Chalet Hotels (CHALET IN)

Rating: BUY | CMP: Rs331 | TP: Rs455

Right time to check-in

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Company Initiation

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We initiate coverage on Chalet Hotels Ltd (Chalet) with a 'BUY' rating, as it is a play on expected recovery in business travel complemented by an exposure to annuity business (18% share by FY25E) that acts as a hedge to deeply cyclical hospitality industry. We believe Chalet is best placed to ride the industry upcycle as it has 1) strategically located metro centric hotel portfolio where threat of new room supply is low (new supply CAGR of 6% over next 5 years in key metro cities) and 2) requisite pricing power amid affiliation with marquee global brands like Marriott and Novotel. Chalet has plans to add 88/168 rooms in Pune/Hyderabad which along with improvement in RevPAR is likely to drive hotel revenues at 12% CAGR over FY23E-FY25E, whereas annuity business is likely to grow at a CAGR of 78% over the same period amid addition of ~1.4mn sq ft of leasable area at Mumbai and Bangalore. Overall, we expect revenue/PAT CAGR of 19%/68% over FY23E-FY25E and recommend 'BUY' with a SOTP based TP of Rs455. We value hotels business at 16x FY25E EBITDA, annuity business at a cap rate of 10% and residential project in Bangalore at NAV of Rs15 per share.

Strategically located hotel portfolio with high entry barriers: As Chalet's portfolio is located in metro markets where penetration is high, threat of new room supply is low. Over next 5 years, new room supply in key metros where Chalet has presence is expected to grow at a CAGR of just 6% to 76,045 rooms by FY27E. Given high entry barriers amid limited availability of land, we believe Chalet's portfolio positioning is difficult to replicate thereby lowering competitive risks.

Strong parentage: Affiliation with brands like Marriott and Novotel provides access to management expertise and marketing strategies of these global chains which not only helps in driving occupancies, but also lends strong pricing power. We expect ARR CAGR of 7% over FY23E-FY25E backed by recovery in business travel.

Expansion of room inventory in Pune, Hyderabad & Delhi to aid growth: Planned addition of 88/168/~375-400 rooms in Pune/Hyderabad/Delhi respectively is likely drive hotels business. New inventory at Pune and Hyderabad is likely to be operational by end of FY23E, resulting in hotel revenue CAGR of 12% over FY23E-FY25E.

Commercial annuity business acts as a hedge to hotels cyclicality: As the commercial portfolio of ~1.4mn sq ft in Mumbai and Bangalore becomes operational, share of rental income is likely to rise to 18% by FY25E, in our view. Rising share of rental income not only provides a hedge to cyclicality of hotels business, but is also expected to improve cash flow situation (EBITDA margin of ~80-85%).

Outlook and valuation: We expect revenue/PAT CAGR of 19%/68% over FY23E-FY25E, backed by room inventory addition at Pune & Hyderabad and increase in commercial leasable area by ~2.6x. We recommend 'BUY' with a SOTP based TP of Rs455 as we value hotels business at 16x FY25E EBITDA, annuity business at a cap rate of 10% and residential project at Bangalore at an NAV of Rs15 per share.

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	5,078	10,967	13,931	15,472
EBITDA (Rs. m)	985	4,148	5,898	6,837
Margin (%)	*19.4*	*37.8*	*42.3*	*44.2*
PAT (Rs. m)	(771)	1,107	2,349	3,129
EPS (Rs.)	(3.8)	5.4	11.5	15.3
Gr. (%)	*NA*	*NA*	*112.2*	*33.2*
DPS (Rs.)	-	-	-	1.5
Yield (%)	-	-	-	*0.5*
RoE (%)	*(5.6)*	*7.9*	*15.0*	*17.1*
RoCE (%)	*(0.5)*	*6.8*	*10.0*	*12.0*
EV/Sales (x)	18.1	8.6	6.6	5.8
EV/EBITDA (x)	93.6	22.8	15.6	13.1
PE (x)	NA	61.3	28.9	21.7
P/BV (x)	5.1	4.7	4.0	3.4

Key Data	CHAL.BO | CHALET IN
52-W High / Low	Rs. 410 / Rs. 211
Sensex / Nifty	60,927 / 18,132
Market Cap	Rs. 68 bn/ $ 818 m
Shares Outstanding	205m
3M Avg. Daily Value	Rs. 81.17m

Shareholding Pattern (%)

Promoter's	71.65
Foreign	1.82
Domestic Institution	21.89
Public & Others	4.65
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(8.7)	7.5	55.3
Relative	(6.6)	(6.2)	46.4

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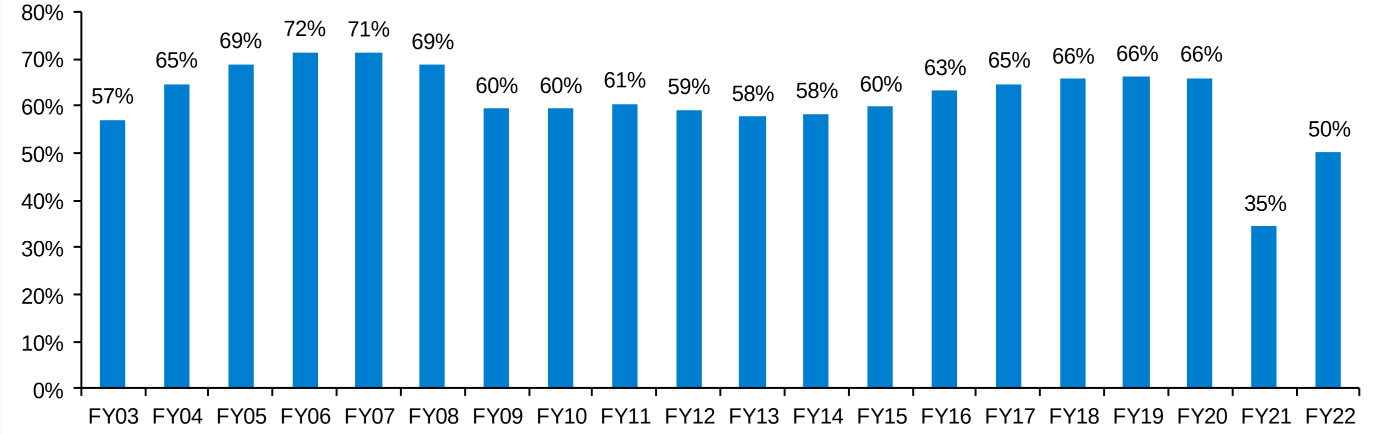
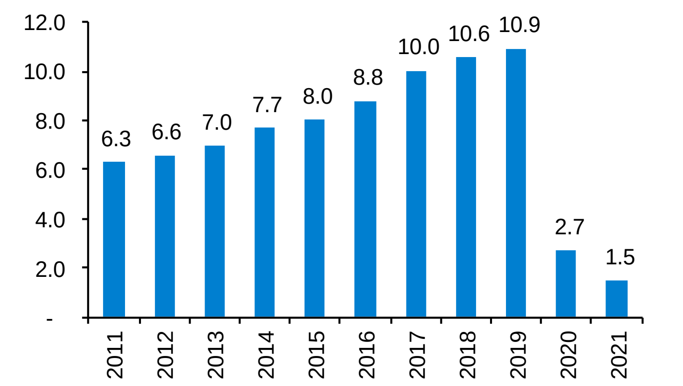
Key Industry Charts

Exhibit 1: All India average occupancy over 2 decades is at 61%



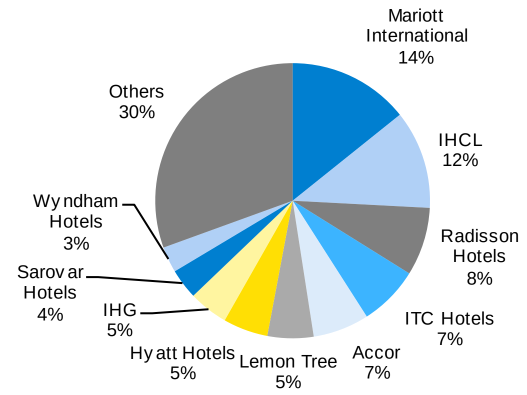
Source: Hotelviate, PL

Exhibit 2: Foreign tourist visits at ~10mn pre-COVID (In mn)



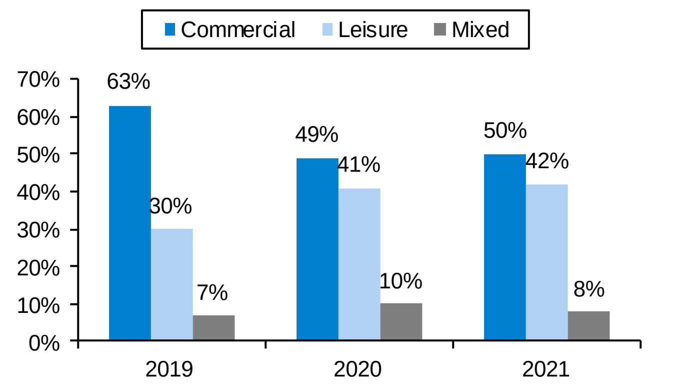
Source: Ministry of Tourism, PL

Exhibit 3: Top 10 brands form ~70% of branded room supply



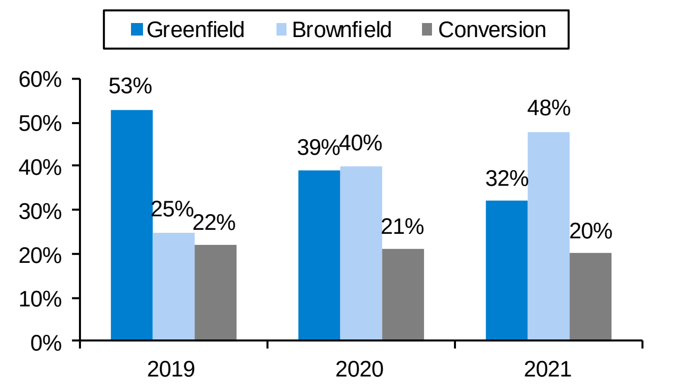
Source: Hotelviate, PL

Exhibit 4: Mix of leisure locations rise in new hotel signings



Source: HVS India, PL

Exhibit 5: Brownfield signings have risen to 48% in 2021



Source: HVS India, PL

Company Overview

Hotel led complementary mixed use development player

Being part of K Raheja Group, Chalet Hotels Limited (Chalet) is an owner, developer and asset manager of high end hotels in key metro cities of India. Currently, the company operates 6 hotels and 1 co-located serviced residence in MMR, Hyderabad, Bengaluru and Pune. Chalet's hotels fall under luxury upper upscale and upscale category, and are branded with global brands such as Marriott and Novotel. Out of 7 properties, 6 of them are operated and managed by third parties, while Four Points by Sheraton in Vashi, New Mumbai is operated by Chalet under a license agreement with Marriott (franchise agreement).

Exhibit 6: Chalet's operational hotel portfolio is metro centric with 2,554 keys

Hotels	City	Room inventory as of 2QFY23	Date of opening	Ownership interest	Brand association
JW Marriott, Mumbai Sahar	Mumbai	588	Feb-2015	Freehold, 100%	Marriott
Westin, Powai Lake	Mumbai	600	Jul-2001	Freehold, 100%	Marriott
Lakeside Chalet	Mumbai	173	Jul-2001	Freehold, 100%	Marriott
Four Points by Sheraton	Navi Mumbai	152	Jun-2009	Leasehold	Marriott
Bengaluru Marriott Hotel, Whitefield	Bengaluru	391	Feb-2013	Freehold, 100%	Marriott
Westin Hyderabad, Mindspace	Hyderabad	427	Dec-2009	Freehold, 100%	Marriott
Novotel, Pune	Pune	223	Feb-2020	Freehold, 100%	Accor Group

Source: Company, PL *Note: Novotel, Pune opened in Jan 2014 but was acquired by Chalet in Feb-2020*

In addition to hotel business, Chalet has 2 commercial office space projects with leasable area of ~0.9mn square feet (sq ft) in Bengaluru and Mumbai. Its existing portfolio includes ~0.4mn sq ft of retail assets repurposed into commercial assets during pandemic. Chalet's commercial portfolio attracts strong demand and earns steady rental income, as the assets are strategically located in business districts of key metro cities.

Exhibit 7: Chalet's existing commercial portfolio is ~0.9msf

Project	City	Area (msf)	Re-purposing time-line
Office Block, Whitefield	Bengaluru	0.11	NA
The Orb Office Tower, Sahar	Mumbai	0.37	NA
Repurposed asset - The Orb Office Tower, Sahar	Mumbai	0.12	Conversion is already complete, leasing underway
Repurposed asset- Inorbit Mall, Whitefield	Bengaluru	0.30	FY23E
Total		**0.90**	

Source: Company, PL

Chalet's early mover advantage in large mixed-use developments in micro-markets and availability of unutilized land in certain hotel properties to expand operations is a key moat, as it is a time consuming process to build and establish a profitable hospitality or commercial project in land locked metro centric cities.

Exhibit 8: Chalet is a hotel led mixed use development player

Particulars (FY22)	Revenue (Rs mn)	Revenue contribution	EBITDA (Rs mn)	EBITDA margin
Hospitality business	4,058	80%	696	17%
Commercial annuity business	1,020	20%	789	77%

Source: Company, PL

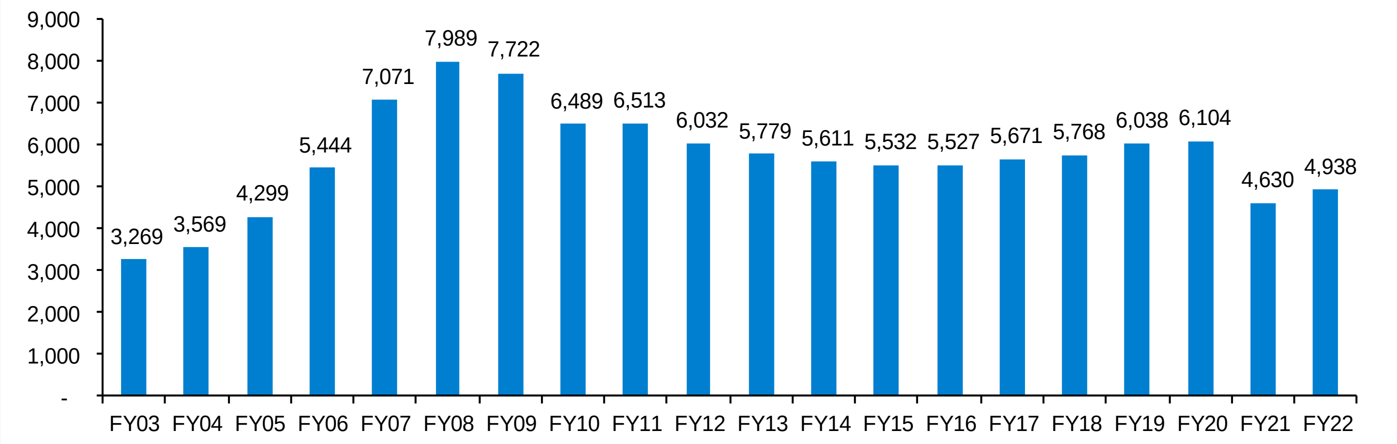
Investment Arguments

Hotel industry is in an upturn amid muted supply growth

Hotel industry is deeply cyclical and the magnitude of gap between demand and supply determines extent as well as length of up cycle or down cycle. Since it takes about 3-4 years for a new hotel to become operational, industry cycles are typically longer in tenure. An upcycle is characterized by rise in RevPAR and vice-versa. We believe RevPAR is a true metric to assess industry cycles as it is a function of occupancy and ARR.

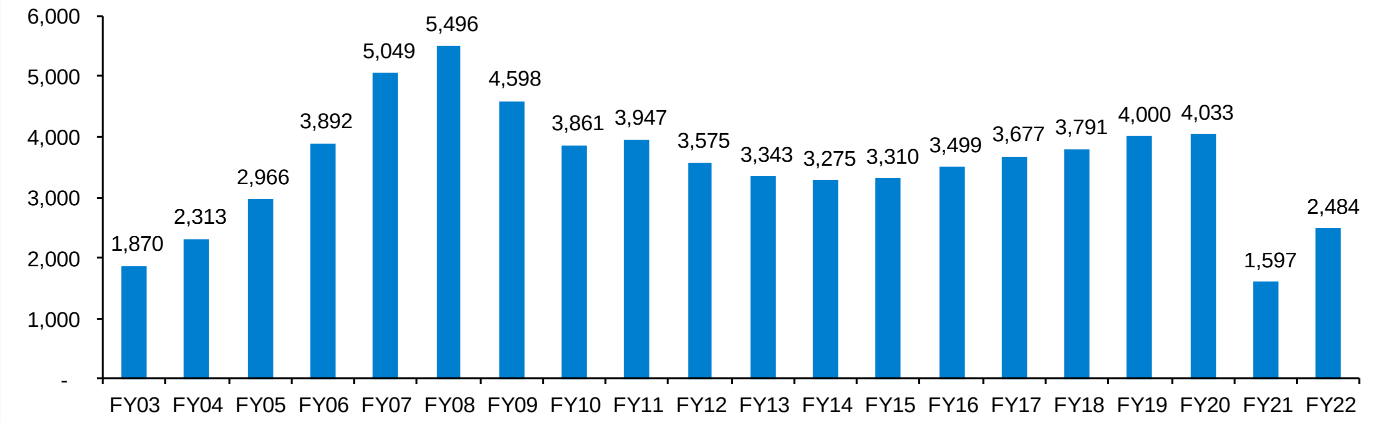
A classic upcycle was witnessed in FY03-FY08 period when industry RevPAR increased at a CAGR of 24.1%. However, since FY08, RevPAR has declined on steady basis, but started witnessing an uptrend since FY16 (that got impacted by COVID over the last 2 years). We expect the upcycle journey to continue as branded room supply is expected to increase from 152,945 units in FY22 to 195,569 units in FY27E, a CAGR of just 5% over a period of 5 years. Nonetheless, we do not expect the industry to reach RevPAR peak achieved in FY08 in near to medium term given rising share of room supply in midscale and economy segments which is typically characterized by lower ARR's.

Exhibit 9: Industry ARR has grown at a CAGR of 20% over the upcycle of FY03-FY08 (In Rs)



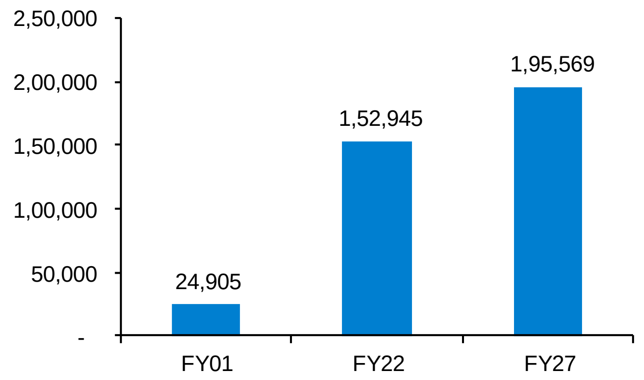
Source: Hotelviate, PL

Exhibit 10: Industry RevPAR has grown at a CAGR of 5% over FY03-FY20 (pre-COVID base) (In Rs)



Source: Hotelviate, PL

Exhibit 11: Branded inventory to be at 195,569 units in FY27E



Source: Hotelviate, PL

Exhibit 12: Share of mid-priced rooms rises to 45% in 2019

Room category	2002	2019
Luxury - Upper Upscale	15,052	51,170
Upscale	4,661	30,490
Upper Midscale	4,458	30,100
Midscale & Economy	1,895	37,500
Total	**26,066**	**1,49,260**

Source: Horwath, PL

New supply CAGR at 6% over next 5 years in key metro cities bodes well for Chalet

As of 2QFY23, Chalet has 1,513 keys in Mumbai & Navi Mumbai, 391 keys in Bangalore, 427 keys in Hyderabad (additional 168 keys in pipeline) and 223 keys in Pune (additional 88 keys in pipeline). Additionally, it plans to develop and operate a new hotel in Delhi by FY26E with ~375-400 keys.

Given Chalet's portfolio is in metro markets where penetration is high, threat of new room supply is low. Over FY17-22, new room supply in geographies where Chalet has presence has grown at a CAGR of just 2%. Further, over next 5 years, new room supply is expected to grow at a CAGR of 6% to 76,045 rooms in FY27E.

Exhibit 13: New room supply CAGR in key metros was 2% over FY17-FY22

Particulars	FY17	FY18	FY19	FY20	FY21	FY22	*CAGR*
Mumbai	12,565	12,595	12,639	13,070	13,245	13,217	*1.0%*
Bengaluru	11,995	12,594	13,366	13,691	13,647	14,022	*3.2%*
Hyderabad	6,254	6,846	6,672	7,393	7,381	7,450	*3.6%*
Pune	6,445	6,353	6,212	6,712	6,615	6,689	*0.7%*
Delhi	14,296	14,450	14,952	15,027	15,024	15,082	*1.1%*
Navi Mumbai	929	929	929	1,000	1,000	1,395	*8.5%*
Total	**52,484**	**53,767**	**54,770**	**56,893**	**56,912**	**57,855**	***2.0%***

Source: Hotelviate, PL

Exhibit 14: New room supply in metros to rise at 6% CAGR over FY22-FY27E

Particulars	Room supply as of FY22	Planned addition over next 5 years	Room supply as of FY27E	5 year supply CAGR
Mumbai	13,217	5,409	18,626	7.1%
Bengaluru	14,022	6,802	20,824	8.2%
Hyderabad	7,450	2,979	10,429	7.0%
Pune	6,689	506	7,195	1.5%
Delhi	15,082	1,852	16,934	2.3%
Navi Mumbai	1,395	642	2,037	7.9%
Total	**57,855**	**18,190**	**76,045**	**5.6%**

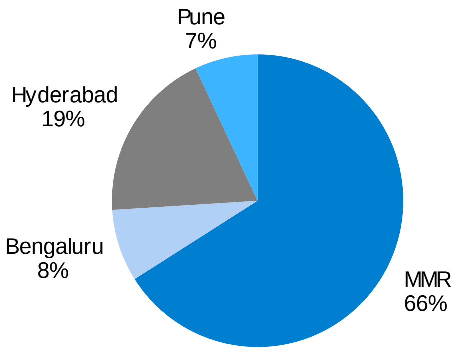
Source: Hotelviate, PL

As there is limited scope to add new inventory in metro centric regions, Chalet would benefit from industry upcycle as it is in a better position to take rate hike (once corporate/business travel revives and occupancy rises).

Recovery play on high ARR land locked Mumbai market

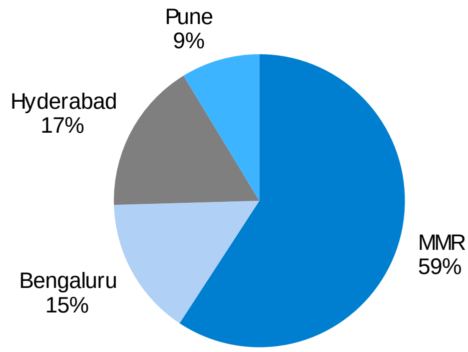
As of FY22, MMR region contributed 59%/66% to Chalet's room inventory/hospitality revenues. High concentration in a land locked city like Mumbai makes Chalet an ideal recovery play in upscale business hotels. As Mumbai is a high ARR market (see exhibit 17) with an ability to absorb price hike, we expect Chalet to benefit once corporate demand revives as MMR portfolio is located close to the airport and business districts. Accordingly, we expect Chalet's ARR in Mumbai to breach the pre-COVID base in FY23E, as corporate travel picks up and then grow at a CAGR of 6% over FY23E-FY25E.

Exhibit 15: MMR region contributed 66% to FY22 sales



Source: Company, PL

Exhibit 16: MMR contributed 59% to room inventory in FY22



Source: Company, PL

Exhibit 17: Industry ARR, occupancy and RevPAR trend of Mumbai and Navi Mumbai over last 5 years

Particulars	FY18		FY19		FY20		FY21		FY22	
	Mumbai	Navi Mumbai	Mumbai	Navi Mumbai	Mumbai	Navi Mumbai	Mumbai	Navi Mumbai	Mumbai	Navi Mumbai
Occupancy	75.3%	79.1%	77.0%	79.3%	76.6%	72.7%	42.9%	43.0%	59.9%	52.3%
ARR (Rs)	8,066	4,318	8,376	4,671	8,487	4,748	5,270	3,381	5,153	3,192
RevPAR (Rs)	6,074	3,416	6,450	3,704	6,501	3,452	2,261	1,454	3,081	1,669

Source: Hotelviate, PL

Apart from hospitality, even the existing commercial portfolio of 0.9 mn sq ft (entire portfolio is not operational currently as existing assets are getting re-purposed from retail to commercial establishments) is Mumbai centric with ~55% inventory exposure. Further, off the future commercial expansion pipeline of ~2.2mn sq ft (including Tower-2 at Powai with leasable area of 0.75 mn sq ft), ~70% is expected to be in Mumbai.

Strategically located hotels with high entry barriers

Most of Chalet's hotels are located in high density business districts of key metro cities in India. Metro centric strategic positioning results in high entry barriers, as these areas are typically fully exploited with limited possibility of new hotel supply. Such positioning not only helps during up-cycle (as ability to take the price hike is higher in metro markets), but also benefits during down-cycle as occupancy levels do not fall materially. Further, metro centric positioning enables Chalet to command better ARR's then industry average. Over FY18-FY20 (pre-pandemic) Chalet's average ARR was Rs8,177, which was at a 37% premium to industry average of Rs5,970 over the same period.

Exhibit 18: Chalet's portfolio has close proximity to strategic locations

Hotel	Proximity To
JW Marriott, Sahar & West In, Powai	Mumbai International Airport
Four Points Sheraton, Navi Mumbai	New business districts and proposed new International Airport
Marriott Whitefield, Bangalore & West In Hyderabad	Major IT offices & business centres
Upcoming 5-Star hotel in Delhi	Delhi International Airport

Source: Company, PL

Further, Chalet's business mix is dominated by corporate customers as its hotels are in close proximity to airports and business districts, hence to that extent overall clientele is relatively price insensitive (accommodation for customer is paid by the corporate). Also, pre-pandemic foreign travellers constituted ~50-55% of the customer mix and hence demand is relatively price inelastic to a certain extent. Overall, we believe Chalet's portfolio positioning is difficult to replicate given high metro focus which acts as a strong moat.

Expansion of room inventory to aid growth

In FY20, Chalet expanded into Pune region by buying a hotel with 223 keys operated by Accor Group (Novotel brand) for a net consideration of Rs1,768mn. An addition of 88 rooms is planned at Pune, which is expected to be complete by 3QFY23E and would entail a capex of ~Rs250mn. Further, additional inventory of 168 rooms will come on stream by end of 4QFY23E at Hyderabad (West-In 2).

In 1QFY23, Chalet entered into Delhi market by signing a license agreement with Delhi International Airport Limited (DIAL) to develop and maintain a 5-star hotel connected to T3 terminal building, which is next to the airport. Cold shell will be delivered by DIAL, while interiors and other fit-outs will be completed by Chalet. The hotel will have ~375-400 keys and is expected to be complete by FY26E. Capex outlay is expected to be Rs5.5-6.5mn per room and outgo will begin from FY25E, after the shell gets delivered. Post expansion, Chalet's room inventory is likely to increase from 2,554 rooms in FY22 to 3,185 rooms in FY27E and drive the overall room revenue. We expect room revenue CAGR of 11% over FY23E-FY27E backed by addition of 631 rooms over the same period.

Exhibit 19: Room inventory to rise to 3,185 units in FY27E

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E	FY27E
MMR	1,510	1,513	1,513	1,513	1,513	1,513	1,513	1,513	1,513	1,513
Bengaluru	391	391	391	391	391	391	391	391	391	391
Hyderabad	427	427	427	427	427	427	595	595	595	595
Pune	-	-	223	223	223	311	311	311	311	311
Delhi	-	-	-	-	-	-	-	-	-	375
Total	**2,328**	**2,331**	**2,554**	**2,554**	**2,554**	**2,642**	**2,810**	**2,810**	**2,810**	**3,185**

Source: Company, PL

Strong parentage with in-house promoter expertise

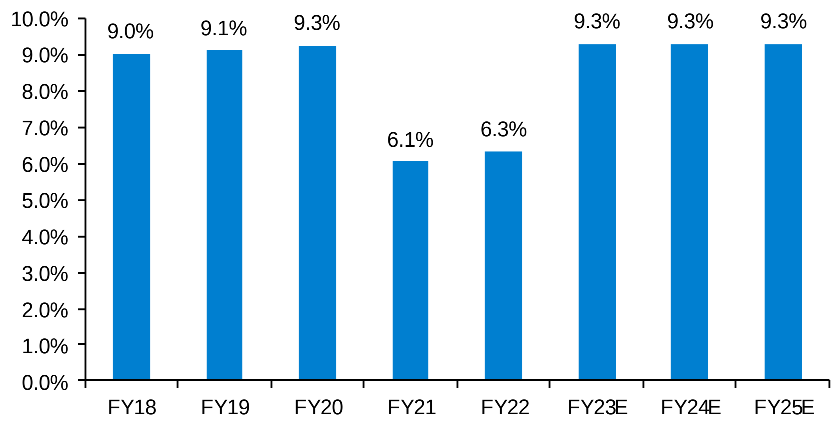
Chalet is a part of K Raheja Group which has wide experience in developing large scale real estate and commercial projects in India. Chalet leverages on deep understanding of micro-markets existing within the promoter group to identify suitable locations and opportunities, in order to build hotels. In fact, Chalet's hotel management and design team works together with the promoter group companies to design, develop and operate hotels and commercial malls. Hence, to that extent, Chalet's business model is unique and asset heavy in nature as compared to peers which are exploring asset light way to expand via management contracts.

Post building a hotel, Chalet scouts for tie-ups with global brands allowing itself to save on cost and time required to create an "own hotel brand". Currently, Chalet's hotels have tied up with global hospitality companies like Marriott (JW Marriott, West-In and Four Points by Sheraton are the brands) and Accor (Novotel brand). These agreements provide Chalet an access to:

- Management expertise
- Online reservation systems
- Marketing strategies &
- Operational know-how

In return for these services and brand parentage, Chalet pays a royalty/management fee to the operators, which ranges at about ~9% (inclusive of business promotion expense).

Exhibit 20: Royalty & business promotion cost forms ~9% of hotel revenues



Source: Company, PL

Association with global brands like Marriott and Novotel not only helps attract foreign travelers, but also aids in driving occupancies and ARRs (Average Room Rate).

Strategically located annuity assets in MMR & Bangalore

Chalet's commercial annuity portfolio is located in key markets of Mumbai and Bangalore which rank amongst top 7 cities in terms of commercial supply and absorption. MMR/Bangalore has commercial (office space, IT park and IT SEZ) supply of ~172mn sq ft/~211mn sq ft as of 2021. Over 2018-2021, commercial supply in Mumbai and Bangalore has risen at a CAGR of 4%/5% respectively. Correspondingly, vacancy rates for Mumbai are in the region of ~13-19% while in case of Bangalore it is lower at about ~7-11%, over 2018-2021.

Exhibit 21: MMR has rental supply of ~171.5mn sq ft

Particulars (In mn sq ft)	New supply	Total supply	Occupancy	Vacancy rate
2018	7.5	153.8	123.9	19%
2019	7.4	161.1	138.0	14%
2020	3.3	164.3	142.8	13%
2021*	7.2	171.5	143.5	16%

*Source: PropEquity, PL *Figures are approximation & not actuals*

Exhibit 22: Bangalore has rental supply of ~211mn sq ft

Particulars (In mn sq ft)	New supply	Total supply	Occupancy	Vacancy rate
2018	15.2	179.9	160.8	11%
2019	9.2	189.1	176.2	7%
2020	10.3	199.4	184.4	8%
2021*	11.6	211.0	188.8	11%

*Source: PropEquity, PL *Figures are approximation & not actuals*

We believe Chalet's commercial portfolio positioning in Mumbai and Bangalore lends competitive advantage as 1) these are commercial business districts where demand of leasing is high 2) vacancy rates are low (especially Bangalore which had one of the lowest vacancy rates pre-COVID) 3) yields are high (Mumbai has one of the highest rental yields).

Exhibit 23: MMR is one of the highest yielding rental markets

Particulars (In Rs per sq ft per month)	Rental range (2QCY22)
Bangalore	Rs52-199
MMR	Rs112-497
Chennai	Rs88-150
Hyderabad	Rs84-142
Pune	Rs50-160
Delhi-NCR	Rs50-208

Source: PropEquity, PL

Note: Rental range is based on actual transactions of 2QCY22

Annuity business acts as a hedge to hotels cyclicality

Chalet currently has 2 commercial properties of 0.9mn sq ft located in Whitefield, Bengaluru and Sahar, Mumbai. Existing portfolio includes 0.4mn sq ft of repurposed retail assets of InOrbit Mall, Bengaluru and The Orb, Sahar. During pandemic, management decided to repurpose retail assets to commercial properties to decrease variability in non-core business and benefit from the stable rental annuities, as against income driven by footfalls. Strong demand for Grade A offices in strategic locations led to conversions.

Considering steady cash flows garnered via rental business, expertise in developmental projects and existing relationship with corporates/brands, Chalet has planned to more than double the commercial portfolio to 2.3mn sq ft by FY23E. Similar to existing portfolio, new properties are located in key markets like Marriott Complex, Whitefield Bengaluru and Powai, Mumbai. Additionally, Chalet has plans to develop second commercial tower of 0.75mn sq ft in Powai.

Exhibit 24: Pipeline of upcoming commercial annuity business is ~2.19msf

Commercial Project	City	Proposed area (msf)	Expected date of completion
Commercial Tower, Marriott Complex, Whitefield	Bengaluru	0.66	Received partial OC, handovers to be done in FY23
Commercial Tower-1, Westin Complex, Powai	Mumbai	0.78	4QFY23
Commercial Tower-2, Westin Complex, Powai	Mumbai	0.75	TBA
Total		**2.19**	

Source: Company, PL

Chalet's commercial portfolio acts as a perfect hedge to deeply cyclical hospitality segment. During pandemic, Chalet benefitted out of this mixed-use development strategy, as hospitality revenue dropped 77% YoY in FY21 and cash flows from commercial business acted as a hedge.

Over the years, revenue contribution from commercial portfolio has increased from 3% in FY18 to 20% in FY22. With a strong under construction pipeline of 1.4mn sq ft (excluding the 0.75mn sq ft of commercial Tower-2 in Powai), we expect rental income CAGR of 78% over FY23E-FY25E. Consequently, share of commercial business is likely to increase to 18% in FY25E. Rising share of annuity income not only hedges the volatility of hospitality segment, but also provides cushion to cash flows, as the business commands an EBITDA margin of ~80-85%.

Emerged leaner & stronger post COVID

During COVID Chalet undertook various steps to streamline its cost structure like 1) renegotiating AMC's 2) outsourcing laundry operations at Powai and Sahar in Mumbai 3) negotiating for a lower minimum demand of electricity load at all locations (to reduce fixed charges) 4) re-negotiating service contracts for internet & satellite TV 5) improving employee productivity & rationalizing cost to a large extent (staff to room ratio has declined from 1.2x in FY19 to 0.84x in FY22) and 6) centralizing finance functions for hotels managed by the Marriott Group.

In addition, new revenue streams were also identified such as drive-in breakfast, staycation and food delivery & takeaways etc. All these measures led to 33% reduction in fixed costs and 42% reduction in variable costs in FY22. Given re-alignment in cost structure, long term efficiencies have been achieved in hospitality business (key margin lever as occupancy improves) and consequently we expect 400 bps improvement in EBITDA margin to 43% by FY24E (full benefits will not be reflected in FY23E as business travel is yet to fully recover) over the pre-COVID base of FY20.

Peer Analysis

Chalet's hotels fall under luxury upper upscale & upscale category and the portfolio is comparable to Indian Hotels and EIH, as Lemon Tree is perceived to be a midscale/economy brand.

Pre-COVID, ARR of Indian Hotels and EIH was better than Chalet, given better pricing power. Further, as far as recovery in key KPIs is concerned, Chalet is currently lagging peers (ARR and RevPAR is 1% higher/3% lower in 2QFY23 when compared to pre-COVID base) as portfolio is business centric with higher reliance on foreign tourists (~50-55% of customer mix), where the demand is subdued due to ongoing visa issues.

Exhibit 25: High reliance on FTAs has impacted Chalet's occupancy revival

Occupancy	FY18	FY19	FY20	FY21	FY22	2Q FY23	2Q FY20	Recovery over 2QFY20
Indian Hotels*	67%	68%	67%	39%	53%	70%	68%	2%
EIH$	70%	70%	68%	26%	48%	70%	64%	6%
Chalet	73%	77%	71%	30%	51%	71%	74%	-3%
Lemon Tree	76%	76%	70%	40%	46%	66%	75%	-9%

*Source: Company, PL *Standalone data $Data is for domestic properties (owned) but quarterly data is owned plus managed*

Exhibit 26: Indian Hotels & EIH have higher ARR than Chalet

ARR (In Rs)	FY18	FY19	FY20	FY21	FY22	2Q FY23	2Q FY20	Recovery over 2QFY20
Indian Hotels*	10,722	11,003	10,734	7,351	9,717	11,003	8,696	27%
EIH$	11,245	12,200	11,970	8,085	9,633	11,467	9,562	20%
Chalet	7,840	8,210	8,482	4,040	4,576	7,930	7,815	1%
Lemon Tree	3,896	4,180	4,347	2,615	3,459	4,917	4,133	19%

*Source: Company, PL *Standalone data $Data is for domestic properties (owned) from FY18 to FY20 and from FY21 onwards (owned plus managed)*

Exhibit 27: RevPAR recovery in Chalet still lags pre-COVID base

RevPAR (In Rs)	FY18	FY19	FY20	FY21	FY22	2Q FY23	2Q FY20	Recovery over 2QFY20
Indian Hotels*	5,512	7,462	7,159	2,895	5,103	7,681	5,932	30%
EIH$	7,897	8,490	8,133	2,075	4,608	8,004	6,151	30%
Chalet	5,716	6,283	6,022	1,214	2,355	5,650	5,802	-3%
Lemon Tree	2,955	3,190	3,058	1,041	1,595	3,257	3,090	5%

*Source: Company, PL *Standalone data $Data is for domestic properties (owned) from FY18 to FY20 and from FY21 onwards (owned plus managed)*

On the profitability front, Lemon Tree has better EBITDA margins than Indian Hotels and EIH, while Indian Hotels" BS strength (net debt/equity) has improved over the last 2 years amid fund raise (Rs40bn raised via rights and QIP).

Further, EIH's net debt/equity has also been comfortable (below 0.2x over the last 5 years), as no major expansion was lined up. Over last 5 years, Chalet's net debt/equity has been higher than peers given expansion in commercial & hotels portfolio, but we expect the deleveraging process to begin from FY24E onwards (for more details refer financial projection section of our report).

Exhibit 28: Lemon Tree's sales growth is fastest over 3 years, pre-COVID

Particulars (Rs mn)	FY18	FY19	FY20	FY21	FY22	Pre-COVID CAGR (FY18-FY20)
Indian Hotels	41,036	45,120	44,631	15,752	30,562	4.3%
EIH	15,988	18,108	15,963	4,935	9,853	-0.1%
Chalet	7,955	9,872	9,808	2,856	5,078	11.0%
Lemon Tree	4,843	5,495	6,694	2,517	4,022	17.6%

Source: Company, PL

Exhibit 29: Pre-COVID, in FY20, Lemon Tree had best EBITDA margin

Particulars	FY18	FY19	FY20	FY21	FY22
Indian Hotels	16%	18%	22%	-23%	13%
EIH	19%	22%	18%	-57%	0%
Chalet	31%	32%	35%	2%	19%
Lemon Tree	28%	31%	36%	24%	30%

Source: Company, PL

Exhibit 30: Chalet has highest net debt/equity since it is an asset owner

Particulars	FY18	FY19	FY20	FY21	FY22
Indian Hotels	0.4	0.4	0.4	0.7	(0.0)
EIH	0.1	0.1	0.1	0.1	0.1
Chalet	5.4	1.0	1.1	1.3	1.7
Lemon Tree	0.8	0.9	1.0	1.0	1.2

Source: Company, PL

Financial projections

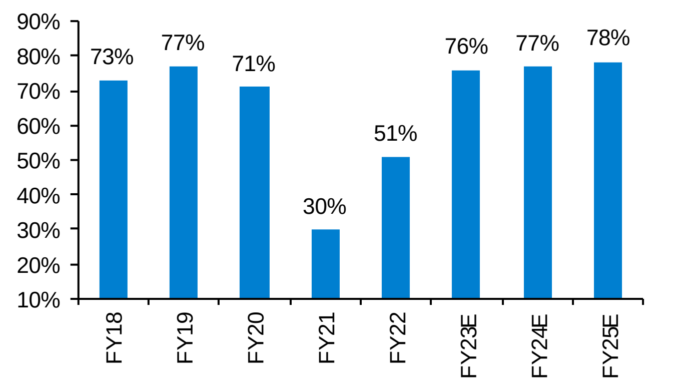
Hospitality business revenue/EBITDA to grow at a CAGR of 12%/16% over FY23E-FY25E

We expect Chalet's hospitality revenue to grow at a CAGR of 12% over FY23E-FY25E amid:

- 7% CAGR in ARR buoyed by favorable demand-supply dynamics.
- Increase in number of rooms by 256 to 2,810 by FY25E. Additional 88 rooms at Novotel, Pune will be complete by 3QFY23 while 168 rooms at West-In, Hyderabad will be complete by 4QFY23.
- Improvement in occupancy levels to 78% by FY25E. We expect occupancy in:-
- Mumbai to improve from 72% in FY20 to 79% in FY25E driven by 1) strong corporate demand, 2) resumption of MICE events (JW Marriott Sahar and Westin Powai are banquet intensive hotels), 3) limited developmental options for new entrants and 4) emerging staycation trends at Lakeside Powai property.
- Bangalore to improve from 73% in FY20 to 75% in FY25E driven by **corporate demand,** as the hotel is in close proximity to business and entertainment hubs.
- Hyderabad to improve from 70% in FY20 to 76% in FY25E on the back of **pick-up in foreign travel.**
- Pune to improve to 83% in FY25E amid **expected growth in Fintech and IT businesses** around that region.

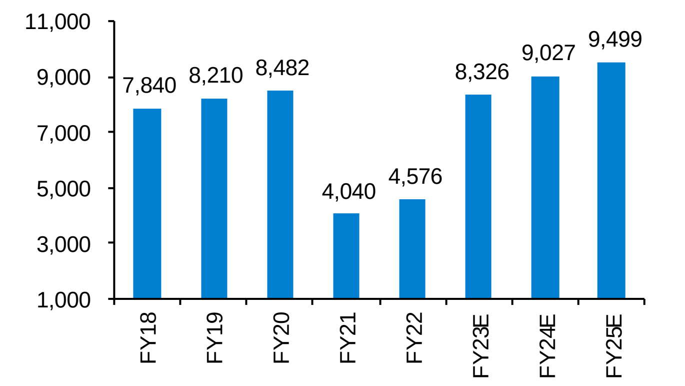
Consequent to the rise in ARR and occupancy levels, we expect RevPAR CAGR of 9% over FY23E-25E. Accordingly, we expect hospitality revenue CAGR of 12% over FY23E-25E.

Exhibit 31: Occupancy levels to improve to 78% in FY25E



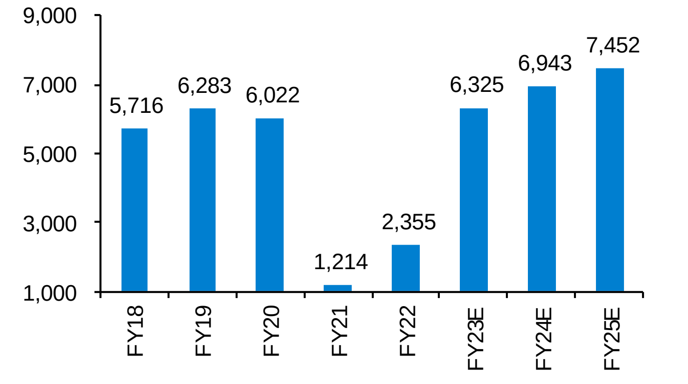
Source: Company, PL

Exhibit 32: ARR CAGR of 7% over FY23E-FY25E (In Rs)



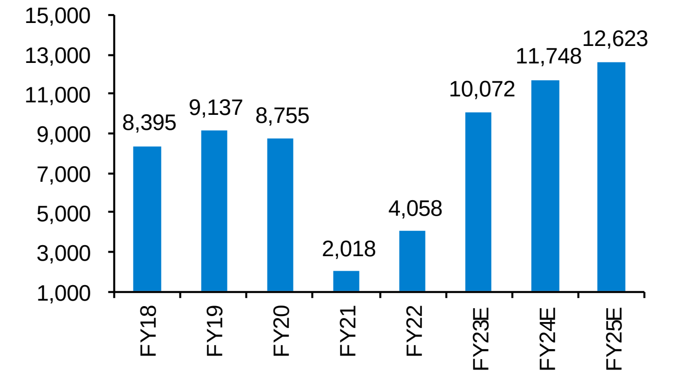
Source: Company, PL

Exhibit 33: RevPAR to breach pre-COVID base in FY23 (Rs)



Source: Company, PL

Exhibit 34: Hotel sales CAGR of 12% over FY23-25 (Rs mn)

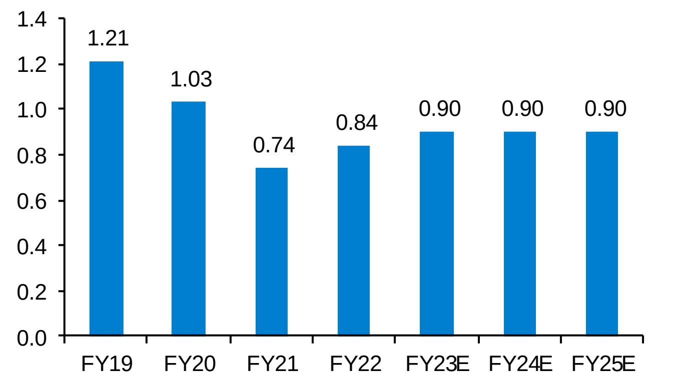


Source: Company, PL

We expect hospitality EBITDA CAGR of 16% over FY23E-25E with margins of 40%/43%/43% in FY23E/FY24E/FY25E on the back of: -

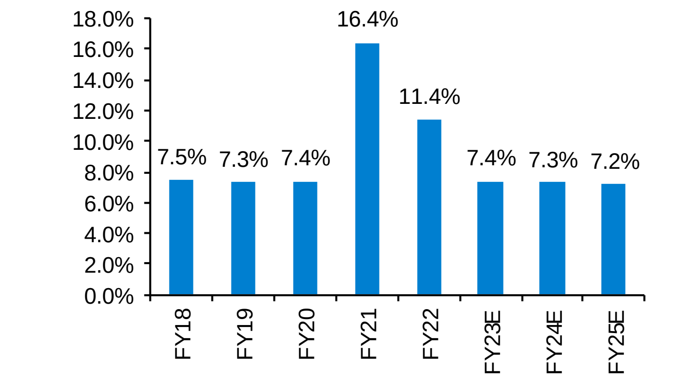
- Stabilization of staff to room ratio at 0.9x on the back of clustering, centralizing and automating few services.
- Operational efficiencies derived through permanent reduction of fixed costs from initiatives such as centralizing finance hub and outsourcing of non-core activities undertaken during pandemic.
- Reduction in power cost per unit, on the back of entering into long term power purchase agreements and rising share of renewable energy.
- High flow through to margins from Novotel room expansion, as fixed costs are already covered.

Exhibit 35: Staff to room ratio to stabilize at 0.9x



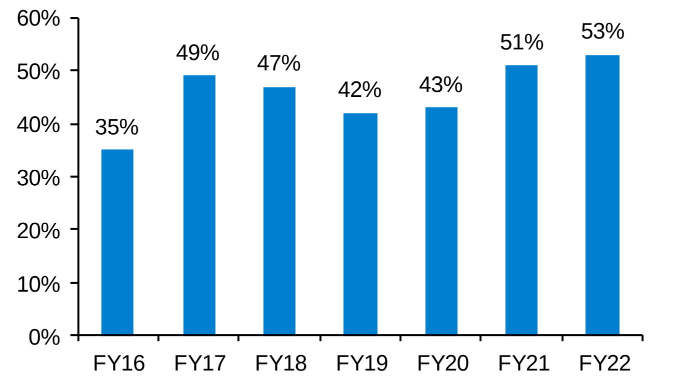
Source: Company, PL

Exhibit 36: Power cost to decline over next 3 years



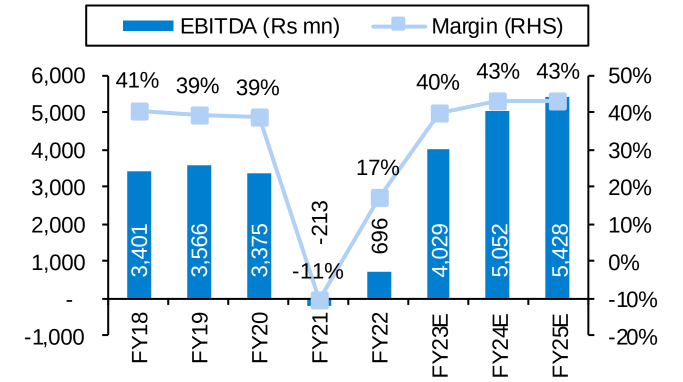
Source: Company, PL

Exhibit 37: Share of renewable power rises to 53% in FY22



Source: Company, PL

Exhibit 38: Hotel EBITDA CAGR of 16% over FY23-25E



Source: Company, PL

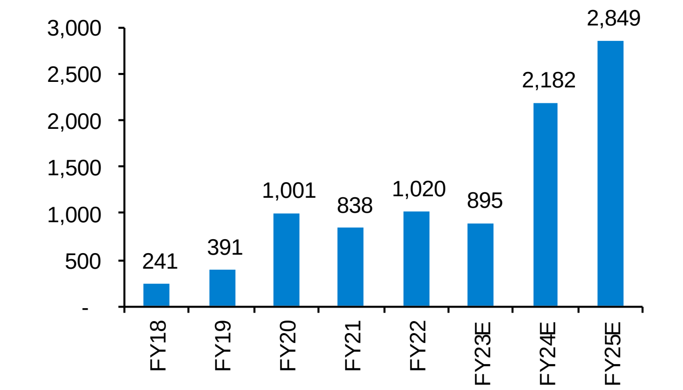
Commercial revenue/EBITDA CAGR of 78%/81% over FY23E-FY25E

We expect top-line of commercial annuity business to grow at a CAGR of 78% over FY23E-25E, amid increase in leasable area from 0.9mn sq ft in FY22 to 2.3mn sq ft (including 0.11mn sq ft of area leased to ALC which is not yielding any revenue currently) in FY25E as: -

- Commercial Tower at Whitefield, Bangalore with a leasable area of 0.66mn sq ft is ready and has also received partial OC with handover likely to be done in FY23E.
- Commercial Tower at West-In Powai, Mumbai with a leasable area of 0.78mn sq ft is expected to be complete by 4QFY23E.
- Re-purposing of 0.3mn sq ft of mall area to commercial office space in Bangalore is expected to complete by FY23E.
- Re-purposing of 0.12mn sq ft of area at The Orb, Sahar is already complete with occupancy of 93%+.

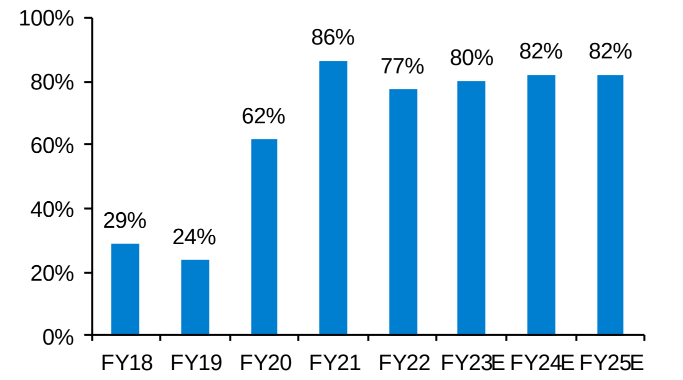
Commercial annuity is a high margin business as apart from CAM, insurance and property tax there are no major cost heads, and hence the income flow through to EBITDA is high. Given leasable area is likely to increase to 2.3mn sq ft in FY25E boosting rental income, we expect EBITDA CAGR of 81% over FY23E-FY25E.

Exhibit 39: Annuity sales to be up by 2.4x in FY24E (Rs mn)



Source: Company, PL

Exhibit 40: Annuity EBITDA margin to be at 82% in FY25E



Source: Company, PL

Amid planned expansion of 256 hotel rooms and incremental addition of ~1.4mn sq ft of leasing space, we expect Chalet's revenue and EBITDA (hotels + commercial) to grow at a CAGR of 19%/28% over FY23E-FY25E.

Exhibit 41: Revenue to grow at CAGR of 19% over FY23E-FY25E

Particulars (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Room Revenue	4,856	5,341	5,219	1,132	2,195	6,086	7,099	7,627
YoY gr.	*23%*	*10%*	*-2%*	*-78%*	*94%*	*177%*	*17%*	*7%*
F&B Revenue	2,822	3,016	2,798	684	1,565	3,286	3,833	4,119
YoY gr.	*21%*	*7%*	*-7%*	*-76%*	*129%*	*110%*	*17%*	*7%*
Spa, laundry, car hire & concierge services	717	780	738	203	298	700	816	877
YoY gr.	*38%*	*9%*	*-5%*	*-73%*	*47%*	*20%*	*17%*	*7%*
Rental & residential income	(439)	735	1,053	838	1,020	895	2,182	2,849
YoY gr.	*NM*	*NM*	*43%*	*-20%*	*22%*	*-12%*	*144%*	*31%*
Total Revenue	**7,955**	**9,872**	**9,808**	**2,856**	**5,078**	**10,967**	**13,931**	**15,472**

Source: Company, PL

PAT to increase by 2.8x over FY23E-FY25E

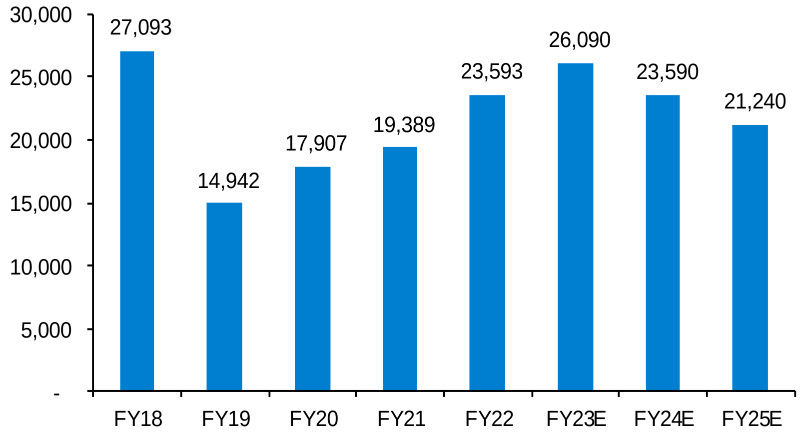
We expect PAT to increase by 2.8x over FY23E-FY25E aided by 1) increase in 1.44mn sq ft of leasable area leading to a rise in rental income where flow through to EBITDA is high 2) operationalization of 256 additional hotel rooms at Pune and Hyderabad 3) fall in interest expenses from Rs1,535mn in FY23E to Rs1,238mn in FY25E as improvement in cash flows will be utilized to deleverage the BS.

Deleveraging process to start from FY24E onwards

Chalet has lined up a capex plan of Rs6,500-7,000mn over next 18 months (majority of the spends to be incurred in FY23E itself) towards hotels and under construction commercial assets. Subsequently, over next 2 years there is no major expansion plan on the anvil as spends towards T3 hotel in Delhi will start only in FY25E. Additionally, the outgo towards T3 hotel is just ~Rs2,600mn, since the shell and façade is being built by DIAL.

As there is no major expansion capex lined-up over next 2 years, cash flows generated from the operationalized commercial assets and new hotel properties will be utilized to deleverage the BS. We expect debt repayments of Rs2,500mn in FY24E and Rs2,350mn in FY25E and consequently the net/debt to equity is likely to improve from 1.7x in FY22 to 1.0x in FY25E, thereby significantly improving the BS strength of Chalet.

Exhibit 42: Deleveraging to begin from FY24E (Rs mn)



Source: Company, PL

Exhibit 43: Brief Financial Snapshot

Particulars (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Sales	7,955	9,872	9,808	2,856	5,078	10,967	13,931	15,472
YoY growth	*13%*	*24%*	*-1%*	*-71%*	*78%*	*116%*	*27%*	*11%*
EBITDA	2,447	3,192	3,429	71	985	4,148	5,898	6,837
Margin	*31%*	*32%*	*35%*	*2%*	*19%*	*38%*	*42%*	*44%*
PAT	(929)	(76)	1,027	(1,391)	(815)	1,107	2,349	3,129
Margin	*NM*	*NM*	*10%*	*NM*	*NM*	*10%*	*17%*	*20%*
Net debt	26,776	14,115	16,629	18,931	22,595	24,925	22,187	19,903
Net debt/EBITDA (x)	10.9	4.4	4.8	268.2	22.9	6.0	3.8	2.9
Capex	1,100	656	3,277	1,433	3,435	6,683	970	2,218
FCFF	1,389	2,999	(753)	(831)	(2,813)	(821)	4,337	3,930

Source: Company, PL

Exhibit 44: Hotels business to form 82% of top-line in FY25E

Particulars (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Hotels revenue	8,395	9,137	8,755	2,018	4,058	10,072	11,748	12,623
YoY growth	*23%*	*9%*	*-4%*	*-77%*	*101%*	*148%*	*17%*	*7%*
Revenue contribution	97%	96%	90%	71%	80%	92%	84%	82%
EBITDA	3,401	3,566	3,375	(213)	696	4,029	5,052	5,428
Margin	*41%*	*39%*	*39%*	*-11%*	*17%*	*40%*	*43%*	*43%*

Source: Company, PL

Exhibit 45: Annuity business to form 18% of top-line in FY25E

Particulars (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Annuity revenue	241	391	1,001	838	1,020	895	2,182	2,849
YoY growth	*71%*	*62%*	*156%*	*-16%*	*22%*	*-12%*	*144%*	*31%*
Revenue contribution	3%	4%	10%	29%	20%	8%	16%	18%
EBITDA	70	93	617	724	789	716	1,789	2,336
Margin	*29%*	*24%*	*62%*	*86%*	*77%*	*80%*	*82%*	*82%*

Source: Company, PL

Valuation

We value Chalet on SOTP basis given diversity in its business. Apart from hotels and commercial annuity business, Chalet also has one residential project in Bangalore which we have valued separately.

Hotel business valued at 16x FY25E EBITDA

Chalet was listed in 2019 and hence does not have sufficient past listing history. Thereafter COVID hit India in 2020 and subsequent 2 years were marred by losses, wherein hospitality industry was worst hit by the virus making past history redundant for future benchmarking. Hence, in order to value Chalet's hotels business, we map the growth & profitability profile with its peers. We expect Chalet's hotels revenue/EBITDA to grow at a CAGR of 12%/16% over FY23E-FY25E.

Exhibit 46: Revenue profile comparison of peer set

Revenue (Rs mn)	FY22	FY23E	FY24E	FY25E	FY23E-FY25E CAGR
Chalet (Hotel revenue only)*	4,058	10,072	11,748	12,623	11.9%
Lemon Tree	4,022	8,415	10,009	12,468	21.7%
Indian Hotels	30,562	53,284	57,743	61,980	7.9%
EIH	9,853	15,913	18,118	N/A	NA

*Source: Company, PL *PL estimate Note: Peer set projections is BB consensus*

Exhibit 47: EBITDA profile comparison of peer set

EBITDA (Rs mn)	FY22	FY23E	FY24E	FY25E	FY23E-FY25E CAGR
Chalet (Hotel EBITDA only)*	696	4,029	5,052	5,428	16.1%
Lemon Tree	1,187	4,108	4,977	6,130	22.2%
Indian Hotels	4,048	15,430	18,478	21,756	18.7%
EIH	(13)	4,049	4,782	NA	NA

*Source: Company, PL *PL estimate Note: Peer set projections is BB consensus*

We value the overall hotels business at 16x FY25E EBITDA which is at a discount to Indian Hotels but in-line with Lemon Tree and arrive at an EV of Rs86,843mn.

Exhibit 48: Valuation comparison matrix

Particulars	FY23E	FY24E	FY25E
Chalet*	22.6	15.6	12.6
Lemon Tree	21.9	18.1	14.7
Indian Hotels	29.8	24.9	21.2
EIH	28.7	24.3	N/A

*Source: Company, PL * BB consensus figures*

Exhibit 49: Hotel business valuation

Particulars	FY25E
Hotel EBITDA (Rs mn)	5,428
EV/EBITDA multiple	16
EV (Rs mn)	86,843

Source: Company, PL

Our hotels business valuation does not include any upside from planned expansion at Airoli, as its timeline and capex outgo is still under deliberation.

Annuity business valued at cap rate of 10%

As commercial rental business is a perpetual annuity, we value it using a capitalization rate of 10%. Once the entire 2.3mn sq ft of leasable area is fully operational with optimal occupancy, we expect EBITDA of Rs2,336mn in FY25E. We apply capitalization rate of 10% which yields an EV of Rs23,364mn. Our annuity valuation does not take into account planned expansion of commercial Tower-2 at West- In, Powai of 0.75mn sq ft, as expected completion date and capex outgo is still under deliberation.

Exhibit 50: Commercial business valuation

Particulars	FY25E
Rental EBITDA (Rs mn)	2,336
Cap rate	10%
Implied valuation (Rs mn)	23,364

Source: Company, PL

Residential project valued at NAV of Rs15 per share

Brief about the Koramangala project: In 2011, Chalet was developing a residential project of 17 floors with height upto 62 meters at Koramangala, Bengaluru after receiving NOC from Hindustan Aeronautics Limited (HAL), as the property was located in close proximity to the aerodrome. However, in August 2013, HAL cancelled the NOC but by then 5 wings with 17 floors were already constructed and more than 200 apartments were allotted to the customers. Subsequently, Chalet filed a writ petition in Karnataka High Court which directed the company to not develop the property above 40 meters. Later in May 2020, the Karnataka High court passed a judgment quashing the NOC cancellation and remanded HAL to resurvey-within a time bound manner.

In order to complete the stalled project, Chalet worked out a revised development plan and initiated discussions with existing customers and HAL for an amicable settlement. On 22nd October 2021, Chalet and HAL agreed on revised terms whereby it was decided to demolish the structure above 10th floor to comply with the height norms.

Current status of the project: As on April 2022, demolition work of the area above 10th floor for all the 9 buildings has been completed and NOC from HAL has been received. As per the revised plans there will be 9 towers with 10 floors and 2 towers with 11 floors each comprising of 321 units. Currently, final municipal approvals and RERA registration is underway and the project is expected to be complete by FY26E. Estimated cost of completion is Rs4,250mn. Chalet shall commence work after receiving all the other necessary approvals and it is expected that the project would be completed by FY26E.

As per the revised plans, residential/commercial area available for sale is 0.57mn sq ft/0.15mn sq ft respectively. Assuming a realization per sq ft of Rs13,500/Rs17,500 for residential/commercial space, total revenue from the project is expected to be Rs10,320mn. After deducting the estimated cost of completion which is pegged at Rs4,250mn and Rs2,000mn infused by promoters till now to meet the costs, expenses and liabilities pertaining to the project, we arrive at per share of Rs15.

Exhibit 51: NAV of Koramangala project

Details of residential project	Particulars	Comments
Residential area already sold (mn sqft)	0.28	83 units sold
Residential area yet to be sold (mn sqft)	0.57	238 units are yet to be sold
ASP per sqft (Rs)	13,500	Our assumption
Revenue (Rs mn)	7,695	
Commercial area yet to be sold (mn sqft)	0.15	
ASP per sqft (Rs)	17,500	Assumed higher realization than residential area
Revenue (Rs mn)	2,625	
Total Revenue (Rs mn)	10,320	
Indicated cost to complete the project (Rs mn)	4,250	Includes all cost including marketing & overheads
PBT (Rs mn)	6,070	
Tax @18%	1,093	MAT rate applied
Profit (Rs mn)	4,977	
Money taken from promoters (Rs mn)	2,000	Redemption of promoter contribution that was done to support the project
Profit attributable to Chalet shareholders	2,977	
O/S shares (mn)	205	
Per share value (Rs)	15	

Source: Company, PL

After valuing all the 3 businesses separately, we arrive at SOTP value of Rs455 per share. Initiate 'BUY'.

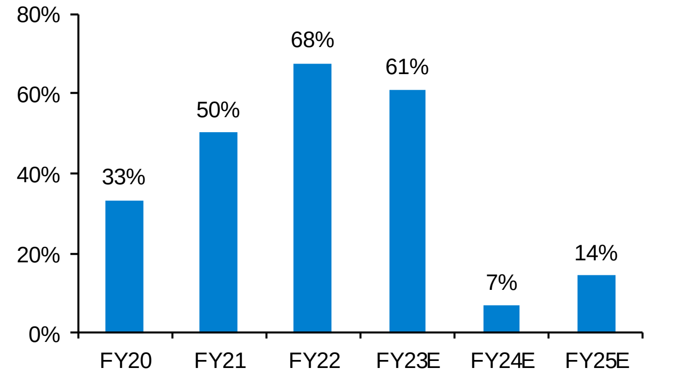
Exhibit 52: SOTP valuation table

Particulars (Rs mn)	Methodology	Multiple	EBITDA - FY25E	EV
Hotels	EV/EBITDA	16	5,428	86,843
Commercial	Capitalization rate	10	2,336	23,364
Residential (Koramangala)	NAV	NA	NA	2,977
Total EV				1,13,184
Less: Debt				21,240
Add: Cash				1,337
Equity value				93,281
O/S shares				205
TP (Rs)				**455**

Source: PL

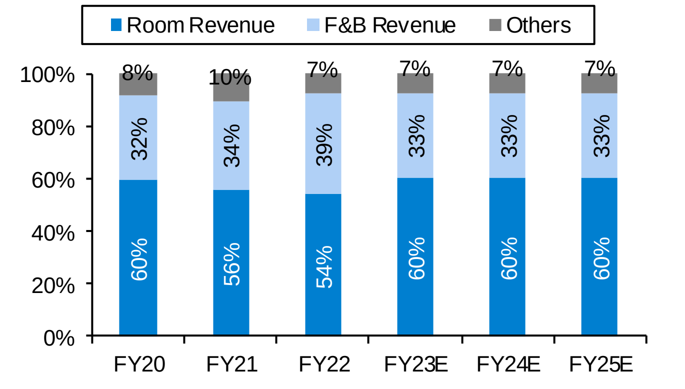
Story in Charts

Exhibit 53: Capex intensity to decline to 14% in FY25E



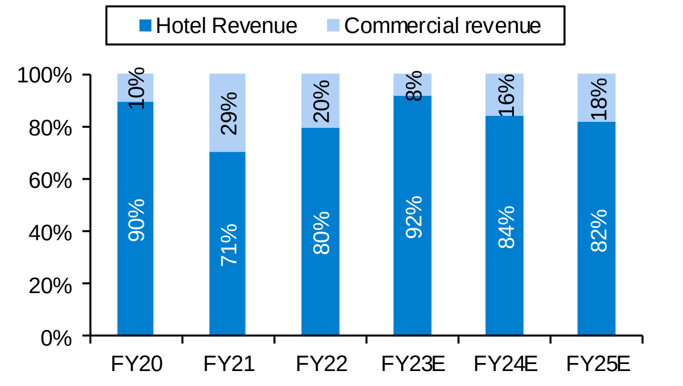
Source: Company, PL

Exhibit 54: Hospitality revenue mix



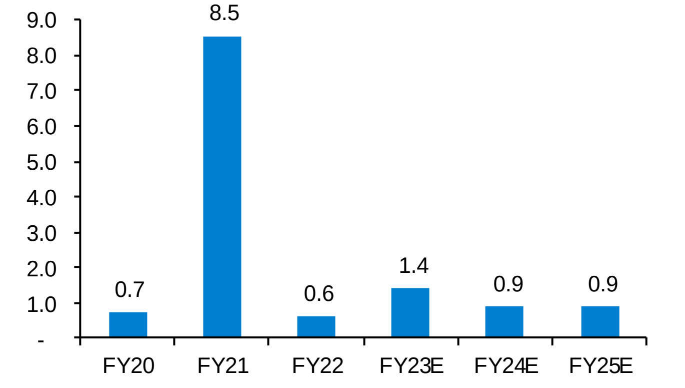
Source: Company, PL

Exhibit 55: Annuity business to form 18% of sales in FY25E



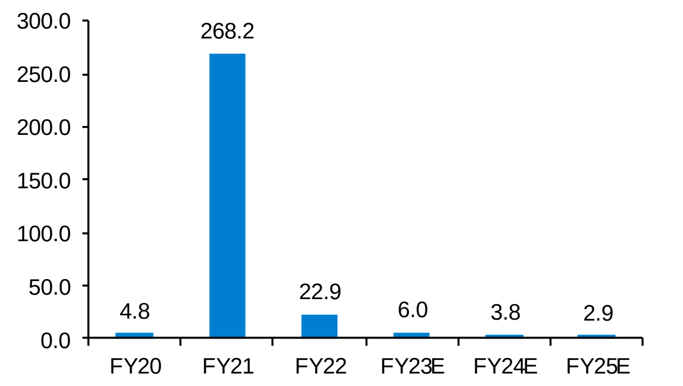
Source: Company, PL

Exhibit 56: OCF/EBITDA to be at 0.9x in FY25E



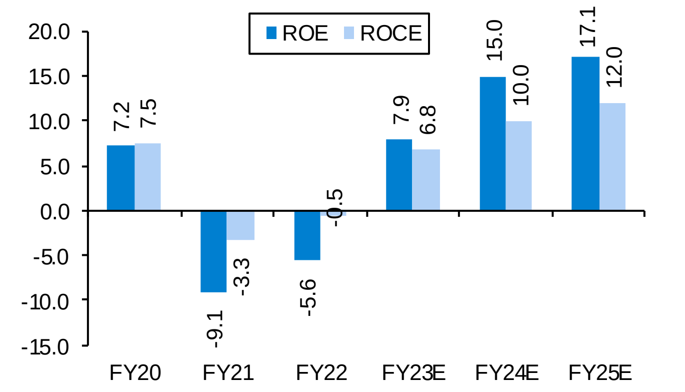
Source: Company, PL

Exhibit 57: Net debt/EBITDA to improve to 2.9x in FY25E



Source: Company, PL

Exhibit 58: ROE & ROCE to rise to 17%/12% in FY25E



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	**5,078**	**10,967**	**13,931**	**15,472**
YoY gr. (%)	*77.8*	*116.0*	*27.0*	*11.1*
Cost of Goods Sold	991	1,431	1,635	1,720
Gross Profit	4,087	9,536	12,296	13,752
Margin (%)	*80.5*	*86.9*	*88.3*	*88.9*
Employee Cost	1,000	1,403	1,522	1,583
Other Expenses	2,102	3,985	4,876	5,332
EBITDA	**985**	**4,148**	**5,898**	**6,837**
YoY gr. (%)	*1,295.0*	*321.2*	*42.2*	*15.9*
Margin (%)	*19.4*	*37.8*	*42.3*	*44.2*
Depreciation and Amortization	1,184	1,379	1,651	1,719
EBIT	**(199)**	**2,769**	**4,248**	**5,118**
Margin (%)	*(3.9)*	*25.2*	*30.5*	*33.1*
Net Interest	1,444	1,535	1,393	1,238
Other Income	219	242	277	291
Profit Before Tax	**(1,469)**	**1,475**	**3,132**	**4,171**
Margin (%)	*(28.9)*	*13.5*	*22.5*	*27.0*
Total Tax	(720)	369	783	1,043
Effective tax rate (%)	*49.0*	*25.0*	*25.0*	*25.0*
Profit after tax	**(749)**	**1,107**	**2,349**	**3,129**
Minority interest	1	-	-	-
Share Profit from Associate	(65)	-	-	-
Adjusted PAT	**(771)**	**1,107**	**2,349**	**3,129**
YoY gr. (%)	*NA*	*NA*	*112.2*	*33.2*
Margin (%)	*(15.2)*	*10.1*	*16.9*	*20.2*
Extra Ord. Income / (Exp)	(45)	-	-	-
Reported PAT	**(815)**	**1,107**	**2,349**	**3,129**
YoY gr. (%)	*NA*	*NA*	*112.2*	*33.2*
Margin (%)	*(16.1)*	*10.1*	*16.9*	*20.2*
Other Comprehensive Income	2	-	-	-
Total Comprehensive Income	(814)	1,107	2,349	3,129
Equity Shares O/s (m)	**205**	**205**	**205**	**205**
EPS (Rs)	**(3.8)**	**5.4**	**11.5**	**15.3**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	**30,797**	**32,447**	**32,847**	**34,547**
Tangibles	30,703	32,353	32,753	34,453
Intangibles	94	94	94	94
Acc: Dep / Amortization	**11,039**	**12,106**	**13,266**	**14,474**
Tangibles	10,962	12,028	13,188	14,396
Intangibles	78	78	78	78
Net fixed assets	**33,908**	**39,209**	**38,489**	**39,003**
Tangibles	33,891	39,192	38,472	38,986
Intangibles	16	16	16	16
Capital Work In Progress	322	355	425	443
Goodwill	226	226	226	226
Non-Current Investments	450	501	620	682
Net Deferred tax assets	2,341	1,294	1,226	1,207
Other Non-Current Assets	746	987	1,254	1,392
Current Assets				
Investments	-	-	-	-
Inventories	3,935	3,455	3,435	3,391
Trade receivables	436	451	572	636
Cash & Bank Balance	998	1,165	1,403	1,337
Other Current Assets	902	877	1,114	1,238
Total Assets	**44,427**	**48,762**	**49,071**	**49,894**
Equity				
Equity Share Capital	2,050	2,050	2,050	2,050
Other Equity	11,362	12,469	14,818	17,633
Total Networth	**13,413**	**14,519**	**16,868**	**19,684**
Non-Current Liabilities				
Long Term borrowings	21,428	23,928	21,428	19,078
Provisions	80	88	111	124
Other non current liabilities	140	165	209	232
Current Liabilities				
ST Debt / Current of LT Debt	3,912	4,162	4,162	4,162
Trade payables	867	1,352	1,717	1,907
Other current liabilities	3,827	3,744	3,717	3,793
Total Equity & Liabilities	**44,427**	**48,762**	**49,071**	**49,894**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	(1,534)	1,475	3,132	4,171
Add. Depreciation	1,184	1,379	1,651	1,719
Add. Interest	1,444	1,535	1,393	1,238
Less Financial Other Income	219	242	277	291
Add. Other	(57)	-	-	-
Op. profit before WC changes	1,037	4,390	6,175	7,128
Net Changes-WC	(452)	1,841	(86)	62
Direct tax	38	(369)	(783)	(1,043)
Net cash from Op. activities	**622**	**5,862**	**5,307**	**6,147**
Capital expenditures	(3,415)	(6,683)	(970)	(2,218)
Interest / Dividend Income	56	-	-	-
Others	(602)	(286)	(298)	(171)
Net Cash from Invt. activities	**(3,961)**	**(6,969)**	**(1,268)**	**(2,389)**
Issue of share cap. / premium	500	-	-	-
Debt changes	4,951	2,750	(2,500)	(2,350)
Dividend paid	-	-	-	(313)
Interest paid	(1,302)	(1,535)	(1,393)	(1,238)
Others	(40)	59	92	76
Net cash from Fin. activities	**4,109**	**1,274**	**(3,801)**	**(3,825)**
Net change in cash	**771**	**167**	**238**	**(66)**
Free Cash Flow	(2,813)	(821)	4,337	3,930

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	(3.8)	5.4	11.5	15.3
CEPS	2.0	12.1	19.5	23.6
BVPS	65.4	70.8	82.3	96.0
FCF	(13.7)	(4.0)	21.2	19.2
DPS	-	-	-	1.5
Return Ratio(%)				
RoCE	(0.5)	6.8	10.0	12.0
ROIC	2.2	8.5	12.0	13.7
RoE	(5.6)	7.9	15.0	17.1
Balance Sheet				
Net Debt : Equity (x)	1.8	1.9	1.4	1.1
Net Working Capital (Days)	252	85	60	50
Valuation(x)				
PER	(88.0)	61.3	28.9	21.7
P/B	5.1	4.7	4.0	3.4
P/CEPS	163.9	27.3	17.0	14.0
EV/EBITDA	93.6	22.8	15.6	13.1
EV/Sales	18.1	8.6	6.6	5.8
Dividend Yield (%)	-	-	-	0.5

Source: Company Data, PL Research

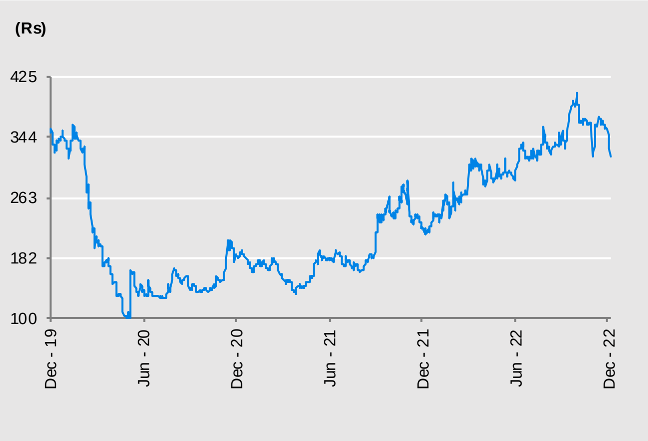
Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	**1,642**	**1,480**	**2,530**	**2,478**
YoY gr. (%)	*99.0*	*56.0*	*275.2*	*93.4*
Raw Material Expenses	305	261	349	348
Gross Profit	1,337	1,219	2,181	2,130
Margin (%)	*81.5*	*82.4*	*86.2*	*86.0*
EBITDA	**404**	**314**	**1,019**	**851**
YoY gr. (%)	*256.1*	*1,461.2*	*NA*	*138.6*
Margin (%)	*24.6*	*21.2*	*40.3*	*34.3*
Depreciation / Depletion	285	303	297	296
EBIT	**120**	**12**	**722**	**555**
Margin (%)	*7.3*	*0.8*	*28.5*	*22.4*
Net Interest	337	356	391	380
Other Income	15	55	69	26
Profit before Tax	**(211)**	**(299)**	**389**	**213**
Margin (%)	*(12.8)*	*(20.2)*	*15.4*	*8.6*
Total Tax	(120)	(185)	104	56
Effective tax rate (%)	*56.8*	*61.7*	*26.6*	*26.2*
Profit after Tax	**(91)**	**(115)**	**286**	**157**
Minority interest	3	1	-	-
Share Profit from Associates	(53)	-	-	-
Adjusted PAT	**(138)**	**(106)**	**296**	**145**
YoY gr. (%)	*NA*	*NA*	*NA*	*NA*
Margin (%)	*(8.4)*	*(7.1)*	*11.7*	*5.8*
Extra Ord. Income / (Exp)	(9)	(10)	(10)	13
Reported PAT	**(147)**	**(116)**	**285**	**157**
YoY gr. (%)	*NA*	*NA*	*NA*	*NA*
Margin (%)	*(8.9)*	*(7.8)*	*11.3*	*6.3*
Other Comprehensive Income	**-**	**2**	**-**	**-**
Total Comprehensive Income	**(147)**	**(114)**	**285**	**158**
Avg. Shares O/s (m)	**205**	**205**	**205**	**205**
EPS (Rs)	**(0.7)**	**(0.6)**	**1.4**	**0.8**

Source: Company Data, PL Research

Notes

Price Chart	Recommendation History



Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Entertainment Network (India)	Hold	189	163
2	Indian Railway Catering and Tourism Corporation	Hold	679	741
3	Inox Leisure	BUY	652	515
4	Music Broadcast	Hold	23	24
5	Navneet Education	BUY	163	127
6	Nazara Technologies	BUY	1,012	670
7	PVR	BUY	2,119	1,689
8	S Chand and Company	BUY	220	164
9	Safari Industries (India)	BUY	2,457	1,811
10	V.I.P. Industries	BUY	1,009	710
11	Zee Entertainment Enterprises	BUY	308	266

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Buy : >15%
Accumulate : 5% to 15%
Hold : +5% to -5%
Reduce : -5% to -15%
Sell : < -15%
Not Rated (NR) : No specific call on the stock
Under Review (UR) : Rating likely to change shortly

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