

Chalet Hotels

10 June 2020

Reuters: CHAL.NS; Bloomberg: CHALET.IN

Covid impact drags down profit

The impact of Covid was clearly visible on the 4QFY20 results. Net profit of Rs49mn was enabled by the tax write back of Rs373mn. Revenue declined by 16% YoY to Rs2,273mn as Hospitality segment revenue declined by 22% YoY on the back of 26% YoY decline in RevPar. However, the Retail and Commercial segment revenue grew by 188% YoY, though on a low base.

The company has enacted short term cost saving measures to conserve cash given the extremely difficult environment. All the planned capex and projects in the pipeline have been deferred to a future date until the company has a better visibility for cash flows.

Chalet Hotels in a presentation highlighted the grim situation with RevPar for the first two months of FY21 declining by 86%-87%. Given the uncertainty about any control on the Covid-19 epidemic and the consequent sharp slowdown in the economy, we expect the occupancy and ARR for FY21 to remain weak. The management highlighted that the current demand is from long stay guests and a major portion of the demand is from the medical staff at a government determined rate. We have thus revised our estimates for Chalet Hotels. We downgrade the stock to Accumulate (earlier Buy). We have valued it on SOTP method [21x 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 Rs157 (earlier Rs273.)

Revenue declines by 16% YoY driven by Corona impact: Revenue at Rs2,273mn declined by 16% YoY, primarily due to the Hospitality segment revenue declining by 22% YoY. The Hospitality segment revenue comprised 60% room revenue, 32% F&B revenue and 8% revenue from other services. The RevPar for the company declined by 26% YoY because of decline in occupancy on YoY basis.

Retail and Commercial revenue increased by 188% 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 became operational. The Orb Sahar's 22 outlets (70%) have been leased till 4QFY20.

Overall RevPar declines by 26% YoY in 4QFY20: The overall RevPar declined by 26% YoY, with the Bengaluru market RevPar declining by 25% YoY, followed by Hyderabad and MMR markets, which declined by 23% YoY each.

Chalet operates 65%, 18% and 17% of its rooms in the MMR, Hyderabad and Bengaluru markets, respectively. The RevPar was led by a decrease in overall occupancy by 2,140bps YoY from 82.4% in 4QFY19 to 61% in 4QFY20. The overall ARR remained flat on YoY basis at Rs8,890 in 4QFY20. (Refer Exhibit 1).

EBITDA margin dips by 820bps YoY to 27.8%: EBITDA for 4QFY20 stood at Rs632mn, down 35% YoY. EBITDA margin at 27.8% declined by 820bps YoY. The reasons for the decline in EBITDA and EBITDA margin are: 1. Decline in revenue by 16% YoY. 2. Increase in real estate development costs. 3. Increase in operating supplies consumed.

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ACCUMULATE

Sector: Hotel

CMP: Rs155

Target Price: Rs157

Upside: 1%

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Key Data

Current Shares O/S (mn)	205.0
Mkt Cap (Rsbn/US\$m)	37.7/419.3
52 Wk H / L (Rs)	402/99
Daily Vol. (3M NSE Avg.)	251,121

Price Performance (%)

	1 M	6 M	1 Yr
Chalet Hotels	15.7	(53.5)	(54.2)
Nifty Index	8.6	(15.8)	(15.4)

Source: Bloomberg

Y/E Mar (Rsmn)	4QFY20	3QFY20	QoQ(%)	4QFY19	YoY(%)	4QFY20E	Var(%)
Net sales	2,273	2,781	(18.3)	2,699	(15.8)	1,924	18.2
Real Estate Development Costs	(37)	(50)	(26.9)	(9)	310.1	-	NA
Changes in inventories of finished goods and construction WIP	9	(8)	NA	(30)	NA	(8)	NA
Food and Beverages Consumed	(185)	(234)	(20.9)	(202)	(8.7)	(163)	13.7
Operating Supplies Consumed	(74)	(89)	(16.7)	(69)	8.4	(90)	(17.5)
Employee Benefit Expenses	(387)	(361)	7.0	(382)	1.3	(361)	7.0
Other Expenses	(968)	(916)	5.6	(1,035)	(6.5)	(763)	26.9
EBITDA	632	1,123	(43.7)	972	(34.9)	539	17.2
EBITDAM (%)	27.8	40.4	-	36.0	-	28.0	-
Depreciation and amortization	(285)	(283)	0.7	(295)	(3.6)	(288)	(0.9)
EBIT	348	840	(58.6)	676	(48.6)	252	38.0
EBITM (%)	15.3	30.2	-	25.1	-	13.1	-
Other income	103	66	55.9	72	42.6	61	69.7
Interest expenses	(397)	(339)	17.0	(561)	(29.2)	(382)	4.0
Extraordinary/Exceptional	(5)	(12)	(62.0)	(15)	(70.7)	-	-
Profit before tax	49	555	(91.2)	173	NA	(69)	(170.3)
Tax expense	373	(222)	(268.0)	(39)	-	17	2,034.5
Effective tax rate (%)	(764)	40	-	23	-	25	-
PAT	422	333	26.8	133	NA	(52)	(911.9)
Minority Interest	(6)	(0)	-	-	-	-	-
Adjusted Net Profit	428	333	28.5	133	NA	(52)	(923.4)
NPM (%)	18.8	12.0	-	4.9	-	-2.7	-

Source: Company, Nirmal Bang Institutional Equities Research

Note: Our estimates does not include details regarding the 223 rooms of recently acquired Novotel Pune.

Updates regarding the residential project at Bengaluru: Objections were raised by Hindustan Aeronautics Limited (HAL) regarding the permissible height of the buildings. The construction activity at the project and sale of flats had been suspended pursuant to an interim order of the Karnataka High court in a petition filed by the company. Extraordinary items include Rs41.71mn (PY Rs40.96mn) as provision for the potential cancellations with respect to the residential project at Bengaluru.

On 29 May 2020, the high court allowed the writ petition in part, quashing the cancellation of the NOC by HAL and remanding back the matter to HAL for resurvey in a time bound manner.

To meet the project cash flows, the promoters of the company have agreed to subscribe to 0% Non-Cumulative Non-Convertible Redeemable Preference Shares ("NCR PS") of the company up to Rs2,000 million. In line with the same, the promoters have subscribed to preference shares of Rs1,250mn up to 31st March 2020.

Acquisition of Novotel, Pune: Chalet Hotels has completed the acquisition of 100% equity shares and 100% fully convertible debentures of Belaire Hotels Private Limited (BHPL) and Seaparl Hotels Private Limited (SHPL), the owners of Novotel Hotel, Pune, through a 100% cash deal for an enterprise value of Rs2,917mn. The consideration paid was Rs1,768mn and the debt taken by Chalet Hotels is Rs1,149mn (Refer Exhibit 2). SHPL has extended Inter Corporate Deposits to BHPL. BHPL and SHPL are inter-linked because of the funding provided by SHPL to BHPL.

Novotel Hotel, Pune is located near the Viman Nagar area and has 223 operational rooms, 3 F&B outlets and 7,306 sq. ft. of banquets. The hotel also has 88 rooms in bare shell condition, which will be furnished by Chalet Hotels, taking the inventory to 311 rooms. Due to the pressure on the cash flows in the near future, the management will evaluate construction of additional 88 rooms in Novotel Pune in CY2021.

Two pronged strategy to mitigate the impact of COVID-19: In order to reduce the impact of COVID-19, the management has decided to make certain changes in the operations of the hotels to achieve operational efficiencies. These changes include reducing costs, managing cash flows, reviewing capex activities and to leverage the experience of global brands like Marriott and Accor in innovating new ways of doing business. The details are as follows:

A. Reducing operating costs:

- a. The management intends to rationalize salaries and number of employees in line with the occupancies in order to manage payroll costs for near to mid term. The number of employees per room has been reduced from 1.21x to 1.03x
- b. Reduction in consumption of energy.
- c. Costs towards brands and fees paid to be brought down.
- d. Re-negotiations in AMCs and contracts.

B. Reviewing capex plans:

- a. The company has a mixed portfolio comprising hospitality, commercial and retail assets. The mixed use development led by commercial rentals continues to be cash flow accretive.
- b. As per the management, cash on books, sanctioned lines of credit and operating cash flow are reasonably adequate for the business.
- c. However, the management highlighted that the current ongoing capex and projects in the pipeline will be deferred to a future date when there will be adequate cash flow visibility. Details of projects under development and in the pipeline which have been deferred are as follows:
 - i. Recommencement of the three ongoing projects [2 office buildings (~1.1mn sq. ft.) and a Hotel at Hyderabad (~170 rooms)] to be reviewed in 2QFY20 based on demand and cash flow situation.
 - ii. Proposed New Hotels: 'Hyatt Regency' at Airoli (~260 rooms) and 'W' at Powai (150 rooms), Mumbai have been deferred.
 - iii. Completion of 88 rooms and Spa at Novotel Pune deferred to CY2021.
 - iv. Renaissance Mumbai Convention Center Hotel renovations to be limited to 44 rooms and public areas while the brand change to Westin is postponed to CY2021.

C. Leveraging the experience of global partners like Marriott and Accor:

The partners of Chalet Hotels who manage its hotels have studied the post COVID demand scenarios in China, which is currently operating at ~50% occupancy (as per various industry reports). Chalet Hotels has been using this experience of its partners to introduce renewed methods of doing business. Certain initiatives taken include:

- i. Sharpen consumer focus
- ii. Centralisation of key functions
- iii. Engaging with key clients to identify new format of offerings
- iv. Food delivery tie-ups.

Lower finance costs: In 4QFY20, finance cost stood at Rs397mn, down 29% YoY. The sharp decline is due to repayment of debt from IPO proceeds combined with the reduction in cost of borrowings. Gross debt stood at Rs16,657mn in 4QFY20 compared to Rs14,942mn in 4QFY19 and Rs27,093mn in 4QFY18. Post listing, the net debt to equity ratio has reduced from 5.3x in 4QFY18 and 1.03x in 4QFY19 to 0.99x in 4QFY20. The increase in net debt is primarily due to rise in debt taken as a part of acquisition of SHPL and BHPL. (Refer Exhibit 3).

RevPar declines by 86%-87% for first two months of FY21: Currently, the occupancy at hotels has been supported by long stay guests, IT companies and hospitals and their staff. However, the average occupancy for Chalet Hotels in April 2020 stood at 17% and at 22% in May 2020. The RevPar for April 2020 and May 2020 declined by 87% YoY and 86% YoY, respectively. The newly acquired Novotel, Pune (223 rooms) and the Four Points by Sheraton, Vashi (152 rooms) were not operational in April 2020 and May 2020. (Refer Exhibit 4).

Changes in estimates: Owing the COVID 19 pandemic, we expect the revenue and EBITDA to decline by 37% and 95%, respectively in FY21. EBITDA margin for FY21 is expected to be 2.9%. However, we expect revival in demand in FY22. Revenue and EBITDA are expected to grow compared to FY21. The company is making conscious efforts to reduce costs. We have reduced our estimates for employee per room for FY21 and FY22 to 1.03 employee per room. No capex has been assumed for FY21. Thus no major increase in depreciation is expected in FY21. The increase in depreciation in FY21 is only due to addition of 223 rooms of BHPL.

Revenue and EBITDA are expected to decline at a 2 year CAGR (FY20-FY22) of 2% and 20%, respectively.

Revise rating to Accumulate (earlier Buy) with revised TP of Rs157 (earlier Rs273): RevPar for the first two months of FY21 has declined by 86%-87% while the occupancy and ARR for FY21 are likely to be subdued. The management highlighted that the current demand is from long stay guests and a major portion of the demand is from the medical staff at a government determined rate. Going forward, occupancy and ARR are expected to remain subdued in FY21. We have thus revised our estimates for Chalet Hotels. We revise our rating on Chalet Hotels to Accumulate (earlier Buy). We have valued it on SOTP method [21x 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 Rs157 (earlier Rs273). (Refer Exhibit 5).

Exhibit 1: Region wise ARR, Occupancy and RevPar details

Particulars	4QFY20	3QFY20	QoQ (%)	4QFY19	YoY (%)
ARR (Rs)					
MMR	8,886	8,942	(0.6)	8,690	2.3
Bengaluru	9,461	9,685	(2.3)	9,435	0.3
Hyderabad	9,211	9,747	(5.5)	8,883	3.7
Pune	5,255	-	-	-	-
Combined	8,890	9,201	(3.4)	8,852	0.4
Occupancy (%)					
MMR	62.0%	76.5%	-1450bps	82.5%	-2053bps
Bengaluru	62.0%	70.3%	-830bps	82.8%	-2082bps
Hyderabad	60.0%	71.8%	-1180bps	81.5%	-2155bps
Pune	41.0%	-	-	-	-
Combined	61.0%	74.6%	-1360bps	82.4%	-2140bps
RevPar (Rs)					
MMR	5,540	6,841	(19.0)	7,172	(22.8)
Bengaluru	5,830	6,809	(14.4)	7,814	(25.4)
Hyderabad	5,554	6,998	(20.6)	7,244	(23.3)
Pune	2,130	-	-	-	-
Combined	5,386	6,864	(21.5)	7,294	(26.2)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Details of acquisition of SHPL and BHPL

Particulars	
Number of rooms (operational)	223
Additional capacity that can be added (rooms)	88
Equity acquired (%)	100%
Cash consideration paid (Rsmn)	
- to SHPL	1,193
- to BHPL	575
- Total consideration paid	1,768
100% compulsorily convertible debentures (Rsmn)	1,149
Gross consideration (Rs mn)	2,917

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Debt Profile

Particulars	4QFY20	4QFY19	4QFY18
Gross Debt	16,657	14,942	27,093
Cash and Balance	1,279	317	827
Net Debt	15,378	14,625	26,266
Networth	15,546	14,227	4,955
Net Debt : Equity	0.99	1.03	5.30

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Operational performance for 1st two months of FY21

Performance for 1st two months of FY21 [excluding novotel pune]	Apr-20	Apr-19	YoY(%)	May-20	May-19	YoY(%)
Occupancy (%)	17.1%	75.9%	-	21.6%	66.6%	-
ARR (Rs)	4,667	8,313	-43.9%	3,796	8,540	-55.6%
RevPar (Rs)	797	6,311	-87.4%	822	5,691	-85.6%
Room Revenues(Rs mn)	61	413	-85.2%	65	425	-84.7%
F&B Revenues(Rs mn)	16	230	-93.0%	20	262	-92.4%
Other Revenues (Rs mn)	15	42	-64.3%	14	41	-65.9%
F&B to Room Revenues	26%	56%	-	31%	62%	-
Total Revenues(Rs mn)	92	685	-86.6%	99	728	-86.4%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Changes in assumptions:

Particulars	FY21E	FY22E
Change in RevPar Growth Estimates (%)		
Four Points by Sheraton, Vashi, Navi Mumbai		
Earlier Estimate	-10.0%	24.8%
Revised Estimate	-54.4%	83.3%
JW Marriott, Mumbai Sahar		
Earlier Estimate	-10.0%	33.3%
Revised Estimate	-54.4%	83.3%
Bengaluru Marriott Hotel Whitefield		
Earlier Estimate	-10.0%	24.6%
Revised Estimate	-32.2%	45.9%
The Westin Hyderabad Mindspace		
Earlier Estimate	-10.0%	30.5%
Revised Estimate	-29.3%	45.8%
Renaissance Mumbai Convention Centre Hotel and Lake Side Chalet, Mumbai-Marriott Executive Apartments		
Earlier Estimate	-10.0%	33.9%
Revised Estimate	-54.4%	83.3%
Changes in assumed F&B Revenues to Room Revenues Ratio (%)		
Earlier Estimate	57.0%	57.0%
Revised Estimate	35.0%	50.0%
Changes in Employee per room ratio (x)		
Earlier Estimate	1.22	1.22
Revised Estimate	1.03	1.03
Changes in Capex assumptions (Rs mn)		
Earlier Estimate	-	7,935
Revised Estimate	-	1,753
Payable Days (days)		
Earlier Estimate	128.0	127.0
Revised Estimate	200.0	200.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Changes in estimates

Particulars	FY21E	FY22E
Revenues (Rsmn)		
Earlier Estimate	10,091	13,640
Revised Estimate	6,183	9,420
Revenues growth rate (%)		
Earlier Estimate	-5.4%	35.2%
Revised Estimate	-37.0%	52.4%
EBITDA (Rs mn)		
Earlier Estimate	3,068	5,170
Revised Estimate	187	2,189
EBITDA growth rate (%)		
Earlier Estimate	-18.6%	68.5%
Revised Estimate	-94.4%	1,068.6%
EBITDA Margin (%)		
Earlier Estimate	30.4%	37.9%
Revised Estimate	3.0%	23.2%
PAT (Rs mn)		
Earlier Estimate	522	1,700
Revised Estimate	(1,185)	24
PAT growth rate (%)		
Earlier Estimate	-48.4%	225.7%
Revised Estimate	NA	NA

Source: Company, Nirmal Bang Institutional Equities Research

Financial statement
Exhibit 7: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net sales	7,955	9,872	9,811	6,183	9,420
Growth YoY (%)	7.9	24.1	-0.6	-37.0	52.4
Operating costs	3,880	4,755	3,550	3,393	4,720
Other expenses	1,628	1,925	2,895	2,603	2,510
EBITDA	2,447	3,192	3,366	187	2,189
EBITDA growth (%)	0.5	30.4	5.4	(94.4)	1,068.6
EBITDA margin (%)	30.8	32.3	34.3	3.0	23.2
Depreciation	1,116	1,154	1,133	1,296	1,349
EBIT	1,331	2,038	2,233	-1,109	841
EBIT (%)	16.7	20.6	22.8	-17.9	8.9
Interest expense	2,119	2,657	1,462	1,184	1,356
Other income	557	476	279	525	551
Others	(1,218)	(41)	(42)	-	-
Earnings before tax	(1,448)	(183)	1,008	(1,768)	35
Tax- total	(520)	(107)	12	(584)	12
Rate of tax (%)	35.9	58.4	1.2	33.0	33.0
Net profit	(929)	(76)	996	(1,185)	24
Minority Interest	-	-	(30)	-	-
Adjusted Net Profit	(929)	(76)	1,027	(1,185)	24
% growth	(172.9)	NA	NA	NA	NA
EPS (FD)	(5.43)	(0.37)	5.01	(5.78)	0.12
% growth	(164.8)	NA	NA	NA	NA

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Equity Share capital	1,711	2,050	2,050	2,050	2,050
Preference Share Capital	160	518	1,250	1,250	1,250
Reserves and surplus	3,244	12,176	13,495	13,227	14,011
Net worth	5,115	14,745	16,796	16,527	17,312
Minority Interest	-	28	(3)	-	-
Loans	27,093	14,942	16,657	14,806	16,955
Other Financial Liabilities:	152	208	198	199	200
Provisions	38	58	76	63	70
Deferred tax liability	636	291	222	291	291
Other non-current liability	28	144	133	134	135
Total capital employed	33,062	30,416	34,079	32,020	34,963
Goodwill	226	226	226	226	226
Property, plant and equipment	28,184	27,651	30,839	28,668	31,989
Non Current Investments	43	47	45	47	47
Loans	114	122	113	119	125
Other non-current assets	1,535	1,559	2,326	2,256	2,330
Total non-current assets	30,103	29,605	33,550	31,316	34,718
Trade payables	859	1,217	1,062	1,001	1,630
Other current liabilities	2,280	2,999	4,097	4,099	4,101
Provisions (current)	959	967	889	890	891
Total current liabilities	4,098	5,183	6,049	5,991	6,623
Inventories	3,116	3,955	3,924	3,575	4,075
Trade receivables	552	477	417	356	529
Cash and bank balance	317	827	1,279	1,686	1,132
Loans and advances	2,349	18	31	-	-
Other current assets	724	718	927	1,078	1,132
Total current assets	7,057	5,994	6,578	6,695	6,868
Net current assets	2,960	811	529	704	245
Total capital employed	33,062	30,416	34,079	32,020	34,963

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Profit after tax	(929)	(76)	1,027	(1,185)	24
Depreciation	1,116	1,154	1,133	1,296	1,349
Finance costs	2,119	2,657	1,462	1,184	1,356
Other income	(557)	(476)	(279)	(525)	(551)
Others	1,204	45	42	-	-
Working capital changes	(642)	197	558	391	(95)
Operating cash flow	2,311	3,500	3,942	1,162	2,082
Capital expenditure	(929)	(621)	(3,321)	-	(1,753)
Cash Flow from Investments	(759)	2,080	(649)	(27)	(80)
Other income	557	476	279	525	551
Net cash after capex	1,180	5,436	251	1,660	800
Issue/(buyback of equity)	1,036	9,554	732	-	-
Proceeds/repayment of borrowings	882	(12,015)	1,722	(1,863)	2,157
Finance costs	(2,119)	(2,657)	(1,462)	(1,184)	(1,356)
Others	(994)	192	(790)	1,795	(2,155)
Cash flow from financing	(1,195)	(4,926)	202	(1,253)	(1,354)
Total cash generation	(15)	510	452	407	(554)
Opening cash balance	332	317	827	1,279	1,686
Closing cash & bank balance	316	827	1,279	1,686	1,132

Source: Company, Nirmal Bang Institutional Equities Research

Note: The issue of equity in FY20 pertains to 0% Non-Convertible Redeemable Preference Shares subscribed by the promoters

Exhibit 10: Key ratios

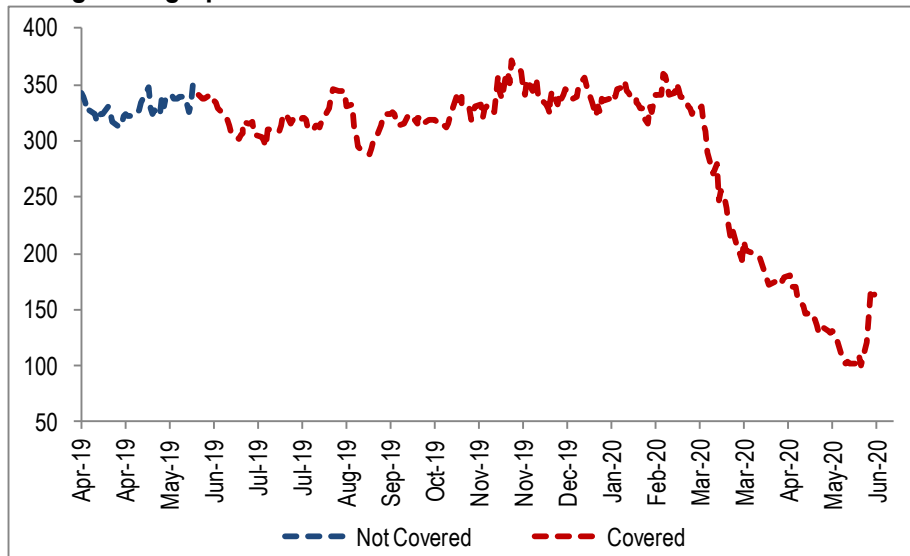
Y/E March	FY18	FY19	FY20E	FY21E	FY22E
Profitability and return ratios					
EBITDA margin (%)	30.8	32.3	34.3	3.0	23.2
EBIT margin (%)	16.7	20.6	22.8	-17.9	8.9
Net profit margin (%)	(11.7)	(0.8)	10.2	(19.2)	0.3
RoE (%)	(18.2)	(0.5)	5.9	(7.2)	0.1
RoCE (%)	4.1	6.9	6.7	(3.5)	2.5
Working capital & liquidity ratios					
Receivable (days)	25.3	17.6	15.5	21.0	20.5
Payable (days)	115.6	152.7	215.5	200.0	200.0
Current ratio (x)	1.7	1.2	1.1	1.1	1.0
Valuation ratios					
EV/sales (x)	6.7	4.6	4.6	7.3	4.8
EV/EBITDA (x)	16.7	14.2	252.6	22.1	14.1
P/E (x)	NA	NA	31.0	NA	173.7
P/BV (x)	5.2	2.2	2.0	1.9	1.8

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
11 February 2020	ACCUMULATE	341	324
23 March 2020	BUY	221	273
10 June 2020	ACCUMULATE	155	157

Rating track graph



DISCLOSURES

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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

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