Result Update

Q2 FY24

Chalet Hotels Ltd.

Institutional Research

Chalet Hotels Ltd.

BP WEALTH

Hospitality | Q2FY24 Result Update **31st October 2023**

Demand-supply conundrum continues to drive ARRs

Chalet Hotels Ltd. continued on its healthy revenue growth trajectory by registering a 26.9% YoY jump to Rs. 314.5 crores in Q2FY24. This was supported by its RevPAR growing at a pace of 24.5% YoY to Rs. 7,034 as compared to Rs. 5,650 in Q2FY23 and robust demand arising in the Bangalore region (the slowest market to recover). The overall occupancy remained on the higher side at 73% in the quarter as against 71% in Q2FY23, aided by the newly opened Hyderabad hotel in June which has a 100% occupancy rate and improvement in MMR region. The Rental/Annuity business grew 23% YoY to Rs. 30 crores as against Rs. 24.4 crores in Q2FY23. The reduction in the company's key variable costs aided the company to register a 48.0% YoY growth in its EBITDA to Rs. 125.9 crores as compared to Rs.85.1 crores in the corresponding quarter last year. Meanwhile, the EBITDA margins stood at 40.0% in contrast to 34.3% in Q2FY23. The PAT margins rose 523 bps YoY to 11.6% in Q2FY24. It is important to note the recognition of tax-deferred assets of Rs. 58.4 crores on taxable losses post-amalgamation of Belaire Hotels Private Limited with the holding company in Q1FY24.

Valuation & Outlook

Chalet Ltd. reported a healthy 27% YoY revenue growth to Rs. 314.5 crores in the quarter, aided by the consistent growth in its ARR to Rs. 9,610 in Q2FY24 compared to Rs. 7,930 in Q2FY23 and an overall increase in its occupancy levels (especially in the MMR region). However, the business was unable to surpass market expectations pegged at around Rs. 336 crores. While it is projected that the FTAs will normalize to pre-COVID levels post-Diwali, the current mix remained significantly lower at 32% in H1FY24 compared to 58% in H1FY20. This was also due to the company discontinuing its crew business which had an overall lower ask rate. Thus, we look forward to H2FY24 wherein the business stands to benefit from the strong wedding business and MICE events. On the margin side, the business expanded its margins to 40%, surpassing market expectations built around 37%, by effectively reducing its total expenses contribution to 58% compared to 63% in the corresponding quarter of last year. Going forward, we will keep an eye on the company's pipeline in FY25 with 30% additional room capacity on its existing assets which is expected to yield high EBITDA margins for the company and keep a close watch on its debt levels ahead.

Key Highlights

Particulars (Rs. crs.)	Q2FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Net Sales	248	311	315	26.9%	1.2%
EBITDA	85	110	126	48.0%	14.7%
EBITDA Margin (%)	34.3%	35.3%	40.0%	571bps	472bps
PAT	16	89	36	131.4%	-58.9%
PAT Margin (%)	6.4%	28.5%	11.6%	523bps	-1694bps
ADR (Rs.)	7,930	10,317	9,610	21.2%	-6.9%
Occupancy (%)	71	70	73	200bps	300bps
RevPAR (Rs,)	5,650	7,182	7,034	24.5%	-2.1%

Source: Company, BP Equities Research

Sector Outlook	Positive

Stock

CMP (Rs.)	550
BSE code	542399
NSE Symbol	CHALET
Bloomberg	CHALET IN
Reuters	CHAL.BO

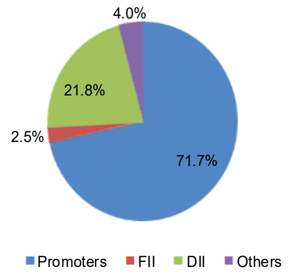
Key Data

Nifty	19,141
52 Week H/L (Rs.)	620 / 304
O/s Shares (Mn)	205
Market Cap (Rs. bn)	113
Face Value (Rs.)	10

Average Volume

3 months	2,36,020
6 months	2,66,830
1 year	2,27,810

Share Holding (%)



Relative Price Chart

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Key Concall Highlights

- Added 88 rooms in Novotel Pune, taking the total inventory up by 39% to 311 rooms. In the next few weeks, the company expects to touch an occupancy of 60-70% level despite the 40% newly added rooms.
- The company has received OC for 4 (of the 9 towers nearing completion) for the residential project, Raheja Vivarea at Koramangala, Bengaluru for which sales have commenced from October 2023.
- Construction commenced with DIAL on the New Delhi Airport Hotel. The project is expected to be completed by FY26.
- The company commenced its work in The Dukes Resort, Lonavala. The project will be undertaken in two phases, with around half the existing rooms being closed for renovation and expected to come back in Q1FY25. Whereas, in Phase 2, the remaining rooms will be taken up for renovation with the project expected to be completed in Q3FY25 (a total of 150 rooms).
- The 280-room Hyatt Regency at Airoli, Navi Mumbai is now proposed as a warm shell lease (warm-shell built by the landlord - Mindspace Business Park), saving the company's land acquisition costs and aiding in improving the asset's ROCE. This project is expected to be completed in FY27, with project work commencing in mid-FY25.
- CIGNUS Whitefield Bangalore Tower II and CIGNUS POWAI Tower I at Westin Complex, Powai are in the final stages of completion. However, the leasing activity has been a mixed bag, with deal closures being slower than expected.
- Civil work has commenced for ~130 guest rooms at Bengaluru Marriott Hotel Whitefield.
- Management is optimistic about the increase of FTAs post-Diwali on the back of an increase in direct flights between India and the US. This includes the Air India connectivity to the West and East coast of the US from Bangalore and Mumbai along with direct connectivity from Hyderabad to other international destinations already aiding the Hyderabad market. The discontinuation of the crew business led to the foreign guest mix remaining low at 32% in H1FY24 compared to 58% in H1FY20.
- Staff to room ratio rose to 0.97 in Q2FY24 compared to 0.93 in Q4FY23. This ratio includes employees for the newly added rooms at Novotel Pune launched in October.
- The management continues to remain optimistic about registering double-digit growth in its ARR for the next couple of years owing to the demand-supply mismatch in the overall hotel industry.
- No material benefit arising from the Cricket World Cup as the company has stayed away from the contractual business with any of the teams due to it being a lower-rate business which doesn't fit the company's strategy.
- In H1FY24, the company spent Rs.2 billion on capex, out of which Rs.1.5 billion was funded through internal accruals. For the next 18 months, the company has a capex plan of around Rs.9 billion for the announced project, which will be largely funded through internal accruals.

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Key Financials					
YE March (Rs. crs.)	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Net Sales	286	508	1,128	1,482	1,818
Growth %		77.6%	122.0%	31.4%	22.7%
EBITDA	7	98	453	636	830
Growth%		1300.0%	362.2%	40.4%	30.5%
Net Profit	-139	-81	186	279	393
Growth %		-41.7%	NM	49.9%	40.9%
Diluted EPS	-6.8	-4.0	8.9	14.3	19.8
Profitability & Valuation					
EBITDA (%)	2.4%	19.3%	40.2%	42.9%	45.6%
NPM (%)	-48.6%	-15.9%	16.5%	18.8%	21.6%
ROE (%)	-9.4%	-5.9%	12.7%	16.5%	18.6%
P/E (x)	NM	NM	61.8	38.4	27.8
EV/EBITDA (x)	NM	88.3	22.4	22.3	17.1
Net Debt/EBITDA (x)	NM	25.4	6.0	4.2	3.2

Source: Company, Bloomberg Estimates

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Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

Analyst (s) Certification:

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