

# Chalet Hotels

13 November 2019

Reuters: CHAL.NS; Bloomberg: CHALET.IN

## Annuity portfolio's growth makes up for decline in real estate and hospitality

Given the strong location of the hospitality assets of Chalet we were surprised by the weaker than expected growth in 2QFY20. The revenue grew only by 0.4% YoY to Rs2,354mn due to: (1) Marginal decline of 1% YoY in the Hospitality segment revenue which was because of decline in banqueting, MICE and F&B revenue and lower than expected growth in Revpar (2) No sale revenue of residual residential flats at Hyderabad recognized during 2QFY20.

Overall RevPar increased by only 2.3% YoY in 2QFY20. Retail and Commercial segment revenue grew by 194% YoY, though on a low base. Growth in retail and commercial revenue was driven by the opening of 15 new outlets in Orb Sahar and by the Sahar Office tower, achieving two-third occupancy and completing phase 1 of fit outs.

We have revised rating on Chalet to ACCUMULATE (earlier BUY) and have valued it on SOTP valuation (20x Sep FY22E EV/EBITDA for the Hospitality segment and Sep FY22E NAV based valuation for the rental assets) and arrived at a revised target price (TP) of Rs324 (earlier Rs366).

We have reduced our RevPar growth estimates for FY20E, FY21E and FY22E from 8%, 8% and 5% respectively earlier to 5%, 6% and 7% due to impact of slowing economy on the hotel sector (refer Exhibit 2).

**Revenue remains flat on YoY basis:** Revenue at Rs2,354mn remained flat on YoY basis, primarily due to: (1) Hospitality segment revenue growing marginally by 1% YoY and (2) Residential revenue declining by 100% YoY. The company has only a few units of residential flats pending to be sold at Hyderabad. During the quarter, no revenue has been recognized from the sale of such flats. (3) Retail and Commercial segment revenue growing by 194% YoY on a low base. This is because during the year, ~0.49mn sq.ft. of retail and commercial leaseable area at The Orb Sahar and Sahar Office Tower has become operational. At The Orb Sahar, 15 new outlets have been opened and the Sahar Office tower has achieved two-third occupancy and completed phase 1 of fit outs.

The Hospitality segment revenue saw low growth because of: (1) Low RevPar growth of 2.2% YoY in the Mumbai market where the company has 65% of the rooms. (2) De-growth of 2.4% in Hyderabad (2) Lower banqueting and MICE revenue.

**High volatility in RevPar across different markets:** The overall RevPar increased 2.3% YoY, with Bangalore market RevPar leading the growth at 7.2% YoY followed by MMR region growing at 2.2% YoY. Hyderabad de-grew by 2.4%.

Chalet operates 65% of the total rooms in the MMR region. The RevPar increased by 2.2% YoY for MMR region driven by marginal increase in ARR of 1.7% YoY and in occupancy by 40bps. The second largest market for Chalet - Hyderabad, where it operates 18% of its inventory, saw degrowth in ARR of 4.3% YoY at the cost of occupancies slumping 500bps YoY to 72.3%. Bangalore market witnessed healthy RevPar growth of 7.2% YoY contributed by healthy ARR and occupancy growth of 4.4% and 200bps, respectively YoY.

**EBITDA margin increases by 2,128bps YoY to 34.7%:** EBITDA for 2QFY20 stood at Rs816mn, up 160% YoY. EBITDA margin at 34.7% grew by 2,128bps YoY.

The sharp rise in EBITDA margin YoY is a result of 24% YoY decline in operating expenses, led by 32% decline in other expenses YoY.

**Decline in other income:** Other income stood at Rs51mn, down 78% YoY. Management on the conference call highlighted that the decline in other income was due to lower treasury income during the quarter as the loans granted to group companies before IPO have now been repaid.

## ACCUMULATE

Sector: Hotel

CMP: Rs323

Target Price: Rs324

Upside: 0.1%

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### Key Data

Current Shares O/S (mn)	205.0
Mkt Cap (Rsbn/US\$m)	67.5/944.2
52 Wk H / L (Rs)	387/250
Daily Vol. (3M NSE Avg.)	59,028

### Price Performance (%)

	1 M	6 M	1 Yr
Chalet Hotels	3.8	0.4	-
Nifty Index	5.4	5.6	12.5

Source: Bloomberg

Y/E Mar (Rsmn)	2QFY20	1QFY20	QoQ (%)	2QFY19	YoY (%)	2QFY20E	Var (%)
<b>Net sales</b>	<b>2,354</b>	<b>2,403</b>	<b>(2.0)</b>	<b>2,345</b>	<b>0.4</b>	<b>2,456</b>	<b>(4.2)</b>
Real Estate Development Costs	(80)	(39)	107.0	(27)	190.3	(28)	181.0
Changes in inventories of finished good and construction WIP	5	(30)	NA	(122)	NA	(31)	NA
Food and Beverages Consumed	(190)	(220)	(13.8)	(200)	(5.2)	(229)	(17.0)
Operating Supplies Consumed	(73)	(70)	4.1	(62)	16.9	(71)	3.1
Employee Benefit Expenses	(367)	(408)	(10.1)	(393)	(6.6)	(412)	(11.0)
Other Expenses	(834)	(841)	(0.8)	(1,226)	(32.0)	(849)	(1.8)
<b>EBITDA</b>	<b>816</b>	<b>795</b>	<b>2.6</b>	<b>314</b>	<b>160.0</b>	<b>836</b>	<b>(2.4)</b>
<b>EBITDAM (%)</b>	<b>34.7</b>	<b>33.1</b>	<b>-</b>	<b>13.4</b>	<b>-</b>	<b>34.0</b>	<b>-</b>
Depreciation and amortization	(284)	(282)	0.8	(277)	2.3	(288)	(1.3)
<b>EBIT</b>	<b>532</b>	<b>514</b>	<b>3.6</b>	<b>37</b>	<b>1,356.6</b>	<b>548</b>	<b>(3.0)</b>
<b>EBITM (%)</b>	<b>22.6</b>	<b>21.4</b>	<b>-</b>	<b>1.6</b>	<b>-</b>	<b>22.3</b>	<b>-</b>
Other income	51	59	(14.3)	227	(77.6)	61	(16.0)
Interest expenses	(369)	(357)	3.5	(536)	(31.1)	(356)	3.6
Extraordinary/Exceptional	(14)	(11)	20.9	(13)	3.1	-	-
<b>Profit before tax</b>	<b>200</b>	<b>205</b>	<b>(2.4)</b>	<b>(286)</b>	<b>NA</b>	<b>253</b>	<b>(20.9)</b>
Tax expense	(97)	(66)	48.0	161	-	(64)	53.0
Effective tax rate (%)	49	32	-	(56)	-	25	-
<b>PAT</b>	<b>103</b>	<b>139</b>	<b>(26.3)</b>	<b>(125)</b>	<b>NA</b>	<b>189</b>	<b>(45.8)</b>
Minority Interest	(0)	(24)	-	-	-	-	-
<b>Adjusted Net Profit</b>	<b>103</b>	<b>163</b>	<b>(37.2)</b>	<b>(125)</b>	<b>NA</b>	<b>189</b>	<b>(45.7)</b>
<b>NPM (%)</b>	<b>4.4</b>	<b>6.8</b>	<b>-</b>	<b>(5.3)</b>	<b>-</b>	<b>7.7</b>	<b>-</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Lower finance costs:** In 2QFY20, finance costs stood at Rs369mn, down 31% YoY. The sharp decline is due to repayment of debt from IPO proceeds combined with reduction in cost of borrowings. The gross debt stood at Rs14,494mn in 2QFY20 compared to Rs14,942mn in 4QFY19 and Rs27,093mn in 4QFY18. The debt to equity ratio has reduced from 5.5x in 4QFY18 and 1x in 4QFY19 to 1x in 2QFY20.

**We revise rating to Accumulate (earlier Buy) with revised TP of Rs323 (earlier Rs366):** Our revised TP of Rs323 (earlier Rs366) is based on SOTP valuation (20x Sep FY22E EV/EBITDA for the Hospitality segment and Sep FY22E NAV based valuation for the Rental assets). The company derives 77% of the value from the Hospitality segment. The reason for downgrading includes: (1) Slowdown in general economy restricting the anticipated cyclical upswing in the RevPar. We have revised our RevPar growth estimates for FY20E, FY21E and FY22E from 8%, 8% and 5%, respectively earlier to 5%, 6% and 7%, respectively.

### Exhibit 1: Region wise ARR, Occupancy and RevPar details

Particulars	2QFY20	1QFY20	QoQ (%)	2QFY19	YoY (%)
<b>ARR (Rs)</b>					
MMR	7,611	7,860	(3.2)	7,486	1.7
Bengaluru	8,543	8,835	(3.3)	8,183	4.4
Hyderabad	7,809	8,116	(3.8)	7,485	4.3
<b>Combined</b>	<b>7,815</b>	<b>8,078</b>	<b>(3.3)</b>	<b>7,609</b>	<b>2.7</b>
<b>Occupancy (%)</b>					
MMR	73.3%	74.0%	-70bps	72.9%	40bps
Bengaluru	80.2%	78.0%	220bps	78.1%	210bps
Hyderabad	72.3%	77.0%	-470bps	77.3%	-500bps
<b>Combined</b>	<b>74.2%</b>	<b>75.1%</b>	<b>-94bps</b>	<b>74.6%</b>	<b>-40bps</b>
<b>RevPar (Rs)</b>					
MMR	5,579	5,816	(4.1)	5,457	2.2
Bengaluru	6,851	6,891	(0.6)	6,391	7.2
Hyderabad	5,646	6,249	(9.7)	5,786	(2.4)
<b>Combined</b>	<b>5,799</b>	<b>6,070</b>	<b>(4.5)</b>	<b>5,676</b>	<b>2.2</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 2: Change in estimates

Particulars	FY20E	FY21E	FY22E
<b>RevPar (Rs)</b>			
Earlier	6,835	7,394	7,733
Growth (%)	8.3	8.2	4.6
Revised	6,630	7,043	7,530
Growth (%)	5.1	6.2	6.9
<b>EBDITA (Rs mn)</b>			
Earlier	3,619	4,080	4,713
Revised	3,404	3,707	4,472
<b>EBDITA Margins (%)</b>			
Earlier	34.2%	35.0%	35.6%
Revised	33.1%	33.3%	34.7%
<b>Net Debt (Rs mn)</b>			
Earlier	12,728	13,141	14,209
Revised	13,012	13,861	15,323
<b>Operating Cashflows (Rs mn)</b>			
Earlier	2,965	3,595	4,150
Revised	2,705	3,215	3,844
<b>EPS (Rs)</b>			
Earlier	5.6	6.8	8.2
Revised	4.2	4.6	6.3
<b>Tax Rate (%)</b>			
Earlier	25.2	25.2	25.2
Revised	33.0	33.0	33.0
<b>Net Asset Value (Rs mn)</b>			
Earlier			74,977
Revised			66,307

Source: Company, Nirmal Bang Institutional Equities Research

## Financial statement

### Exhibit 3: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
<b>Net sales</b>	<b>7,955</b>	<b>9,872</b>	<b>10,273</b>	<b>11,144</b>	<b>12,890</b>
Growth YoY (%)	7.9	24.1	4.1	8.5	15.7
Operating costs	3,880	4,755	4,752	5,108	5,809
Other expenses	1,628	1,925	2,117	2,329	2,608
<b>EBITDA</b>	<b>2,447</b>	<b>3,192</b>	<b>3,404</b>	<b>3,707</b>	<b>4,472</b>
<b>EBITDA growth (%)</b>	<b>0.5</b>	<b>30.4</b>	<b>6.6</b>	<b>8.9</b>	<b>20.6</b>
<b>EBITDA margin (%)</b>	<b>30.8</b>	<b>32.3</b>	<b>33.1</b>	<b>33.3</b>	<b>34.7</b>
Depreciation	1,116	1,154	1,511	1,647	1,829
<b>EBIT</b>	<b>1,331</b>	<b>2,038</b>	<b>1,893</b>	<b>2,061</b>	<b>2,644</b>
<b>EBIT (%)</b>	<b>16.7</b>	<b>20.6</b>	<b>18.4</b>	<b>18.5</b>	<b>20.5</b>
Interest expense	2,119	2,657	1,107	1,163	1,267
Other income	557	476	500	525	551
Others	(1,218)	(41)	-	-	-
<b>Earnings before tax</b>	<b>(1,448)</b>	<b>(183)</b>	<b>1,285</b>	<b>1,422</b>	<b>1,927</b>
Tax- total	(520)	(107)	424	469	636
Rate of tax (%)	35.9	58.4	33.0	33.0	33.0
<b>Net profit</b>	<b>(929)</b>	<b>(76)</b>	<b>861</b>	<b>953</b>	<b>1,291</b>
% growth	(172.9)	NA	NA	10.6	35.5
EPS (FD)	(5.43)	(0.37)	4.20	4.65	6.30
% growth	(168.1)	NA	NA	10.6	35.5

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 5: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Equity Share capital	1,711	2,050	2,050	2,050	2,050
Preference Share Capital	160	518	518	518	518
Reserves and surplus	3,244	12,176	13,038	13,991	15,282
<b>Net worth</b>	<b>5,115</b>	<b>14,745</b>	<b>15,606</b>	<b>16,559</b>	<b>17,850</b>
Minority Interest	-	28	-	-	-
Loans	27,093	14,942	13,842	14,542	15,842
Other Financial Liabilities:	152	208	210	211	212
Provisions	38	58	63	68	75
Deferred tax liability	636	291	291	291	291
Other non-current liability	28	144	145	147	148
<b>Total capital employed</b>	<b>33,062</b>	<b>30,416</b>	<b>30,157</b>	<b>31,817</b>	<b>34,418</b>
Goodwill	226	226	226	226	226
Property, plant and equipment	28,184	27,651	27,087	28,825	31,546
Non Current Investments	43	47	47	47	47
Loans	114	122	128	134	141
Other non-current assets	1,535	1,559	1,598	1,639	1,682
<b>Total non-current assets</b>	<b>30,103</b>	<b>29,605</b>	<b>29,086</b>	<b>30,871</b>	<b>33,642</b>
Trade payables	859	1,217	1,129	1,196	1,365
Other current liabilities	2,280	2,999	3,001	3,003	3,005
Provisions (current)	959	967	968	969	970
<b>Total current liabilities</b>	<b>4,098</b>	<b>5,183</b>	<b>5,098</b>	<b>5,168</b>	<b>5,340</b>
Inventories	3,116	3,955	3,981	4,000	4,043
Trade receivables	552	477	605	641	724
Cash and bank balance	317	827	830	681	519
Loans and advances	2,349	18	-	-	-
Other current assets	724	718	754	791	831
<b>Total current assets</b>	<b>7,057</b>	<b>5,994</b>	<b>6,169</b>	<b>6,114</b>	<b>6,117</b>
<b>Net current assets</b>	<b>2,960</b>	<b>811</b>	<b>1,072</b>	<b>946</b>	<b>777</b>
<b>Total capital employed</b>	<b>33,062</b>	<b>30,416</b>	<b>30,157</b>	<b>31,817</b>	<b>34,418</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 4: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
<b>Profit after tax</b>	<b>(929)</b>	<b>(76)</b>	<b>861</b>	<b>953</b>	<b>1,291</b>
Depreciation	1,116	1,154	1,511	1,647	1,829
Finance costs	2,119	2,657	1,107	1,163	1,267
Other income	(557)	(476)	(500)	(525)	(551)
Others	1,204	45	-	-	-
Working capital changes	(642)	197	(275)	(23)	8
<b>Operating cash flow</b>	<b>2,311</b>	<b>3,500</b>	<b>2,705</b>	<b>3,215</b>	<b>3,844</b>
Capital expenditure	(929)	(621)	(948)	(3,385)	(4,550)
Cash Flow from Investments	(759)	2,080	(27)	(47)	(49)
Other income	557	476	500	525	551
<b>Net cash after capex</b>	<b>1,180</b>	<b>5,436</b>	<b>2,230</b>	<b>308</b>	<b>(204)</b>
Issue/(buyback of equity)	1,036	9,554	-	-	-
Proceeds/repayment of borrowings	882	(12,015)	(1,093)	706	1,309
Finance costs	(2,119)	(2,657)	(1,107)	(1,163)	(1,267)
Others	(994)	192	(27)	1	1
<b>Cash flow from financing</b>	<b>(1,195)</b>	<b>(4,926)</b>	<b>(2,228)</b>	<b>(457)</b>	<b>42</b>
<b>Total cash generation</b>	<b>(15)</b>	<b>510</b>	<b>3</b>	<b>(149)</b>	<b>(162)</b>
Opening cash balance	332	317	827	830	681
<b>Closing cash &amp; bank balance</b>	<b>316</b>	<b>827</b>	<b>829</b>	<b>681</b>	<b>519</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 6: Key ratios

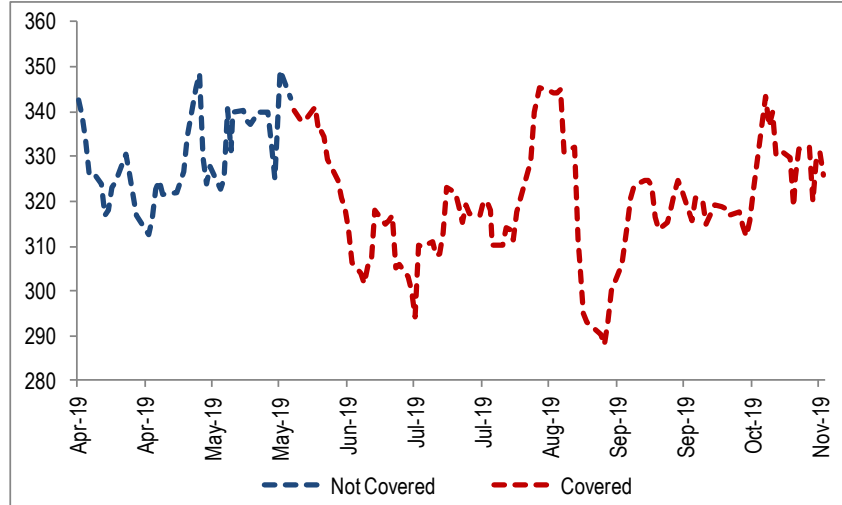
Y/E March	FY18	FY19	FY20E	FY21E	FY22E
<b>Profitability and return ratios</b>					
EBITDA margin (%)	30.8	32.3	33.1	33.3	34.7
EBIT margin (%)	16.7	20.6	18.4	18.5	20.5
Net profit margin (%)	(11.7)	(0.8)	8.4	8.5	10.0
RoE (%)	(18.2)	(0.5)	5.5	5.8	7.2
RoCE (%)	4.1	6.9	6.4	6.6	7.8
<b>Working capital &amp; liquidity ratios</b>					
Receivable (days)	25.3	17.6	21.5	21.0	20.5
Inventory (days) - Property	28.7	27.4	30.0	30.0	30.0
Payable (days)	115.6	152.7	130.0	128.0	127.0
Current ratio (x)	1.7	1.2	1.2	1.2	1.1
<b>Valuation ratios</b>					
EV/sales (x)	10.6	8.4	8.0	7.5	6.6
EV/EBITDA (x)	26.5	23.1	22.2	18.6	15.8
P/E (x)	NA	NA	80.4	72.7	53.6
P/BV (x)	11.3	4.7	4.4	4.2	3.9

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
4 June 2019	Buy	345	395
14 August 2019	Buy	329	395
13 November 2019	ACCUMULATE	323	324

## Rating track graph



**DISCLOSURES**

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### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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