The Indian Hotels Company Limited

IHCL Earnings Call – Q3 FY 2021/22 Results

Wednesday, 2nd February 2022, 09:30 (UTC+05:30)

Management :

Mr. Puneet Chhatwal, Managing Director & CEO

Mr. Giridhar Sanjeevi, Executive Vice President & CFO

Operator: Good day, ladies and gentlemen, and welcome to the Indian Hotels Company Limited third quarter of year 2022 earnings call being hosted by Mr. Puneet Chhatwal, Managing Director and CEO IHCL and Mr. Giridhar Sanjeevi, EVP and CFO IHCL. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone. Please note that this conference is recorded. At this time I would like to turn the conference over to Mr. Puneet Chhatwal. Please go ahead, sir.

Puneet Chhatwal: Good morning, ladies and gentlemen. Welcome to IHCL's global earnings call for Q3 and nine months of 2021-22. Let me start with some good news. We were fortunate to receive multiple recognitions on the Global stage at the Hospitality Awards 2021 in Paris. These included award for Best Iconic Asset for our flagship Taj Mahal Palace, Best Team Achievement Award for our newly launched Human Business, Best Team Achievement Award for the IHCL Goa Team and last but not the least the best wellness experience award for our JIVA energized campaign.

Now getting on to business, if we look at the macroeconomic scenario today, there is an expected slowdown in global recovery. However, India is expected to perform better. IMF, in its latest economic outlook has reduced its projections for the World as well as most major economies, albeit marginally. However, they increased the forecast for India from 8.5% to 9%, and even the latest economic survey from the Indian government peg India's growth in the current financial year at 9.2% in the next financial year FY22-23 at 8-8.5%. This will mean India will continue to be the fastest growing major economy in the World. The Indian hospitality industry has also demonstrated tremendous resilience, and if we look at the Indian hospitality industries RevPAR in the last two years, the sector has always bounced back despite being

beaten down multiple times. In Q3 21-22, the industry did RevPAR recovered to 79% of pre-COVID levels.

Now, moving on to the performance highlights of IHCL, specifically on some of the key metrics. We saw a robust recovery in our rates, occupancies and RevPAR and outperformed the market across all three parameters. Just to take an example, IHCL's domestic Q3 RevPAR recovery stood at 89% versus pre-COVID in comparison with the 79% RevPAR recovery showcased by the industry. It is also heartening to note that the average rates in our domestic portfolio bounced back to 95% of pre-COVID levels, and the occupancies were also around 94% recovery. We also saw RevPAR outperformance versus the industry in most major markets. However, the cities of Bengaluru, Mumbai and Delhi NCR are yet to fully bounce back, and recovery in these locations will significantly boost the sector's recovery performance. We think at least Mumbai already is on a good way since the order came out yesterday for certain relaxations, which have been offered due to the decrease in the COVID cases by more than 90%.

IHCL rate premium versus the industry has grown in the last two years. This is reflective of the trust our customers have in our service philosophy, which we call Tajness and in our Brands. Our portfolio mix together with smart productive renovations, innovations have also enabled this group. We have continued on our growth path, and today I'm happy to report that IHCL is present operationally or underdevelopment in 29 States and Union Territories out of the 36 in India. The only ones missing being Chhattisgarh, a few states in the Northeast, namely Manipur, Mizoram and Nagaland, and the Union Territories of Dadra and Nagar Haveli and Daman and Diu, Ladakh and Lakshadweep. We are present across 97 locations in the country, with 210+ hotels in the portfolio in India. This is far higher than any other hospitality company on the Indian subcontinent. We continued our momentum on

hotel signings with 17 new hotels signed in the 2021 calendar year, please note it is calendar year for the 17 new hotels and this is across 16 cities. All were in asset light model, with 65% of the new signings being pure management contracts and 35% being leases in our lean luxe Ginger brand. We have always given the guidance that Ginger is going to rely mainly on lease based model as doing management contracts for Ginger does not help in our strategy of the growth in margins.

Today, we have a strong pipeline of over 60 hotels totaling approximately 8000 keys. The pipeline is predominantly managed at 74% and mostly in India. This pipeline positions IHCL well to deliver on our promise of opening a hotel a month. In fact, in calendar year 2022, we are optimistic of exceeding the target and opening more than one hotel a month across our hotel brands of Taj, SeleQtions, Vivanta and Ginger.

Our profitable growth in new and reimagined brands of Qmin, ama and Ginger continues rapidly. Qmin has scaled to 20 cities and is expected to close this financial year at around Rs.65 crores of Gross Merchandise Value.

Our aspiration is to take the brand to at least 25 cities and keep growing exponentially the GMV over the next three to five years. Similarly, our ama brand has grown to 72 properties today and our aspiration is to grow the portfolio also exponentially like in Qmin to over 500 properties over the next five years. Our reimagined and reposition Ginger brand has done extremely well in terms of growth and revenue recovery during COVID. Gingers Q3 revenue was at 93% of pre-COVID levels, and the change and or what we call the switch to Lean Lux has helped Ginger achieve a 600 basis points EBITDA margin expansion over pre-COVID levels in Q3. We continue on the growth path for Ginger and we expect this portfolio both in operation as well as in pipeline, also to grow at a rapid pace. On the cost front, we continue to be razor sharp, focused and also on structural optimization. There has been a reduction of 17% in total

expenditure, 15% in fixed costs and 23% in our corporate overheads in the last quarter versus the same quarter at a pre-COVID level. If we look at these metrics on a year to date basis, the reduction in total expenditure stood at 27%, fixed costs came down by 19% and corporate overheads were at 20% below pre-COVID levels. Of course, some of the fixed costs have come back, and as a matter of fact, this is mainly due to the furloughs we benefited from in countries like the UK, US, and this helped us in subsidizing some of the labor costs and also certain rent waivers that we got in the first year of the pandemic.

We would like to reinforce the management's focus on return on capital employed accretive operating model enabled by asset light growth, incremental capital allocation, focus on free cash flow and continued exploration of asset monetization.

I will now provide some highlights of our financial performance post, which I will hand over to my colleague, Giridhar Sanjeevi, our EVP and CFO, to speak on the details of these highlights. We delivered a good performance in Q3 with the revenue growth of 85% and EBITDA growth of over 800% vs. the previous quarter. We are pleased to report that Q3 PAT was at Rs.76 crores, which meant around Rs. 200 crores growth over the corresponding quarter of the last financial year. Our nine month performance also saw improvement over the last year, with the doubling of revenues and growth in EBITDA by close to Rs.600 crores.

If we look at the performance of the last dozen years, the EBITDA margin in Q3 this year has been second only to 19-20 figure, despite declining revenues on account of COVID. This is a clear result of the efforts on spend optimization and creation of margin enhancing revenue streams. Having said that, I will now hand over to my colleague Giridhar Sanjeevi.

Giridhar Sanjeevi: Thank you. Moving on to some of the details of the performance, in Q3, we saw standalone performance at Rs.771 crores, and what we are very gratified to see is that the revenue recovery was 87% in standalone as compared to the pre-pandemic period, and EBITDA margin came in at 37.7% for standalone. Similarly, on Consolidated, we saw an 80% recovery as compared to the pre-pandemic period and EBITDA margin at 30.4%.

For the nine month period, I think I will just say that the Rs.2257 crores that we achieved in the nine month period exceeded the revenue for the last year in the month of November itself. And I think -- and the margins also look consistent in terms of 19% in standalone and 14.1% in consolidated. And with this Omicron kind of going away, hopefully now I think this quarter should see improved recovery.

In terms of our performance, what we have seen is that on a consolidated basis, EBITDA has been positive since July 2021, and PAT was positive in Q3 after about 20 months or so. Similarly, on standalone, the same pattern continues in terms of EBITDA positive and PAT positive.

At an enterprise level what we have seen is that the same store recovery has been at 85% across the enterprise, which is 11% better than Q2.

In the domestic businesses, we were at 89% recovery and international hotels, the recovery was 74%. In key cities, our recovery has been very good, driven by the leisure markets of Goa, Rajasthan and others. Mumbai, Delhi and Bangalore have done well, but these are the cities which as we said earlier, with improvement the whole industry and our performance also will improve.

In terms of the international cities, we saw a strong performance from Dubai and Maldives. USA came up to about 50% in Q3 as compared to ‘19, and UK came up to 80% as compared to ‘19. One very interesting statistics as we look at leisure versus non leisure, the occupancy recovery in both in leisure and non-leisure was about 66% in both leisure and non-leisure. And in ARR, the leisure had a Rs. 16,400 of ARR. and non-leisure was about Rs. 7,500, showing the power of leisure and with our network of properties, which is balanced between business hotels and in leisure hotels, we have clearly been able to benefit.

On the international geographies also we saw some very strong recoveries in occupancy in ARR across the market section.

In terms of key revenue drivers, I think basically occupancy has been strong at 51%, ADR was plus 41% during this period. RevPAR more than doubled in the nine month period. In terms of asset-light growth, as we said, we have built a strong portfolio and we are on track to open one hotel a month. Management fees at Rs.158 crores, were more than 80% in terms of the recovery. The new and emerging business of Ginger, Qmin and ama continue to do well.

In terms of the new businesses, Ginger had a Q3 revenue of 93%, occupancy of 62% and ARR of Rs. 2300, Chambers did very well. We have 2450 members. The nine months revenue is Rs. 60 crores, which means that we are doing more than Rs. 5 crores a month in terms of recoveries actually. in terms of new members, Management contract fees, as I said has been Rs.158 crores for the nine months as compared to the 1920 number of Rs. 213 crores. Qmin and ama continued to do very well.

On cost management, I think we've continued to focus on operating leverage, and what we saw in the nine months is that while the revenue went up by 127%, the cost

increase was only 39%. And similarly, in standalone it was 111% on revenues and 36% on cost increases, thereby supporting the leverage. This cost management came through with corporate overheads with a 23% reduction. Overall, fixed cost reduction was about 19% and manpower rationalizations continue to be our area of focus, and we were able to redeploy about 361 people.

International hotels continued their recovery path, with USA and UK doing well on the revenue side and continuing to focus strongly on costs, with overall international markets showing a positive EBITDA for this period.

Similarly, if I look at the different subsidiaries, all of them have kind of recovered well in terms of performance.

On the debt position, we completed the rights issue of Rs. 2000 crores in the month of December. We were able to pay down debt. And as we speak, the net debt in standalone is about Rs. 1000 crores and consolidated is about Rs.1900 crores.

That is the key highlights, in terms of the continuing to see strong recovery of business. And with Q4 recoveries coming back in the month of February and we hope to do well in this quarter as well.

Open to questions.

Operator: Thank you.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question, please signal by pressing star one on your telephone set. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment.

A voice prompt on the phone line will indicate when it's open. Please state your name and company at the tone before posing your question. Again press star to ask a question. We will now take our first question. At the tone, please state your name and company before posing a question. Your line is open.

Vikas: Hello. Yeah, hi, sir. Good morning and happy New Year. This is Vikas from Antique. I have a few questions. The first one is looking at the southern market we are doing much better than peers. On overall portfolio also, we are doing, but they are the difference is much higher, especially in Bangalore, where a RevPAR is back at 77% versus 50% for the industry. What led to this performance? And most of your peers are struggling because of no international travel despite record hiring by the tech companies. Can you explain a little bit of where this outperformance is coming?

Puneet Chhatwal: Vikas, good morning, thank you. The reason for the increase in market share, as we have said quarter on quarter basis is really the power of our Brands, and our focus on strategic growth and strategic renovations. So I think it's not just in those markets, as we have shown in the presentation, in most of the markets or almost all important major markets, we are having a higher revenue growth index versus the peers. So we do attribute it really to our marketing efforts. But mainly the power of the brands.

Vikas: Okay. Okay. Sure. I think the differences --

Puneet Chhatwal: See, Vikas, if I may add, actually see what happens is that especially during COVID, the business has shifted to more and very strong domestic focus. And so globally also you are seeing that does not matter which brand is in which market, as long as it is strong on the domestic front it is just getting premiums, whether it's a Germany based brand or a UK based brand or India based brands, I think in the short to medium term, and if the brands position themselves well, then even in the long term, they're expected

to outperform the other brands, if they are very strong in the domestic market. And as we said in the presentation, we are present in 97 locations, and I think that helps in the pan India footprint. It is not always the number of rooms that counts, it is how you cover the width and the depth of the market, which we also do regionally.

Vikas: Sure. And also, in your presentation, in terms of the RevPAR you have shown, we have already reached 89% of pre-COVID levels. Any rough timelines you would like to share on, maybe when we can reach the pre-COVID level kind of a RevPAR number? And secondly, one question for Giri, sir, in terms of margins historically, Q4 is always a shade lower than Q3, plus Q4 is anyways more corporate heavy. Do we think we can sustain these margins or we will see some kind of a dip in Q4, mainly because of maybe impact of Omicron or lack of corporate travel? Or, I mean, if anything there you can share.

Puneet Chhatwal: Okay, before I hand over to Giri, I think your question was when do you expect to come to 100% of pre-COVID. And I think if we need to adjust for inflation, we need to come to 105, 107% to have a real like for like comparison. There are three key markets for us that is Delhi, Mumbai and Bengaluru. They are still at a low level of performance, averaging around 70-75%. The day they get close to 95 or 100% of pre-COVID, definitely for us, we would have crossed the pre-COVID revenue level, even if the resort business adjusts itself a little bit at a negative growth level. So we've run that analysis, and we are very hopeful that with the bounce back in Delhi, Mumbai and Bengaluru, which should happen over the next months, this should help in getting to the pre-COVID level of revenue. If we get to that level of revenue, I think what I would say is you should do the incremental cost and incremental revenue analysis and then look at the flow through. So the margins can be sustained with or without Omicron and with or without any of these things if the incremental revenue starts coming in because your conversion or your flow through becomes much higher after a certain

cost level, as we are very much present in that higher segment very strongly. And with the new Ginger, we are also driving margins in our new portfolio. So, it's -- and I think Giri will add to it, it's a very big question mark in terms of as of when we will see business recovery in these three key metros.

Giridhar Sanjeevi: Yes. I think building on that, Vikas, I think margins for us are driven by three factors. Number one is the recovery in the traditional business, number two is the cost reduction initiatives, and number three is the new narrative around the new businesses of Chambers, and Qmin and ama and Ginger. I think what we are now seeing even in the nine month period, in fact, what is happening is that if you look at the 30.4% EBITDA margin that we had, part of it is really coming from the new businesses, and given that, -- so that is going to be a major factor, which will help us sustain the margin of 30% or better, actually.

Vikas: Sure. So I think – so what you're saying is Q4, there is a good chance that we are able to maintain these margins.

Giridhar Sanjeevi: January will be impacted for sure, because of the COVID. February and March, the recovery is strong, so therefore, to the extent that the traditional businesses have been impacted in January, there could be an impact. But what I'm trying to say is that there are three factors you need to consider, the recovery in the traditional business, the cost reduction and the impact of the new businesses. All the three you should take into account. And therefore there are some compensating factors which are definitely kind of coming into play.

Vikas: Sure, sure, sir. I just have one last question and others, I'll take it offline. So the last question is on the guidance, we have hear like it's going to be more than one hotel per month. Is it going to be a similar kind of a mix which we have seen in calendar year

21 dominated by Ginger and management contract? And lastly, once this fundraising is over, and overall, are you looking for some acquisition as well or anything in the pipeline? That's about it.

Puneet Chhatwal: So Vikas you're right, the mix would be more or less the same, but as we have mentioned since the last couple of years, we are hopeful of the completion of our absolute flagship for Ginger brand at Santacruz, where construction has already reached the first floor. Now whether it will be finished in December of this calendar year or January 23, that certainty will know in the next few months, but that's a very big one. As you know there's 371 rooms, and it's from both a Capex perspective, from asset management perspective. In case we were to sell it and do a sale and management or leaseback, all these are considerations which we will discuss with our Board over the next three to six months, as and when the construction is reached fourth or fifth floor, and we have a certainty of the opening date. The way we look at opening dates is always nine months prior to opening is the month of opening, six months prior to opening is the week of opening and three months prior to opening is the date of opening. So once we get to the week of opening, I think some of these considerations will play in and we are really looking forward to the opening of that trophy assets. Besides many other Taj properties, our second Taj branded property opening in Kolkata in March. We have a very nice lined up Ginger. Ginger, I'm saying, Vivanta branded properties, also including in the Northeast, we're opening in Shillong, we are opening in Tawang in Arunachal. So the mix will be more or less the same, as you have seen, there is not focus on one brand only. The idea is to grow the critical mass in all the brands.

Giri, you want to add?. Hope this answers your question, Vikas.

Vikas: Yes, sir, Yes, sir. The last one is on acquisition, if you are open to anything. Thank you.

Puneet Chhatwal: We are always open to looking at any opportunity that comes. I think our growth of – or our additions to our pipeline and our current pipeline is testimony to that in terms of our aggressive growth plans and our growth profitable growth strategy. So if anything comes up, which is a compelling proposition, I think we would be very well positioned to take advantage of it.

Vikas: Thanks a lot, sir. That's about it.

Operator: Thank you. We'll now move on to our next question. At the tone, please state your name and company before posing a question. Your line is open. Please go ahead.

Aditya Poddar: Yeah. Hi. I'm an individual investor. My name is Aditya Poddar. Am I audible?

Puneet Chhatwal: Yes, Aditya, you're audible.

Aditya Poddar: Okay. I wanted to know with the takeover of Air India by the Tata Group, what kind of business can be expected from Air India, because currently Air India is being served on the flight kitchen by various other companies and also the staff stays at various hotels, maybe including Taj Group, IHCL Group. So just wanted to know what are the synergies, what kind of businesses you guys can expect? That's all.

Giridhar Sanjeevi: I think it's a very good question, Aditya. I think we are quite excited at the acquisition and I think the impact on Taj Sats is immediate in terms of better consolidation. And you're right that the crew stays also would -- some of the crew stays also we will get an opportunity to participate, and hence -- and also our ability to do multiple things,

vis-a-vis around own customers, actually. You know, we have tried different things with AirAsia as example, as you know fully the packages with AirAsia and all we have done in the past. Our ability to do this goes up for sure, actually. So I think overall, it's very, very positive for both the Indian hotels as well as Taj Sats actually, and we will hopefully get the benefit of both stays as well as the catering business.

Aditya Poddar: Thank you. Thanks a lot. That's all from my side.

Operator: Thank you. And we'll move on to the next question. At the tone, please state your name and company before posing a question. Your line is open. Please go ahead.

Adhidev Chattopadhyay: Yeah. Good morning. This is Adhidev Chattopadhyay here from ICICI Securities. I had a few questions. The first question is on the industry supply side. So in context of the successive waves of COVID, so where do you see the industry supply growth trending now, especially in the four star and five star category? And considering that when do you see any significant growth or any pricing power coming back into our room rates and at around what occupancy levels? You could just give us your views on that. Thank you.

Puneet Chhatwal: The supply is being very constrained, in fact, it even shrunk in some of the markets, and that has helped the rates. As we have mentioned, we ourselves got to a very high recovery percentage on the rate front. The rates in resorts are definitely outperforming the rates of pre-COVID level. And as mentioned in an answer earlier, the day we start seeing 90-95% recovery of rooms revenue and total revenue in the key metros of Delhi, Bangalore and Mumbai, I think the rate should bounce back. Definitely, supply will remain a constraint for a few more years because a lot of the industry is struggled in the last few years, and getting loans to build new hotels is very highly unlikely unless

there is such a big boom coming in the business. But that we will know over the next three or four quarters. As things stand today, demand will definitely outpace supply after a very long time.

Adhidev Chattopadhyay: Okay. Okay. Sir, that's helpful,. The second question is on a new brands and businesses. If you just help us understand for the nine months for this year, what would be the EBITDA margin flow through for all the businesses combined, Ginger, Chambers, management contracts, Qmin, ama. You could just share some information.

Giridhar Sanjeevi: I would say that, about 50% plus. I think Chambers will be much higher because Chambers flow through is about 80%. Qmin and ama will be about 50% and Ginger as well. So that is a way to kind of plan.

Adhidev Chattopadhyay: Okay.

Puneet Chhatwal: I would just like to add, Ginger for the new portfolio, yes, getting close to 40-50%. We're still carrying some of the old portfolio, which still has to be renovated, etc, and reposition where the margins are lower because also of old contracts. So a lot of improvement is driven by Ginger, and the aspiration is to get to that 50 plus and hopefully we'll keep seeing that recovery. And this segment is also more resilient. That's why it achieved 93% of the pre-COVID revenue in the quarter.

Adhidev Chattopadhyay: Okay. Okay. And just my final question is a follow up to an earlier question. So if I hear to understand this correctly, you saying that when our revenues get back in the RevPAR terms to pre-COVID levels the EBITDA volume this time should be sustainable at around 30% at an entity level? Is that a correct understanding?

Giridhar Sanjeevi: So the nine months numbers were 30% plus. Q4 may be impacted because of the way the January Omicron has impacted, but I think overall, if you ask me sustainable at 30% next year, absolutely.

Adhidev Chattopadhyay: Okay. And just for any further delta beyond this, 30% would be driven largely by the ARR growth and occupancy, that is the understanding right, over and above this?

Puneet Chhatwal: See, it could be anything. If the restrictions are lifted on food and beverage like, just know it was lifted, weddings will be allowed, but 25%, but no more than 200 persons, right? You start doing weddings again of 700, 1000, 1500 people. Then there is a lot of margin in that kind of business, so – and it's a very important part of business on the Indian subcontinent. So some of these areas we are beginning to get optimistic with the continuous decrease from the peak of this third wave and a rapid decrease. So as and when that comes back, yes, it will be accretive. And a lot of these margins will be driven by our aggressive focus on profitable growth, whether it is new businesses or new contracts or the repositioning of the old. Like for example, two years ago, we repositioned 19 of the properties back into the Taj brand, like the Aguada in Goa, the Holiday Village, the Fisherman's Cove, the Hari Mahal in Jodhpur, the one, the Grand Hotel in Lucknow, the Mahal in Lucknow. So it's a combination of all this. That's why when we started on our journey of Aspiration 2022, we were at 17% margin and then we gave a formal guidance of 800 basis point increase. We have not stopped there. We'll continue to focus on this journey of profitable growth. And I think when we will host the next capital market, we will give exact guidance on what kind of margin we are targeting.

Adhidev Chattopadhyay: Okay. Yeah. Thank you. That's all from my side. All the best.

Operator: Thank you. We'll now take our next question. At the tone, please state your name and company before posing a question. Your line is open. Please go ahead.

Sumant: Hi. Sumant here from Motilal Oswal. So my question is regarding a leisure business ARR sustainability, and we have seen a significant improvement in ARR of leisure destination, particularly Goa, and other destinations also. So assuming there will be an outbound starting maybe in six months, do we think the ARR is going to sustain at this level in next year of the leisure destination?

Puneet Chhatwal: Sumant, thank you. Not only it will sustain, we expect ARRs to grow. See the occupancies grow and of course in leisure destinations is where people wanted to go to. But we are seeing a permanent shift in a certain percentage of the business where we had the term of bleasure, business plus leisure before, but is actually going to be permanently there going forward because that's a segment which people have not got used to. And I'm not saying it will be a very big percentage of total business, but that will help drive ARR. And that portion of the business is not really leisure, it's driven by business. And so the leisure destinations would get that percentage level, which they were not getting previously. If they had previously 10, then that grows to maybe 18 or 20. And I think that is one reason the rate will be driven.

The second is obviously the change in the supply and demand pattern, as less and less supply will come in the market and demand will start coming back. Also, all these leisure destinations. Look at our portfolio of Palaces, Lake Palace, Umaid Bhavan, they have been missing all these international travelers. And once they start coming back, all our Palaces should benefit, all of our Safaris should benefit, all of our leisure destinations like Goa should benefit further because we have been totally reliant on domestic only. So I don't see that as a as a hindrance. On the contrary, if COVID gave us an opportunity to rationalize costs, it also gave us an opportunity to capture a

larger portion of domestic travelers and our reach to them, which was maybe not as focused at pre-COVID level.

Sumant: My next question is on the cost structured side. We have seen around still when to be compared with the pre-pandemic level Q3 20 overall employee cost we are still 20% lower. So, if as any normal case scenario the business is going to recover at the pre-pandemic level, how much cost, particularly in fixed cost side is going to increase? And whatever the cost structure we have, we have reported in Q3, what cost is going to increase from here or we are going to do maybe a 10-15% of more business from here without changing any cost structure?

Giridhar Sanjeevi: Yeah, I think if I go back in the pandemic period, we had a 28% saving in fixed costs in the year 2021. I think this year, nine months, we have seen a 19% savings, what do you say, reduction in fixed costs as compared to the pre-pandemic period. And there were two reasons why the 28 came down to 19. Number one was the end of lease waivers and the employee subsidies that we got in countries like UK and other places. That is one part of the reason. The other part of the reason is also that with activity going up, some level of costs have gone up. And even with full occupancy, I mean, with full business recovery, I think this continues to be an area of focus, especially the area of manpower deployment. So productivity to your second part of the question is definitely going up. And our believe is that we will not be less than 15% in terms of fixed cost reduction as compared to the pre-pandemic level, which will be driven by redeployments, overall productivity improvements, corporate cost savings. I think all of those will come through, actually.

Sumant: Okay. Thank you so much.

Operator: Thank you. We'll take our next question. At the tone, please state your name and company before posing a question. Your line is open. Please go ahead.

Nihal Jham: Yes. Good morning. This is Nihal Jham from Edelweiss. First of all, congratulations on the good performance to the team. So three questions from my side. First, you've given the bifurcation of the ARR for leisure and non-leisure, just for a better understanding, could you give the recovery for both these segments versus pre-COVID levels?

Giridhar Sanjeevi: Recovery, I think it is there in one of the charts.

Puneet Chhatwal: Till we find the exact figures, let's put it this way that recovery in leisure is, let's say, more than 120%. Definitely, we'll find the exact number for it. And on the corporate and business side is around 80% of pre-COVID.

Nihal Jham: That is helpful, Mr. Chhatwal. The second question I'll continue forward is that if I look at a city where its performance for your hotels, as we discussed, was the industry, but just comparing Q2 to Q3 for some other business destinations like Mumbai, Delhi, Bangalore and Chennai, there is a bit of divergence in terms of how they recovered, and Rajasthan has seen a bit of a fall in the recovery. So anything specifically to highlight in terms of the performance in the cities which happened in Q3?

Puneet Chhatwal: No, it's just the opening up versus lockdown. See the restrictions when they are lifted, the markets keep bouncing back. When the restrictions are imposed, then the markets, behave accordingly. So especially, it's true for these Delhi, Mumbai and Bengaluru. As I said during my introduction speech that the latest order that has come in Maharashtra and for Mumbai, it is very encouraging, although it is not giving us everything we wanted and some clarity is sought, but it's a step in the positive

direction. So if you will recall versus Q2, where restaurants were open in Mumbai only till 4 p.m., then it was relaxed till 10:00 p.m. or 11 p.m. and then till 1:00 a.m. Then it went back to again at 10 p.m. and then in Delhi, there was a curfew over the weekends. So all this has an impact on revenue, especially in these two big cities where we have large inventory and our flagship hotels, and also in Bengaluru. I mean, these three cities, we have a lot of IHCL properties, and the restrictions are different in each city and they are different in different periods of time, because there's also the peaking of the virus does not take place at the same time in each in each of these places.

So we are now hopeful that with the trend that we are seeing, that this will subside pretty rapidly. And that is what makes the difference between quarter to quarter. So it becomes very difficult. Except for the Q1 where we say because of the second wave, April, May, June was a washout. The rest of the quarters is like a different kind of an impact.

I think more important, Nihal, is that it took the industry six to nine months to recover post first wave, we will almost shut for six to nine months, depending again, on which state. In the second wave after April, May, June, it took us Q2 to start on the recovery mode. And Omicron I would say, is like a six weeks at the moment, as we speak today, it seems like a six weeks. So the recovery period is becoming faster and the down period is becoming shorter.

Nihal Jham: Absolutely. I had my last question just related to that. So you mentioned that Jan obviously would have had the impact of Omicron. I just wanted to understand when you say look at the business on books and generally how the bookings have currently being coming in all fronts of the traffic. Do you see that the recovery both for leisure as well as business is faster? And this is just a delay of one month and things I say back in

Feb where you would have expected in June had Omicron not happened or you expect that maybe will just take a slightly more time for things to come back to trend?

Puneet Chhatwal: I would say the last one week or so we have seen strong pickup in the business, but we can discuss this offline and another week from now, as there are two schools of thought. One school of thought says it'll take another three to four weeks for recovery and the other school of thought says at the speed the cancellations came at even a higher speed, the new bookings will come in. So let's have that with Giri or myself in a in a week from now, then we will have the data. Because, there were some holiday period in between because of the Republic Day. So we don't even have the full week, which was -- I was going to call it operational. I mean, a full working week. So this is the first full working week. And at the end of this week or early next week, we will have a better idea.

Nihal Jham: This is helpful. I will surely look up. . Thank you so much and wish you all the best

Operator: Thank you. Ladies and gentlemen, if you find that your questions has been answered, please remove yourself from the queue by pressing star two. Thank you. We'll now move on to our next question. At the tone, please state your name and company before posing a question. Your line is open. Please go ahead.

Amit Agarwal: Hi. This is Amit Agarwal from Nirmal Bang. A couple of questions from my side. And my first question is that when I look at leisure or non-leisure, your occupancy on a quarter on quarter basis is going up probably about roughly 8-10% to 12%, but the growth in ARR a lot more. So can I assume that you get the pricing power back around about early 60s or what is driving a higher growth in ARR relative to low growth in occupancy? That's my first question.

Secondly, is there a change in mix of clientele in which you have and has Corporate and MICE started coming back? So once that change in mix happens, will that lead to further raise in the rates? I mean, what I'm referring to is probably because of staycation, vacation, right now, the rates still would be discounted, so they've gone up on a quarter on quarter basis, on a year on year basis also.

Thirdly, just want to know your current operational room divided into owned/leisure and management contracts. These are three questions. Thank you.

Giridhar Sanjeevi: Yeah, we'll take the last question offline, Amit in terms of the operational rooms separately, I think you're right that the ARR have been going up, and I think that is very conscious. I think number one as Puneet said in the beginning that trust in the brand and people coming and staying with us. Number two is the revenue management that we do. Like for instance, there was an earlier question in terms of what happens if Air India comes in. Fundamentally, some of those things help also in terms of base occupancy and then you kind of have the ability to charge better rates. And third, in terms of our strategy in terms of market share as well as RevPAR leadership that we want, I think that continues to be a very strong hotel -- at every hotel. All these continue to ensure that we maintain our better market shares, maintain rates and therefore have been able to focus. I mean ARR recovery has been a very strong focus from our side. That is what gives us the flow through.

Amit Agarwal: Sure. And the second question regarding the mix of clientele. Is it still staycation vacation primarily or any business as a business MICE started increasing?

Giridhar Sanjeevi: So we did see, for instance, weddings in Q3. Business travel, as we have said in the beginning of the presentation, I think Mumbai, Delhi and Bangalore, we still need to see the business travel recovery come back. Actually, we still need to see that coming

back. In terms of mix of business, the transient business, the way we look at business, of course, is that the transient business is the non negotiated business is the key. And that has definitely gone up in terms of -- and that is very important because the transient business helps us to improve ARR. Corporate business has been down, of course. It has been about 7%. Historically also it's not been a big percentage for us. It's been about 15%. MICE did come back because of the weddings, which came back, actually. Long stay with places like Wellington Mews and other places continues to do well. Leisure also has been a big driver in terms of things. So therefore from a mix perspective, I would say that the increasing transient business and the recovery in MICE and leisure would be the reason for better ARR.

Amit Agarwal: Sure. One last question from my side. What is the Capex spend divided into maintenance for, let's say, the FY 22, which is include the fourth quarter and in FY 23, possibly if you can give? Maintenance and other building construction.

Giridhar Sanjeevi: I think total Capex and renovations, I would say, would be around Rs. 400 crores this year for consolidated and about Rs. 200 cores or so for a standalone. I think that's a combination of all the numbers. I think we can give you further break up if you want separately.

Amit Agarwal: Sure. And for FY23 plan, is a possibility the number?

Giridhar Sanjeevi: FY23 plan, we are in the process of doing our budgets. And I think we need to focus on renovation plans that we have. I think As we said, the key renovations were really this time on Taj Mahal Delhi and the Ginger Mumbai, the Chambers' London and the US banquets. So these were the four. And now we have are finalizing our Budget for next year. So I think we should be able to better answer this question in the next quarter, in terms of what the Capex spend next year is going to be.

Nirman: Sure. Thanks. That's all for my side. Thank you.

Operator: Thank you. Thank you. We'll move on to our next question. At the tone, please state your name and company before posing a question. The line is open. Please go ahead.

Achal: Yeah. Hello, Mr. Puneet. Hello, Mr. Giri. This is Achal from HSBC. So I had a couple of questions. First of all, I wanted to understand about your plan on asset monetization. I mean, do you really think that the asset prices have come up and that gives you an opportunity to monetize some of the properties? However, if that is not the case and you see the property prices still remain under pressure, and that means property owners which are not able to run their properties, probably agree to hand over their properties at a favorable terms for you guys, for hotel operators. So then do you see, in that case, do you see an opportunity for you to grab the assets at much attractive prices? And linked to that, if the property prices are low, do you think you'll be in a position to utilize some of the GIC platform, like 40 billion, which is just lying there? So if you could please help on this? Thanks.

Puneet Chhatwal: So, Mr. Achal, the GIC platform we have renewed it as our initial contract was badly hit by the COVID for two years. So the platform is there to take benefit of any opportunities that might come up. On the asset monetization we are not in this thing to just sell assets. What we have said is what we will sell is non-core non-strategic, whether they are with us or in our subsidiaries or associates. Non-core is like in the 70s, we bought a lot of flats. Now people like to buy their own flats. So we have been getting into the flat sales or we had piece of land which we monetized and communicated to the market in Pune, which was in the cantonment area, which we could not do much with because the area evolved differently. Similarly, we have a

piece of maybe laundry land with us for 20 years in one of the cities. Now we are not going to build laundries anymore. It does not make sense. So things activities like this will go on. On the non-strategic sale, we were non-strategic assets we were able to monetize, for example, in our subsidiary with these Oriental hotels, in Visakhapatnam or in Trivandrum, where there was hardly any return and we were able to sell and bring down the debt and either secure a management contract for a new property or entered into a term with the buyer to renovate the asset and give it back to us on the management contract. So those efforts will continue in non-strategic locations where it does not make sense to either stay as an owner or stay invested in, which was the case maybe 30 years ago, because we are coming from that background of owner-operator. Today, we are still owner-operator, but owner and operator of, let's say, Taj lands end, which we own we will keep and we will operate for as far as I can think we will not monetize on those kinds of assets because they are strategic, they are value enhancing, and they help you in building your brand and helps you to control the brand. Otherwise, for whatever reason, you tend to lose the asset, then you also lose the contract. So that was our strategy, and we stayed true to it and will continue to do that going forward.

Achal: And linked to this, so -- and then what about the acquisition opportunities at the right price, whether it's under management contract or whether it's leasing property, do you see the property prices are really very attractive and that gives you the opportunity to grab the property at the right price?

Puneet Chhatwal: Yeah. We're continuously on the lookout. Whether we buy it or somebody else buys and gives it to us or somebody else finishes it, that question depends on the right dot on the map or the right strategic fit. So we have to be aware of that. But yes, what your question actually answers is something else that activity in this area has just recently started as the gap between a seller's expectation and a buyer's willingness to

pay has narrowed significantly. This gap was huge in the last two years, and that's why it was difficult to see any activity because it did not make sense. It's also assisted by some of the incentives which were good for the industry like Emergency Credit Line Guarantee scheme and moratoriums helping people survive. So I think as and when these schemes come to an end, you will see more and more activity coming in and also the demand and supply situation begins to settle down and mature in the new normal or in a post-COVID world. So yes, there is more activity, more discussions, more offers on the market happening now.

Achal: Right. So moving away from this, the other thing I wanted to understand about the supply versus demand, I think you've touched upon on this already. But according to the latest report from Hotelivate the supply is expected to grow in the range of like 4 - 6% and a not more than that while the demand could actually grow significantly. I mean, of course, on the surplus level. And then of course, given that you already had pre-COVID levels, if the demand grows significantly, do you think or does that mean the demand could actually outpace the supply by a huge margin? So how do you see the supply demand situation developing over the next one year or two years?

Puneet Chhatwal: We answered it before also. Someone else led us to question. The supply will remain constrained, and it might, even in certain markets, shrink over the next few years, whereas the demand will continue to grow. That is the best guess that Hotelivate, HVS, Hallworth, everyone has been telling all the feasibility specialist or the consulting groups are guiding. We are seeing a similar trend in different markets, so it gives us the belief that demand will be stronger and supply will be very constrained.

Achal: Okay. So other thing I want to understand about your plans around Sea Rock hotel, so where it is aligned now? Have you found any JV partner? Or what is -- I mean, given that such a tightness in the liquidity front, what are your thoughts, in case you're

unable to find any JV partner. So what are you plan? And do you have any plan B in that?

Giridhar Sanjeevi: Yeah. Achal, I think as we have said earlier, I think now we have completed the acquisition of 100% shareholding by December, so that is the first step done. Second is we are progressing quite well in terms of some of the clearances that we have from whether it is environmental clearances or the court case. There is still that arbitration that we need to resolve. And we are. So the regulatory aspect in the arbitration is still work in progress. But we continue to say what we have said earlier, we don't want to put incremental money. And our belief is that the once all approvals come in, this piece of land would be very valuable. So right now, there is no active work which is happening in terms of scouting for JV partners for that property. But it'll come when the approvals happen. Give us some time on this.

Achal: Okay. Perfect. Thank you, Mr. Giri. My last question, I mean, I'll touch base off-line. But my last question is a bit of clarity. So basically, if I'm not wrong, you just said that the RevPAR recovery in the leisure market was about 120% while in the non-leisure it was about 80% of the pre-COVID levels. And then that non-leisure means the corporate and all. And it is at 80% and yet your key market Bangalore, Delhi, Mumbai, the recovery remains at 60-70%, so where is the where is the gap? Is it like – so we recovered more than pre-COVID levels. Corporates are at 80%, non-leisure 80%. And yet your key markets, like three markets are at 60-70%. So is it like -- is it the international travel, which you are expecting? So why the recovery in these markets is not looking as good as in other cities?

Puneet Chhatwal: See, I'll let Giri answer a bit more, but let me just say it depends on the portfolio mix that you have. Now, we are not looking at a 50/50 mix. We have a large share of resort, but it is not more than 50% of our portfolio. Number two, is we tend to forget

there is also international in it. When we answer that for domestic, around 80 and north of 120 for leisure that is domestic. But we do have a significant asset in London or in Cape Town or in US. Two of them in San Francisco and New York. They are all owned assets and they also have -- they have suffered far more. We know that the Omicron was first discovered in South Africa. So with all the restrictions in there. So there is an opportunity that they also recover fast. And when we talk domestic, we talk about Delhi, Mumbai and Bengaluru. So the numbers that we have given you are the guidance that we have given you is in the right direction. And some of the resorts have done even 180%. We just said 120, 130 is because of the restrictions. We cannot take out. If you look at this, you can't take out April, May, June impact where there was almost a complete lockdown again. So that is the average for the nine months. And I think it's a good way to recovery now if this wave goes away the way we have seen the figures in the last three, four or five days.

Giridhar Sanjeevi: Yeah, I think we can maybe talk offline now, Achal on this. Let's do it offline.

Achal: Sure, sure. Thank you. Thank you so much Mr. Giri and thank you so much Mr. Puneet. Have a wonderful day.

Puneet Chhatwal: Thank you.

Operator: Thank you. Once again, ladies and gentlemen, if you find that your question has been answered you may remove yourself from the queue by pressing star two. We'll now move on to our next question. At the tone please state your name and company before posing a question. Your line is open. Please go ahead.

Nikhil Agarwal: Good morning, sir. This is Nikhil Agarwal from VT Capital, Kolkata.

Giridhar Sanjeevi: Sorry, I didn't get your name. Sorry, apologies

Nikhil Agarwal: Nikhil Agarwal from VT Capital, Kolkata.

Giridhar Sanjeevi: Okay.

Nikhil Agarwal: Hello?

Giridhar Agarwal: Yes, yes, please carry on.

Nikhil Agarwal: So I want you to know the consolidated ARR occupancy across all your brands. I mean of course, excluding the management contact, any figure you can give.

Giridhar Sanjeevi: Sorry, consolidated?

Nikhil Agarwal: Average room rate and occupancy across all your brands.

Giridhar Sanjeevi: Yeah, across all the brands, if you see the ARR on a same store India has been about Rs. 9800 and occupancy has been 62.7%.

Nikhil Agarwal: Okay. So what was the figure in Q2?

Giridhar Sanjeevi: In Q2 the similar numbers with Rs. 7200 and 52.7%.

Nikhil Agarwal: Okay, sir. So like what is the -- what you think if the ARR increase going ahead, what is the timeframe exactly?

Giridhar Sanjeevi: So we answered that question in the beginning, I think in terms of ARR recoveries, and I think what we were really saying was that as the business travel comes back, I think we should be able to see the ARR come back.

Nikhil Agarwal: Okay, sir. My next question is your – you said you pay down around Rs. 950 crores of debt but your finance cost has increased quarter on quarter, so any reason for that?

Giridhar Sanjeevi: Finance costs have increased quarter on quarter. That's because the borrowing were there. I think with the rights issue, we have repaid down some of the debt. Yeah, it happened only the last week of December.

Nikhil Agarwal: Okay. Okay, sir. And, sir, just one last question. The Sea Rock Hotel that you purchased, like the ELEL stake you purchased right now, Sea Rock will be on owned model, right?

Giridhar Sanjeevi: Sea Rock it's the properties on lease till 2069. And I think we will have to eventually build and then we are saying that we will not put any more capital to that property and we will get partners to help us with the cost of construction.

Nikhil Agarwal: Okay. Okay. That's it from me. Thank you.

Giridhar Sanjeevi: If I may say the last three or four minutes of questions, we maybe will take a couple of questions. Last two questions, maybe.

Operator: Sure. Will do. Thank you. You've got just a couple of questions, actually. We'll now move on to our next question. At the tone, please state your name and company before posing a question. Your line is open. Please go ahead.

Satyam Thakur: Hi. This is Satyam Thakur from Credit Suisse. Hi, Puneet. Hi, Giri. Thanks for taking my question. am I audible?

Giridhar Sanjeevi: Yes, of course, Satyam. Welcome back.

Satyam Thakur: Yeah, thank you. So I have my question on the management contract side. So of course, you have had some very commendable increase in the size of the management contract portfolio we have in the last few years. The number of properties and homes have grown quite well. But the fees, revenue from that has not seen a commensurate increase. And so does this only set us up for a much larger increase in fees, revenue going ahead as occupancies rise and operating margins also at those properties rise and we start meeting the threshold requirement in the contracts for the incentive fees portion of the fees also, or is there has been some kind of a renegotiation downward on the fees during the last two years of COVID period?

Puneet Chhatwal: Satyam you answered -- firstly, nice to have you back, you answered the question yourself. As in when the markets improved, the revenues go back up. So if you are trading on an average, if you look at last year at 40% of revenue of pre-COVID level and this year cumulative, at around maybe 70 till the end of the year, then also those level of fees go down and especially when you open hotels in kind of lockdown situation. So we expect the fees or our fee business to rise exponentially over the next few years. And it's just we need some kind of a normalized situation without lockdowns, and it will have an impact on all kinds of sources of business, not only management fee business, rather the own business, the leased business, the margins everything is dependent on -- when you have a lockdown, things become -- in the first lockdown, we were confront it in many places with zero revenue. So when the revenue becomes zero, the fees of zero is also zero. Then there is a partial lockdown, then you're only getting a partial fee on the existing as well as on the new contracts that open up. So I think it would be fair to say that I think it will become very interesting as of next financial year to look at this fee business that we have created.

Satyam Thakur: Great. That's very encouraging to hear. And the second question, I know you have touched upon this in the rest of the call as well. But because one thing which still

remains open is basically how well business travel will recover. So anything you have seen from, in any green shoots or any signs say, for example, in the fourth quarter of FY21, which was far away from wave one, or just now in October November before wave three hit, which kind of gives us an indication that even business travel can recover quite well on both business travel related stays and as well as on the side of business driven MICE events and bookings. So in both, have you seen anything which gives us confidence that this can also recover back to close to earlier normal?

Puneet Chhatwal: For sure, Satyam. We saw that and as we speak also, we have events booked. You must have watched on the television also, some of the conclaves of various channels were kind of a hybrid event, but more than a few hundred people attending those, whether it was at Taj Palace in Delhi or in Lands End or even now this coming Saturday, there is a big event in Delhi that we are hosting. Monday there is another one which a competitor hotel is hosting in Delhi. So these are kind of things and activities that are happening or beginning to happen. Of course, what happens is between, let's say, 20th of December till 20th of Jan, it was only cancellations. So it starts to pick up again and people are beginning to go out and attend these meetings. The flights -- one of the very good way to follow this is one of the statistics of the domestic air travel, and I think that recovered quite well till the third wave came. So, I think it will have some correlation with the air travel that we have both on domestic front as well as and when the open international.

Satyam Thakur: Great. Thank you and all of best.

Puneet Chhatwal: Thanks, Satyam.

Operator: Thank you. And we will now take our last question. At the tone, please state your name and company before posing a question. Your line is open. Please go ahead.

Shaleen: Hi, Puneet. Hi, Giri. Shaleen this side from UBS. And many congrats on a very good set of numbers. Most of the questions are answered, but I need to pick your mind on how should we see and project growth beyond FY23. So is there any thought process or any broader guidance you can offer us, for a medium to long term, what is in your mind with all those levers you have, say for next year on FY23, for next three years or two years? And earlier we were looking at the margins of around 25%. But given the cost and all should we -- is there aspiration to – at a consol level to go to a margin in the range of, let's say, 28, 30%? So that's one question. Two in one.

Puneet Chhatwal: I don't know if you were just picking on our mind beyond a FY23 or you were reading our minds. Because we just had a discussion that maybe in March we should host our capital market day again and start providing this form of guidance. So please allow us a few days, Shaleen, you know you're most welcome anytime. And we will make that announcement, preferably in a in a physical event in March. As we think by February end things should be back to normal. So we are very happy to provide that guidance.

Shaleen: Sure, sure, sure, Puneet. Look forward to that then. Thank you so much.

Puneet Chhatwal: Thank you. Thank you, everyone, for joining the call. Thank you for your questions. And also the ones with whom we have discussed offline meetings going forward in the next weeks, thank you for your continued support and trust and have a very good day.

Giridhar Sanjeevi: Thank you.

Operator: Thank you. Ladies and gentlemen, this concludes today's call. Thank you for your participation. Stay safe and have a good year ahead. You may now disconnect