Equity Research

June 30, 2023

BSE Sensex: 63915

ICICI Securities Limited is the author and distributor of this report

Initiating coverage

Hotels

Target price Rs603

Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	71.7	71.7	71.7
Institutional investors	23.8	24.3	24.7
MFs and other	20.5	20.8	21.1
FIs and Banks	0.1	0.1	0.2
Insurance Cos.	1.4	1.5	1.3
FIIs	1.8	1.9	2.1
Others	4.5	4.0	3.6

ESG disclosure score

Year	2020	2021	Chg
ESG score	**NA**	**NA**	**NA**
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.
Source: Bloomberg, I-sec research

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Chalet Hotels

BUY

Time to check-in

Rs428

We initiate coverage on Chalet Hotels Ltd. (Chalet) with a BUY rating and an SOTP-based target price of Rs603/share. We value the company on Jun'25 SOTP basis at 18x EV/EBITDA for hotel business, 9% cap rate for rental assets and residual value of Vivarea, Bengaluru project. While industry peers are focusing on the asset light expansion route, Chalet has chosen to grow its hotel room and office rental portfolio over FY23-27E through the ownership route (mix of existing project expansion and long-term leases). We believe that this is the right strategy in an industry upcycle (FY23-FY28E) and we estimate hotel EBITDA CAGR of 18% over FY23-26E at EBITDA margins of 44-45%. We believe that total operating cash flow of Rs22.1bn over FY24-26E is adequate to fund incremental capex of Rs17.6bn over the same period. Key risks are fall in hotel RevPARs and weak office leasing.

- **Asset owner with marquee assets in key geographies across India:** Part of the K Raheja Corp group, Chalet is an owner, developer, asset manager and operator of high-end hotels and a hotel led mixed-use developer in key metro cities in India such as Mumbai Metropolitan Region, Hyderabad, Bengaluru, and Pune. The Company's portfolio comprises nine fully operational hotels representing 2,802 keys (as of Jun'23), across mainstream and luxury segments, and commercial spaces, representing ~1.5msf in close proximity to the hospitality assets. Majority of the company's hotels are operated by international brands such as Marriott International and The Accor.

- **Riding the hotel industry upcycle through a strong expansion plan:** Positioning itself to capture the expected hotel industry upcycle over FY23-28E, the company is undertaking an expansion plan where in it intends to take its operational hotel portfolio from 2,634 keys as of Mar'23 to 3,760 keys by FY26E of which 40% of the incremental room capacity expansion is on existing assets. Also, with an objective to de-risk the business considering cyclical nature of the hotel business, the company is undertaking an expansion of its rental portfolio and intends to take its operational rental area to 3.0msf by FY26E from 0.5msf as of Mar'23. This would entail a cumulative capex of Rs19-20bn over FY24-26E split evenly between hotels and office rental assets.

- **Strong revenue/EBITDA growth driven by existing and new assets:** We expect the company's operational hotels to clock 11% revenue CAGR over FY23-26E and reach FY26E revenue of Rs13.9bn driven by 6% ARR CAGR over the same period and balance from occupancy ramp-up. Along with new hotels, we expect hotel revenue CAGR (existing + new) of 17% over FY23-26E and EBITDA CAGR of 18.3% leading to FY26E hotel EBITDA of Rs7.3bn. We expect company's rental income to be Rs2.7bn in FY26E vs Rs1.0bn in FY23, and EBITDA of Rs2.3bn vs. Rs0.8bn in FY23 which we expect to be driven by the two new towers in Bengaluru and Powai Tower 1.

Market Cap	Rs88bn/US$1.1bn
Reuter/Bloomberg	CHAL.BO / CHALET IN
Shares Outstanding (mn)	205
52-week Range (Rs)	450/301
Free Float (%)	28.3
FII (%)	2.1
Daily Volume (US$'000)	126
Absolute Return 3m (%)	18.6
Absolute Return 12m (%)	36.7
Sensex Return 3m (%)	11.6
Sensex Return 12m (%)	21.7

Year to Mar (Consol)	FY23	FY24E	FY25E	FY26E
Revenue (Rs bn)	11.3	14.0	17.4	19.1
Rec. Net Income (Rs bn)	1.9	2.8	4.4	5.1
EPS (Rs)	9.1	13.4	21.5	25.0
% Chg YoY	(348.0)	48.3	60.2	16.3
P/E (x)	47.1	31.8	19.8	17.1
P/B (x)	5.7	4.8	3.9	3.2
EV/E (x)	24.7	17.9	13.3	11.7
Dividend yield (%)	-	-	-	-
RoCE (%)	9.2	11.7	15.0	15.5
RoE (%)	12.9	16.4	21.6	20.4

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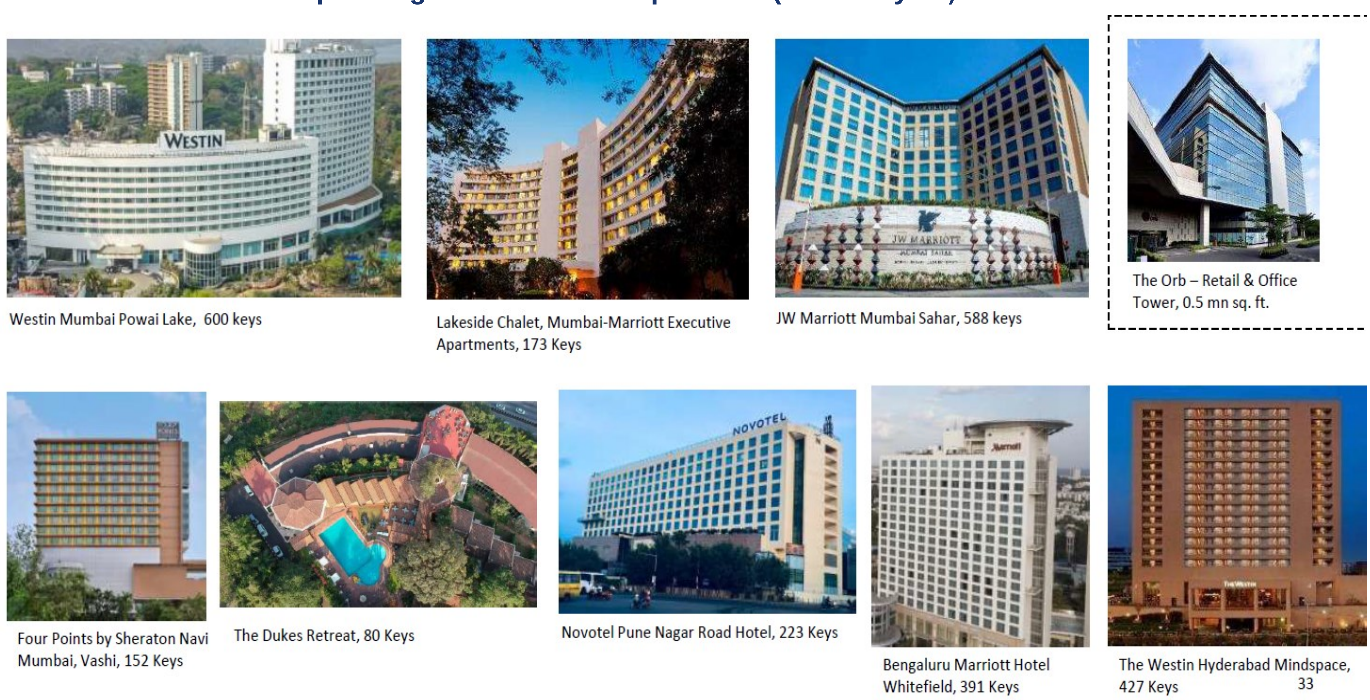
Company profile

Part of the K Raheja Corp group, Chalet Hotels Limited (Chalet) is an owner, developer, asset manager and operator of high-end hotels and a hotel led mixed-use developer in key metro cities in India such as Mumbai Metropolitan Region, Hyderabad, Bengaluru, and Pune. The Company's portfolio comprises nine fully operational hotels representing 2,802 keys (as of Jun'23), across mainstream and luxury segments, and commercial spaces, representing ~1.5msf in close proximity to the hospitality assets. The hospitality portfolio includes:

- JW Marriott Mumbai Sahar (588 keys)
- The Westin Mumbai Powai Lake (600 keys)
- Lakeside Chalet Marriott Executive Apartments (173 keys)
- Four Points by Sheraton Navi Mumbai (152 keys)
- The Westin Hyderabad Mindspace (427 keys)
- The Westin Hyderabad Hitec City (168 keys)
- Bengaluru Marriott Hotel Whitefield (391 keys)
- Novotel Pune Nagar Road (223 keys)
- The Dukes Retreat (80 keys)

Chart 1: Chalet Hotels operating hotel and rental portfolio (as of May'23)*



Source: Company, I-Sec research, *excludes Westin Hyderabad Hitec City which became operational in Jun'23

Majority of the company's hotels are operated by international brands such as Marriott International and The Accor. The company's strength lies in identifying strategic locations and efficient design & development of properties focusing on gross built-up area and development cost per key. Majority of the assets are located in high-density business districts of metro cities with high barriers to entry.

Chalet Hotels has also strategically streamlined operations by partnering with leading hospitality chains such as Marriott and Accor. It adheres to an active asset management model for hotels operated by third parties, closely monitoring and exercising a robust review mechanism driving operational and financial excellence. Chalet has also developed commercial spaces in proximity to the hotels. The Company has one residential project under development in Bengaluru.

The company is also undertaking an expansion plan where in it intends to take its operational hotel portfolio from 2,634 keys as of Mar'23 to 3,760 keys by FY26, of which 40% of the incremental room capacity expansion is on existing assets. Also, with an objective to de-risk the business considering cyclical nature of the hotel business, the company is undertaking an expansion of its rental portfolio and intends to take its operational rental area to 3.0msf by FY26 from 0.5msf as of Mar'23.

Key Management Personnel

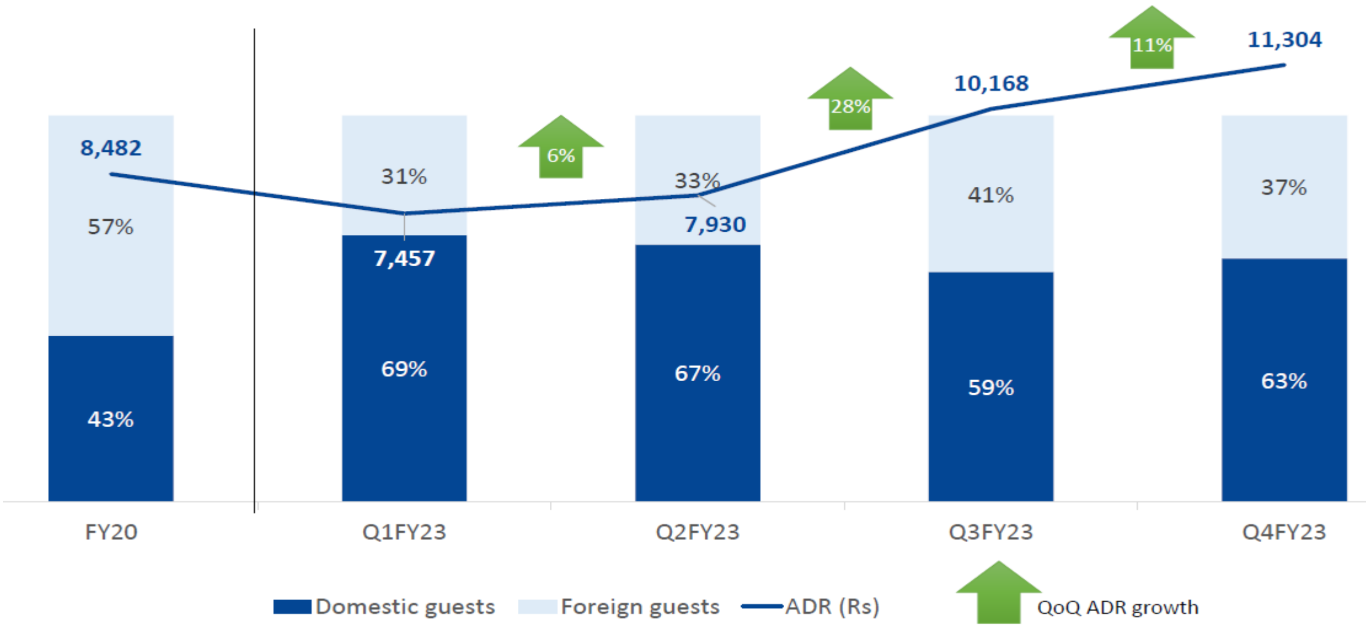
Sanjay Sethi: Sanjay Sethi is the Managing Director and Chief Executive Office of Chalet Hotels Ltd. He is a hotel management graduate from IHM Pusa. He is a Certified Hotel Administrator (CHA) from American Hotel and Lodging Educational Institute and has completed various management programs from IIM-Bangalore, XLRI and Cornell. He has over 33 years of experience in the hospitality industry. He founded Berggruen Hotels Private Limited in 2006 along with Berggruen Holdings, New York. He has briefly worked with ITC Limited as Chief Operating Officer for their Hotels Division and had a fourteen-year stint with the Taj Group of Hotels. He is actively associated with many industry forums in bringing about reforms for the Hospitality sector and championed the cause of getting Industry status for hotels. He is an Executive Committee Member of Hotel Association of India (HAI) and a special invitee to the Executive Committee of Hotel and Restaurant Association of Western India (HRAWI). He is also a member of the National Real Estate Committee of FICCI and member of the Policy panel of CII Maharashtra and member of CII's National Tourism Committee.

Milind Wadekar: Milind Wadekar is the Chief Financial Officer of Chalet Hotels Ltd. He is a qualified Chartered Accountant with close to three decades of experience in the fields of finance, accounts and tax, Milind has been associated with Chalet Hotels since 2009. In his current role, he is responsible for several key aspects of the business including financial reporting, controls and planning, strategic advisory, risk management, investor relationship and stakeholder management and regulatory compliances. He has also extensively worked on corporate restructuring, evaluating growth strategies and mergers and acquisitions for the company. Prior to joining the company, he was working with the erstwhile Hotel Leela Ventures Limited as Corporate Financial Controller.

Emerged stronger and leaner post Covid

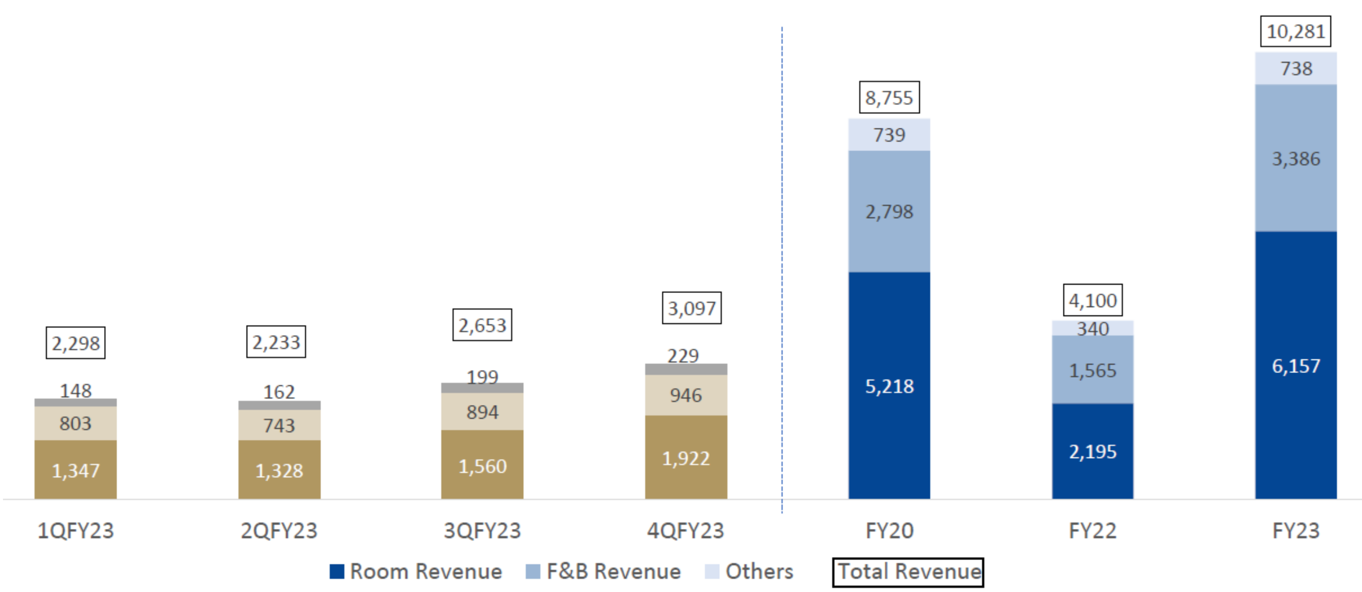
Chalet was impacted by multiple Covid waves over FY21-FY22. With the company's portfolio primarily being a business hotel portfolio, the prevalence of Work-from-Home and slow opening of international travel from Feb'22 impacted it to an extent in H1FY23 as well, before seeing a strong bounce back in H2FY23.

Chart 2: Chalet Hotels ADR growth trend in FY23 and comparison with FY20*



Source: Company, I-Sec research, *ADR is Average Daily Rate or Average Room Rate

Chart 3: Chalet Hotels quarterly and annual revenue trends (in Rs mn)

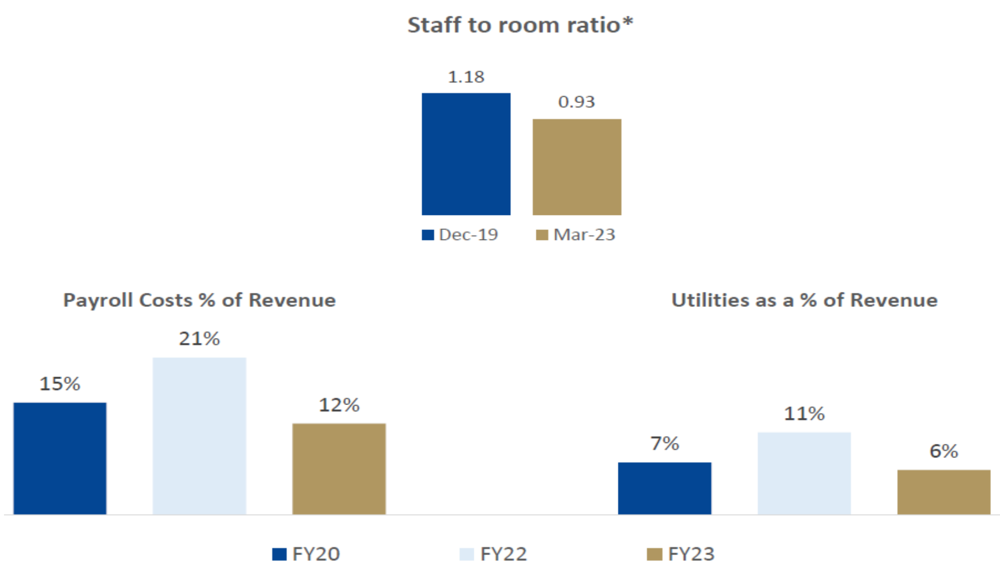


Source: Company, I-Sec research

Cost-cutting initiatives have borne fruit

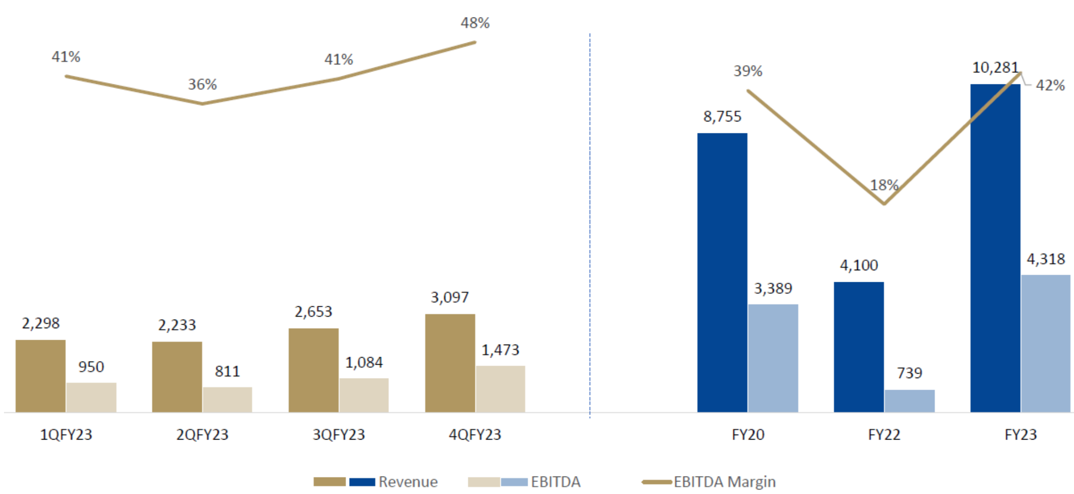
In line with initiatives taken by industry peers during Covid to re-evaluate cost structures, Chalet Hotels has also undertaken various cost-optimisation strategies such as a) negotiating for a lower minimum demand of electricity load at all locations (to reduce fixed charges), b) re-negotiating service contracts for internet & satellite, c) improving employee productivity & rationalizing cost to a large extent (staff to room ratio including contractual employees has declined from 1.18x in Dec'19 to 0.93x in Mar'23), d) centralizing finance functions for hotels managed by the Marriott Group. While this led to 33% reduction in fixed costs and 42% reduction in variable costs in FY22 as compared to FY20, the full benefits of these cost reduction initiatives are visible in FY23 with a noticeable decline in payroll and utilities (power) cost as a percentage of revenue.

Chart 4: Chalet's cost efficiencies have borne fruit in FY23*



Source: Company, I-Sec research, *includes contractual employees

Chart 5: Chalet's hotel revenue and EBITDA - FY23 vs. FY20 (Rs mn)



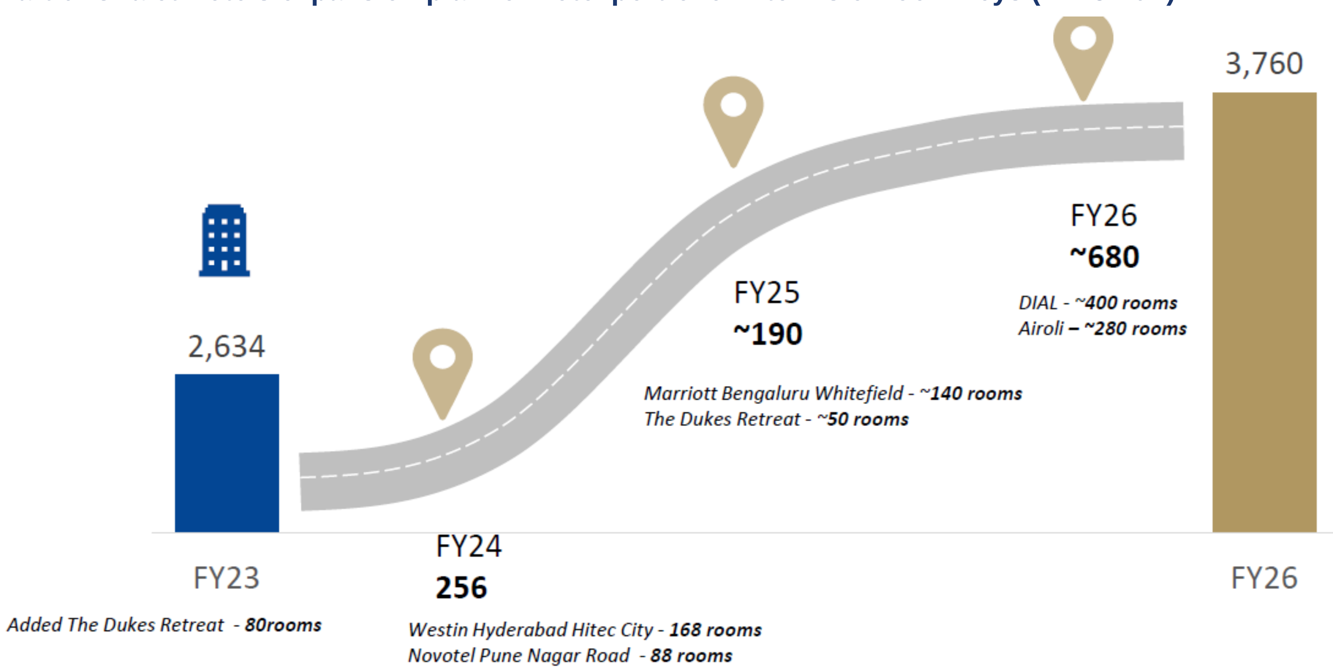
Source: Company, I-Sec research

Riding the hotel industry upcycle through a strong expansion plan

According to the India Hospitality Industry Overview 2022 by HVS Anarock, industry level occupancies which recovered to 60% in CY22 are estimated to reach 66% in CY23, 68% in CY24 and 70% in CY25. At the same time, industry ARR which stood at Rs6,100 in CY22 is estimated to reach Rs7,106 in CY23, Rs7,639 in CY24 and Rs7,983 in CY25. In RevPAR terms, this implies that compared to CY22 industry RevPAR of Rs3,600, RevPAR may rise to Rs4,690 in CY23, Rs5,194 in CY24 and Rs5,588 in CY25 or a 15.8% CAGR in industry RevPAR over CY22-25. As per various industry estimates, with incremental room supply CAGR expected to range between 5-6% over CY22-26, the medium-term demand supply dynamics remain healthy for the Indian hotel sector.

While the company's peers are focusing largely on expansion through the asset-light management contract route (75-80% of incremental room portfolio), Chalet has chosen to undertake an expansion plan where in it intends to take its operational hotel portfolio from 2,634 keys as of Mar'23 to 3,760 keys by FY26, of which 40% of the incremental room capacity expansion is on existing assets. Including refurbishment capex, we estimate that the company would incur capex of Rs9-10bn over FY24-26E to fund its expansion plans.

Chart 6: Chalet Hotels expansion plan for hotel portfolio in terms of room keys (FY23-26E)



Source: Company, I-Sec research

Details of hotel-wise expansion plans:

- **DIAL Hotel, Delhi Airport (~400 rooms):** In Q1FY23, 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 the T3 terminal building, which is next to the airport. While the cold shell will be delivered by DIAL, the interiors and other fit-outs will be completed by Chalet. The hotel will have ~400 rooms and the company expects it to be completed by FY26 with stabilisation of hotel from FY27. Further, in May'23, Chalet Airport Hotel Private Limited, a wholly owned subsidiary of Chalet Hotels, signed a franchise agreement with The Indian Hotels Company Limited (IHCL) to operate its Taj brand at the DIAL hotel. As part of this arrangement, we estimate 3-4% of the hotel's revenue to flow to IHCL and expect the hotel to deliver 40% EBITDA margin from FY27E onwards upon full stabilisation. We estimate that Chalet will incur capex of Rs3.5bn including Rs2.6bn of construction and Rs0.9bn of refundable deposits over FY24-26E.
- **Dukes Retreat, Khandala (operational 80 rooms to be expanded to 130 rooms):** While the company has focused on business hotels till date, the company has now forayed into the leisure segment by completing the acquisition of the Dukes Retreat, Khandala for Rs1.3bn in Mar'23. The Dukes Retreat in Khandala is a hill station lying between the cities of Mumbai and Pune in Maharashtra on 7.5acres of land with 80 operational keys as of Mar'23 and is a top destination for leisure travellers, weddings and corporate events. The company intends to upgrade the Resort to a 5 Star property and expand the existing 80 keys to 130 keys by adding 50 new rooms. We estimate that peak room rates which are usually Rs10,000+ in the monsoon season may rise to Rs15,000+ once the renovation of existing rooms is complete. According to the company, of the 80 operational keys, 60% of the inventory is currently undergoing renovation (48 rooms) and will become operational in H2FY24 along with the new 50 rooms (overall 98 keys will become operational). The balance 32 rooms which are operational will undergo renovation from H2FY24 and reopen in FY25.
- **Westin Hyderabad Hitec City, Hyderabad (168 rooms):** This hotel is located at Hitec City, Hyderabad and has opened in Jun'23 and is a Westin branded hotel (Marriott International) and will be managed and operated by an all-women team.
- **Novotel, Pune expansion (88 rooms):** 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 Rs1.8bn. The new 88 rooms which will be an addition to the existing 223 keys of the existing hotel and are fully ready with the Occupation Certificate (OC) expected sometime in Q2FY24 post which the rooms will become operational.
- **Bengaluru Marriott, Whitefield (140 rooms):** The office space in the erstwhile Accenture Learning Tower in Bengaluru is being converted to an additional 140 guest rooms and designs are in final stages and we estimate this to become operational in H2FY25.
- **Airoli, Navi Mumbai (280 rooms):** This hotel is located in Airoli, Navi Mumbai and is expected to be completed by FY26E and is in design stage and will be operated as a Hyatt Regency hotel.

De-risking cash flows through annuity asset expansion

While we are of the view that the hotel industry is set for a sustained upcycle over FY23-27E, given the cyclical nature of the hotel industry, we believe that the company's strategy of utilising its existing land bank to build rent-yielding office assets will be beneficial in the long run. Similar to its capex requirement of Rs9-10bn over FY24-26E for its hotel expansion plans, the company will require ~Rs9-10bn of capex to take its operational office portfolio from 0.5msf as of Mar'23 to 3.0msf by FY26E.

- **Bengaluru commercial complex:** The first tower in the complex has a leasable area of 0.65msf and has received the Occupation Certificate (OC) and the handover has been given to a tenant in Q1FY24 (0.15msf with option of taking additional space) and the company is targeting to lease out ~85% of the space by Mar'24. Expected rentals are in the range of Rs60-62/psf/month. The second tower of 0.3msf (erstwhile Inorbit Mall) is also ready and will be handed over to tenants in either Q2FY24 or Q3FY24 upon receipt of the OC.

Chart 7: Chalet Hotels Bengaluru commercial complex expansion plans

Source: Company, I-Sec research

- **Powai commercial complex:** While both towers located in the Westin complex at Powai, Mumbai, the first tower in the complex has a leasable area of 0.78msf and is ready with the OC expected in Q2FY24 and rentals may start from Q4FY24 as the company looks to lease the space over the next six months with rentals ranging around Rs120+/psf/month. The second tower of 0.75msf is expected to see construction start in Q2FY24 and be completed over a period of 33 months (sometime in FY26E) at an estimated capex of Rs7bn.

Chart 8: Chalet Hotels Powai commercial complex expansion plans

Cignus Powai at Westin Complex, Powai is a premium office space ~0.78 msf.

Commercial Tower-2 at Westin Complex, Powai a premium office space ~0.75 msf.

Source: Company, I-Sec research

Strong demand trajectory expected to sustain

With a recovery in demand being accompanied strong pricing power, we expect the hotel industry and Chalet in particular to reap these benefits across its brand portfolio.

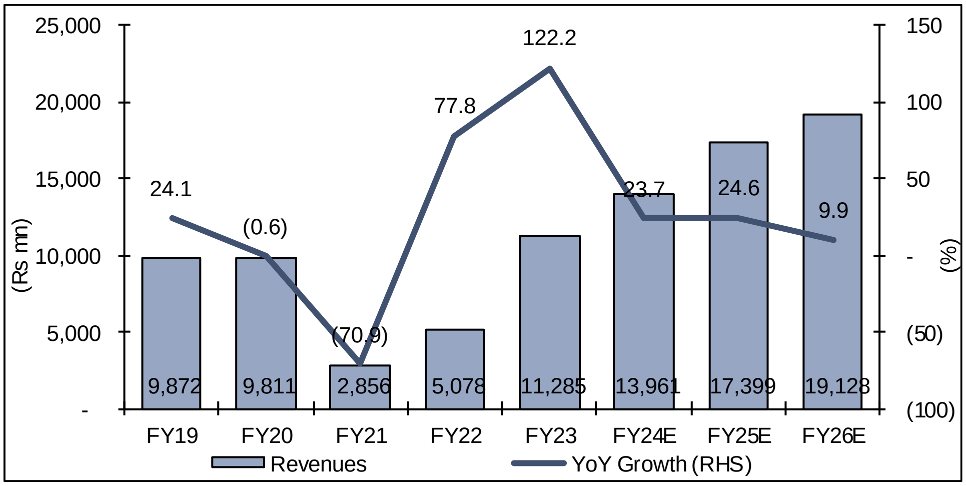
- **We expect the company's operational hotels (as of Mar'23) to clock 11% revenue CAGR over FY23-26E (including 88 new rooms at Novotel Pune) and reach FY26E revenue of Rs13.9bn driven by 6% ARR CAGR over the same period and balance from occupancy ramp up. At the same time, we expect hotel EBITDA from existing hotels to grow at 13% CAGR over FY23-26E to Rs6.3bn. While the company achieved FY23 hotel business EBITDA margin of 42% vs. 39% in FY20, we expect EBITDA margins from existing hotel to stabilise at 44-45% between FY24-26E.**
- **We expect the company's new hotels (excluding Delhi Airport and Airoli, Navi Mumbai) to contribute Rs2.5bn of revenue and Rs1.1bn of revenue in FY26E. As a result, at a blended level, we expect total hotel revenue CAGR (existing + new) of 17% over FY23-26E and EBITDA CAGR of 18.3%.**
- **For the company's rental portfolio, we expect rental income to grow to Rs2.7bn in FY26E from Rs1.0bn in FY23, and EBITDA of Rs2.3bn in FY26E vs. Rs0.8bn in FY23 which we expect to be driven by the two new towers in Bengaluru and Powai Tower 1 contributing incremental rentals.**

Table 1: Key operating and revenue/EBITDA assumptions for Chalet*

Details	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Operational Keys	**2,331**	**2,554**	**2,554**	**2,554**	**2,634**	**2,940**	**2,940**	**3,080**
ARR (Rs)	**8,210**	**8,482**	**4,040**	**4,576**	**9,169**	**9,719**	**10,302**	**10.920**
LTL YoY Growth (%)		*3.3*	*(52.4)*	*13.3*	*100.4*	*6.0*	*6.0*	*6.0*
LTL Occupancy (%)	77%	71%	30%	51%	72%	76%	78%	80%
RevPAR (Rs)	**6,283**	**6,022**	**1,214**	**2,355**	**6,605**	**7,332**	**7,918**	**8,552**
LTL YoY Growth (%)		*(4.2)*	*(79.8)*	*94.0*	*180.5*	*11.0*	*8.0*	*8.0*
Hotel Revenue Breakup (Rs mn):								
Existing	9,137	8,755	2,018	4,100	10,281	11,725	12,895	13,863
New	-	-	-	-	-	1,017	2,071	2,553
Total Hotel Revenue	**9,137**	**8,755**	**2,018**	**4,100**	**10,281**	**12,742**	**14,966**	**16,416**
Hotel EBITDA Breakup (Rs mn):								
Existing	3,566	3,389	(213)	739	4,318	4,997	5,728	6,273
New	-	-	-	-	-	305	774	1,061
Total Hotel EBITDA	**3,566**	**3,375**	**(213)**	**739**	**4,318**	**5,302**	**6,503**	**7,334**
Hotel EBITDA Margin (%)	**39.0**	**38.5**	**(10.6)**	**18.0**	**42.0**	**41.6**	**43.4**	**44.7**
Rental Revenue (Rs mn):								
Total Rental Revenue	**391**	**1,003**	**931**	**1,050**	**1,000**	**1,219**	**2,433**	**2,712**
Total Rental EBITDA	**93**	**617**	**724**	**789**	**839**	**1,049**	**2,080**	**2,312**
EBITDA Margin (%)	***23.8***	***61.5***	***77.8***	***75.1***	***83.9***	***86.1***	***85.5***	***85.2***

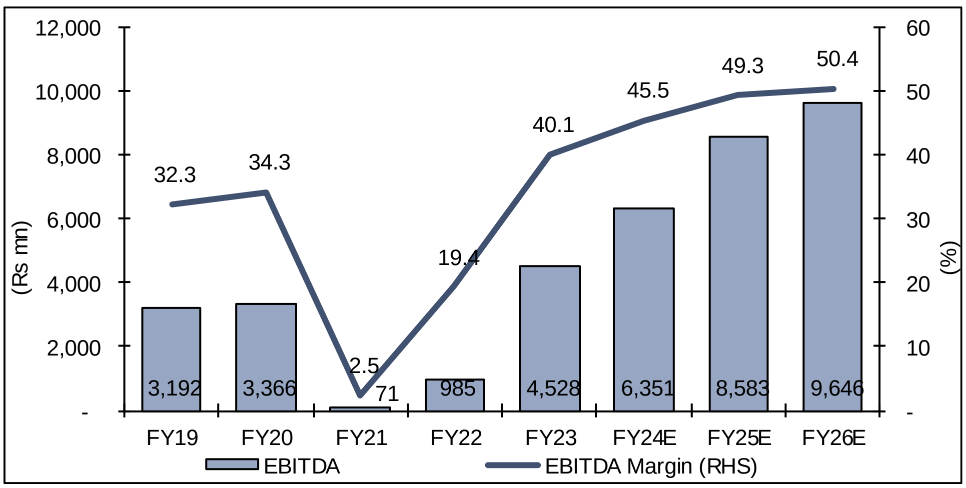
Source: Company, I-Sec research estimates, *assumed Delhi Airport and Airoli hotel to be fully operational in FY27E

Chart 9: Chalet expected to see continued strength in demand



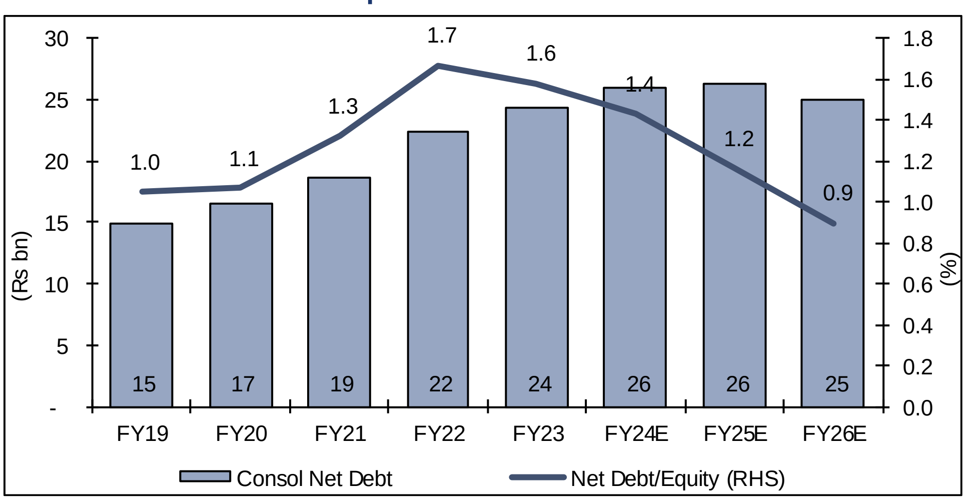
Source: Company, I-Sec research estimates, *consolidated revenue

Chart 10: Chalet's EBITDA margins to expand over FY23-26E*



Source: Company, I-Sec research estimates, *consolidated EBITDA and margins

Chart 11: Chalet's net debt position to remain stable over FY23-FY26E



Source: Company, I-Sec research estimates

Is the company's leverage really a concern?

As of Mar'23, Chalet had consolidated net debt of Rs24bn with a net debt/equity of 1.6x. The company has additional capex of ~Rs20bn to incur over FY24-26E which is expected to be distributed evenly between hotels (Rs9-10bn including refurbishment capex) and office assets (Rs10bn). Given the company's model of asset ownership and growth through capex intensive route vs. peers which are expanding primarily through the asset management route in a cyclical business, the company's balance sheet remains a key focus for investors. However, we are of the view that the company's strategy to build big-box hotels and selectively acquire smaller hotels is the right strategy for the following reasons:

- Hotel industry is set for an upcycle for the next 4-5 years (FY23-28E) with supply CAGR of ~5-6% expected to be lower than the demand CAGR of over 10%. In such upcycles, asset owners tend to benefit the most as a function of operating leverage and existing assets being built at lower cost. Out of Chalet's net debt of Rs24.4bn as of Mar'23, Rs11.8bn is attributable to operational assets while Rs12.6bn of debt is applicable to under-construction assets. Chalet clocked Rs5.0bn of asset EBITDA in FY23 vs. operational asset debt of Rs11.8bn which can be comfortable serviced, in our view.

- Further, we estimate that once the new assets (hotels + offices), stabilise by FY26-27E, the combined hotel + rental EBITDA would likely be in the range of Rs11-12bn, with the company's net debt remaining at ~Rs25bn over FY24-26E on the back of cumulative operating cash flows (post tax) of Rs22.1bn over FY24-26E.

Valuation

We initiate coverage on Chalet with a BUY rating and an SOTP based target price of Rs603/share. We value the company on Jun'25 SOTP basis at 18x EV/EBITDA for hotel business, 9% cap rate for rental assets and residual value of Vivarea, Bengaluru residential and office projects.

Our EV/EBITDA multiple of 18x is at a 10% discount with the hotel industry's long-term listed peer multiple considering that it its hotels are run through the management contract/franchise route.

We are enthused by the company's efforts to leverage its existing land parcels to grow its rental portfolio, expand existing hotels and also focusing on new projects such as Delhi Airport/Airoli without spending on land.

Key risks are fall in hotel RevPARs and weak office leasing.

Table 2: SoTP valuation of Chalet Hotels (Chalet)

Jun'25 Hotel EBITDA (Rs mn)	**6,711**
Hotels Enterprise Value (EV) in Rs mn (18x EV/EBITDA)	**120,789**
Add: Rental EV at 9% Cap Rate (Rs mn)	23,758
Add: Residual DCF value of Vivarea, Bengaluru (Rs mn)	2,008
Add: Capital WIP of Delhi/Airoli hotels (Rs mn)	3,100
Chalet SoTP EV (Rs mn)	**149,655**
Less; Net Debt as of Jun'25 Rs mn)	26,062
Chalet Total SOTP Equity Value (Rs mn)	**123,593**
Equity Value per Share (Rs)	**603**

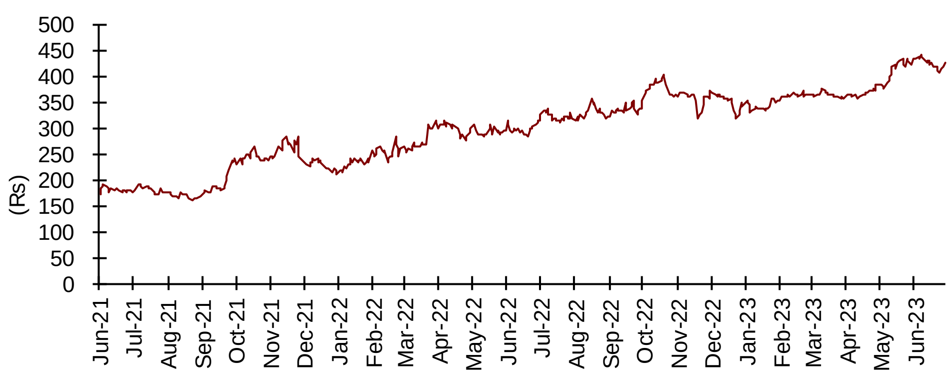
Source: I-Sec research estimates

Table 3: Peer valuations

Company	Rating	MCap (Rs bn)	EV/EBITDA (x) FY23	EV/EBITDA (x) FY24E	EV/EBITDA (x) FY25E	P/E (x) FY23	P/E (x) FY24E	P/E (x) FY25E	RoE (%) FY23	RoE (%) FY24E	RoE (%) FY25E
Chalet Hotels Hotels	**BUY**	**87.5**	**24.7**	**17.9**	**13.3**	**47.1**	**31.8**	**19.8**	**12.9**	**16.4**	**21.6**
Indian Hotels Co	ADD	562.9	31.0	25.1	21.6	56.3	48.6	41.1	13.3	13.7	14.3
Lemon Tree Hotels	BUY	74.3	21.7	18.8	12.8	64.2	52.1	24.8	13.6	15.3	25.9

Source: I-Sec research estimates

Price chart



Source: Bloomberg

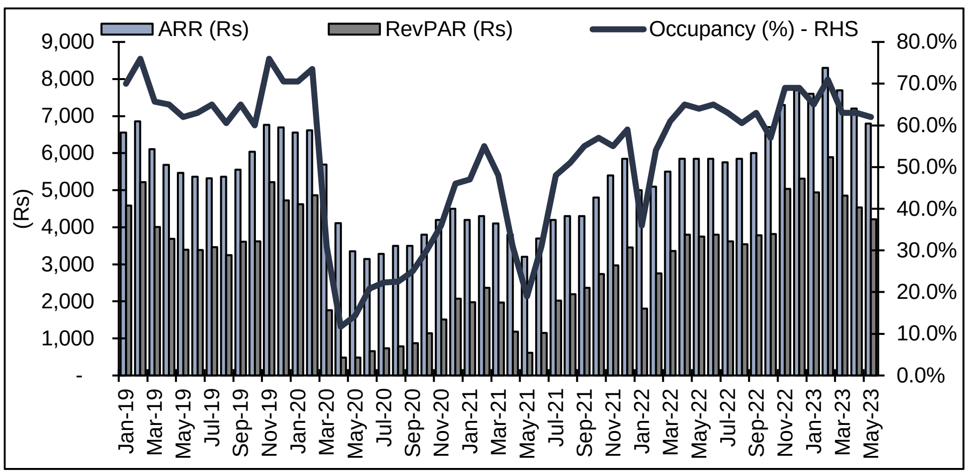
Annexure: Industry outlook

Industry RevPARs expected to grow at double digit CAGR over CY22-CY25

According to the India Hospitality Industry Overview 2022 by HVS Anarock, industry level occupancies which recovered to 60% in CY22 are estimated to reach 66% in CY23, 68% in CY24 and 70% in CY25. At the same time, industry ARR which stood at Rs6,100 in CY22 is estimated to reach Rs7,106 in CY23, Rs7,639 in CY24 and Rs7,983 in CY25. In RevPAR terms, this implies that compared to CY22 industry RevPAR of Rs3,600, RevPAR may rise to Rs4,690 in CY23, Rs5,194 in CY24 and Rs5,588 in CY25 or a 15.8% CAGR in industry RevPAR over CY22-25.

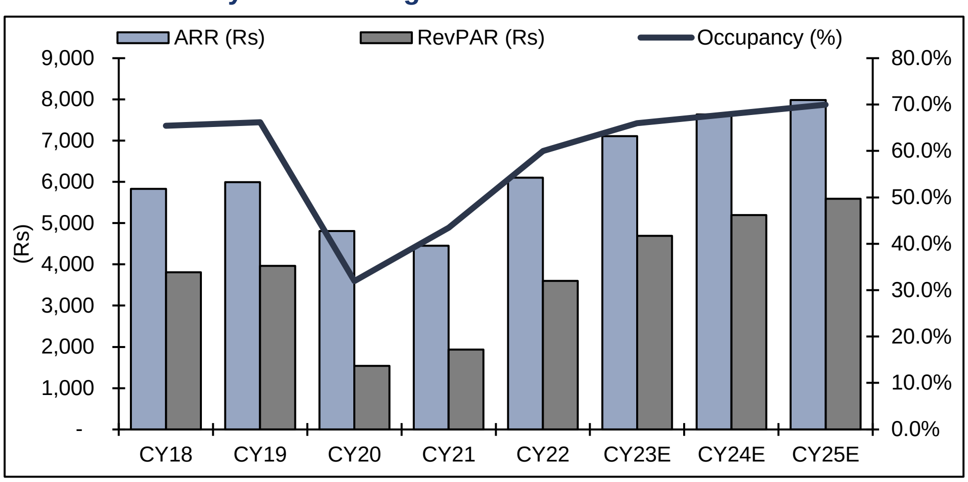
As per various industry estimates, with incremental room supply CAGR expected to range between 5-6% over CY22-26, the medium-term demand supply dynamics remain healthy for the Indian hotel sector.

Chart 12: Industry ARR/occupancy trends from Jan'19 to May'23



Source: HVS Anarock, I-Sec research

Chart 13: Industry RevPAR to grow at 16% CAGR over CY22-25



Source: HVS Anarock, I-Sec research

Brand signings pick up in CY22, management contracts rule the roost

According to the India Hospitality Industry Overview 2022 by HVS Anarock, CY22 brand signings increased 33% YoY in CY22 with 166 new hotels with 14,885 rooms being signed, while 90 hotels with 5,702 rooms were rebranded.

As per the HVS Anarock report, domestic hotel operators signed more properties (75% of the total signings by properties) than their international counterparts, with an average key count of 68 keys during the year. Like domestic chains, international hotel operators have also begun signing smaller properties than they traditionally did, as they continue expanding their footprint in Tier 2, 3 & 4 cities. Consequently, the average number of keys per hotel for international hotel operators decreased from 133 keys in 2021 to 119 keys in 2022.

Chart 14: Industry brand signings by contract type over CY19-22

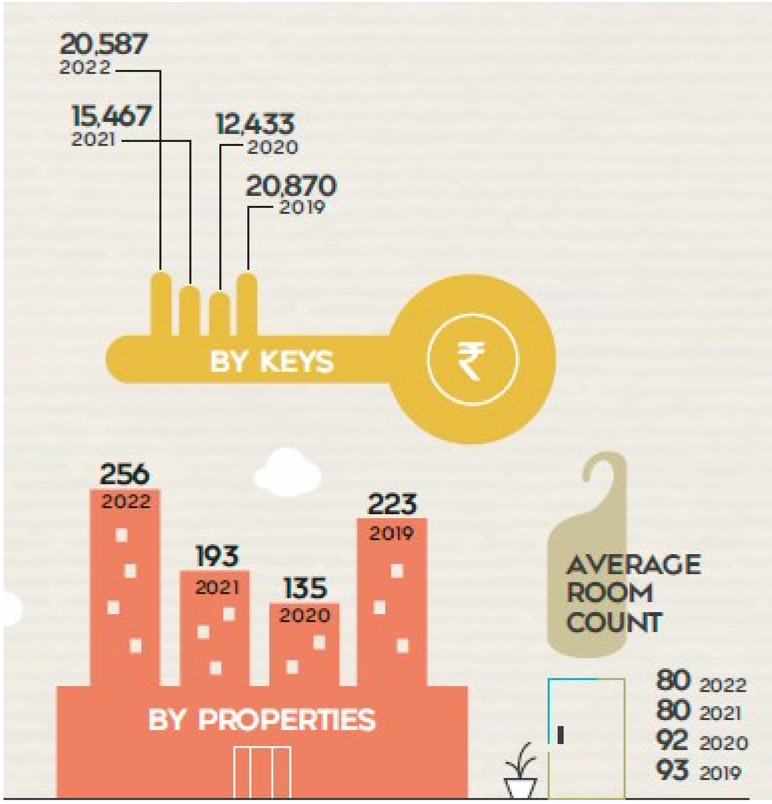
BY KEYS

Year	Managed	Franchised	Leased	Others
2022	80%	14%	3.7%	2.3%
2021	79%	16%	3.5%	1.5%
2020	80%	17%	3%	-
2019	76%	14%	4%	6%

Source: HVS Anarock, I-Sec research

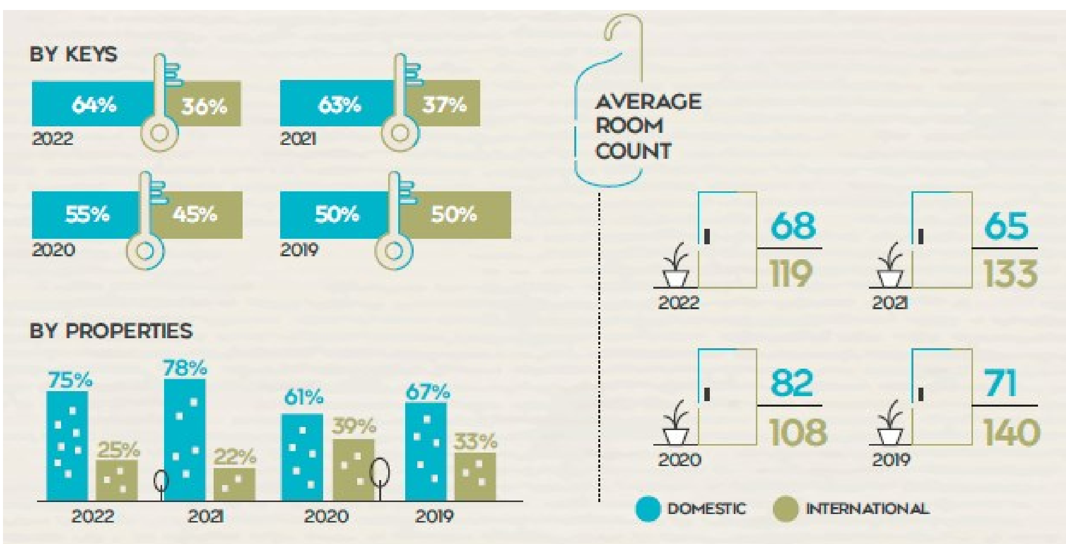
Management contracts continue to account for the majority share of signings in the Indian hotel sector, and in CY22, management contracts accounted for ~80% of the total signings by keys during the year. Hotel re-branding or conversion accounted for 27.7% of keys signed in CY22 vs. 20% in CY21 while 35.8% of the keys signed in CY22 were for greenfield projects as opposed to 32% in CY21. As a result, the share of brownfield keys signed declined from 48% in CY21 to 36.5% in CY22.

Chart 15: Industry overall brand signings over CY19-22



Source: HVS Anarock, I-Sec research, Note: Four properties that were renewed (approx. 300 keys) have not been included in new signings; Data received from 23 hotel operators.

Chart 16: Industry brand signings of international vs. domestic brands over CY19-22



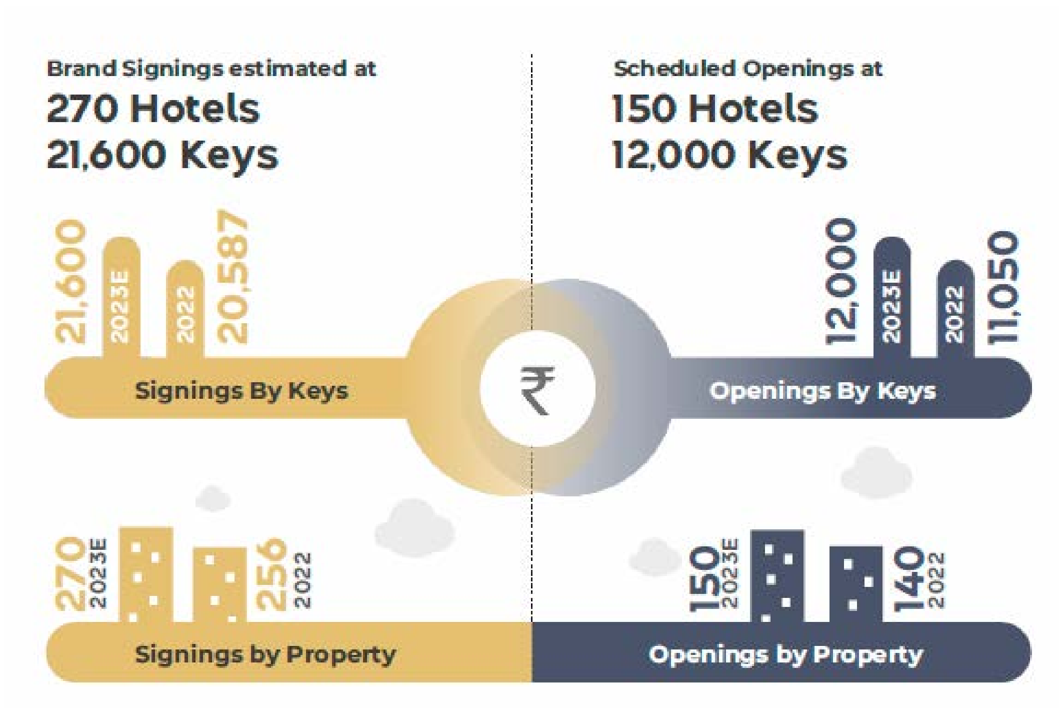
Source: HVS Anarock, I-Sec research

Chart 17: Industry brand signings by category over CY19-22

		Economy	Midscale	Upscale	Luxury
BY KEYS	2022	8%	37%	41%	14%
	2021	11%	44%	32%	13%
	2020	11%	41%	37%	11%
	2019	16%	38%	35%	11%
BY PROPERTIES	2022	11%	48%	34%	7%
	2021	11%	55%	25%	8%
	2020	13%	49%	31%	7%
	2019	20%	51%	23%	6%

Source: HVS Anarock, I-Sec research

Chart 18: Industry brand signings and scheduled openings in CY22 and CY23



Source: HVS Anarock, I-Sec research

Financial summary (consolidated)

Table 4: Profit and Loss statement

(Rs mn, year ending Mar 31)

	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	**5,078**	**11,285**	**13,961**	**17,399**	**19,128**
Operating Expenses	**4,093**	**6,757**	**7,609**	**8,816**	**9,482**
EBITDA	**985**	**4,528**	**6,351**	**8,583**	**9,646**
% margins	19%	40%	45%	49%	50%
Depreciation & Amortisation	1,184	1,173	1,277	1,362	1,533
Interest expenses	1,444	1,545	1,796	1,751	1,706
Other Income	219	495	396	416	436
Exceptional items	(45)	423	-	-	-
PBT	**(1,469)**	**2,728**	**3,674**	**5,885**	**6,843**
Less: Taxes	(720)	870	918	1,471	1,711
PAT before Minority/Associate	**(749)**	**1,858**	**2,755**	**4,414**	**5,132**
Minority/Associate share	-	-	-	-	-
Net Income (Reported)	**(749)**	**1,858**	**2,755**	**4,414**	**5,132**

Source: Company, I-Sec research estimates

Table 5: Balance sheet

(Rs mn, year ending Mar 31)

	FY22	FY23	FY24E	FY25E	FY26E
Assets					
Total Current Assets	7,153	8,126	8,898	9,126	11,021
of which cash & cash eqv.	998	1,220	1,454	395	1,001
Total Current Liabilities & Provisions	5,647	5,707	5,996	7,534	9,218
Net Current Assets	**1,506**	**2,419**	**2,901**	**1,593**	**1,803**
Goodwill/Investments	289	606	611	616	621
Net Fixed Assets	34,513	38,604	39,227	37,864	36,331
Capital WIP	322	978	4,623	10,953	16,653
Total Assets	**36,630**	**42,606**	**47,361**	**51,025**	**55,407**
Liabilities					
Borrowings	25,340	27,939	29,939	29,189	28,439
Equity Share Capital	2,050	2,050	2,050	2,050	2,050
Reserves & Surplus*	11,360	13,391	16,146	20,559	25,692
Net Worth	**13,410**	**15,441**	**18,196**	**22,610**	**27,742**
Minority Interest	-	-	-	-	-
Other Liabilities	624	1,047	1,047	1,047	1,047
Deferred Taxes	(2,743)	(1,820)	(1,820)	(1,820)	(1,820)
Total Liabilities	**36,630**	**42,606**	**47,361**	**51,025**	**55,407**

Source: Company, I-Sec research estimates

Table 6: Cashflow statement

(Rs mn, year ending Mar 31)

	FY22	FY23	FY24E	FY25E	FY26E
PBT	**(1,469)**	**2,728**	**3,674**	**5,885**	**6,843**
Depreciation	1,184	1,173	1,277	1,362	1,533
Interest expenses	1,444	1,545	1,796	1,751	1,706
Non-Cash Adjustments	(123)	(673)	-	-	-
Working Capital Changes	(452)	(35)	(249)	250	396
Taxes Paid	38	31	(918)	(1,471)	(1,711)
Operating Cashflow	**622**	**4,769**	**5,580**	**7,777**	**8,768**
Capital Commitments	(3,415)	(5,840)	(5,545)	(6,330)	(5,700)
Free Cashflow	**(2,793)**	**(1,071)**	**35**	**1,447**	**3,068**
Other investing cashflow	(546)	(84)	(5)	(5)	(5)
Cashflow from Investing Activities	**(3,961)**	**(5,924)**	**(5,550)**	**(6,335)**	**(5,705)**
Issue of Share Capital	-	1	-	-	-
Inc (Dec) in Borrowings	5,411	2,636	2,000	(750)	(750)
Interest expenses	(1,302)	(1,377)	(1,796)	(1,751)	(1,706)
Dividend paid	-	-	-	-	-
Others	-	-	-	-	-
Cashflow from Financing activities	**4,109**	**1,260**	**204**	**(2,501)**	**(2,456)**
Chg. in Cash & Bank balances	**771**	**105**	**234**	**(1,059)**	**607**

Source: Company, I-Sec research estimates

Table 7: Key ratios

(Year ending Mar 31)

	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data (Rs)					
EPS	(3.7)	9.1	13.4	21.5	25.0
Cash EPS	2.1	14.8	19.7	28.2	32.5
Dividend per share (DPS)	0.0	0.0	0.0	0.0	0.0
Book Value per share (BV)	65.4	75.3	88.8	110.3	135.3
Growth (%)					
Net Sales	77.8	122.2	23.7	24.6	9.9
EBITDA	1,294.9	359.8	40.3	35.1	12.4
PAT	(44.7)	(348.0)	48.3	60.2	16.3
Valuation Ratios (x)					
P/E	(116.8)	47.1	31.8	19.8	17.1
P/BV	6.5	5.7	4.8	3.9	3.2
EV / EBITDA	111.6	24.7	17.9	13.3	11.7
EV / Sales	6.5	5.9	4.6	4.0	0.0
Dividend Yield	0.0	0.0	0.0	0.0	0.0
Operating Ratios					
Debt/EBITDA (x)	25.7	6.2	4.7	3.4	2.9
Net D/E	1.7	1.6	1.4	1.2	0.9
Profitability/Return Ratios (%)					
RoE	(5.4)	12.9	16.4	21.6	20.4
RoCE	0.1	9.2	11.7	15.0	15.5
EBITDA Margins	19.4	40.1	45.5	49.3	50.4
Net Income Margins	(14.8)	16.5	19.7	25.4	26.8

Source: Company, I-Sec research estimates

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