

Company Overview

Incorporated in 1986, Chalet Hotel Limited is engaged in the business of owning, developing and asset managing of high-end hotels in key metro cities in India. It is a part of K. Raheja Corporation Group which extensively experienced in developing large scale real estate, hospitality and commercial projects resulting in a strong understanding of industry and market trends. Their hotel platform comprises five operating hotels, including a hotel with a co-located serviced residence, located in the Mumbai Metropolitan Region, Hyderabad and Bengaluru, representing 2,328 keys, as of September 30, 2018. The company's hotels are branded with globally recognized hospitality brands and are in the luxury-upper upscale and upscale hotel segments. Their hotel platform emphasizes strategic locations, efficient design and development, appropriate positioning in hotel segments together with branding and operational tie-ups with leading hospitality companies. The hotels are currently branded with global brands such as JW Marriott, Westin, Marriott, Marriott Executive Apartments, Renaissance and Four Points by Sheraton which are held by Marriott Hotels India Private Limited and its affiliates.

Objects of the issue

The following issue consists of a fresh issue which will be utilized in repaying their debts and other general corporate purposes while the proceeds from the offer of sale will be going to the selling shareholders.

Investment Rationale

High end brand affiliation and strategic location provides competitive edge

The company's hotels are branded with globally recognized hospitality brands and are in the luxury-upper upscale and upscale hotel segments. The hotels are currently branded with global brands such as JW Marriott, Westin, Marriott, Marriott Executive Apartments, Renaissance and Four Points by Sheraton which are held by Marriott Hotels India Private Limited and its affiliates. Their hotels have higher ADR, occupancies and RevPAR 56 compared to the average of other hotels in respect to micro-markets and hotel segments, for the financial year 2018. Hotels' premium location, large room inventory and large function spaces, together with their relationship with international hospitality brands, has allowed the hotels to achieve competitive financial and operational parameters.

Constantly improving performance through active asset management model

The company follows an active asset management model for four of their hotels, including a hotel with a co-located serviced residence, which is operated by Marriott pursuant to hotel operation and related agreements. The following agreement allows the company in knowing, understanding and implementing the Marriott's management expertise, industry best practices, online reservation systems, marketing strategies, systems and processes, human resources and operational activities. The following model also assists the hotel company in closely monitoring and improvising their performances on a regular basis. Through this model the company is also able to discuss the budgeting, costing, operational and financial aspects for constant betterment in their services, review performance and conduct timely meetings. Hence the company constantly attempts to deliver best of their services.

Cost efficiently improving existing portfolio:

Company's disciplined approach to asset management, collaboratively working arrangements with various hotel operators has helped the company in delivering good performances by simultaneously focusing on maximizing their cost efficiency of their existing portfolio. The hotel company has increased their share of revenue from food and beverage, meeting rooms, club floors, conferences, events and commercial or retail space to diversify their revenue sources and optimally utilize hotel spaces. It has upgraded facilities to work towards a best-in-class experience across their properties and improved staff productivity and efficiency through training and learning exercises and an optimal use of technology.

Conclusion and Outlook

Chalet Hotel Limited is a part of K Raheja Corporation and is affiliated with high end brands like JW Marriott, Westin, Marriott, Marriott Executive Apartments, Renaissance and Four Points. Such high branded affiliations and strategic locations to build its properties help the company to gain a competitive edge. However the hotel industry is prone to seasonal and cyclical fluctuations that result in variation of their operations. The company has reported losses for 3 out of its last 5 years. On the valuation front, at a higher price band the company is asking a multiple of 23.3X EB/EBIDTA for FY18 which is at par with its peers (The Indian Hotels Company Ltd.) thus the issue seems to fairly price limiting room for share price appreciation. Thus we recommend an '**AVOID**' rating for the IPO.

Issue Details

Offer Period	29th - 31st January 2019
Price Band	Rs.275 to Rs.280
Bid Lot	53
Listing	BSE&NSE
Issue Size (no. of shares in mn)	58.61
Issue Size (Rs. in mn)	1,641.17
Face Value	10

Issue Structure

QIB	50%
Retail	35%
HNI	15%
BRLM	JM Financials, Axis Capital Morgan Stanley
Registrar	Karvy Fintech Private Limited

Particulars	Pre Issue %	Post Issue %
Promoter	100	71
Public	0	29
Total	100%	100%

(Assuming issue subscribed at higher band)



Income Statement (Millions)

INR Mn	FY14	FY15	FY16	FY17	FY18
Income					
Revenue from operations	4,576.2	4,405.6	5,729.4	7,058.8	8,737.8
Other income	590.5	278.1	235.4	2,186.5	447.4
Total revenue	5,166.7	4,683.7	5,964.8	9,245.3	9,185.3
Expenses					
Real estate development costs	696.4	350.0	251.5	208.0	194.8
Food and beverages consumed	409.0	426.8	604.5	667.4	822.2
Operating supplies consumed	122.0	306.0	190.0	218.4	256.2
Employee benefits expense	679.7	861.8	1,067.2	1,188.3	1,295.6
Other expenses	1,712.7	1,750.0	2,300.3	2,653.9	3,221.5
Total expenses	3,619.9	3,694.6	4,413.5	4,935.9	5,790.3
EBIDTA	1,546.8	989.1	1,551.3	4,309.4	3,395.0
Depreciation & amortization expenses	596.0	617.7	988.1	1,269.8	1,116.3
Finance cost	1,368.2	1,596.6	2,157.3	2,153.6	2,092.6
Profit Before Tax and Exceptional Items	(417.4)	(1,225.2)	(1,594.1)	886.0	186.1
Exceptional items	838.6	82.6	72.2	67.8	54.1
PBT	(1,256.0)	(1,307.8)	(1,666.3)	818.2	132.0
Total tax expense	270.0	144.3	535.2	483.2	99.7
Profit for the year	(985.9)	(1,163.5)	(1,131.1)	1,301.4	231.8
EPS	(6.5)	(7.7)	(7.4)	8.1	1.4

Source: Company, BP Equities Research

Cash Flow Statement (Millions)

Particulars	FY14	FY15	FY16	FY17	FY18
Cash Flow from operating activities	23,369	2,106	3,081	1,513	2,837
Cash flow from investing activities	(3,031)	1,697	1,456	3,297	(1,200)
Cash flow from financing activities	1,134	1,400	(129)	(4,697)	(1,562)
Net increase/(decrease) in cash and cash equivalents	21,471	5,202	4,408	112	76
Cash and cash equivalents at the beginning of the period	136	21,607	26,809	31,217	31,329
Cash and cash equivalents acquired on amalgamation					
Cash and cash equivalents at the end of the period	21,607	26,809	31,217	31,329	31,405

Source: Company, BP Equities Research



Balance Sheet (Millions)

Particulars	FY14	FY15	FY16	FY17	FY18
Liabilities					
Share Capital	1,521.4	1,521.4	1,521.4	1,521.4	1,711.0
Reserves and surplus	5,293.7	5,109.6	3,953.7	3,480.4	3,523.0
Net worth	6,815.2	6,631.0	5,475.2	5,001.8	5,233.9
Long term Borrowings	14,205.7	15,386.9	19,022.8	20,505.8	22,151.5
Long-Term Provision	36.8	51.2	55.7	57.6	38.1
Other Liabilities	20.2	26.6	53.0	32.5	151.8
Deferred tax liabilities	1,018.2	1,201.6	1,078.7	699.2	592.2
Other long term liabilities	-	-	-	21.1	28.1
Total liabilities	22,096.1	23,297.4	25,685.4	26,318.0	28,195.6
Assets					
Fixed Asstes	18,544.8	23,469.6	24,253.0	28,451.6	28,166.3
Non-current investments	115.7	128.7	474.3	3.2	43.2
Deferred Tax Assets (Net)	486.9	612.3	1,047.0	1,320.0	1,414.5
Long Term Loans & Advances	71.5	110.8	117.2	105.5	110.7
Other Non-current Assets	336.9	329.6	188.4	379.1	383.8
Total Non-Current Assets	19,555.8	24,650.9	26,079.9	30,259.3	30,118.4
Inventories	4,054.1	4,323.3	4,330.7	4,264.0	4,189.0
Trades recievables	157.0	100.8	181.4	296.2	539.1
Cash and Bank Balances	1,023.1	312.9	341.8	327.7	315.8
Short Term Loans & Advances	1,923.5	1,074.7	1,378.1	1,793.5	2,364.9
Other Current Assets	4,842.8	4,130.6	3,285.1	484.8	725.3
Total Current Asset	12,000.4	9,942.4	9,517.1	7,166.2	8,134.0
Less:Current Liabilities	9,460.1	11,295.9	9,911.6	11,107.5	10,056.8
Net Current Assets	2,540.3	(1,353.6)	(394.4)	(3,941.3)	(1,922.8)
Total assets	22,096.1	23,297.4	25,685.4	26,318.0	28,195.6

Source: Company, BP Equities Research

Key Risks

- The hotel business is associated with seasonal and cyclical variations that can result in variation of their operations.
- The company is exposed to risks relating to development of their commercial and retail projects. Any delay or improvement in constructions of their new properties can adversely impact their business.
- Their Bangaluru based residential project at Kormangala and Vashi and Navi Mumbai based properties are subject to matter of litigation with City & Industrial Development Corporation of Maharashtra Limited (CIDCO). In case of unfavorable ruling announced by the supreme court, the consequences may result in demolition of their properties which subsequently will impact their business adversely.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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