CHALET
HOTELS

February 4, 2022

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

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

Dear Sir / Madam,

Subject: Transcript of the Earnings Call in respect of the Unaudited Financial Results for the quarter and nine months ended December 31, 2021

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 in respect of the Unaudited Financial Results for the quarter and nine months ended December 31, 2021.

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

Baptista

Christabelle Baptista
Company Secretary & Compliance Officer

CHALET HOTELS LIMITED MUMBAI

Encl.: As above

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CIN : L55101MH1986PLC038538

"Chalet Hotels Limited
Q3 FY2022 Earnings Conference Call"

January 28, 2022

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

Moderator: Ladies and gentlemen good day and welcome to the Chalet Hotels Limited Q3 FY2022 Earnings Conference Call. We have with us today from the management Mr. Sanjay Sethi, the Managing Director & CEO and Mr. Milind Wadekar, CFO. As a reminder all participant lines will be in 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 for an operator by pressing "*" then "0" on your touchstone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjay Sethi, Managing Director & CEO from Chalet Hotels Limited. Thank you and over to you Sir!

Sanjay Sethi: Thank you. Good Morning ladies and gentlemen. I do hope that you are all doing well. While we are currently in the midst of a very volatile environment Chalet Hotels did have a very good Q3. We are also encouraged by the low severity of the current variant of the virus. Having been through two post wave recoveries we do believe that the bounce back after the current wave will be equally strong and the general opinion is that future waves if any will be mild and may not require restrictions. We have already seen UK and some other countries lift restrictions indicating a belief that the worst is past us. India too has removed the mandatory quarantine for international arrivals and many countries are discontinuing testing requirements for fully vaccinated travelers giving further confidence. By December 2021 India's air traffic numbers has already reached 79% of pre-COVID levels with significant contribution from business travel.

Allow me to share a perspective, the monthly occupancy of our hotels had dropped to 17% in April 2020 that is the first wave, in the second wave the occupancies had dipped to 23% in May 2021 and as of month-to-date for January once we are in the midst of the third wave our occupancies are at 36%, so 17%, 23%, 36% and this in the midst of our most transmissible variant of the virus. While this has resulted in some set back we are confident that this is temporary and we have no reason to believe that the third wave will anyway change our mid to long term outlook. Overall, the Q3 performance of the company is very satisfying especially in the second half of the quarter. For this quarter the consolidated revenue grew sequentially by 43% to Rs.1.66 billion and adjusted EBITDA for Q3 was Rs.474 million, a sequential improvement of 82%. Chalet's hospitality portfolio crossed the 60% occupancy mark for the first time since the beginning of the pandemic with reported occupancy over 60% for the quarter and December clocking 64% occupancy. Our star performers for the quarter Novotel Pune and Four Points Sheraton Vashi recorded 81% occupancy for the quarter and 85% for the month of December each and JW Marriott at Sahar in Mumbai had occupancy of 79% for the quarter and 70% for December. The average room rates for the portfolio at Rs.5078 for Q3 was up 26% from Q2 and the rate of Rs. 5558 for December was up 33% from three months earlier indicating a robust northward trajectory. Revenue from rooms grew sequentially by 40% and F&B saw a very healthy growth of 72% led by easing of restrictions. The hospitality segment reported total revenues of Rs. 1.42 billion, a sequential growth of 55%. The segment EBTIDA was Rs. 367 million, a sequential growth of 167%. As a reference point hospitality delivered about 85% of the total revenue for the company. The annuity business remains steady with the operating assets clocking revenues of Rs. 221 million and delivered EBITDA of Rs. 175 million for the quarter.

Some quick updates on the projects in pipeline. The renovation work at Renaissance Mumbai is nearing completion and the hotel is gearing up for a rebranding to Westin in the next few weeks. Site work for additional 88 rooms in Novotel at Pune will commence next week. On Hyderabad and Hyatt Regency Airoli we continue to evaluate demand dynamics to assess the opening of these hotels in case of Hyatt Regency we are yet to start any work there. On the commercial aspect, Bengaluru building is delayed due to labor situation during lockdown and increase in building height yielding a higher leasable area and is expected to be completed in the next two quarters an overall delay of one quarter. The new Powai commercial building is on track for commissioning early next year. As we had mentioned in the last call, we have restarted our dormant residential project at Koramangala in Bengaluru. The demolition work of the floors above 10th floor is underway post which further development will be undertaken for additional residential towers and for the 150,000 square foot of commercial space. Chalet's ability to pivot to different asset classes allows us to reassess the market dynamics of our projects on an ongoing basis. Based on our study of the demand dynamics of hospitality and commercial rental spaces in the Powai market, we have taken a call to change the use of the proposed 150 rooms 'W Hotel' project at Powai to a commercial building. This project could potentially have 750,000 square foot of leasable space subject to requisite regulatory approvals. Ladies and gentlemen, in summary, whilst we are in the midst of another slowdown we believe the ramp up will be swift and the robust occupancies and rates of the previous quarter gives us confidence for a back to normal business performance for the company before the start of FY2024. Allow me to now hand you over to Milind who will take you through the financial in some more details.

Milind Wadekar: Thank you Sanjay. Good Morning everyone. Reported revenue for the quarter was at Rs. 1,657 million which was higher by 43% as against adjusted Q2 FY2022 revenues. During the quarter, company recorded Rs.54 million other expenses towards repurposing retail assets to commercial and some other costs for the same. Adjusting for this, EBITDA was at Rs. 474 million against like-to-like performance in Q2 FY2022 of Rs. 261 million a growth of 82%. PBT post charges on depreciation and interest for the company were a negative of Rs. 264 million as against negative of Rs. 278 million in the sequential quarter of Q2. After taking credit for deferred tax assets of Rs.120 million, the loss after tax was at Rs. 144 million. The hospitality segment contributed to 86% of the total revenue of the company in

Q3 FY2022. Occupancy for the quarter averaged at 60% higher by 4 percentage points sequentially. The RevPAR for the same period was at Rs.3035 as against Rs. 2161 a growth of 40%. Revenue from hospitality was at Rs. 1420 million in a quarter, a growth of 55% sequentially. EBITDA was at Rs. 367 million, a growth of 167%. On the cost trend, we continue to maintain lower fixed and variable cost compared to our pre-pandemic performance. Fixed cost was lower by approximately 35% and variable costs were lower by 47% for the year-to-date as compared to the comparable period of FY2020. Payroll cost within hospitality reached 17% of revenue as compared to 15% of revenue in the financial year FY2020. Utility as a percentage of revenue was at 9% as against 7% in the financial year FY2020. Clearly indicating efficiencies build over the last two years at play while business catches up to pre-COVID level. We have renamed retail and commercial segment as rental annuity business. Steady rental income from operating commercial assets have kept the revenue and EBITDA from rental and annuity segment at Rs.221 million and Rs.175 million for the quarter respectively. As mentioned by Sanjay we are repurposing Inorbit Mall at Bengaluru and The ORB at Sahar. With the conversion, retail and commercial office spaces will be EBITDA and return accretive and stabilize earnings from rental assets further. Net debt for the company from April to December has increased by Rs.2.8 billion which included Rs.2.6 billion of capex spend. The net debt of the company as of December 2021 stands at Rs.21.5 billion. Our cash PBT that is EBITDA less finance cost for Q3 FY2021 was at Rs.30 million a positive number for a second consecutive quarter. This was led by prudent cash flow, working capital management along with strategic mix of assets. The average cost of rupee loan as of December 2021 stands at 7.55% an improvement of 49 basis points since March 2021. We have cash and cash equivalent of Rs.460 million or Rs.46 Crores as of December 2021 and undrawn lines of credit for project and general corporate purpose at Rs. 9,093 million that is Rs. 909 Crores. There has been no new subscription from promoters on 0% non-convertible redeemable preference shares for funding the outflow relating to this residential project during the quarter under review. Total subscription stands at Rs. 1,750 million as at December 31st. With this, we now open the floor to questions.

Moderator: Thank you Sir. Ladies and Gentlemen we will now begin the question and answer session. The first question is from the line of Archana from IDBI Capital. Please go ahead.

Archana: Thank you for the opportunity Sir. I have two to three questions. Sir firstly you spoke about Westin Hyderabad and Hyatt Regency Airoli does that mean that there will be further development of this hotel construction?

Sanjay Sethi: So Westin Hyderabad as a reminder is a hotel which was half done this is a warm shell lease so majority of our work was done by our landlords, we spent not too much money on it as of now and the balance time to complete this project is six months, so we continuously evaluate the demand dynamics in that particular micro market and depending on how the demand shapes up we will restart the project and get it operational in six months from the date of start. So yes we continue to put that on hold because you are going to remember we have 427 rooms already in that market, which are clocking occupancies ranging from 40% to 55% in the last four to five months, so we would like to wait and watch on how this progresses before we take a call. Airoli where the Hyatt Regency was proposed to come back, is something that we have not started any work, there is no shovels in the ground on that one, so the amount tied in right now is limited to Rs.5 Crores, which we have paid as a part payment for the use of the land, so there is very little cash tied up in that one and again while Airoli looks probably a quicker start, we would like to be dead sure before we commit new capital to it.

Archana: Sir my second question is on the Bengaluru market. This market has been laggard compared to the rest of the market, in last let us say three or four months though there has been some improvement still it is not at par, so how we should look at the inventory in the Bengaluru market and when do we some meaningful revival?

Sanjay Sethi: From our perspective we have seen the hotel ramp up occupancies from as low as 24% in Q3 the previous year to 40% odd in this current year and this includes the inventory size of 67 rooms that were occupied by ALC and they have paid us right up to 2024 in advance so that money is already in. If we take those 67 rooms out, the occupancy climbs up to about 47% and it is getting there the rates are also up in that market, so we do hope that this hotel will come back to speed in the next three or four months' time. Bengaluru Whitefield and outer ring road market is a little challenged market and probably this is one of the hotels, that had slower ramp up but we do expect steady business inflow in the near future. We have also got some special groups that have been checking in there, so we started opening up this hotel to various events ranging from sports events to weddings to conferences and social events so we do expect this hotel to ramp up.

Archana: My last question is on international travel, hopefully if the international travel starts by February end how we should look at the mix between these domestic retails, corporate and the international business travel?

Sanjay Sethi: Sorry I do not think international travel will start in full swing in February. In fact the government has extended the ban on regular flight till the end of February in any case, but there are enough airlines flying through the alternate route that the government has created. There are enough flights coming in. Now just to give you a reference the Chalet portfolio at 15% of its rooms occupied by foreign travelers and with the occupancy going up to 60% which means 9% out of the 60% occupancy came out foreign travelers so it is growing on a room per day basis and once the regular flights start I think we expect that to ramp up very quickly, but the domestic business travel has picked up pretty sharp and it is pretty evident in the month of November and December.

Archana: Sure Sir. That was helpful. Thank you so much.

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

Karan Khanna: Thanks for the opportunity and good morning to the entire management team and congratulations on a reasonably strong quarter. So Sanjay firstly since the pandemic has started we have noticed that there has been a change in the management philosophy from having three or four verticals that is hotel, commercial, retail and residential they are now focusing just on hotel and commercial while banking our existing residential portfolio in that context can you spend a couple of minutes here and help us understand how do you see the mix across these verticals say over the next three to five years?

Sanjay Sethi: Karan good morning and thank you for the question. Look you are right, we have moved out of the retail business. We did realize pretty quickly in the cycle that, that is going to be a challenge vertical, it had not been performing very well in any case earlier too, so we have done the pivot on that and readjusted the buildings to accommodate the commercial office spaces that has happened at JW Marriott Sahar's ORB location and it has happened in the Bengaluru Inorbit Mall, which has been converted to a commercial building, so in both these cases we are sort of refurbishing the buildings. At JW Sahar we have already had some success, two tenants have moved in, we are in advanced stages of conversations with some more tenants and we are pretty confident that two third of the square footage will be sort of taken up in the next quarter or so. At Bengaluru right now we are in the process of civil work that has to take place on account of this repurposing of the asset. And in fact in our financial if you look at our EBITDA numbers you will find that, that number is reflected because the cost of redoing that work and the write offs of the previous work that was done as well as paying terminations to some of the retail tenants has had an implication of roughly around 9.5 Crores and what we have done is in the last quarter done that correction and absorbed it. So yes then the demand seems to be strong from our earlier thought process that probably we would lease out in Bengaluru at Rs.50, 52, the current trends indicate somewhere between 8% to 10% higher rentals in the market and the square footage there is fairly large we have now got the new building scaled up to almost about 650,000 square foot and the whole mall is about 300,000 square foot so roughly close to a million square foot of office space to be leased out over there and at 55 odd rupees it looks like extremely wise decision to do what we have done. Mumbai at the Powai location also the 750,000 square foot of office new building that we are building which is halfway up is expected to be rented out at today's rates of about Rs.130 to 135 and by the time we get into the market it is about a year out we expect slightly more improvement on that so you can do your math 0.75 million square foot Rs.130 to 140 a square foot, clearly something that will add immense value to the balance sheet of Chalet.

Karan Khanna: Sorry for interrupting you Sanjay just to follow up on your Powai project, a proposal to convert the proposed 150 key hotel into commercial space can you give us some sense on the office supply and the absorption dynamics in the micro market and how many quarters do you think it will take to fully lease up your portfolio whilst acknowledging that there are different completion timelines for the upcoming 0.78 million square feet likely to be completed by 4Q FY2023 and the new 0.75 million square feet project?

Sanjay Sethi: I was coming to the new announcement today, which is the empty plot at Powai in the same Renaissance complex, which we had earlier thought of putting up a W Hotel. Since we have already 773 rooms on that land parcel we thought it wise not to add more inventories there and we have decided to put an office building. The demand dynamics seem to be strong for commercial. Just to give you a reference point the net absorption in the Mumbai market even in FY2022 the forecast that we have is roughly 4 odd million square feet and that is about 80% of the supply that is coming in so then Mumbai does not seem to have a challenge on absorption the office supply. In fact our own Mindspace has done a great job of leasing out into the previous quarters and the vacancy rate in Powai area is 12% odd, which is basically in line with what the normal trend is and also a lot of the buildings over there in Powai are old buildings so that is what is causing some of the vacancy there and the office rentals in Powai currently for this current year averages out to Rs.141 a square foot, so with all of that together I think we have taken the right decision. In terms of the phasing of the leasing we believe that the first building in Powai which will be completed in the last quarter of the next financial year, should be leased out 90% in about 12 months from then and the Bengaluru one we should be able to lease it out by the end of this financial year to the same 90% we are keeping about 10% as a buffer zone.

Karan Khanna: Given the high entry barriers in the micro market especially for the hotel segment can you help us understand what the expected IRRs would be had you completed the hotel project versus now commercial real estate that you are coming up with assuming market peak occupancies and ADR in the Mumbai market two to three years out?

Sanjay Sethi: You have got to understand why we are doing this. We are not doing this on a standalone basis we are doing this in existing land assets where already large box hotels are there so whilst in Bengaluru's case we have converted the mall which made a lot of sense. We have not displaced the hotel out of there. In Powai's case we have displaced 150 rooms because we already had 773 rooms in that location so again if we can get 750,000 square foot at Rs.140 to Rs.150 per square foot and EBITDA of close to 90% odd it is a no-brainer that you would rather look at Rs.100 Crores EBITDA number as against take the risk of adding 150 rooms to an already room inventory heavy location that we have so we are basically derisking the portfolio by getting annuity assets come to combine with our hotel operation assets.

Karan Khanna: Sure and lastly on the cost side will it be fair to assume that your staff to room ratio at 0.78x in December 2021 has bottomed out and where we could we see this to sustain when you say complete recovery in terms of the quarterly employee cost?

Sanjay Sethi: So Karan as we have said earlier we expect this to climb to about 0.9 employees to a room when we are back to full occupancy and full F&B business, which is still 25% more efficient than pre-COVID numbers.

ADR Sure that will be my last question. Thank you and all the best.

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

Vikas Ahuja: Good morning and happy New Year. Thanks for the opportunity and congrats on decent results and good execution. My first question is if I look at the hospitality revenue it has more than doubled compared to last year but if we compare similar quarter pre-COVID that is Q3 FY2020 we are still down 43% and clearly the pricing remained depressed with occupancy picking, now assuming if things normalize in the next three to six months how should we look on the timelines around getting back to may be pre-pandemic pricing I understand lot depends on international travels coming back but any color around that should be great?

Sanjay Sethi: Thanks Vikas and a very happy New Year to you too. Look at the trend right the ADR movement between Q2 and Q3 was up by 26% and the reason I gave a reference of December and I said compared to three months earlier which is September was to give you an indication on the trend line the September to December ADR movement was 33%. Now if we are moving 33% within three months and 26% quarter-on-quarter clearly the ramp up is on the ADR is also pretty sharp. The good part is and I think I probably missed them in my opening statement I can talk about it now is that in January whilst occupancies have fallen on account of the Omicron situation our rates have not fallen we have been able to hold rates from where we were in December so clearly the rates are on an upward move and as the restrictions get removed and regular travel starts back in our hotels we expect rates to again to start growing at similar pace to what we have seen in the previous, in fact we see Q1 to Q2 there was a growth, Q2 to Q3 has been a sharp growth. Right now we are flat but it is held rate so I am very confident the rates will also get to where we want them to be. In terms of full recovery when are we going to reach? Now I am hazarding a guess here but putting my neck on the line I think H2 next year and definitely Q4 next year we should be pretty close to where we were in the pre-pandemic numbers and for a full year we should cross the FY2020 numbers in FY2024 for sure.

Vikas Ahuja: Sure thank you. My second question is how much of the drop this quarter in commercial and retail has come through because of changing Inorbit to a commercial, also do you think if there was no pandemic you would have still gone through this plan of moving from retail to commercial and what kind of incremental benefits we are expecting from this move may be from a medium term perspective. I understand you have said that it is margin accretive but in terms of revenue, is it revenue accretive as well and secondly any rough numbers around it would be great?

Sanjay Sethi: Milind will come in with a couple of numbers but I want to give you some sort of color on this to begin with. Would we have done this had the pandemic not been there? We should have done it. I think this pandemic accelerated up the decision because clearly yield per square foot in the office space is higher than yield per square foot on the retail even when we look back to pre-pandemic numbers. Just the pure rental rate that we will get realizing on a mix of fixed rent and the revenue share was lower than what the rental in the market was so that is the short answer to this and may be Milind if you have anything else to add.

Milind Wadekar: Vikas if you look at quarter-on-quarter rental and annuity business income we were giving discounts and rebates to retailers in Bengaluru in Q1 so revenue was in the range of Rs.2.5 Crores to Rs.3 Crores in Q1, which has now become zero in Q3, but we started earning revenue from Sahar retail that is The ORB. It is to some extent compensated and from next quarter we will have revenue coming from The ORB. Around 70% of the property is leased out and will start earning revenue from that otherwise our Sahar commercial office our rentals are steady around Rs.17 Crores to Rs.18 Crores on quarter-on-quarter basis and we are billing them and the amount is getting collected. I hope I have answered your question.

Sanjay Sethi: Just one final input Vikas. I am so glad that we did this in the current times because in any case the retail guys were not going to pay us anything when this whole omicron and the second wave coming in, there would be no revenue share, they would have resisted fixed rentals, etc., and they would have refused even paying CAM so this is the best time to repurpose the assets and we have made use of this time.

Vikas Ahuja: Sure. I just have one final question. You have explained about the drop in efficiency of our Bengaluru market to the earlier participant just to add on is it fair to say that Bengaluru is more linked to the tech related travel and looking at the demand and hiring all these tech companies are doing right now, not only the IT services overall the tech ecosystems that once travel will open the Bengaluru we will see a very, very strong occupancy and pricing is it a fair assumption?

Sanjay Sethi: I do not want to give so much of details, but my general belief is that the combination of pent-up demand on IT, the new hirers that have joined the IT companies and the presence of lot of the BPOs and outsourced companies within that market are going to be definitely an enabler for our ramp up as soon as the IT travel and IT offices open. You have got to remember that with China out of play for most of US and UK lot of the outsourcing will again move back to India and their reliance on India is improving significantly on the BPO front so we do expect Bengaluru to come back very, very strong when things mobilize.

Vikas Ahuja: Thanks a lot.

Moderator: Thank you. The next question is from the line of Amandeep Singh from Ambit Capital. Please go ahead.

Amandeep Singh: Thanks for the opportunity. Whilst most of my questions have been answered can you give us some update on the remaining capex for the entire upcoming portfolio and will it be possible to break it asset wise or segment wise?

Milind Wadekar: Our major capex will come in the next financial year of around Rs.530 Crores to Rs.540 Crores, there will be Rs.120 Crores capex in Q4 and when capex will taper down from FY2024 we have not yet planned timelines for construction of new commercial office, which Sanjay just spoke about and out of that around Rs.200 Crores or Rs.220 Crores will be hotel capex, everything else will be commercial office building.

The balance cost to spend on Powai phase 3 is around Rs.400 Crores. We will be spending Rs.55 Crores in Q4, Rs.260 Crores in FY2023 and around Rs.90 Crores in FY2024. Bengaluru the balance spends is around Rs.150 Crores out of that major cost will be incurred in FY2023 around Rs.90 Crores and Rs.30 Crores in the current year and Rs.30 spillover creditors' payment in FY2024. These are two major commercial office capex and on hotel side we will spend Rs.20 Crores in the current quarter around Rs.135 Crores in FY2023 and around Rs.75 Crores in FY2024.

Sanjay Sethi: In big picture item we incurred capex of Rs.537 Crores in FY2023 and Rs.324 Crores in FY2023 out of which Rs.400 odd Crores will go towards commercial assets and Rs.135 Crores towards office assets in FY2023.

Amandeep Singh: This is really helpful. Just one breakup between the Novotel and Hyderabad hotel capex?

Sanjay Sethi: Novotel is not a very big capex it is 88 rooms and a small spa and we are adding some F&B facilities by the pool side. A total capex of Novotel is in the range of Rs.22 Crores, which will also be completed between current quarter and our next quarter itself actually.

Milind Wadekar: Balance capex is around Rs.75 Crores so it will be spread over two financial years FY2023 and FY2024 major portion will be incurred in FY2023.

Amandeep Singh: Secondly one book keeping question so can you help us with breakup between rooms F&B and other revenue for the hospitality business in 3Q?

Sanjay Sethi: Q3 sure.

Amandeep Singh: Maybe we can take that offline also. Thank you that is all from my side. Thank you.

Moderator: Thank you very much. The next question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

Adhidev C: Good afternoon everyone. Sir my question is mainly on the industry side firstly considering that players like yourself the leading guys are not incurring significant hospitality capex and we have also seen other leading players taking franchise or management contract route for expansion so then demand has come back right when the leisure and business travel fully kicks on, how do you see the demand supply outlook for the sector especially in four and five star hotels and is there a possibility of ARRs in FY2024 growing quite significantly just wanted to get your views on that?

Sanjay Sethi: Sure Adhidev allow me to address that. Before I get there a quick answer to the previous question. In Q3 our room revenue is 50%, F&B revenue was 42% and other revenue was 8%. On the demand and supply side, the supply side is expected to be very muted for the next four or five years so pre-pandemic the expected growth in supply CAGR for five years was 4.5% we believe that is half now to about 2% to 2.5% for the next four years for sure may be even five years and we combine that with the ramp up back to normal in occupancies, the occupancy should rise very aggressively and when occupancy rise to an extent or beyond 65% to 70% the upward movement of rate is natural and it tends to go up pretty sharply. We saw that happening in our portfolio pre-pandemic. The moment we crossed 70% occupancies our rates started growing pretty, pretty well so that is the overview.

Adhidev C: Second question you are considering that we are adding so many office assets right in the portfolio in a couple of years of time we will have a significant rental business as well so is there any plans to may be sell all these off may be at a good evaluation when the office market also fully revives by that time and bring down the debt on the balance sheet, is it something which is on the table or we would like to hold on to these assets?

Sanjay Sethi: Quick answer. The opportunity is there. It is an opportunity that is there in the market. Have we given thought to it, no and as long as they continue to be value accretive why sell. I think the only thing that we are looking at selling is the residential project which we have in Bengaluru and we have about 1.5 lakh square foot of office space there which we will be selling off through strata sales. Again, I will say is the opportunity there absolutely, are we planning to do something like that, not at the moment.

Milind Wadekar: To answer your question further and then if we look at LRD entitlements the parameters used by banks for giving LRD and once commercial assets start earning rental it will be in self finance mode. LRD entitlement for leasing will be taken care of by lease rentals earned.

Adhidev C: That is it from my side. That was very helpful. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Prateek Poddar from Nippon India Mutual Fund. Please go ahead.

Prateek Poddar: Sir just two questions. One is if you can just talk a bit about how is the trend this quarter versus last quarter in your properties, the second question I just wanted to clarify that you talked about 2.5% supply was it pure micro market or you were taking about Pan India?

Sanjay Sethi: Could you repeat the second part please?

Prateek Poddar: When you talked about 2.5% supply post pandemic to the previous participant's question I just wanted to ask whether it was your micro markets which you were referring to or this was Pan India scenario and last question Sir even if I were to edge off for the Rs.5 Crores of one off which is there this quarter do you see a massive increase in other expenses so may be if you can just help me understand because the occupancy has gone up by 4% on an average basis so just wanted to understand that?

Sanjay Sethi: Sure so staycation continues to stay pretty strong. As you know lot of people are either looking at leisure destination or looking at local destinations for stay to overcome the lockdown and the feeling of getting lockdown at home, reference point in December we did roughly around 1600 room nights of staycations in our portfolio so it continues to contribute but we also see regular business come back and I think December story was also a lot around the wedding and social functions over there. On the supply side, the answer was yes it is Pan India so therefore the Pan India growth on supply side we believe it to be 2.5%. On the cost side, I think there are two to three things. If we are looking at hospitality based pros there are three to four things that are moving the needle. One the revenue mix where F&B improved as a percentage of contribution to total revenue up to 42% of our total revenue was one thing because the F&B comes in with its operating costs and supplies. The second thing is that we did sort of cut away from any salary cuts for employee in the hotel so we have removed all that sometime in the middle of Q2 of last year and if you look at the overall company's or rather the consolidated performance you have got to keep in mind if you do a quarter-on-quarter comparison that the previous quarter we had the Accenture learning centres compensation that came into drive the EBITDA up and there were some Marriott rebate as well as some SEIS income that came in so these three had impacted the previous quarter. If we take those out the adjusted EBITDA is sharply up from Rs.26 Crores in Q2 to Rs.47 Crores in Q3, which is somewhere around 82% growth.

Milind Wadekar: Prateek to answer your question on other expenses, our other expenses have increased by around Rs.19.5 Crores quarter-on-quarter basis out of that Rs.5.4 Crores are nonrecurring one-off expenses for repurposing retail assets into commercial so balance Rs.14 Crores are incremental cost on account of incremental revenue, which includes repairs and maintenance, heat light and power, royalty and management fees, which pay to Marriott and other hotel operating cost so incremental revenue for the quarter sequential increase is around Rs.50 Crores and if we take out the nonrecurring expenditure other expenses increased by Rs.14 Crores.

Prateek Poddar: So the other way to ask is when I look at slide number 6 and when I look at incremental revenue and the flow through to EBITDA that seems quite low given the fixed cost structures we have so I am just trying to understand why do you see sequentially the improvement in revenue based on slide number six is roughly around Rs.60 Crores and the other Rs.22 Crores sequential improvement in EBITDA so the flow through is just 44% despite most of your growth with quarter coming from ARR increase and not occupancies so I would have thought for a higher flow through to the EBITDA which is not happening so any thoughts?

Sanjay Sethi: In fact the Rs.5 Crores that we spoke about the EBITDA growth works out to about Rs.27 Crores. On Rs.50 Crores it is 50% odd, but keep in mind this is an F&B element where the F&B revenue is going up significantly and that comes with its own cost the contribution margin of F&B alone.

Prateek Poddar: So on slide six the Rs.36 Crores EBITDA is like it has a one-off element included?

Sanjay Sethi: It does not have that one-off element it is a result of two to three things. One is salaries being sort of coming to full pay from Q2 and the revenue mix of the business. Also all the hotels moved into GOP or operating profit status the incentive fee for the brands kicked in.

Prateek Poddar: Got it and just sorry with going back to the staycation question just wanted to check this 4% improvement in incremental occupancy and may be the exits are quite strong but can you help me understand whether it is driven again by staycation or this incremental follows by business or has staycation on a quarter-on-quarter or on an exit basis come down or it has remained flat?

Sanjay Sethi: Staycation marginally come down this quarter so the increase in occupancy is driven largely by regular business and the group businesses.

Prateek Poddar: This is really helpful. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Amit Agarwal from Nirmal Bang. Please go ahead.

Amit Agarwal: My question pertains to a sharp rise in the ARR especially in Mumbai even when the occupancy remained flat so I was just wondering what would be the reason for that, was it that overall occupancy rate is going up in Mumbai or what is the reason for the 25% to 26% **growth in rates**?

Sanjay Sethi: I am sorry Amit I cannot hear you I heard the first part and I will answer that. The ADR increase in Mumbai is genuine. ADR increase and overall portfolio grew by 26% quarter-on-quarter. The 36% that you see on the slide is over the same quarter previous year, but the regular business coming back is the reason why the rates are going up so when you have business travel coming back and you have social functions coming back they tend to take your average room rate higher that is what happened.

Amit Agarwal: I will come back in the queue later.

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

Sumant Kumar: I have two questions. Number one overall what we get a sense from our strategies changed from say 150 keys hotel we are converting to commercial, retail space we are converting to commercial space so I would like to understand our overall we have changed whatever we were doing earlier. Focusing more on hotels and retail space now, we are shifting our focus to our commercial space so can we expect going forward our focus will be more on commercial side?

Sanjay Sethi: Sumant we are a hotel company. Having said, last quarter also 86% of our revenue came from the hospitality business. In fact I think previous call and the call before that we had indicated that the hospitality revenue may drop to about 75% of the total revenue and 25% could be out of commercial that is the vision that we have right now I think it is more is panning out in that direction. Retail we dropped because we have realized that it is just not making sense on the yield per square foot and they were not large assets whether it was The Inorbit Mall in Bengaluru or The ORB in Mumbai and the volatility with retail came to the fore during these last two years so we as a company have an ability to pivot asset classes given our in-depth understanding of the real estate business and we have applied that knowledge to do the pivot and thereby extending the balance sheet for the years to come.

Sumant Kumar: Assuming overall industry is moving towards a hybrid working culture where we have a work from home plus also office working. So do you think converting the hotel in Mumbai 150 rooms to commercial space is the right decision because in the hotel industry in Mumbai the supply is very low and going forward there will be a higher pricing power in hotel space?

Sanjay Sethi: Sumant I will answer your question one by one. So as far as Powai is concerned the 150 rooms have not been converted it was still to be built, so instead of putting that capex for hotel which is the far more capital intensive and the fact that in the same land parcel we have 773 operating rooms already that was the driving part of this decision. The leasing patterns in this market in spite of work from home continue to be strong. Can this be done all over India absolutely not, but in select markets and micro markets in the select cities can it be done yes absolutely it can be done and that is what we have done. It is very, very location and asset specific. Let me again clarify we are not reducing existing rooms. We were planning to build 150 more rooms which we not doing anymore so instead of doing 150 rooms, which could have given us an EBITDA of maybe Rs.15 lakh to Rs.20 lakhs a room of roughly around Rs.40 odd Crores we are potentially talking about Rs.100 Crores EBITDA with less capex.

Sumant Kumar: When it is going to complete?

Sanjay Sethi: This has not started as yet as we have announced. This is something that we have to take a final decision on, on the plans, the designs, and the approvals so this work will start a little later. We also want to make sure that the current building that is under construction of another 750,000 square foot on the same plot gets some leasing traction before we start committing to this.

Sumant Kumar: The last question, what is the cost we have done on anticipation of business recovery in say Q4 and upcoming quarters is there any potential to reduce cost if the business is going to bounce from Q3 to Q4?

Sanjay Sethi: If you look at our history over the last seven to eight quarters, we have been able to do that squeezing off the taps, squeezing it on and when the market conditions require us to do so. We did that in the first wave, we did that in the second wave and the third wave also whatever was required to be done without putting all our stakeholders through undue stress we have done what needs to be done. I would also like to remind you that as I said in wave one our occupancy was 17% in wave three it is 36% so it is more than double of what wave one occupancy was so the cost cutting measures need not be as strong as they were in the wave one, also the ARRs are significantly higher than the previous wave.

Sumant Kumar: My question was as we have increased the cost in Q3 on anticipation of better business in Q4 so that might go down in Q4 whatever we have seen in Q3?

Sanjay Sethi: So there were variable costs that went up on account of revenue especially on revenue and F&B. As and when revenue comes down those variable costs come down.

Sumant Kumar: Employee cost which has increased in Q-o-Q there might be some variable cost reduction will be there in the Q4?

Sanjay Sethi: There will be proportionate variable cost reduction.

Sumant Kumar: Thank you so much.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Sethi for closing remarks. Over to you Sir!

Sanjay Sethi: Thank you everyone for taking time to have this conversation with us. It is always very fulfilling to have this conversation and some of your questions do allow us to reflect on important matters for the company. Once again stay well and we look forward to engaging with you either one-on-one or in group calls in the near future. Thank you.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of Chalet Hotels that concludes today's conference. Thank you all for joining us and you may now disconnect your lines.