August 4, 2023

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

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

Dear Sir / Madam,

Subject: Transcript of the Earnings Call in respect of the Unaudited Financial Results for the quarter ended June 30, 2023

Pursuant to Regulation 30 read with Para A of Part A of Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations'), please find attached herewith the transcript of the Earnings Call held by the Company on July 31, 2023, in respect of the Unaudited Financial Results for the quarter ended June 30, 2023.

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

Request you to take the same on record.

Thanking You.

Yours faithfully,
For Chalet Hotels Limited
CHRISTABELLE BERNADETTE BAPTISTA
Digitally signed by CHRISTABELLE BERNADETTE BAPTISTA
Date: 2023.08.04 20:36:40 +05'30'
Christabelle Baptista
Company Secretary and Compliance Officer

Encl.: As above

“Chalet Hotels Limited

Q1 FY24 Earnings Conference Call”

July 31, 2023

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

Moderator: Ladies and gentlemen, good day, and welcome to First Quarter Ended FY '24 Earnings Conference Call of Chalet Hotels Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjay Sethi, MD and CEO, Chalet Hotels Limited. Thank you and over to you, Mr. Sethi.

Sanjay Sethi: Thank you, Nirav. Good morning, ladies and gentlemen, and thank you for joining us for Chalet Hotel's earnings call for the latest quarter. I trust you've had an opportunity to read through the results and the presentation, which were uploaded on our website a couple of days back.

While the global hospitality industry has been resilient with strong RevPAR numbers on the domestic front as well, the ADR-led resilience has continued robust momentum. Domestic air travel continued to exhibit strength through April and May, but did see some seasonal slowdown in June, while international air traffic is now touching pre-COVID levels. The IMF has recently raised India's GDP growth forecast to 6.1% from 5.9% for the financial year, driven by strong inbound investments in Q4 of FY '23.

The consumption story for the country remains strong on favourable demographics, improved air, road and rail connectivity and the government's push on infrastructure projects. At the same time, the hospitality industry continues to be in a favourable demand-supply cycle, which bodes well for the industry and our company. Chalet continues to break previous records of its own performance and I'm happy to report the best-ever quarter 1 in room rates as well as on top line revenue. The average room rates for the portfolio at INR10,317, recorded an industry-leading growth of 38% year-on-year.

Our consolidated revenue for the quarter was INR3.1 billion, representing a 21% increase, which compared -- when compared to the same period of last year. Consolidated adjusted EBITDA for the quarter stands at INR1.3 billion, reflecting a 24% growth year-on-year. There is a one-time impact of INR57 million on account of preopening expenses at the new Hyderabad hotel and a payout of GST charges of INR107 million.

In the Hospitality segment, the revenue grew 23% year-on-year to INR2.8 billion. Room revenue grew 30% over Q1 of FY '23, while costs remained well under control. The portfolio F&B revenue at INR0.9 billion was 8% higher than the same quarter of the previous year. EBITDA for the Hospitality division was at INR1.1 billion with an EBITDA margin of 40%. If you exclude the one-off expenses that I mentioned earlier, that is on the Hyderabad hotel, the EBITDA margin for the hospitality business was actually 42.5%.

During our first full quarter of operating the Dukes Retreat under the Chalet umbrella, the focus has been to integrate and align the hotel team with the culture of Chalet and introduce changes aimed at enhancing guest experience. We are in advanced stages of designing for expansion and repositioning of the resort and we expect to commence work on-site in early October of this year. We now expect to add approximately 70 new rooms, to the property, up from the earlier plan of 50 additional rooms. This will take the key count of the resort to around 150.

Ladies and gentlemen, on the 4th of June, we proudly launched the Westin Hyderabad HITEC City an all women-run 168-room hotel. Other highlights of this property are the entire property has been exclusively booked by 1 client for a period of 3 years and the entire hotel is run on green power. Leasing at the 2 office assets in Bangalore and Mumbai has been progressing a little slower than expected. However, the pipeline of lease is strong and we are probably going to see a lag of around a quarter from our earlier leasing plans.

A quick update on the project pipeline. On the commercial projects, for example, at the Cignus Whitefield Bangalore Tower 1, the first client is expected to occupy the top 3 floors of this tower in the next few weeks. The second building, the Cignus Whitefield Bangalore Tower 2, which is repurposed from a mall is in final stages of completion and will be ready for handover to our tenants from September of this year. The Cignus Powai Tower 1 at Westin Complex in Powai is in final stages of completion and at the second commercial tower at Powai, all the approvals have come in and site preparation work has already commenced.

On our hotel projects, the additional 88 rooms at Novotel Pune Nagar Road are ready and we are waiting the OC of the floors to open up the inventory. The work on the upcoming Taj Hotel project at the Delhi Airport is on schedule and project work on-site will commence sometime in the current quarter. The design for the additional 130 rooms at Marriott Bengaluru are ready. We have earlier mentioned 140 rooms, but the recommendation has come that we create some long-stay products in that. So, we've converted some of these rooms into service apartments, consuming more than 1 bay. So, expected key count growth there is now 130 rooms. And we shall be starting work on the site in the next few months.

For the Raheja Vivarea, our residential project at Koramangala, Bengaluru, the RERA registration is now completed. We expect to commence sales for the project in the festive season towards the end of the calendar year 2023. As part of our growth strategy, we continue to explore opportunities for high-quality ready and greenfield assets in key cities and leisure locations.

In conclusion, I can say with significant confidence that the combination of strong tailwinds for the industry and our own strategic growth initiatives hold a strong promise for the future of Chalet Hotels.

On that note, I now hand over to Milind to give you a deeper flavour of the key numbers of the quarter.

Milind Wadekar: Thank you, Sanjay. Good morning, ladies and gentlemen. Let me start on a positive note. ICRA has upgraded the credit rating of the company to A- with positive outlook from BBB+ with a stable outlook. We have come a long way from turbulent to robust business environment with strong macroeconomic tailwinds for the country and the sector. We continue to deliver strong performance. Keeping out the seasonality of the business, we delivered the best-ever quarter 1.

I would like to highlight the resilience seen in our ADRs, which was at INR10,317 for the quarter under review and was higher than the ADR seen in the seasonally better quarter Q3 FY '23 at INR10,168. In the Hospitality segment, revenue grew by 23% year-on-year basis to INR2.8 billion for the quarter ended June '23, led by strong ADR growth. We saw healthy growth across our portfolio. Reported hospitality EBITDA for the quarter was at INR1,141 million, which included one-time preopening expenses related to Westin Hyderabad HITEC City of INR57 million. Excluding the impact of this one-time expense, the EBITDA was at INR1,198 million, which translates to an adjusted EBITDA growth of 26% on a year-on-year basis and margins of 42.5%. Both the Westin hotels at Hyderabad operate as a cluster and are expected to report higher margins with the commencement of operations of the new property.

I would also like to highlight that this was first full quarter of operations for the Dukes Retreat and about a month's performance for the new Westin at Hyderabad. Employee expenses were at 13% of total revenue, which included annual salary hikes and employee expenses for Dukes and the new Westin. Consolidated revenue for the quarter was INR3.1 billion, a growth of 21%, year-on-year basis.

As shared by us last week through a stock exchange intimation, GST department had commenced search proceedings at our offices and some of the hotel units. Subsequent to that, they have identified certain input credits pertaining to July '17 to financial year '23, which the authorities believe to be ineligible for such claims. Accordingly, the company has made a GST payment of INR107 million on 27 July, 2023. And the same has been taken into account in the results under discussion. Excluding the impact of this and the one-time preopening cost, consolidated EBITDA was at INR1.3 billion or 41% of total revenue.

The company has received NCLT approval for the amalgamation of 2 of its wholly-owned subsidiaries that is Belaire Hotels Private Limited and Seapearl Hotels Private Limited, owning company for Novotel Pune. Subsequently, the financials for FY '23 were restated and we have recognized a deferred tax asset of INR584 million in taxable losses for the 2 entities in the quarter under discussion. During the last quarter, the company spent around INR800 million in capex on the operating projects. Post this, the net debt of the company increased by INR300 million from March '23. The rest of the capex was funded by internal accruals.

Out of the total debt of INR25 billion, around half is allocable to new investments in office building under construction, new hotel projects and hotel expansion, leaving the company at a healthy leverage and return ratios on invested capital. The cost of finance as at June '23 declined 19 bps quarter-on-quarter to 8.56%. The company has a capex plan of INR5.6 billion for the remaining part of FY '24. This includes capex of INR2.6 billion on the commercial projects, including the second commercial tower at Powai. The balance of INR3 billion includes the capex of renovation and room addition at Dukes Retreat, new hotel in Delhi, expansion at Marriott Hotel in Bengaluru and other repair and renovation costs of our existing hotels.

Business is well-funded with internal accruals. Available lines of credit and undrawn lines of credit are at INR5.5 billion. On the residential project at Bengaluru, the construction work is in full swing. The total subscription received from promoters stands at INR2,000 million and the promoters have given INR700 million as interest-free loan as of June '23. As Sanjay mentioned, the project is on track for cash generation in the current financial year.

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

Moderator: We'll now begin the question-and-answer session. First question is from the line of Vikas Ahuja from Antique Stock Broking.

Vikas Ahuja: Yes. Yes, sure. Thanks for the opportunity and congrats on another good quarter. I have 3 questions. First one is, what is the reason of 70% occupancy, which is lower since you have reported data in any of the Q1s, obviously, excluding the COVID period? That's my first question. Should I ask other 2 questions also right now or do you want to answer the first one and then go ahead.

Sanjay Sethi: If you can limit yourself to 2 questions, we'll come back to you after the second one. Ask the second one also, please.

Vikas Ahuja: Okay. Sir, second one is, can you please also talk about the recent weather-related impact we have witnessed in the month of July? And is it similar to what we experienced during July of last year? So yes, I mean, these 2 questions. And one I had a little bit of longer-term that maybe if I can come back.

Sanjay Sethi: Sure. Thank you, Vikas. Good to have you back on the call again. So, the 70% occupancy that you're referring to for Q1 is actually not a bad occupancy. It's a pretty decent occupancy. It's just that last year, we had the IPL happening in our Mumbai hotels, if you recall, for almost 2 months. We had IPL teams in the 3 big hotels that we have in Mumbai, the JW Sahar, the Westin Powai and even in the Four Points Sheraton in Vashi. So these 3 hotels, IPL business had taken the occupancies up. But as you can see, in spite of IPL not happening in a concentrated basis in Mumbai this year and being spread across the country, the portfolio shows very healthy occupancies at 70%.

And I differ from you that 70% occupancies are lower than what they were there pre-pandemic. I think pre-pandemic, we were at this or lower. So all in all, it was a good quarter. And this was on the back of a very aggressive rate growth. You do tend to let go of some low paying business when you're increasing your rate so rapidly. So, you've got to keep that in mind. On a RevPAR basis, which impacts the overall revenue and profitability of the company, I think we've done brilliantly well.

On your question regarding the weather in July, rains have been very intense in whole of July. In fact, later part of June and whole of July, it has affected some amount of the F&B and banquet business. And if you have -- July, I think we had 4 Red Alerts in Mumbai alone. And when a Red Alert gets announced, people outside the city do not have a sense of how bad or good it is. They tend to defer plans. And we've seen that happen during July a little bit. But all in all, it's -- I think Mumbai has held out extremely well in spite of the rains and the city has been largely -- has not been flooded. So that's a good -- very positive sign to give a lot more confidence to people.

So that's the 2 questions, Vikas. Have I answered them?

Vikas Ahuja: Yes, yes. I mean the only thing is when I talk about the occupancy, so even if pre-COVID, when I look at Q1 '20, Q1 '19, we used to do somewhere around 75%. But you are saying that we shouldn't read much into this quarter occupancy. And it's largely because of the rates and also...

Sanjay Sethi: You've got a RevPAR growth of some 26%, 28%, revenue growth of 30%. We will apply what's available to us as best practices in revenue management and go either the occupancy or the rate route, depending on what's best for the business.

Moderator: Next question is from the line of Karan Khanna from Ambit Capital.

Karan Khanna: Thanks for the opportunity and congratulations on another strong quarter. So firstly, talking about the newly opened Westin Hyderabad at HITEC City. Sanjay, could you talk about the terms in terms of the ARR's annual escalation and the lock-in period at which you've sold out the rooms? And as a follow-up, given that strong demand, would you look to add more rooms here to meet more such capital demand from corporates at Mindspace Park?

Sanjay Sethi: Thank you Karan, so yes, to answer your Hyderabad question upfront, we're very excited about the hotel. Given that -- we were opening 168 extra keys in that market. There was some concern because of the shape of the IT industry, etcetera. But this turned out to be a boom -- brilliant boom that we were able to lock-in the business with one single client. The agreement is for 3 years with a 1-year lock-in or 14-month lock-in, which gives us an opportunity not to have a ramp-up period. So, we're getting 100% occupancy at market rates to begin with on day 1 itself.

We opened it to guests on 4th or 5th of June and we didn't have all the inventory available because we were still completing some of the rooms and some of the public areas during that period. But over the period of the next 10, 15 days, we were able to hand over all the 168 rooms and they've occupied all rooms as and when they came by.

In terms of rates, I wanted to give you detailed rates, but I think our presentation has already given you an essence that they are occupied at 100% occupancy, complete use of the public areas in the F&B space. And we've built in fairly strong increases year-on-year to this year's rate, which is in line with the market rate. So, market rates increase annually, which is in double-digit plus growth year-on-year for the next 3 years. That's all I can share with you. Rest of it is confidential data of the client. On a RevPAR basis, this hotel is actually outperforming the Hyderabad Mindspace, which is the hotel 1.

Karan Khanna: Sure. That's helpful Sanjay. Following up, if you talk about your room income versus the F&B split. So this was 37:63 in first quarter of FY '23, which has gone down to 33% F&B and 67% room. Because when you look at your other larger listed peer, for them, the rooms, the F&B to room income split has been 45% to 55%. So if you could help us explain the divergence in terms of the trends that are shifting more towards the room rate? Is it because of the way room rates have gone up for your business? Or is there any other trend that you're picking up in terms of F&B.

Sanjay Sethi: So, look at it from a perspective, overall perspective, Karan here. Occupancy has gone down, right? What's driven our business is room rates. So, there's a disproportionate increase in room revenue in spite of lesser guests in the hotel. And despite that, we've had 8% growth in F&B revenue. So, look at from that perspective, you will find that it is a pretty decent performance. It's just that we are really doing well on the room rate side that's causing this imbalance that as you see it. From our perspective, there are 2, 3 things, one, it is growing. Number 2, we did have

1 or 2 of our F&B outlets out for renovation. For example, the one restaurant in Powai and -- is under renovation, a small -- the smaller ballroom in Powai was under renovation, it's being -- all being handed over now. In fact, has been added back. And the second specialty restaurant in Powai will get handed over another 3 months' time.

So, all that's been out of action. But overall, whilst we could have done slightly better in F&B, if you really look at the big picture, it is not a dismal performance by any standard, but some decent performance.

Karan Khanna: Certainly, your staff to room ratio has gone up to 0.96 for the quarter. And I remember in the past, you spoke about 0.9 number as where you expect this stock to room ratio to settle at. So, we have seen the increase in employee costs across the board amid higher attrition and talent crunch in the industry. So, what kind of staff cost increase do you expect going forward? And where do you see this number settling.

Sanjay Sethi: So, there are 2, 3 things that have happened and 2, 3 things that will happen going forward, Karan on this. One, we added Dukes Retreat, which has an employee ratio, which is much higher than the rest of the portfolio. So that dragged up the rate -- the employee numbers a little bit on a per room basis. But I did mention earlier also that I expect it to be within one, but it will hover around that area as we build in services and open new F&B outlets in our hotels because as and when you open new outlets in hotels, they will require employees, right? And the number of rooms will not change. So that's going to be difficult to hold to. But we are still committed to staying at 1 below, in fact, below 1 is our goal.

The things going forward, 2 things are going to happen. We haven't got the full impact of Westin -- second Westin hotel, which is The Westin HITEC. And when you get it this quarter with 168 rooms operating at I think point 0.6 or 0.65 employees per room, that will bring down the average a little bit. We've got 88 rooms in Pune, which are about to open, which will have an incremental impact, which will be very minimal in terms of number of employees. And then we're applying the 130 incremental rooms in Bangalore, which will also have a very minimal incremental impact in number of employees. So, hovering around this 0.9 and 1 range is the range that we want to be at.

And we have, obviously, over the last few quarters, focused very strongly on the guest experience part of it to stay competitive in the market and we continue to serve our guests at the optimal. But am I concerned about these numbers at 0.96? Not at all. It is by far an industry-leading number for our category of hotels, which is in the upper upscale and luxury space.

Karan Khanna: And lastly, you've onboarded Mr. Shwetank Singh who has been appointed as the Chief Growth and Strategy Officer. So, is this in line with your strategy to focus more on the Leisure segment given his past -- he was involved at Golden Sands LLC in Dubai. So, is this step in that direction to increase your presence in the Leisure segment?

Sanjay Sethi: So Karan, Shwetank comes in with a rich experience on growth and development.

Yes. So Shwetank comes as I said, with rich experience under his belt on business development, growth, asset management, all of that is his forte and he comes with that. And he will come and strengthen our top and senior management team that we have at Chalet Hotels to prepare us for the next jump and growth that we are planning to have in our company. I hope that answers that.

Moderator: The next question is from the line of Archana Gude from IDBI Capital.

Archana Gude: I have 2, 3 questions. Sir firstly, can you please help us understand the management thought process on partnering with Indian Hotels for new -- our New Delhi Hotel?

Sanjay Sethi: So, thank you for asking the question, Archana. We had covered this the last time around, but for your benefit, I'll just repeat this. We've always been brand agnostic in terms of our strategy of deploying brands at the locations. We have looked at what is the most suitable company or brand to operate that hotel or put on that hotel, we have decided that we will go with the franchise route in the Delhi one, which means we will run the hotel on our own. We needed a brand to partner us in terms of the brand on the building, the distribution and sales capabilities and the loyalty programs.

And given that the hotels that were there in Aerocity area or near the airport over there, we thought the best fit will be someone who isn't present in that area so that all the focus on sales and marketing, distribution and loyalty program will be centered around this one hotel that they're building up. And so therefore, we decided to go with the Taj brand on this one. The IHCL team was very welcoming. And I think we've had great relationships in the past and we look forward to strong relationships in the future. I might also add that Taj has shown that the brand has done well at other airport locations in Mumbai and Bengaluru.

Archana Gude: Sir, my second question is on the mix of domestic and foreign guests. So from current level of 33% of foreign -- in the overall contribution, how we should look at this segment from, let's say, 2, 3 years down the line?

Sanjay Sethi: I think it's difficult to predict this, Archana, but I think we should be a around an equal share in a year or 2 from now. In fact, I think this should start leveling out from October-November of this year.

Archana Gude: And lastly, sir, if I can just squeeze in one more. So, on the Cignus Powai and Bengaluru, can you help us with the demand and some colour on rental rates for the commercial properties in and around our properties and also the typical lease period?

Sanjay Sethi: So, typical lease period ranges from 5 to 9 years, around that much. Bengaluru, the market rates over there are hovering around INR60 rental. Powai, the market rates are between INR110 and INR125 and some good buildings is even going up slightly higher. The demand -- on the demand side, Bengaluru, in the latest report that was, I think, released by one of consultants seems to be right on top. So that sort of reiterated our belief that, that market will do well followed by Mumbai at number 2 in terms of demand, its option, as a percentage of supply.

So on both cities, we are confident that whilst it will take a little time, we took the right decision. In any case, this was built on land that we already had. So, we're sweating the real estate assets that were in the Chalet portfolio. And as and when they get occupied, we are seeing very, very strong returns coming from these assets.

Moderator: Next question is from the line of Adhidev Chattopadhyay from ICICI Securities.

Adhidev Chattopadhyay: The first question is that the Dukes that we have expanded the number of rooms. What is the revised capex number? And since you're starting, you said a construction or expansion works in October, but when do we see the new rooms becoming operational? That is the first question.

Sanjay Sethi: So, Adhidev, at Dukes, we had 80 rooms to begin with, that's what we acquired the asset with potential development of adding more. Initially, we thought we'll add about 50-odd rooms, 48 to 50 rooms. With the revised FSI and all that we have in hand and the ground coverage that's available and the views that we have, we've been able to fit in 70 extra rooms without diluting the product at all. In fact, the product gets enhanced significantly with this renovation and expansion, which will take the key count to 150. As far as capex is concerned, it's going to be in the range of about INR100 crores, give or take a few. In terms of opening, we are expected to open maybe around 80 out of the 75 -- 150 rooms in April next year and the balance by September-October next year.

Adhidev Chattopadhyay: So to understand, in October all the rooms will be going under renovation or it is you will keep around 50 rooms operational?

Sanjay Sethi: We'll have about 60 rooms operational still.

Adhidev Chattopadhyay: Okay. And the INR65 crores capex number earlier is now INR100 crores, right, for the entire...

Sanjay Sethi: Something yes, it's now INR100 crores, which is on account of increase in inventory and also we have repositioned the resort. See, earlier we thought this was INR8,000 hotel, which we'll reposition to maybe about INR9,000, INR10,000. But looking at a far higher reposition, now I don't want to give you the numbers right now. We are looking at positioning it higher than the originally planned. So, the combination of increased inventory and repositioning the resort at a higher level has led to some increase in the capex cost, but the returns continue to be very healthy, in fact better than we expected earlier.

Adhidev Chattopadhyay: And second question is on the leasing pipeline for the first -- the two Bangalore assets and Powai. Obviously, you said it has been deferred by a quarter, the leasing decisions, but can you just give us some colour by what is the targeted leasing maybe by the end of this year for both these assets?

Sanjay Sethi: So, I think we should finish leasing of Bangalore in about 2 or 3 quarters from now. Q4 is -- I think end of Q4 could be a comfortable closure for Bangalore and Powai maybe another couple of quarters after that, 1 or 2 quarters after that.

Adhidev Chattopadhyay: But you are actively in discussions, right, to lease these properties out?

Sanjay Sethi: Yes. Absolutely. Absolutely.

Moderator: Next question is from the line of Jinesh Joshi from Prabhudas Lilladher.

Jinesh Joshi: Sir, I have a question on the opening timeline of Novotel. I believe the rooms were ready in 4Q and we were awaiting OC back then. And in this quarter too, there has been a status quo to say.

So, any specific reason for a delay in getting the OC? That is one. And second follow-up is with respect to the second tower in Bangalore of about 0.3 million square feet. I think during the last communication, we were expecting the handover to begin in 2Q, and now we are saying that it will happen in 3Q. So, again, over here too there has been a delay. So, if you can highlight these things...

Sanjay Sethi: So, Jinesh, as far as the OC in Pune is concerned, yes, there was a specific reason that this got delayed. If you recall, we acquired this asset from a U.K.-based fund who owns 74%, 26% was owned by Accor Hotels. We acquired this in February of 2020. While we were applying for the OC process, they were -- the department found some comment on the file that the owners were -- they had to pay them some INR3 crores for the expanded parcel of land, which included our hotel and a large plot owned by someone else. Now, whilst we were okay with paying the amount and the taking up the OC, we didn't want to pay for the others, which was an unfair thing to do. We've now sorted it all out, and we're expecting the OC the next few days.

As far as the second tower in Bangalore is concerned, we said Q2 is when we'll probably handover. We are still looking at September, which is still end of Q2. But as I said, leasing has taken slightly longer. And I'm hoping by the time we come back in the next quarter with you and we'll have far more specific details of leasing and how that's progressing. And I'm sure we'll have positive news on that.

Jinesh Joshi: My second question is with respect to the Koramangala project. I understand that the 4 towers are ready and we expect to receive OC in...

Sanjay Sethi: Jinesh, I'm sorry, I can't hear you.

Moderator: Sorry, we're not able to hear you.

Jinesh Joshi: Is this better now?

Sanjay Sethi: Yes.

Jinesh Joshi: Sir, my question is pertaining to the Koramangala project. I understand the 4 towers are ready and we expect the OC to be received in the next 2 weeks or so. But how has been the progress on the remaining 7 towers and the commercial block and also with OC being around the corner, what kind of cash flow push can we expect in the upcoming quarter?

Sanjay Sethi: So, I'm going to come up -- to answer the first part of the question, I'll request Milind to also comment on the cash flow part. So progressing well, on schedule. As we had envisaged before, we should be able to complete this project in the -- over a period of the next 2 years, that includes the new tower and the new residential tower and the office tower. However, 7 towers were in fair amount of completion from the beginning. And 4 of them are now ready for OC. So therefore, a significant amount of work is already done.

We -- so to summarize it, on target as planned earlier, OC got a little delayed, but we are in time for the festive season commencement of sales. So, looking good. And in the interim, the market has strengthened a lot more. So as far as on a rate per square foot goes, we do see a lot of positive upward move.

Milind Wadekar: Jinesh, Milind here. To give you a further update. OC for 4 wings we are expecting in the next few weeks and for 3 more wings in the next 2 or 3 months. The construction work is in full swing. And once we get OC, we can start sales. And we expect around INR80 crores to INR100 crores cash, surplus cash to be generated from this project in FY '24.

Jinesh Joshi: Just one last bookkeeping question, if I can just squeeze in. Sir, if I look at our debt on a sequential basis, it has hardly moved and even the interest cost is down from about 8.75% to about 8.56%. Yet our interest cost on a sequential basis has gone up from about INR40 crores to INR45 crores. So, if you can just highlight the reason behind this?

Milind Wadekar: Still not sure, not audible.

Sanjay Sethi: No, no, what he said was, whilst your debt hasn't moved and interest cost has come down, why has interest value gone up? That's because of capitalizing.

Milind Wadekar: Jinesh, last quarter, we have capitalized our Tower 1 at Bangalore. So finance cost, which we are capitalizing now hitting our P&L. So that is accounting standard requirement. From that perspective, cost has -- I mean, finance cost debit has gone up.

Moderator: Next question is from the line of Kaustubh Pawaskar from Sharekhan by BNP Paribas.

Kaustubh Pawaskar: My question if again on the room rentals. This quarter, we have seen strong growth in average room rental for our property. Second half, there is a lot of optimism building of around World Cup, G20 Summit and there are other reasons. And also foreign tourists are also expected to come back. So considering that, what kind of room rental hike you are expecting for our properties in second half of the year? And the occupancy level, I can understand this quarter -- last quarter, there was a big effect. But overall, occupancy should remain stable in the second half of the year for us?

Sanjay Sethi: Kaustubh, look, number one, we don't give forward-looking statements. I need to stay say that upfront. However, for the last year as a whole I have stated in the past, including in public forum that we expect comfortable double-digit growth on rate for the next 2 years. So please consider that as the industry indicator for you. Second half is typically better than first half. And this, again, is something that we've shared several times.

So, you can keep that as a reference point. Rates and occupancies both improved in the second half. So that should help the RevPAR to grow fairly comfortably. And F&B comes back with a bang during the period and our Mumbai hotels and even some of them in Hyderabad and Bangalore have fairly large banqueting facilities which get assisted during the wedding season, which typically happens in the second half.

Kaustubh Pawaskar: And sir humble request, it would be great if you could share the region-wise occupancies and ARR for your hotels, which you used to do earlier?

Sanjay Sethi: Kaustubh, I know that this has been taken off from the presentation this time and it has come through advice from a well-wisher who said, look, by giving data on cities where you have only 1 hotel at a time, you are actually giving away confidential data on average room rates for that particular hotel and the occupancy, which can be used by competitors for pricing strategies and decisions. So therefore, from this quarter onwards, we'll stop doing it. And since we stopped doing it on the presentation, I can't share with you also. So apologies for that. It's a little bit of a, I know a limitation from your analysis perspective, but I think we're doing the right thing.

Moderator: Next question is from the line of Vikas Ahuja from Antique Stock Broking Limited.

Vikas Ahuja: So, my third question was if we look at 2 of the largest Indian players, including one which is about to get listed separately, both have pretty aggressive expansion plans and we can always debate on management fee contributing to total revenues being low. However, in absence of any strong brand, how do we think that double-digit growth? Is it doable for us once we -- once rates stabilize in the next 2 to 3 years? And don't we think debt in the books will hamper our ability to acquire good assets? And also at any point in time in future, are we -- do you think it makes sense to launch your own brand as well? That's about it.

Sanjay Sethi: Thank you, Vikas, for asking that. I've said this before that we've continuously looked at having an own brand. We've studied the pros and cons. Especially during the pandemic period, we did look at Blue Sky Strategies and we considered that. Given our strength on asset development and asset management, at that point of time, we've taken a decision not to go with the brand. But that doesn't mean the decision is closed. We will closely monitor the landscape of the hospitality industry for the country and do what we think is in the best interests.

As for your comment about double-digit growth, I don't see that as a problem at all. Next couple of years, even on a same-store basis, double-digit growth driven by average room rates and occupancy is fairly comfortable. Add to that, the supply pipeline that we have. You got to remember, if you open a 200, 300 room hotel, we're talking about INR60 crores, INR70 crores of EBITDA contribution straightaway. So, there are step-ups and jumps that happen with every hotel that we open.

So, I don't think you should be concerned about capability of growth for Chalet. As far as the debt is concerned, debt does taper down very sharply in a year, 2 years from now. And our internal accruals will continue to build up very sharply. All of that will give us an opportunity to -- for growth, opportunities that may be available in the market.

Vikas Ahuja: Sanjay, so the question regarding the double-digit growth was not related to next 2, 3 years because I understand you have a lot of expansions which are going to come and rates are going to be pretty elevated. So my question was once maybe in next 2, 3 years, once you have exhausted all of your pipeline and also the rates also stabilize, because next 2, 3 years, it's going to stabilize, right? So after that, I was -- this is from more of a medium term. Post that, do you think we can still do -- because our strategy is more about growth over anything else. So, do you think we can still do double-digit growth, maybe FY '27-'28 onwards, is what my question was?

Sanjay Sethi: Yes, Vikas, 2 things. Number one, I didn't say that the asset-light thing is off the table. I said, we looked at it about couple of years back and that time point in time, we didn't think it's right to pursue that. We will continue reviewing it as and when required. Second thing is, we are not talking about the current pipeline only, right? As I said, our debt does come down significantly in a year, 2 years from now. I'll let Milind jump in for this, so that he can clarify and give you -- share some numbers with you. But when the debt comes down and internal accruals go as sharply as we are experiencing now on account of very strong EBITDA performance, it will give us headroom for new projects after the announced ones. In fact, I don't expect Chalet to sit quietly and not do any growth, expect us to come up with new projects in the future. Milind?

Milind Wadekar: Vikas, see, I mean, if we put our debt in 2 different buckets, I mean, under construction properties and operating hotels, more than 50% of our debt, will be converted into lease rental discounting. And it goes into sort of self-financing mode. We expect to generate more than INR600 crores from residential project in next 30 months, right? And the EBITDA generated from hospitality is available for growth. I mean, once our announced projects are over, which are funded through internal accruals, we have sufficient internal accruals, which can fund our expansion.

Sanjay Sethi: Also, Vikas, please pay attention to the opening statement that I made, that we continue to look for opportunities in cities, both -- and leisure locations, both greenfield and ready operating assets.

Moderator: The next question is from the line of Sumant Kumar from Motilal Oswal.

Sumant Kumar: So, can you talk about the foreign guest, still 30% lower than pre-pandemic. And considering all other hotels' performance, our occupancy is even Q-o-Q and even compared to pre-pandemic is still significantly lower. Okay. So, what is the outlook for this -- your segment, foreign guest segment?

Sanjay Sethi: Sumant, thank you for your question. As I said earlier, we take decisions based on what ultimately affects our P&L. And we decided that we want to reposition our portfolio at the higher end of the rate spectrum. And with that in mind, we've had 38% rate growth for the portfolio. And when you have that aggressive rate growth, you sometimes let go of low-paying business and I think that's what's happened. The other thing that's happened is that the foreign business has still not come back to full peak and it is really likely to come back only October-November, so that will fill up the occupancies.

Number three, as I mentioned, last year, we had a concentration from Mumbai for IPL. And therefore, when you look at last year's quarter 1 to this year, you might see a gap, which is in occupancies. And the occupancies are building up. Remember, Q1, Q2 are low occupancy quarters. So therefore, this is the annual occupancy cycle that is panning out. And if you look at across the country, as per the reports that I have with me right now, May and June, we did see occupancy drop in all cities, almost all cities across the country. Please refer to the report released for May and June by HVS, which is a citywise report.

When I spoke about lower paying segments, for example, at JW Sahar, where we used to have almost about 90 to 100 rooms per day from the crew segment, is down to about 1/3 now or maybe a little over 1/3 because we decided not to take that business. And also, what you are seeing is a blended occupancy of hotels, including the Dukes Retreat, which is still building up and it will largely build up only post renovation.

So that drags it down a little bit. Bangalore was affected by a one-off event in the month of May and June with the elections. It was long process in Bangalore, when elections announced and then there was literally a slowdown in the city for almost a month. If you take all of that, these are the combining reasons for the occupancy situation. But if we have 30% room revenue growth, I don't think anyone should be concerned.

Moderator: Next question is from the line of Hrishikesh Bhagat from Kotak Mutual Fund.

Hrishikesh Bhagat: So first, related to on your presentation, your pipeline does speak about Airoli, but clearly an ongoing project list, it's not there. So, where are we on the Airoli project?

Sanjay Sethi: So, Airoli is being reconfigured for more optimal use so that we can get similar sort of rooms at a less cost. So that rework is in process and therefore, I've not spoken about it. We should have clarity on the reconfigured project in about a couple of months from now. But we're looking at 260 rooms -280 rooms as we had discussed earlier. We had discussed that we'll probably start work on that site end of this year or early -- at the end of this calendar year or early next calendar year. We are still largely on target with that.

Hrishikesh Bhagat: But in the sense, it should be part of FY '26 pipeline?

Sanjay Sethi: Yes, FY '26, FY '27, I mean, in that range because we are reconfiguring as I said, we're trying to sweat the asset better.

Hrishikesh Bhagat: And the second question is from the bandwidth perspective, see, I understand over the next 3 years, means obviously, there's a ramp-up of the existing pipeline as well in the sense projects where you had initiated capex during COVID. And then, if I look at it as additional now, we are talking about a fair bit of addition, including the Delhi project by FY '26. So from a bandwidth perspective, obviously, there's no limited financial constraint as rightly highlighted by CFO. But from management bandwidth perspective, can we add more projects on the -- from the growth front?

Sanjay Sethi: Yes, please bring them on. If you have some opportunities, let us know.

Hrishikesh Bhagat: Not me, but just from the management bandwidth perspective, it's fairly scalable.

Sanjay Sethi: We are more than happy to take on more. We have enough bandwidth right now for future growth for the company.

Moderator: Next question is from the line of Saurabh Jain from HDFC Life Insurance.

Saurabh Jain: So, my question was on the expenses side. So, if you see the -- all the line items of the expenses, so employee expenses, supplies, power and fuel, all have gone up. So, I understand that this will have some bearing of the Dukes Retreat coming in this quarter and then opening of the Westin 2 also. But can you just give a flavour in terms of if you compare like-for-like, what is the increase? Because if the occupancies have dropped by 8% year-on-year, I believe that the expenses apart from employee benefit expenses and sales and marketing because as far has gone up, should not increase.

Milind Wadekar: Saurabh, Milind here. So, if you look at total expenses of hospitality and for Q4 FY '23 and compare it with Q1 FY '24 and exclude these exceptional expenses of Hitec City and incremental expenses of 2 properties, the expenses are at same level. Okay. Now if we go into detail, our employee expenses are higher on account of salaries, employ expense of these 2 properties and annual ex gratia, which is -- which gets accounted in quarter 1. Same is the case with power and fuel, incremental expenses of 2 properties and electricity rates have gone up and then discoms have increased electricity rates in Maharashtra. So that has impacted. But going forward, again, we are revisiting our arrangements with Open Access power and it will be controlled. But we feel this is a one-off increase in the current quarter.

Sanjay Sethi: The big ticket item of INR5.7 crores that came from Hyderabad Hitec City...

Milind Wadekar: As well as GST.

Sanjay Sethi: And then there were these, as Milind mentioned, 2 new hotels, 1 in the part of the quarter and the other full quarter impact. And the increments and bonuses given to employees, which typically happens in Q1 of the succeeding year. So that's the combination. And some number of the employees have also gone up a little bit.

Saurabh Jain: So as I understand, you're saying that if we remove the Dukes inclusion this quarter, the Westin 2 and the GST part, the expenses are broadly flat Q-on-Q?

Sanjay Sethi: Yes. Broadly except for what the points that Milind mentioned on salary, ex gratia and increment or bonuses, sorry, and electricity rate increase in Mumbai.

Saurabh Jain: My second question, if I may...

Moderator: Sorry to interrupt you sir, may I request you to come back in the queue, please? Next question is from the line of Rajiv from DAM Capital Advisors.

Rajiv: Sir, with regard to DIAL, since you have finalized the flag now, can you specify what is the sharing with, let's say, with DIAL here? And also, I mean, if not that, is it safe to assume that as and when it gets launched, you'll have 40% plus kind of EBITDA margin from that asset after giving out payment to DIAL?

Sanjay Sethi: So Rajiv, I can't give you details of this. It's basically a shell lease. So, what happens in a shell lease is the capex upfront goes down. But you will have a slight increase in the rate in operating costs as far as the lease rent is concerned. It's a percentage of revenue, which is the arrangement. So, you'll get that slight impact. But typically, revenue share or rents come below the EBITDA line. Milind, correct me if I'm wrong. So EBITDA will continue to be as strong as -- as you can expect, the rest of our portfolio to be.

Moderator: Next follow-up question is from the line of Saurabh Jain from HDFC Life.

Saurabh Jain: So, I had a question on the occupancy for the Mumbai region. So, if we compare the occupancy of the other listed player, right? So they also had a high base in Q1 FY '23. But even on that high base, they were able to increase occupancy further. So, I'm just trying to understand the dynamics here that why Chalet is not able to increase occupancy at least on a Q-o-Q basis when the other listed players are able to do? So...

Sanjay Sethi: Okay. So, a couple of things over here to note. One is that, as I mentioned, we have 3 hotels in Mumbai. All 3 had large occupancy from the IPL last year. And that's something that is material, so please note that. The second thing is that we have 29 rooms under renovation at the Powai hotel, which are counted in inventory. And therefore, the occupancy shows a little lower than it should be. So, that's the second. The third is, as I mentioned earlier, we've let go of crew business, it had 2, 3 dynamics to it, especially the Indian domestic crew business.

The rates would be typically lower than others. The payment cycles are stretched and not necessarily favourable. And very often, there are a lot of inclusives that go with crew business, and therefore, we decided that wherever hotels are anyway doing high occupancies, we don't want to go in that business. For example, JW Sahar is not a hotel I'm going to have crew business in. It's a high-grade hotel, it's high occupancy hotel. There's no reason for us to dilute our occupancy. What is dragging Bombay down is -- was actually Powai, with the reduction in 29 rooms for renovation.

And these 29 rooms are our suites, so they are the most premium rooms in the hotel also. And we've also seen weekend occupancies sort of a bit lower than the weekday was. I think people are back to traveling for work. So probably at weekends they're spending more time at home than traveling for holidays. And this is a phenomena that's been seen at all cities, as I mentioned earlier. In fact, I would urge you again to read the HVS report, which is a month-on-month report for April, May and June.

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

Sanjay Sethi: Thank you so much. Ladies and gentlemen, thank you for joining us for the call today. As I said in my closing remark, extremely confident of the future of Chalet Hotels and we've got a really strong management team that leads it to the next steps of growth in the future and we look forward to engaging with you on a regular basis. Thank you, Nirav for organizing this.

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