.

Nihal M. Jham: Sir, two questions from my side. You did mention the share of airline crew which I think was around 6% for this quarter based on the room nights. Just on the contracted corporate rates, what would be the approximate share and how that has moved versus pre-COVID, if possible to give that ballpark sense?

Sanjay Sethi: Nihal, the contracted percentage of total room nights is actually 9% of total room nights that we sold in Q3. Transient, which is a mix of RFP or GDS and locally negotiated trade contracts and retail is 73% at this point of time. I don't have handy the breakup of the 73% yet, but I can share with you another data point, that 11% of our room nights came out of eChannel, that is the OTAs, 24% came out of global distribution system or GDS as it's popularly known, 13% came out of Marriott.com, which is a brand website, and 53% came out of the channel of property, voice and others, which is basically closed at the property levels. So, this is a rough breakup on the channels. Nationality is 61% Indian, 39% foreigners. And I've already shared the segment break up which is Transient, 73%, groups 18%, and contracts 9%.

Nihal M. Jham: So the rates that are already pre-decided and negotiated, that is 9% plus 6% which is 15% for this quarter, that is right as an understanding?

Sanjay Sethi: No, no. So the rates that are decided will be in the Transient as a sub-segment of the Transient which is 73% right now.

Nihal M. Jham: No, I was coming from the fact that I was counting corporate negotiated and the airline crew as -.

Sanjay Sethi: No. Airline crew is 9%, you're right, but the corporate negotiated rates fall within the subset of 73% of Transient segment.

Nihal M. Jham: Is it possible to give a sense of what that number is like if you have it handy?

Sanjay Sethi: I don't have it handy. Ruchi or someone will be happy to share those numbers with you at some point of time.

Nihal M. Jham: I'll take that separately. Just one more clarification was that when you were giving a sense of the ADR of 4% for Mumbai. For the JW Marriott Sahar, did you mention that the area increase was in sync with the other cities or the 4% increase was attributed to JW?

Sanjay Sethi: No, actually the Westin Powai was more or less flattish. So, all the growth came out of JW Sahar.

Nihal M. Jham: So the 4% is more or less the reflection of the JW Sahar?

Sanjay Sethi: Yes, and four points, but four points is also small, it's a small inventory, so it doesn't impact the blended average too much.

Moderator: The next question is from Dhruv Agarwal from Niveshaay Investment Advisors. Please go ahead.

Dhruv Agarwal: Sir, Wanted to ask, RevPAR like till '27, what kind of growth we can expect sir?

Sanjay Sethi: Dhruv, we really don't give forward-looking numbers. The RevPAR growth for the quarter was 18% and this is despite additional room inventory in the portfolio.

Dhruv Agarwal: Can you give some guidance if possible, sir?

Sanjay Sethi: We don't give forward-looking guidance unfortunately.

Dhruv Agarwal: In '2022-23, the ROCE was around 9%. So what ROCE we can expect in like '24-25, sir?

Milind Wadekar: Our ROCE for hospitality as well as commercial is around 14%, 15%.

Dhruv Agarwal: One can expect 14%, 15% routine like in the coming year, right?

Sanjay Sethi: Dhruv, all projects going forward, we try to hit ROCEs which in the third year of routine 12% to 15% but historical assets the ROCEs are clearly higher and they're in the high teens. So, that's the reference number that you can work with. Commercial is low-20%.

Dhruv Agarwal: And like for hotels, it will be -?

Sanjay Sethi: High teens for historical assets.

Dhruv Agarwal: On the Supreme Court case on this Hyatt Residency at Airoli, Mumbai, can you throw some light on that, like, what we can expect in the coming years, like, what is your point of view on that?

Sanjay Sethi: Are you referring to the Four Points By Sheraton, Vashi?

Dhruv Agarwal: No Sir. Airoli, Mumbai. Hyatt Residency.

Sanjay Sethi: We don't have Hyatt Residency number.

Dhruv Agarwal: Like we are planning to have 280 rooms in 2027, right, sir?

Milind Wadekar: There is no litigation on that land. You are talking about Airoli, right?

Dhruv Agarwal: Yes Sir. Airoli. Right.

Milind Wadekar: There is no litigation on that land.

Sanjay Sethi: That's a site that we'll start work on shortly. There's no litigation or legal issues with that.

Moderator: The next question is from Rajeev V, who's an individual investor. Please go ahead.

Rajeev V: Sir, on your slide #7, the other segment which is occupancy, can you give a like-to-like occupancy for the quarter against the 64% number which you have reported?

Sanjay Sethi: So you're referring to the occupancy of the portfolio, is it?

Rajeev V: Yes, in Q3 FY'24 others piece which is 64%.

Sanjay Sethi: In Q3, two material things happened in the other areas. One, in Pune, we added 88 rooms sometime in October which will obviously have a natural time period for filling up the additional inventory. They were added, I think, in the first or second week of October, if I recall correctly. And then we had Dukes Retreat, which we shut down more than half the inventory for renovation. So, Dukes Retreat, which was originally 80 rooms, is currently operating at 38 operational rooms. And then we had The Westin HITEC City Hotel also that got added. So, these are the reasons why the occupancy may look a little lower on the other side. But, if you were looking at Hyderabad and Bangalore, satisfactory occupancies.

Rajeev V: Just to clarify, this revenue mix with the pie chart which you share below, that includes the F&B part, right, or this is only for room revenue?

Sanjay Sethi: This is a total revenue.

Rajeev V: This F&B bit which has increased by 27% on a YoY basis, is this driven by any specific market or this is across the board?

Sanjay Sethi: Mumbai has contributed to the maximum because of the high MICE and wedding business that comes out of here and the segment that's contributed is MICE and weddings.

Rajeev V: If I reverse work from this pie chart, assuming that F&B ratio on a YoY basis across and the other segment has remained same, looks like your entire growth on the 18% number or if you adjusted for like-for-like maybe 22% kind of a number was largely driven by occupancy in Bangalore which was 50% in the base quarter and now let's say there is another room for 15% more growth there. But beyond that then ARR going beyond 10,000, that market has been little resistant. Any thoughts from that let's say -?

Sanjay Sethi: Not really. Whilst I'm not able to share the numbers, I think we have broken the 10,000 barrier quite comfortably in Hyderabad and Bangalore.

Rajeev V: Hyderabad's current growth is driven by ARRs as well, in a sense, there is an ARR growth in Hyderabad, can we safely say that?

Sanjay Sethi: Absolutely, significant growth. When you look at the other segment, you got to remember, Bangalore and Hyderabad occupy most of the other segments, right, and the ADR growth you see in the other cities is 16%.

Rajeev V: The point is if you use this pie chart and use it the RevPAR looks like to be a 17% growth, and if we give the entire this RevPAR to occupancy alone, then occupancy touches close to 78% for Hyderabad also which is slightly high, but then –

Sanjay Sethi: You're assuming that Hyderabad rates are not growing the way they should, right? What stops us from growing Hyderabad a little more aggressively, on the rate front.

Moderator: The next question is from Pranay Shah from Anand Rathi. Please go ahead.

Pranay Shah: So, my first question to the management is, so in the absence of meaningful recovery in the FTA as compared to pre-COVID levels, how confident are you to say a double-digit growth in the room rate for the next couple of years? And what according to you will trigger the faster recovery in FTA growth which would also think of contributing the room rate growth in addition to double-digit which you have been talking of?

Sanjay Sethi: Let me answer what will trigger the FTA growth. I think what will trigger FTA growth is some amount of normalcy on the conflict in Ukraine-Russia, and therefore the airlines internationally especially American airlines starting direct flights to India. Right now, besides Air India, we don't have direct connectivity of Mumbai, Bangalore or Hyderabad from east and west coast of the US. And we must remember that two-third of the FTA arrivals in our portfolio at least used to come from US. So, therefore, that market is critical to us. Having said that, we are not so concerned because the domestic demand has been so strong, buoyant, both on room nights demand as well as on the rate front that we've really not missed it too much. When that comes, it's going to be the cream on the cake.

Pranay Shah: My second question was on the Novotel Pune front. With the addition of 82 rooms, what sort of ARRs are we looking at inventory because I believe there are more premium rooms and what occupancy is likely to be once you ramp up?

Sanjay Sethi: So, they are very cool looking rooms and the room size is the same as the other previous ones, but they're brand new, so clearly there's a sheen to them and we're trying to sort of charge a premium for that. We've seen roughly, I think, double digit rate growth there, is quite the norm. Pune Market has unfortunately not been a very strong rate-driven market and tends to typically pull down our blended ARR of the portfolio, but we've seen growth and the 88 rooms that have been opened, they have been received very well, they're really nice rooms. If you go down to Pune, take a look at these rooms.

Moderator: The next question is from Saurabh Jain from HDFC Life Insurance Company Limited. Please go ahead.

Saurabh Jain: So, two questions from my side. First is on the real estate project in Bangalore. So, can you give numbers that how much sale has been done till date in terms of amount terms and what CAPEX has been done till date in this project?

Sanjay Sethi: Sorry, could you repeat that please? I think we missed the early part of it. Which project are you referring to?

Saurabh Jain: So I'm talking about the real estate project in Bangalore.

Sanjay Sethi: The residential one or the office one?

Saurabh Jain: On the Residential Vivarea, so, I wanted to know that what is the sales done till date and what is the CAPEX spent in this for that project?

Milind Wadekar: We've spent around Rs.430 crores on that project till date. This is including the old pre-litigation cost incurred on that project. And sale as on date is in the range of Rs.200 crores. We have collected Rs.76 crores out of that.

Saurabh Jain: And what is the expected total sales from this project once the 1 million square foot is sold?

Milind Wadekar: So all put together, including commercial should be north of Rs 1,250 crores.

Saurabh Jain: Just a clarification on the CAPEX of 430 crores that has been consumed, how much is the promoter money in this through the preferential shares and the -?

Milind Wadekar: We spent around Rs.65 crores on this project in the current year.

Saurabh Jain: I'm asking, did you said Rs 430 crores including the litigation cost and all?

Milind Wadekar: So, promoters have funded as on date around Rs.290 crores. But this funding was used to pay for cancellations and all, I mean, few flats were cancelled in the last 4-5 years.

Saurabh Jain: My second question is on the F&B expense -

Sanjay Sethi: Roughly around 8.5 lakh square feet to 1 million square foot is the project. 8.5 lakh is residential and one point this thing is… and out of that how much was sold, Milind, before that?

Milind Wadekar: So we had sold around 2.8 lakhs.

Sanjay Sethi: We have 700,000 to sell.

Milind Wadekar: So 5.7 on resi side and 1.5 on commercial.

Sanjay Sethi: And the going rate just as this thing in the market there is north of Rs 16,500, 17,000. This project is a premium project and we expect to get premium rates for the project, and so far it is trending and tracking in that line.

Saurabh Jain: So this 1,250 total can be that is upside this to that also?

Sanjay Sethi: Yes, that's right. I mean we have got to minus the old sales of course.

Saurabh Jain: My second question is on the F&B expenses. If you see as a percentage of F&B income, that is significantly down this quarter at about 25. Generally, we saw the trend in the range of about 29, 30 in weak quarters and then about 27, 28 in the strong quarters. So, just wanted to understand this reduction in the F&B expense as a percentage in mid-term?

Sanjay Sethi: Two, three things actually. One is coming off a higher revenue base, so therefore the percentage does improve with scale. Second, we've had, as I mentioned earlier, a lot of growth on the banquet side, and banquets typically comes with higher margins. And thirdly, in general, the average check per person has improved.

Saurabh Jain: So this trend given Q4 is also a strong quarter, we can expect similar kind of margins in F&B business?

Sanjay Sethi: Again, I don't want to give any guidance, but yes, I mean, there's no reason why we shouldn't be seeing a similar margin.

Moderator: We'll take that as the last question. Any pending questions can be sent to the management directly. I would now like to hand the conference back to Mr. Sanjay Sethi for closing comments.

Sanjay Sethi: Thank you very much, ladies and gentlemen for your time. You know, as I said earlier, we are extremely pleased with the trend that Chalet Hotels portfolio is showing.

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