

28 August 2023

India | Equity Research | Company Update

Chalet Hotels

Hotels

Play on asset ownership in an industry upcycle

We believe that Chalet Hotels (Chalet) is well poised to benefit from the strength in demand, especially for premium and luxury hotels in India's Tier cities. 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 retain our **BUY** rating with a revised SOTP based target price of INR652/share (earlier INR603) as we roll forward to Sep'25 SOTP basis (earlier Jun'25) and value the company at 18x EV/EBITDA for hotel business, 8% cap rate for rental assets and residual value of Vivarea, Bengaluru project. Key risks are fall in hotel RevPARs and weak office leasing.

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 2,802 keys as of Jun'23 to 3,770 keys by FY26E of which 40% of the incremental room capacity expansion is from 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 INR19-20bn over FY24-26E split evenly between hotels and office rental assets.

Demand drivers intact, expansion plans on track

While Q2FY24 is seasonally the weakest quarter impacted by monsoon, the demand outlook for H2FY24 (Oct'23-Mar'24) looks bright owing to events such as G20, Men's ODI World Cup, weddings, and expected return of number of in-bound international travellers to pre-Covid levels. Management reiterates its outlook of annual double digit ARR growth over FY23-25E. The 168 keys Westin Hyderabad opened in Jun'23 and has kicked off with 100% occupancy as the company has locked-in an agreement with a single client for 3 years (14 months lock-in). Further, the Occupation Certificate (OC) for 88 keys in expansion of existing Novotel, Pune is expected in Q2FY24. The company will also commence expansion/re-furbishment work at the Dukes Retreat, Lonavala from Oct'23 with overall keys now increasing to ~150 (80 existing + 70 new rooms). Further, rentals from both Bengaluru Cignus Tower 1 (0.66msf) and Cignus, Powai Tower 1 are expected to commence from Q2FY24/Q3FY24, respectively.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	11,285	13,933	17,391	19,255
EBITDA	4,528	6,343	8,580	9,703
EBITDA Margin (%)	40.1	45.5	49.3	50.4
Net Profit	1,858	2,749	4,411	5,175
EPS (INR)	9.1	13.4	21.5	25.2
P/B (x)	6.9	5.9	4.7	3.9
P/E (x)	57.7	39.0	24.3	20.7
EV/EBITDA (x)	29.1	21.0	15.6	13.7
RoCE (%)	9.2	11.7	15.0	15.6
RoE (%)	12.9	16.3	21.6	20.5

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Market Data

Market Cap (INR)	107bn
Market Cap (USD)	1,296mn
Bloomberg Code	CHALET IN
Reuters Code	CHAL. NS
52-week Range (INR)	535 /304
Free Float (%)	28.0
ADTV-3M (mn) (USD)	1.4

Price Performance (%)	3m	6m	12m
Absolute	20.8	43.9	58.1
Relative to Sensex	5.6	10.2	11.8

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Previous Reports

01-08-2023: [Q1FY24 results review](#)

30-06-2023: [Initiating coverage](#)

Exhibit 1: Company's room capacity to grow by 35% over Q1FY24-FY26


Source: I-Sec research, Company data

Exhibit 2: Company's Leverage Position (in INR mn)

	Mar-18	Mar-19	Mar-21	Mar-22	Mar-23	Jun-23
Allocable to operating assets	23,339	13,581	14,403	14,147	11,757	12,176
Allocable to under-construction/to be operationalized assets	3,684	891	4,308	8,191	12,611	12,493
Total Debt	27,023	14,472	18,711	22,338	24,368	24,669
EBITDA	3,005	3,668	290*	1,204*	5,023	1,136
Capex Spend YTD	1,100	656	1,433	3,489	4,398	806
Interest Rate (%)	8.4	9.4	8.04	7.52	8.75	8.56

Source: I-Sec research, Company data, *Business impacted due to pandemic

Exhibit 3: Company's Hospitality KPIs*

	Q1FY24	Q4FY23	QoQ%	Q1FY23	YoY%	FY23
ADR (Rs.)						
MMR	10,826	11,976	-10%	7,988	36%	9,741
Others*	9,555	10,228	-7%	6,597	45%	8,825
Combined	10,317	11,304	-9%	7,457	38%	9,169
Occupancy %						
MMR	74%	77%	-3 pp	81%	-7 pp	74%
Others*	64%	70%	-5 pp	73%	-8 pp	84%
Combined	70%	74%	-4 pp	78%	-8 pp	72%
RevPAR (Rs.)						
MMR	7,976	9,208	-13%	6,477	23%	7,211
Others*	6,147	7,136	-14%	4,802	28%	4,583
Combined	7,182	8,363	-14%	5,794	24%	6,605

Source: I-Sec research, Company data, * Others include Bengaluru, Hyderabad, Pune and Lonavala

Exhibit 4: 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 (INR)	8,210	8,482	4,040	4,576	9,169	9,719	10,302	10.92
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 (INR)	6,283	6,022	1,214	2,355	6,605	7,332	7,918	8,552
LTL YoY Growth (%)		-4.2	-79.8	94	180.5	11.0	8.0	8.0
Hotel Revenue Breakup (INR 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 (INR 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	38.5	-10.6	18	42	41.6	43.4	44.7
Rental Revenue (INR 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: I-Sec research, Company data, * assumed Delhi Airport and Airoli hotel to be fully operational in FY27E

Valuation

We retain our BUY rating with a revised SOTP based target price of INR652/share (earlier INR603) as we roll forward to Sep'25 SOTP basis (earlier Jun'25) and value the company at 18x EV/EBITDA for hotel business, 8% 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 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.

Exhibit 5: SoTP valuation of Chalet Hotels (Chalet)

Sep'25 Hotel EBITDA (INR mn)	6,945
Hotels Enterprise Value (EV) in INR mn (18x EV/EBITDA)	125,017
Add: Rental EV at 8% Cap Rate (INR mn)	27,450
Add: Residual DCF value of Vivarea, Bengaluru (INR mn)	2,008
Add: Capital WIP of Delhi/Airoli hotels (INR mn)	5,500
Chalet SoTP EV (INR mn)	159,975
Less: Net Debt as of Sep'25 (INR mn)	26,312
Chalet Total SOTP Equity Value (INR mn)	133,663
Equity Value per Share (INR)	652

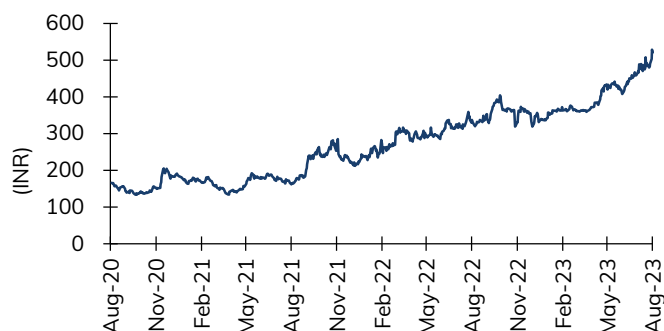
Source: Company data, I-Sec research

Exhibit 6: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	71.7	71.7	71.7
Institutional investors	24.3	24.7	24.5
MFs and other	20.8	21.1	20.0
FIs and Banks	0.1	0.2	0.0
Insurance Cos.	1.5	1.3	1.3
FIIIs	1.9	2.1	3.2
Others	4.0	3.6	3.8

Source: Bloomberg, I-Sec research

Exhibit 7: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 8: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	11,285	13,933	17,391	19,255
Operating Expenses	6,757	7,590	8,811	9,552
EBITDA	4,528	6,343	8,580	9,703
EBITDA Margin (%)	40.1	45.5	49.3	50.4
Depreciation & Amortization	1,173	1,277	1,362	1,533
EBIT	3,355	5,066	7,217	8,170
Interest expenditure	1,545	1,796	1,751	1,706
Other Non-operating Income	495	396	416	436
Extraordinaries (Net)	423	-	-	-
PBT	2,728	3,665	5,882	6,900
Less: Taxes	870	916	1,470	1,725
PAT	1,858	2,749	4,411	5,175
Less: Minority Interest	-	-	-	-
Net Income (Reported)	1,858	2,749	4,411	5,175
Net Income (Adjusted)	1,858	2,749	4,411	5,175

Source Company data, I-Sec research

Exhibit 9: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	8,126	8,911	8,767	10,705
of which cash & cash eqv.	1,220	1,468	36	685
Total Current Liabilities & Provisions	5,707	5,996	7,534	9,218
Net Current Assets	2,419	2,915	1,234	1,487
Investments	606	611	616	621
Net Fixed Assets	38,604	39,227	37,864	36,331
Capital Work-in-Progress	978	4,603	11,303	17,003
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assests	-	-	-	-
Total Assets	42,606	47,355	51,016	55,442
Liabilities				
Borrowings	27,939	29,939	29,189	28,439
Deferred Tax Liability	(1,820)	(1,820)	(1,820)	(1,820)
provisions	-	-	-	-
other Liabilities	1,047	1,047	1,047	1,047
Equity Share Capital	2,050	2,050	2,050	2,050
Reserves & Surplus	13,391	16,140	20,551	25,726
Total Net Worth	15,441	18,190	22,601	27,776
Minority Interest	-	-	-	-
Total Liabilities	42,606	47,355	51,016	55,442

Source Company data, I-Sec research

Exhibit 10: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	4,804	5,823	7,525	8,414
Working Capital Changes	(35)	(249)	250	396
Capital Commitments	(5,840)	(5,525)	(6,700)	(5,700)
Free Cashflow	(1,071)	49	1,075	3,111
Other investing cashflow	(84)	(5)	(5)	(5)
Cashflow from Investing Activities	(5,924)	(5,530)	(6,705)	(5,705)
Issue of Share Capital	1	-	-	-
Interest Cost	(1,377)	(1,796)	(1,751)	(1,706)
Inc (Dec) in Borrowings	2,636	2,000	(750)	(750)
Dividend paid	-	-	-	-
Others	-	-	-	-
Cash flow from Financing Activities	1,260	204	(2,501)	(2,456)
Chg. in Cash & Bank balance	105	248	(1,432)	649
Closing cash & balance	1,220	1,468	36	685

Source Company data, I-Sec research

Exhibit 11: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	9.1	13.4	21.5	25.2
Adjusted EPS (Diluted)	9.1	13.4	21.5	25.2
Cash EPS	14.8	19.6	28.2	32.7
Dividend per share (DPS)	0.0	0.0	0.0	0.0
Book Value per share (BV)	75.3	88.7	110.2	135.5
Growth (%)				
Net Sales	122.2	23.5	24.8	10.7
EBITDA	359.8	40.1	35.3	13.1
EPS (INR)	(348.0)	47.9	60.5	17.3
Valuation Ratios (x)				
P/E	57.7	39.0	24.3	20.7
P/BV	6.9	5.9	4.7	3.9
EV / EBITDA	29.1	21.0	15.6	13.7
EV/Sales	11.7	9.6	7.7	6.9
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
EBITDA Margins (%)	40.1	45.5	49.3	50.4
Net Profit Margins (%)	16.5	19.7	25.4	26.9
Net Debt / Equity (x)	1.6	1.4	1.2	0.9
Debt / EBITDA (x)	6.2	4.7	3.4	2.9
Profitability Ratios				
RoCE (%)	9.2	11.7	15.0	15.6
RoE (%)	12.9	16.3	21.6	20.5

Source Company data, I-Sec research

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