CHALET HOTELS

May 15, 2023

National Stock Exchange of India Limited	BSE Limited
Exchange Plaza	Corporate Relationship Department
Bandra Kurla Complex,	Phiroze Jeejeebhoy Towers,
Bandra (East),	Dalal Street, Fort,
Mumbai 400 051.	Mumbai 400 001.
Scrip Code: CHALET	**Scrip Code: 542399**

Dear Sir / Madam,

Subject: Transcript of the Earnings Call in respect of the Audited Financial Results for the quarter and year ended March 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 May 9, 2023, in respect of the Audited Financial Results for the quarter and year ended March 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: 2023.05.15 20:59:46 +05'30'

Christabelle Baptista
Company Secretary and Compliance Officer

Encl.: As above

Chalet Hotels Limited
Regd. Off. : Raheja Tower, Plot No.C-30, Block 'G', Next to Bank of Baroda, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051.
Phone : +91-22-2656 4000 Fax : +91-22-2656 5451 Website : www.chalethotels.com
CIN : L55101MH1986PLC038538

"Chalet Hotels Limited

Q4 FY2023 Earnings Conference Call"

May 09, 2023

MANAGEMENT: MR. SANJAY SETHI – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER
MR. MILIND WADEKAR – CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, good day and welcome to the Fourth Quarter and Year Ended FY '23 Earnings Conference Call of Chalet Hotels Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing 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, MD and CEO, Chalet Hotels Limited. Thank you and over to you, sir.

Sanjay Sethi: Thank you so much, ma'am. Good afternoon, good evening, ladies and gentlemen and welcome to the earnings call of Chalet Hotels Limited for the quarter -- or for the last quarter of the financial year 2023. It has been an exceptionally good year. We ended the financial year on a strong note with historical highs in our financial performance. Our earnings call presentation has been uploaded on our website for your reference, do take sometime to look at the details there.

Very quickly to summarize the year that's gone by -to begin with, we signed our first asset in North India with the proposed new hotel at the Delhi Airport. We marked our debut in leisure with the acquisition of The Dukes Retreat, at Lonavala. We made strong inroads towards our sustainability goals and very importantly, cracked the INR5 billion EBITDA ceiling for the year. We've also made substantial progress towards unlocking value from our new projects in hospitality, residential and office real estate at Hyderabad, Bengaluru and Mumbai.

The acquisition of the iconic resort property in Lonavala region, The Dukes Retreat, marks our foray into leisure segment. The Dukes Retreat has built a very deep connection with its guests over the last 40 years and with its breathtaking views serving as the backdrop, our vision for the retreat involves repositioning it through renovations and expansions, transforming it into a luxurious wellness destination that embodies a strong commitment to sustainability. We will be expanding the room inventory by approximately 50 rooms over there.

At a macro level, the hospitality industry in general in U.S., select Europe and in Asian regions has been moving in a very strong and positive direction with some regions touching record average room rates. The same momentum has also been seen in the Indian industry with average room rates touching decadal highs with occupancies also at very healthy levels.

Air traffic in the country has touched a new peak in March 2023 fueled by double-digit growth in domestic travel and recovery of international traffic. International passenger traffic recovery was around 90% to the pre-COVID levels in the month of March. Despite new supply, office space occupancy in the top 6 cities remains strong at around 84%, as reported by Colliers during the quarter ended March 2023.

For Chalet, the robust pickup in demand seen in Q3 of FY23 continued in Q4 of FY23, largely led by corporate travel, MICE, weddings and other social events. Q4 recorded new highs in average room rates at INR11,304, which is up by 11% over the previous quarter. Portfolio average room rates crossed INR12,000 levels in the month of February. Occupancy improved 9% points QoQ to 74%, leading to the highest ever quarterly RevPAR of INR8,363. Hospitality segment revenue grew by 17% sequentially to INR3.1 billion. Room revenue grew by 23% over the previous quarter, while costs remain well under control, resulting in high flow-through during the quarter. The portfolio F&B revenue was about INR1 billion, which is again higher by 6% over the previous quarter.

EBITDA of Hospitality division was INR1.5 billion with the highest ever EBITDA margin of 48%. Consolidated revenue for the quarter was at INR3.5 billion, with an EBITDA of INR1.6 billion, the EBITDA margin was 46%. This is the highest revenue and EBITDA for the company in a single quarter till date. For the full year, average room rates were again at a decadal high of INR9,169, with an occupancy of 72%. Hospitality revenue and EBITDA were at a lifetime high of INR10 billion and INR4 billion, respectively, with EBITDA margin at 42%. Ladies and gentlemen, I'm delighted to share that on a consolidated level, EBITDA for the company crossed the INR5 billion mark with an EBITDA margin of 43% for the year.

Now coming and sharing with you a quick update on our project pipeline. In the hospitality side of the pipeline, our additional 88 rooms at Novotel Pune are ready and we are awaiting the final OC of the building to start commercial use. The new Westin Hitec Hyderabad with 168 rooms is in the process of being handed over to the operator this month and will be operational from next month.

At Westin Mumbai Powai, the newly renovated rooms have been handed over to the hotel team in January. And I'm happy to share that the response has been extremely positive over there. In fact, the response at Westin Powai -- Mumbai has been very positive and it sort of confirms our belief in that asset, which is the largest asset in the country and also, it has reaffirmed the position that we took of changing the brand from Renaissance to Westin around 3 years back. The project work at the luxury hotel at Delhi Airport with about 400 rooms is as per schedule, with expected completion in the FY26. The 140-room expansion at Bangalore Marriott is in final design stage and we'll be submitting our plans for approval later this month.

On the commercial office real estate that we have, our commercial tower at Westin complex, Powai is in the final stage of completion. And we should be able to hand it over some time early next quarter to the leasing team for leasing of the space, after the OC is received. However, we already have a reasonably strong pipeline of interest for almost about 300,000 square foot on this asset. At the commercial tower in Bengaluru in the Marriott complex, handover to tenants has commenced.

And for the mall that has been converted to the office building, the handover to tenants is likely to commence late next quarter. For the residential project of Bangalore and I think that's a key element of our project work that we are having and it's going to make a material difference to our P&L for the next few years. The RERA registration has been received, construction work is on schedule and the market rollout is scheduled to commence from July of this year.

We are happy to share that we have significantly improved our score this year on the Dow Jones Sustainability Index to 43 from last year's score of 31, which, by the way, is a 39% improvement and we are well above mean scores of the hospitality industry in the DJSI index. We are also proud to share with you that 75% of our power sourced was sourced through renewable resources for the month of March 2023. And when I say, 75% of our power, I'm talking about full hotel portfolio is included in that and none of it was through any green certificates This is genuine third-party green power that we're using.

Ladies and gentlemen, at present, we have multiple projects in final stages of completion with capital spend of over INR1,200 crores till date. These assets will start contributing to our P&L in the next few months. In particular, the new hotel in Hyderabad, the residential asset in Bangalore and the office assets in Mumbai and Bangalore are likely to make material improvement in our financial numbers. As we enter the new financial year, we remain committed to enhancing our operational efficiencies, execution of ongoing projects and sustaining momentum through both organic and inorganic growth opportunities.

On that positive note, I'll now hand over the baton to Milind who will take you some more financial highlights.

Milind Wadekar: Thank you, Sanjay. Good evening, ladies and gentlemen. As Sanjay mentioned, the company thrived in post pandemic world and crossed INR5 billion EBITDA milestone in the financial year FY23. The EBITDA and EBITDA margins will improve further with the operationalization of all new investments in commercial office building and hotels. These investments of about INR12 billion today are likely to generate a stabilized return of approximately 20% on invested capital. Most of these assets are getting operationalized in FY24.

As Sanjay has covered most of the financial numbers, let me give you key financial highlights. Hospitality segment reported the highest ever EBITDA margin for the quarter at 48%, setting a new industry benchmark. Margins were higher by 7 percentage points from previous quarter, led by resilient ADR and prudent cost management. Hospitality EBITDA for the quarter increased by 36% sequentially.

Hospitality revenue crossed INR10 billion mark for the year FY23. Three of our properties, that is JW Sahar, Westin Hyderabad and Novotel Pune, reported highest ever revenue and EBITDA for the quarter and financial year. Hospitality EBITDA for the year was INR4.3 billion, led by efficiency in 2 major cost heads that is payroll at 12% of revenue and utilities at 5.8% of revenue, creating new industry benchmark. Consolidated revenue for the year was INR12 billion.

PAT of INR1.9 billion for the FY23 is a strong recovery from the cumulative losses of INR2.1 billion in the previous 2 years. EPS was at INR9.06 for FY23. The net worth of the entity is back to prepandemic level at INR15.5 billion. Net debt of the company increased by INR2 billion in the last financial year to INR24 billion as at 31st March '23. The company spent INR6 billion, which includes capital expenditure of INR4.4 billion and acquisition cost of Dukes Retreat of INR1.6 billion. This was largely funded by internal accruals and working capital management.

Out of the total debt of INR24 billion, half is allocable to new investments in office buildings under construction, new hotel projects and hotel expansion. The cost of finance as at March '23 is at 8.75% against 7.5% at the beginning of the year. This is in the backdrop of an overall increase in repo rate of 250 basis points in the same period. The company is expected to convert INR12 billion to LRD in FY24, which will reduce the average cost of finance for the company.

The company has capex plan of around INR6 billion for FY24 for the projects that have been announced till March This includes capex of INR2 .8 billion on commercial projects, including second commercial tower at Powai. The balance, INR3.2 billion, includes spill over capex of new Westin hotel at Hyderabad, hotel expansion at Pune, capex on new hotel in Delhi and expansion of Marriott Hotel in Bengaluru. Business is well funded with internal accruals and available lines of credit. This is the first phase of multiyear high growth cycle for the hospitality industry.

Now let me give you few updates on Koramangala residential project. The promoters are committed to fund project cost. There has been no new subscription from promoters on 0% nonconvertible redeemable preference shares during the quarter under review. The total subscription stands at INR2,000 million and the promoters have given INR450 million as interest-free ICD as at March '23. We have received RERA approval for the modified development plan. Based on the internal market assessment done by our residential team, the selling price per square feet is seen upward of INR16,000 per square feet of saleable area. The cash generated from sale is expected to be cash and EBITDA accretive to Chalet.

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

Moderator: We have our first question from the line of Vikas Ahuja from Antique Stock Broking. Please go ahead.

Vikas Ahuja: Yes. First, my first question is regarding the occupancy of southern markets, Bangalore and Hyderabad. That is -- although we have seen a strong pickup in Mumbai and Pune but those 2 markets still remain under the -- below the average. So how should we look at, going forward into FY24, where do you think this number can go? That's my question #1.

Sanjay Sethi: Vikas, thank you for your question. Look, Mumbai has done exceptionally well with the occupancies in Q4 at 77%. Bangalore and Hyderabad are markets which are sensitive to holidays and holiday seasons. And therefore, in Q4, the start of the quarter was little slow because foreigners take a little while after the new year to come back to travel.

But then subsequently, in the second half of January and then February were extremely good. In fact, February turned out to be brilliant in all our trials. Having said that, I think you will see a marked improvement in occupancy in both Bangalore and Hyderabad, especially Bangalore has seen a significant improvement in the last couple of months. And we're very excited about the demand pickup and back to recovery in Bangalore.

Vikas Ahuja: Sure. My second question is regarding the seasonality. So when we go from Q4 to Q1, we normally see a 15% to 20% decline in RevPAR and as I said, it's largely because of seasonality. So because we are in different times now and just trying to understand whether we will see the same seasonality this time as well. Or you think demand continues to remain very strong? And this time, the drop won't be that much.

Sanjay Sethi: So Vikas, I don't want to comment on forward-looking numbers. But look, the seasonal trends that are typical for India, for both business and leisure travel will continue. The difference could be less this time around but do expect Q1 and Q2 to be always lower than Q3 and Q4.

Vikas Ahuja: Sure, sure. And my final question is on the F&B revenue, which came around mid-single digits, while the overall RevPAR growth was 25% above on sequential basis. So I mean, what was the reason for lower growth in F&B revenues?

Sanjay Sethi: So look, the growth in F&B revenues between Q3 and Q4 still at 6%. And remember, Q3 came off a high base because that was the period for several weddings, etcetera, that happened. So it's unfair to compare Q4 to Q3, and the fact that Q4 managed to report 6% growth in Q3 where the banquet season was at its peak, is itself is commendable. So I see this as a positive.

Vikas Ahuja: Okay. Okay. But I think that same applies to the ADRs as well, right, which was around INR10,200 and it moves to INR11,300 but...

Sanjay Sethi: ADRs are driven by room demand, in fact driven by business travelers. F&B was driven by social events, which are basically locals who use the auspicious days for weddings, to host the events. And both the JW Marriott at the airport in Mumbai and the Westin Powai did exceptionally well with weddings during the quarter 3. So coming off a strong base, I think the fact that quarter 4 has managed to improve the revenues by another 6%, that's quite commendable.

Vikas Ahuja: Okay. Sorry, if I can just squeeze in 1 last question. As we already in the middle of May, are we seeing any difference now in terms of the occupancies or the pricing in different markets, whether Mumbai has dropped or Bangalore has improved? Are we seeing any stark differences from the trend we have been seeing in past 2, 3 quarters? And that's about it.

Sanjay Sethi: Vikas, thank you for your questions. But look, I'm not -- we are not in a position to share numbers at this time with you because we've not really released those numbers to the market in general, so we're restricted. As I said, expect Q1, Q2 to be lower than Q3, Q4. My sense is that the gap is not going to be 15%. It should be a little more balanced than that .

We can move on to the next .

Moderator: We have our next question from the line of Karan Khanna from Ambit Capital.

Karan Khanna: Congratulations on the best ever quarter. So you spoke -- Sanjay, you spoke about the hospitality outlook for FY24 and beyond. But from a strategic perspective, while most of the hoteliers are expanding in Tier 2 and Tier 3 cities and beyond with smaller hotels, Chalet's pipeline is focused on Tier 1 big box hotels. So if you could help us understand more in terms of your current model, will that work better than expanding in smaller cities but with scale?

Sanjay Sethi: Sorry, Karan, it was on mute. Thank you for your question and thank you for the congratulations. Let me just remind you that the last 2 hotels that we have commissioned or acquired are in Tier 2 locations. Pune Novotel was in a Tier 2 city and the recent acquisition, The Dukes Retreat is indeed in a secondary or tertiary market. So we believe there is strength in some Tier 2 and tertiary cities. And -- but we'd like to be very, very careful not to go and increase supply in some of these cities because it comes from a low base. And if we continue to increase supply, the city itself could suffer.

So in both cases, we've actually picked up existing supply as against adding supply to these Tier 2 tertiary locations. But to answer your question, are we looking at Tier 2 and tertiary cities, absolutely and the outcome is in front of you.

Karan Khanna: And just continuing on the Dukes acquisition, which has been an opportune acquisition for Chalet. But it also marks your entry into the leisure segment through a smaller hotel. So is it fair to assume that right now, you're testing the waters in the leisure market and hence, you've gone with a smaller hotel compared to your rest of the portfolio? And inherently, as you start witnessing potential turnaround or possible success in the leisure segment, you'll look to add further hotels in this segment? And if so, which are the markets that you're actively evaluating at this point?

Sanjay Sethi: So Karan, we are going to stay consistent with our stated strategy that we'd like to be in leisure destinations, which are in drivable distance from Mumbai and a couple of other big cities around the country. And we'd like to look at Goa and Rajasthan as the 2 other leisure destinations that we'd like to focus on. I don't think this strategy has changed for the last 3, 4 years now.

And what we've done at Dukes is consistent with that. We continue to look for opportunities in Goa and Jaipur, etcetera, as and when we have some opportunities, we will look at them. This is not by design that we got Dukes first and we wanted to test waters. It's just that we are able to execute this first.

Karan Khanna: Sure. On commercial real estate, you have closer to 2 million square feet that's hitting the market in FY24. And if I look at the outlook for commercial real estate, doesn't seem as positive when we look at some of the incumbents in Bangalore, even suggesting possible extra exits than contractual in the year. In that context, I wanted to understand your standpoint on CRE demand for Chalet and visibility in terms of leasing potential tenants or opportunities that you're seeing?

And Milind, if you could also talk about the pending capex for the 4 Cignus towers in Bangalore and Bombay?

Sanjay Sethi: So Karan, I don't think we have any major concern on the -- it's 1.5 million square feet that's coming in play in this year, not 2 million square feet, roughly around 1 million or 0.95 million square feet in Bangalore and 0.78 million square feet in Mumbai. I don't know whether you've seen a recent report. I'm trying to take that out whilst we speak, which had given -- it was actually a TV report that has come out on the television in CNBC, where they've given the leasing traction of big cities in India. And you'd be surprised to know that Bangalore was the highest in the lot, with the absorption as high as, I think, 17% increase on the year, which is very strong.

So we -- I think we've positioned our office assets at the right location because Bangalore was #1, followed by Delhi and followed by Mumbai. So within the top 3 cities that are listed as with the most demand in office space, 2 of the cities are where we are launching these office assets.

You had a question for Milind.

Milind Wadekar: Karan, to add further to what Sanjay said, Whitefield is connected on Metro now. So demand in Whitefield is expected, demand for commercial office space is expected to go up in Whitefield.

On pending capex on these 2 projects, I mean, commercial tower is almost ready at Bangalore and we have some spillover capex to be spent. Repurposed mall will be ready in quarter or so. And Powai commercial tower will be ready in 1 quarter. So all put together, including spillover capex, we'll be spending around INR250 crores.

Karan Khanna: And then last question. So you exited FY '23 with an annual EBITDA of INR500 crores and debt at INR2,200 crores, INR2,300 crores. So internally, thinking about expansion and greenfield asset acquisition, what sort of a debt-to-EBITDA multiple or metrics are you comfortable with while evaluating fresh projects? That would be my last question.

Sanjay Sethi: So Karan, we are aware of the fact that the investment community prefers debt EBITDA ratio to be not too much north of 3.5x and we are conscious and we are working towards that. You see a lot of the capex that we put in play, as I mentioned in my opening statement is coming into fruition in the next few months. It's INR1,200 crores of capex that we've already spent. I think, a couple of hundred more to be spent on these assets. And we are targeting 20% EBITDA by capital employed numbers on these assets. So clearly, there is enough return that they're to generate, enough EBITDA to sustain their costs.

And you would remember that because there -- a couple of these assets are office assets, the debt will convert to LRD form there where the cost of capital will reduce significantly for us. So we see a lot of comfort in where we stand today. And the accruals that we are creating now will give us headroom for growth going forward. It's beyond the 1,000 - 1,100 rooms that we have in the pipeline right now as we speak and the 2 million square feet office space that we have, 2.5 million square feet office space that we have as prospective office growth.

Milind Wadekar: Karan, out of INR2,400 crores debt today, INR1,200 crores is for assets which are not yet operationalized. So we have to compare INR500 crores EBITDA with debt of INR1,200 crores.

Moderator: We have our next question from the line of Jinesh Joshi from Prabhudas Lilladher.

Jinesh Joshi: I have a bookkeeping question on this inventory write-down of INR18 crores, which has happened in this quarter due to revision in the project completion cost. But if I look back...

Sanjay Sethi: Jinesh, I am sorry, I request you to repeat that because your voice is not coming through clear.

Jinesh Joshi: Yes, yes. So basically, I had a question on this inventory write-down of INR18 crores, which is offered in this quarter due to revision in the project completion cost. But if I look at the current PPT, we have stated that the cost of completion is about INR425 crores, which is similar to what we had reported in the last quarter as well. So just wanted to understand this aspect on write-down a bit better?

Milind Wadekar: So Jinesh, this is one of the accounting requirement. Whenever these flats -- this write-down -- write-off pertains to flats, which were sold 5, 7 years back and those were sales sold at very low rate. Now the cost per square feet based on revised budget is slightly higher than the selling price. Hence, as per accounting standard, we have created this provision for impairment. This is called NRV, net realizable value provision.

Jinesh Joshi: Sure. Got that. And secondly, with respect to the commercial assets, I mean, I believe, I think the PPT, we have stated that the project in Bangalore of about 0.65 million square feet, the handover has already been commenced. So the question is, how much area have we been able to lease out so far?

And secondly, the other asset, which got repurposed very recently. In the last PPT, you had stated that the handover might begin in 1Q but apparently, now it seems to have got postponed to 2Q of FY24. So any specific reason out there? And 1 follow-up on this part is pertaining to the LRD debt of about INR1,200 crores, which will get converted in FY24, which you mentioned in the opening remarks itself. So what kind of interest cost reduction will we get because of this?

Sanjay Sethi: So Jinesh, to answer your first part of the question and we might have missed something because your voice is still breaking up. The Bengaluru leasing that you were asking for is roughly about 1.5 lakh square feet that we've done with the anchor client. They may be looking at another 40,000 square feet more. And then we've got interest from another 3, 4 clients for taking up the balance -- majority of the balance area in the new IT tower.

Then there is the mall which is getting converted to office. There, we haven't started the leasing activity, as there's still some work that is getting completed. And once that is completed, we will open this out to potential tenants.

To answer your LRD question, Milind will comment on the cost of capital there.

Milind Wadekar: See, I mean LRD entitlement is to the extent of 6.5 to 7x of EBITDA or rentals earned and the cost arbitrage ranges between 50 to 75 basis points.

Jinesh Joshi: One last bookkeeping question from my side. In the opening remarks, you had guided for a capex of about INR600 crores in FY24, out of which roughly INR280 crores will be on the commercial project in Powai, which is Tower 2. So can you just highlight what will be the total capex for this project and the operational time line, an indicative operational time line if you can share? That is the last question from my side.

Sanjay Sethi: I'll cover the operational time lines, if -- I just had some updates on that. We expect to start work on site in the middle of this calendar year and we're expecting to complete this project in roughly around 33 months. Milind, total project cost.

Milind Wadekar: So total capex for commercial office buildings will be around INR280 crores, which includes Powai, Bangalore, both phases, I mean commercial tower as well as repurpose mall. And we'll be spending INR40 crores on Powai -- commercial tower, new commercial tower at Powai and will be spending -- second commercial tower, including interest and actual cost will be in the range of INR700 crores.

Sanjay Sethi: That's over 3 years.

Milind Wadekar: That's over 3 years.

Moderator: We have our next question from the line of Sakshee Chhabra from Svan Investments.

Sakshee Chhabra: Congratulations on a great set of numbers. Sir, my first question was, I wanted to understand that -- what would be the trajectory for the average room rates for the coming year?

Sanjay Sethi: So Sakshi, I think the average room rates have been doing extremely well. If you look at the history of the average room rates on a month-by-month basis, we have a fair amount of traction building up. And if I was to break it up on your quarter 4 numbers, January, we hit INR10,462, February, we hit INR12,239 and March, we were at INR11,160. So average for the quarter was INR11,304. As we said earlier, quarter 1 and quarter 2, we do traditionally see dips and expect some dip on this going forward for the first 2 quarters of the year. But then the growth in quarter 3 and quarter 4 will be higher than what we did in quarter 3 and quarter 4 of FY23.

Sakshee Chhabra: Okay. But like can you give -- I mean, approximately, can the price increase by around 10%?

Sanjay Sethi: So price increases already come in, in the January to March numbers, Sakshi. The next increase will happen in January next year. So -- and I do not want to give any forward-looking average room rates right now.

Sakshee Chhabra: Okay. Sir, I also wanted to understand that in Bangalore and in Powai, what would be the commercial rates that we could expect?

Sanjay Sethi: So Bangalore, we are targeting about INR60 to INR62 a square foot. And Powai around the INR120 to INR125 mark. This is on leasable area and the efficiencies of leasable area is what, 70%, carpet area.

Milind Wadekar: So we have leasable area of around 1 million square feet in Bangalore and 0.8 million square feet in Powai.

Sakshee Chhabra: Okay. Understood. And the 88 rooms in Pune, I understand that you are waiting for the OC, so by when do you think that those rooms can be operational?

Sanjay Sethi: Within this month.

Moderator: We have our next question from the line of Hrishikesh Bhagat from Kotak Mutual Fund.

Hrishikesh Bhagat: So a few questions. Firstly, when I look at the foreign tourist, clearly, that stays at 37%, fairly below our usual trend. Now clearly, 1 thing I want to understand whether -- when do you expect normalization of the same? And secondly, with 37%, have you seen across the most of the markets or probably some markets have already reached to the normalization and then some are lagging significantly? So some insight on that front.

Sanjay Sethi: Yes. So I don't have the exact breakup but Powai typically, our Westin Powai typically has a lower foreigners to Indian ratio. Indians are higher because of the nature of the banquet events that we have there, conventions, etcetera, which are largely domestic. Hyderabad, Bengaluru typically have higher percentages of foreigners in our hotels. And I think that's picking up very rapidly, in fact the reason Bangalore took longer than most of the markets to pick up was because the foreign business travel took time to come back. But now we see that Marriott is Whitefield is doing extremely well and that's being driven by foreign travelers coming back.

So there is a bit of variation across properties. And I think it's not even hotels, it is not city specific, it's more hotel specific. Clearly, with 773 rooms in Westin Powai, which is a significant part of the inventory, if that is lower, that tends to bring the average down. But Marriott Whitefield will continue to have more, majority of the book guests as foreigners over there.

Hrishikesh Bhagat: Okay. I think it will be great if you continue to publish this information in your investor day, it's really helpful.

Sanjay Sethi: Hrishikesh, just 1 more input I want to give you that what's happened is, since the pre-pandemic time, we've also acquired the Novotel Pune. That Novotel Pune, it has primarily domestic guests. So the ratio, if we look at it, you'll have to then look at it from the like-to-like or apple-to-apple hotel set as against looking at the combined portfolio.

Hrishikesh Bhagat: Okay. The second question is, you spoke about addition of rooms to Dukes also. Now can this addition happen by continuing the operation? Or do you think we will have to shut down the operation when this addition happens?

Sanjay Sethi: So Hrishikesh, we are also planning to reposition the hotel or the resort through major renovations. And the way we planned it is that we'll take 60% of the inventory out. At that time, we'll renovate this inventory of 60% and some F&B areas and use that same time to add the rooms, additional rooms. So if we take 60% out, which means 48 rooms will be out of action. But when they come back, they'll come back as 48 plus 48, so that's 96 rooms, which is significantly higher, 20% higher than what we have, current inventory. And that's when the balance 32 rooms are going to renovation.

Hrishikesh Bhagat: Okay. And the last question on the INR600 crores capex guidance. So does it capture your -- any capex or likely capex on Airoli well as Delhi? Or do you think that could be further upside on the capex as in on that one?

Milind Wadekar: Yes. Hrishikesh, I mean, our INR600 crores capex also includes Airoli, Dukes renovation as well as some capital expenditure on New Delhi hotel.

Moderator: We'll take our next question from the line of Rajiv B from DAM Capital.

Rajiv B: Congratulations on great set of numbers. Sir, on your capex bit, if I remember it right, your capex for FY23 was planned to be close to INR500-odd crores, right? And you have done something like INR587-odd crores. So have we shot higher on some of these? Or this Powai Tower 2 is basically, has got some capex in FY23 done as well?

Sanjay Sethi: No. So we haven't -- all our capex -- our projects are within their defined cost budgets. But I'll let Milind give you the breakup of the increase, if any is what -- the difference is what, probably INR50 crores, INR60 crores, that could be on account of acquisition dues. We'll have to explain that.

Milind Wadekar: Yes. So total capex of INR600 crores for FY23 includes INR160 crores for Dukes acquisition cost and balance was for projects. So maybe...

Sanjay Sethi: So if you look at Slide 20 in your presentation, you will actually find some of the parts on the debt over there, where you'll find that the capex that we put in for Dukes is INR158 crores, INR159 crores. And then there is INR440 crores towards other growth projects and that sort of will give you the breakup.

Milind Wadekar: So Rajiv and on the difference of our guidance of INR500 crores and actual INR440 crores spend and something is lying as craters which will be ready in the next few days.

Rajiv B: Sure. And sir, on the DIAL thing, have we finalized the flag there, in the sense, will it be domestic or in international?

Sanjay Sethi: We should have that in place in the next few days.

Rajiv B: Sure. And in one of your slides, the time line of the Powai second tower is FY26, it shows and you said the capex is 3 years.

Sanjay Sethi: Yes. Initially, I was just -- so '23 is because FY24 is also getting consumed, right? So it's '24, '25 and '26. 33 months is the total project time. Earlier envisaged that we might start around October of this year but looks like we'll be able to start around 2 or 3 months earlier. And -- but we are -- we believe that in 33 to 36 months' time we'll complete this project. So end of FY26 is when we see this completion.

Moderator: We have our next question from the line of Siddhesh, an individual investor.

Siddhesh: Congratulations on the revenue. I would like to inquire about the breakdown of our capital expenditure by project and property for the current year. And also request information on the anticipated time line for when we can expect to see the effects of this expenditure reflected in our EBITDA levels.

Sanjay Sethi: So I'll let Milind first to give you the breakup of the capex expenditure. It'll give you completion dates also so that you can get a sense of that.

Milind Wadekar: So Siddhesh, INR240 crores we'll spend on Powai commercial and Bangalore commercial and both are expected to be operational in first quarter of -- first or second quarter of FY23.

Sanjay Sethi: '24.

Milind Wadekar: Sorry, FY24. INR200 crores will spend for hotels, which includes DIAL, Dukes, Airoli and some spillover capex for our Westin hotel and Novotel hotel. We will undertake some renovation at our existing properties and will spend around INR65 crores on that. So all put together, our capex plan is of INR600 crores for the year.

Sanjay Sethi: But Milind, that's for this year. He wants to know what's the project-wise capex plan.

Milind Wadekar: Okay. See, our total capex plan for next 5 years is around INR2,000 crores. Out of INR2,000, INR1,000 crores is for commercial office buildings, which includes new commercial tower at Powai, INR750 crores for hotels, which includes DIAL, Dukes, Airoli and addition of 140 keys in Bengaluru and will spend around INR125 crores on renovation of existing properties.

Siddhesh: Okay. And while doing renovation at The Dukes Retreat, are we expecting any effects on the existing room capacity?

Sanjay Sethi: Sorry, I missed that. Could you repeat your question, please?

Siddhesh: While doing renovations at the Dukes property, while expanding the capacity at Dukes, are we expecting any restrictions on the current room capacity available over there?

Sanjay Sethi: As I explained earlier, we will take 60% of inventory out in phase 1 and operate 40% of the inventory. And when that 60% comes back, which is 48 rooms, it will also come back with the expected 48 to 50 additional rooms that we are planning there. So it'll come back as 96 to 98 rooms, which will be 20% higher than the total capacity right now. And subsequent to that, the 32 rooms will get renovated. We are going to do this in 2 phases in Siddhesh. This is still being worked out. We are on the drawing board stage. Let us come back to you with a far more formal plan by the end of this quarter.

Moderator: We have our next question from the line of Vikas Ahuja: from Antique Stockbroking.

Vikas Ahuja: Sir, just 1 bookkeeping question. This is for Milind. Milind sir, this 1.8 million square feet commercial we are planning to add in FY24 and FY25 another, what is the occupancy assumptions we could work with? Because you talked about in Q1, Q2 that the Powai and Whitefield Bangalore will come. But for the whole year, what kind of occupancy assumption should we work with?

Milind Wadekar: See, because in our financial modeling and group has more than 33 million commercial office space. So we take 3% perpetual vacancy. So we...

Sanjay Sethi: But he is asking more about the buildup, how this is -- occupancy is going to build up there.

Milind Wadekar: Okay. So Bangalore, we expect in next 6 months, Bangalore commercial tower. Next 6 months will lease out around 85%, by March, I mean, we should have revenue kicking in. Bangalore repurpose mall should start from next 6 months. So more than 75% of that will be leased out in next 6 months. And Powai buildup will be 25% in March '24, 25%. I mean, this is a revenue earning after fit-out period, it's 25%.

Sanjay Sethi: You should give the leasing time lines, not the revenue time lines here, because you anyway straight line your accounting, right?

Milind Wadekar: Yes. So leasing time lines by September '23, we should lease out more than 25% in Powai. By December, additional 25% and balance 47% by March or so.

Vikas Ahuja: Okay. And 1 lastly. I mean, do we have any land parcel left to add any more commercial or we have exhausted all with adding -- by adding 3 million square feet by end of FY26. So largely, it will take care of all the land parcels we have. Am I correct on that?

Sanjay Sethi: Sorry, before we go ahead and answer this question with you, I just want to clarify on Page 7, whilst Milind was reading out the time line, I realized there is a typo. That 0.8 million square foot of Cignus Powai Tower 2, says FY25, that's an error that will actually get completed, as we said, 3 years from starting of middle of this year. So please factor that in. So please ahead with the new question please.

Vikas Ahuja: The next one was regarding the land parcel for adding any other commercial. We have exhausted all, right? Or do we have any more...

Sanjay Sethi: Vikas, as you know, this commercial assets that we're developing, are all in existing land parcels where our hotels exist. And the whole idea was to sweat the real estate of that particular hotel land parcel and build complementary assets that complement the hotel in terms of demand expansion. So that's worked very favorably wherever we have looked at it and we expect this to contribute significantly as these offices get operationalized.

Coming to your question whether we have any more land parcels. Look, as of where things stand right now with the FSI that is available in hand, once we complete the second tower in Powai, we are likely to sort of exhaust all FSI that will potentially be available. I've also shared in the past that we don't have any desire to acquire a land parcel to build a stand-alone office asset. I must, however, add that in Koramangala, which has residential towers, there is -- where we were able to carve out 1 extra land parcel where we're building an office tower, not very large, 1.5 lakh square feet only, which is the only asset which we will build and sell strata basis. Beyond that, nothing else left as we stand right now.

Moderator: We have our next question from the line of Paresh Shah from Prernatirth Investments.

Paresh Shah: Sir, I have 1 question about the debt, which is required for capex. Are you planning to do any QIPs to reduce either the debt or for the capex plan you envisage?

Sanjay Sethi: So I'll let...

Paresh Shah: Are you trying to bring in equity to reduce the risk element going forward because I have been hearing lot of concerns or rather little bit of anxiety for debt related to our company.

Sanjay Sethi: So Paresh bhai, thank you for the question. I'll let Milind comment on the exact number but let me give you an overview. Our debt is going to go down very rapidly in the next couple of years because of the operationalized assets that we have, the LRD effect and the fact that a lot of the projects are coming to culmination as we speak now.

Having said that, right now, there is no plan to raise any fresh equity in the company because we really don't need it. You've got to remember, equity is far more expensive than debt for any company. And from that perspective, we'd like to optimize the balance sheet for most optimal returns, and we'd like to leverage to an extent that is most efficient. And that's our thesis and we'll continue to stick to that.

Milind Wadekar: So Paresh, we have debt of around INR2,400 crores today. We expect it will peak out to INR2,650 crores and then it will start reducing. We have Koramangala residential project, which will -- starts -- open it for sales and this is expected to generate cash of INR600 crores in next 3 years, which will be used to fund our capex in the future years. And we believe internal accruals, which we are expected to generate in next 3, 4 years, will take care of our capex.

Paresh Shah: Okay. So from this reply one more question which comes to my mind is, the commercial leasing part what we have, are you exploring to get a good value for the shareholders in terms of putting it into REIT kind of an instrument?

Sanjay Sethi: So Paresh bhai, I think as an opportunity, it exists. At this point of time, we see no need to do that. These are going to be high-yielding assets for Chalet Hotels. And there's no reason to transfer them to a REIT when we are getting very good returns from that. So right now, no such plans. But at any point of time, suppose there's an opportunity for a large platform acquisition in hospitality space, this remains as an available currency for us to monetize at the given time.

Paresh Shah: Okay. So do you think that you are looking for a proper kind of a lease rental, then it kicks in? Or as of now, we have not thought on this?

Sanjay Sethi: We are expecting a significant amount of EBITDA contribution to come from these assets. As we shared earlier, I mean, you got to remember that out of the total 3 million square foot, 2 million square foot lies in the high rent yielding city of Mumbai and 1 million square foot in Bangalore in Whitefield. And if you really do the math on it, you'll realize that the returns are extremely healthy on the investment over here. And there's no reason for us to look at them adversely from any angle.

Paresh Shah: No. I'm thinking from the value creation for the shareholder. Because many times when it is captured in a company in consolidation, the value doesn't get discovered for this kind of instrument. That was my only concern.

Sanjay Sethi: So EBITDA flow-through is going to create shareholder value for sure. And it's significantly better flow-through, if you do the -- just do the math at the number that we've shared with you. And you must remember, why did we do this? There's a genesis to this. The genesis to this is that, #1, we wanted to de-risk the cyclicality of the hospitality industry. Rental and annuity business tends to de-risk that. In fact, during the COVID period, the fact that we were able to report EBITDA positive results in our company for every quarter during that year, it was on the back of rental lease that we were getting from assets on the annuity business.

So I think this is a good hedge to any risk that we may have in hospitality. People diversify in various forms. This is our form of diversification. And not only are we diversifying and hedging the risk, we are also creating significant value for shareholders in form of EBITDA earnings.

Paresh Shah: And wishing you very best and we are really happy with the strategies what you have put in place for the shareholders.

Moderator: We have a question from the line of Sumant Kumar from Motilal Oswal.

Sumant Kumar: Can you talk about G20 benefit to Chalet in the past couple of quarters?

Sanjay Sethi: Sumant, so look, I think every hotel company had the benefit of G20 business. It comes in 2 forms: one, direct bookings that come to your hotel. And the second form is, where other hotels get sold out, creating compression in the market, which leads to your hotels enjoying the benefit of other bookings being diverted to you and typically at a much higher rate. So we've had the benefit on both counts at all cities, whether it's in Hyderabad, Bengaluru, Pune or Mumbai.

Sumant Kumar: So any quantification or some -- the occupancy rate or any market dynamic change in, say, Mumbai and...

Sanjay Sethi: I can go around quantifying it but it won't serve the purpose because even if my competitor takes the G20 business, this spillover effect to me is very positive. And then how do you quantify that? So therefore, I would rather not quantify. All I can say is it has helped all cities. And I want to highlight 1 thing here. G20 is not about just this year. The -- having these few events across the country over the year is smaller benefit of G20. I think the bigger benefit of G20 is the mileage that India is getting from the investor community and the global community to see India in a different light, in a more positive way, which is going to be beneficial to us in long term.

Sumant Kumar: Can you talk about -- is there any decline or some slowdown in foreign customer mix for -- in Q4?

Sanjay Sethi: Not at all. In fact they've gone up

Moderator: We have our next question from the line of Nihal Jham from Nuvama.

Nihal Jham: Congratulations on this performance. My first question was on the foreign mix that you have given also. The number, as you said, is 37% for Q4 but this includes the impact of maybe Novotel getting commissioned, which is mainly a domestic driven hotel. Would it be possible to give a ballpark sense of how this number is if we do it on a like-to-like basis versus pre-COVID?

Sanjay Sethi: I am afraid, I don't have that number but it is lower. As we said, the foreign airline traffic, passenger load is only 90% recovery to pre-pandemic times. So there will be a reduction. But look, at the end of the day, we are not looking at whether it's foreign or Indian. Our preference is for anyone who gives us a premium to our -- on our room rates. And if today, the domestic market is giving us a premium to the room rate, we would go in favor of them. So it's not as if it is 37% only because that is the only business available in the market. It could also be that we displaced some of the foreign business which -- with higher-yielding domestic business and that's what's led to our growth.

I can give you a clear example on that. The airline crew that we used to have earlier was significantly higher than what we have now. And they used to typically come at a lower rate. And they were in large volumes, large numbers. So from that perspective, we've -- I think we've been able to optimize our average room rate and thereby the RevPAR. A quick number that we were looking for earlier, Bangalore is actually back to 66% of its guests being foreigners in the month of March '23 and Hyderabad is at 50%.

Nihal Jham: And was this number pre-COVID also 66% and 50% for Bangalore and Hyderabad respectively?

Sanjay Sethi: Bangalore was at 66%, Hyderabad was marginally higher, I think it was 55% or so.

Nihal Jham: Sir, just 1 clarification here was that, I mean, the earlier participant that the number moved from 41% to 37% from Q3 to Q4. Ideally, the Jan to March period is the , if you look at the India FTA calendar sees more foreign arrivals, I am not sure how it works out for you. But is there anything worth noting there that the 41% going to 37% in terms of the mix of customers?

Sanjay Sethi: No, I think what has happened is, the occupancy has gone up in general. So therefore, you're seeing that ratio skewed. But if you look at the -- the occupancy has gone up about what 700 bps, 700 to 900 bps? 900 bps is the occupancy improvement. So that could have led to this change. I don't think the absolute number has gone down. It's actually probably stayed slightly above only.

Nihal Jham: Sir, one final question on this.

Sanjay Sethi: As prompted by my colleague that the absolute number is 62,000 room nights for both quarters, which is exactly the same.

Nihal Jham: Okay. That's helpful. Just 1 final question, Sanjay, was that on the cost base, how do you see FY24? Is this a normalized cost base only because we are in a strong cycle? Is there a case for higher-than-expected inflation in a lot of line items or just your sense on this thing.

Sanjay Sethi: So I don't see any reason why the costs will go up from where they are today. I think we must highlight here that our -- in the last quarter, our variable cost as a percentage to revenue was 3% lower than Q3. So if anything, I think inflation is cooling off a bit. And similarly, fixed costs were also 300 bps lower than Q3. So in both fronts, cost percentage to revenue seems to be more efficient in Q4 than it was in Q3. We don't have any significant insight into any further inflationary pressure on us.

Milind Wadekar: Nihal, to add further, I mean our 2 major cost saves, payroll, we were at 12% against -- as a percentage to revenue against 15% pre-pandemic and HLP was at 5.4% against 7% pre-pandemic. So these major costs, we are bringing them down.

Sanjay Sethi: These are the 2 largest costs that we have in -- operating costs that we have really.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Sanjay Sethi: for closing comments. Over to you, sir.

Sanjay Sethi: Thank you, ma'am. Thank you, everyone, for joining us for the call. I want to sort of reassure you that we are extremely excited about Chalet Hotels, especially by the fact that we've got a significant amount of capex work in progress, which is now coming to fruition, which will now contribute to our operating numbers. And in addition to that, we've got some more projects that are coming online, which will again add, create value for our shareholders, and we are excited for that -- for everyone all around. We wish you all the best. Happy times to everyone.

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