January 31, 2023

National Stock Exchange of India Limited
Exchange Plaza
Bandra Kurla Complex,
Bandra (East),
Mumbai 400 051.
Scrip Code: CHALET

BSE Limited
Corporate Relationship Department
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai 400 001.
Scrip Code: 542399

Dear Sir / Madam,

Subject: Transcript of the Earnings Call in respect of the Unaudited Financial Results for the quarter and nine months ended December 31, 2022

Pursuant to Regulation 30 read with Para A of Part A of Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations'), please find attached herewith the transcript of the Earnings Call held by the Company on January 24, 2023, in respect of the Unaudited Financial Results for the quarter and nine months ended December 31, 2022.

Further, pursuant to the provisions of Regulation 46 of the Listing Regulations, the aforesaid transcript will also be disclosed on the website of the Company i.e. www.chalethotels.com.

Request you to take the same on record.

Thanking You.

Yours faithfully,
For Chalet Hotels Limited
CHRISTABELLE BERNADETTE BAPTISTA
Digitally signed by CHRISTABELLE BERNADETTE BAPTISTA
Date: 2023.01.31 22:50:28 +05'30'
Christabelle Baptista
Company Secretary and Compliance Officer

Encl.: As above

“Chalet Hotels Limited

Q3 and 9M FY '23 Earnings Conference Call”

January 24, 2023

MANAGEMENT: MR. SANJAY SETHI – MD & CEO
MR. MILIND WADEKAR - CFO

Moderator: Ladies and gentlemen, good day, and welcome to the Third Quarter and 9 months ended FY '23 Earnings Conference Call of Chalet Hotels Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call. Please signal an operator by pressing star then zero on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sanjay Sethi, MD and CEO, Chalet Hotels Limited. Thank you, and over to you, Mr. Sethi.

Sanjay Sethi: Thank you, ma'am. Good evening, ladies and gentlemen. Pleasure to be with you again. Allow me to begin with a couple of updates on some lead indicators that affect the hotel business. Air traffic in the country is still shy of the pre-pandemic levels. Domestic travel continues to be robust. However, recovery in foreign travel is still around the 80% mark of Q3 of FY20.

In the recent weeks, E-Visas have been reactivated by the Government of India. Direct flights from Mumbai, Bengaluru and Delhi to US have resumed. A new international airport in Goa has been opened and a new terminal at Bengaluru has been inaugurated. All this will create enabling tailwinds for foreign inward travel. The hospitality industry in US and select EU markets have shown strong growth in rates and recovery in occupancies.

India has also witnessed similar performances in the month of November. The industry report published by HVS Anarock for November indicates 7% to 9% growth in ADRs in India when compared to November 2019. For Chalet Hotels Limited, Q3 has been the strongest quarter till date with historical bests in Average Room Rate, Room revenues and F&B revenues. Average room rate grew by 11% from 2019 levels to INR 10,168 to clock the highest portfolio average room rates post the global financial crisis.

The portfolio average has continued to be over the INR 10,000 mark from November till date. The quarter however had a bit of a slow start as the month of October had two large festival holidays impacting over half the month of business travel.

A very strong performance in November and the first three weeks of December led to a recovery on the back of strong growth of business travel, a robust wedding season and surge in MICE events. Occupancy for the quarter was 65%, largely brought down by October performance, leading to a RevPAR of INR 6,640. Overall, the hospitality business posted the highest ever revenue at INR 2.65 billion, up 6% from Q3 FY20 and 19% sequential growth. Room nights in domestic segments were higher by 53% versus 2019, while the foreign traveller recovery is at 70%. The foreigner mix has however gone up from 33% in the previous quarter to 41% in Q3.

The F&B business contributed 34% of the total hospitality revenue, recording a strong performance, backed by a robust social and MICE events. F&B revenue grew in the mid-teens during November and December compared to the same period of FY20. For the quarter it was up by 9% as compared to 2019.

EBITDA for hospitality division was INR 1.1 billion. We had some lumpy costs under refurbishment, raw material in other areas. However, the segment managed a robust 41% EBITDA margin. This is in spite of 121 rooms at Powai being out of action due to renovations. The consolidated revenue for the quarter was INR 3.2 billion with an EBITDA of INR 1.5 billion. The EBITDA margin for the quarter at 45% was encouraging. This is before adjusting for other income. And this is the highest revenue and EBITDA for the company till date. Milind will of course, take you through some numbers in detail shortly.

A quick update on the project pipeline, starting with the hospitality project pipeline at Westin Powai, now only 29 out of the 600 rooms are left to be renovated. The rest of the renovated rooms are in the process of being handed over to the hotel team as we speak, and the response to the renovated product at the Westin Powai is extremely positive. Handover process for the additional 88 rooms in Novotel Pune has also commenced. At the second Westin at Hyderabad Mindspace with 168 rooms, we expect it to be commissioned in phases starting Q1 of FY24. The proposed 5-star hotel at Terminal 3 Delhi Airport is on schedule.

In the Rental & Annuity part of the business, the new Commercial Tower in Bengaluru - hand over to the first tenant for fit-outs has already commenced. Further handover to prospective tenants can be done from March. Work at the mall being converted to office space in Bengaluru has picked up pace and can be handed over to prospective tenants for fit outs in Q1 of FY24. The new office tower at Powai, Mumbai will be ready to be handed over to prospective tenants in April of this year. So as you can see, there's a lot of coming into play of the capex spend that we were having over the last few years, where we start seeing now a revenue opportunity starting sometime in the quarter one of next year.

The conversion of the Accenture Learning Center Building at Bengaluru to rooms is at design stage. This will add another 140 rooms at the Marriott Whitefield. On the residential project at Koramangala, Bengaluru, we've received the final construction approval from BBMP. This allows us to construct as per our revised plan. We also applied for RERA renewal with revised plans, which will allow us to commence fresh sales. The project work at site is on schedule.

We continue to have a strong focus on all our ESG commitments. Besides what we've already shared with you in the past, we recently collaborated with IFC to initiate a forum of Human Resource leaders to brainstorm and execute strategies to help us improve gender diversity in our hotels.

Ladies and gentlemen, while our operating portfolio is back with strong performances, we are really excited about the expansion plans of the company, which will lead to step-up growth for Chalet Hotels in the quarters and years to come. We will keep you updated on the same on a regular basis.

I now hand over to Milind to take you through the numbers for Q3.

Milind Wadekar: Thank you, Sanjay. Good evening, ladies and gentlemen. Let me now take you through financials in some more details, starting with hospitality. Quarter three saw strong business activity led by Mumbai, Hyderabad and Pune. Three of our properties, JW Marriott at Sahar, Four Points by Sheraton at Vashi and Novotel Pune reported the best quarterly and YTD performances till date.

Revenue from the hospitality segment was at INR 2.65 billion for the quarter, higher by 6% from pre-pandemic levels and EBITDA was at INR 1.1 billion, higher by 0.3%, making the performance best till date. The segment reported margins of 41% despite having 120 rooms under renovation and out of action in Powai complex. Long-term strategic initiatives like rebranding of Westin, Powai hotel, addition of rooms at Pune and Hyderabad will give scale of operations and improve margins over the next few quarters.

For two of our major cost heads for hospitality, i.e. payroll cost was at 12% of the revenue in quarter three as compared to 15% in FY20, and utility costs as a percentage of revenue was steady at 6% as against 7% for FY20. The Food & Beverages segment reported healthy growth. Revenue grew by 9% in quarter three FY'23 to INR 894 million versus INR 818 million in quarter three FY20. Rental at Annuity segment contributed 8% of total revenue for the company. The revenue and EBITDA from the segment were at INR 244 million and INR 198 million for the quarter, respectively.

On a consolidated basis, reported revenue for the quarter under discussion was at INR 3.2 billion, which was higher by 13% as compared to Q3 FY20, led by strong recovery in rates and healthy F&B revenue. Revenue adjusted for a onetime gain of INR 263 million was at INR 3 billion, higher by 4% as compared to Q3 FY20. During the quarter, the company has accounted for INR 263 million as other income on account of change in the estimated cash flow for redemption of 0% NCRPS with respect to the Koramangala project.

Consolidated EBITDA was at INR 1.5 billion, up by 22% for the same quarter of FY20. EBITDA adjusted for onetime gain was at INR 1.2 billion, largely in line with Q3 FY20. During the quarter, the company received approval from BBMP for modified development plan for Koramangala project. Accordingly, a reversal of provision for interest in relation to potential cancellation for the flats above 10 floor amounting to INR 605 million has been disclosed as an exceptional income. PBT was at INR 1.4 billion versus INR 0.2 billion in the sequential quarter. Profit after tax was at INR 1 billion, and EPS not annualized stood at INR 4.99 per share.

For nine months, Consolidated revenue was at INR 8.3 billion, higher by 8% over the same period of FY20, led by strong performance by the hospitality segment.

Effective cost management has resulted in EBITDA growth of 17% to INR 3.4 billion. Excluding the onetime gain, the revenue and EBITDA stood at INR 8.1 billion, and INR 3.2 billion and margin stood at 39.2% versus 37.7% in the pre-pandemic same period. PBT was at INR 2 billion and not annualized EPS was at INR 7.15 for nine months of FY23. Net debt of the company for March '22 to December '22, was marginally higher by only INR 0.4 billion to INR 22.7 billion, while the company spent INR 3.3 billion of capex during reported nine months. It was largely funded by internal accruals.

Here, I would like to highlight that the interest cost for Chalet as of December '22 was at 8.43%, which has moved up by 91 bps in the first nine months of FY23. This is against a backdrop of upward policy rate of 225 basis points by RBI during the same period. However, given the recent CPI trends RBI’s stance on interest rate scenario is softening, and we believe the interest rate scenario, along with cool-off commodity prices is expected to boost corporate earnings going forward.

Capex and funding: The company has capex plan of INR 6.1 billion till FY24, i.e. for the next 15 months. This excludes capex for proposed second Commercial Tower in Powai, where we are seeking approvals. Business is well funded with internal accruals and available lines of credit. We have cash and cash equivalents of INR 0.8 billion as of December '22 and INR 5.8 billion available lines of credit for general corporate purpose and planned capex.

These investments are expected to generate revenue over the next three, four quarters and free up the balance sheet. There has been no new subscription from promoters on 0% non-convertible redeemable preference shares during the quarter under review. The total subscription stands at INR 2,000 million as of December '22.

Let's open the floor for questions-and-answers.

Moderator: Our first question is from the line of Jinesh Joshi from Prabhudas Lilladher.

Jinesh Joshi: Sir, I have a question on our pricing strategy. So if I look at ARR, it is roughly 11% higher than the pre-pandemic days, but our occupancy is roughly 10% lower. And hence, the recovery in RevPAR is still lagging as such. So I wanted to understand whether a higher price is acting as a deterrent to occupancy? And what is the strategy when it comes to achieving a fine balance between both these factors? I basically thought of asking this first question is because the price hike which has been taken by us is actually not resulting in the consequent RevPAR jump as you see a few percent lower?

Sanjay Sethi: Thank you, Jinesh, for the question. I'm glad you asked that because it gives us an opportunity to clarify. Look, whether we kept the rate less aggressive than where we are or not, I don't think it would have resulted in higher RevPAR or revenue. The periods when you have holidays, especially in our portfolio of assets, irrespective of what your pricing is, people don't come because the business travel doesn't happen in those periods. So we'd rather follow the rate route right now. I think this has set a benchmark for rates for the market. It will drive up the rates within the market and once we have the rate positioning right, occupancies will come.

Having said that, again, I'm reiterating that having had -- if we had kept the rates any lower, it doesn't mean that we would have got higher occupancies. Purely on account of the 18 days that we had the holiday period during October. And then we had a good period from 1st December to 17th December, but then after 17th December, occupancies fell again due to the Christmas, New Year holidays.

So 14 here, 18 there, 32 days out, 90-odd days gone, irrespective of the rates, occupancies wouldn't have been up. And you got to remember, the RevPAR is also lower because you're still counting in 2019, the full inventory at Powai available, whereas 121 rooms were under renovation at Powai, and this RevPAR come on the back of that reduction in inventory, but we account for it on the RevPAR calculation.

Jinesh Joshi: Sir, that was pretty elaborative. My second question is with respect to the leasing traction for our annuity project. I think we have some 1 million square feet that would come up the leasing in Bengaluru in the next three to four months as you have highlighted in your opening remarks. So can you share what is the progress on signing and what proportion of area has actually been leased out so far?

Sanjay Sethi: Okay, Jinesh. So I think the leasing traction at Bengaluru and Powai shouldn't be a challenge. Three floors out of the 11 have already been leased out in Bengaluru and the same company is likely to take one more floor. As per the leasing update that we have by December of '24, we -- sorry, December '23, we would have leased out the whole new IT building. And by March of '24, even the mall, which is getting converted to office would be leased out. So that's the estimate that we have from our leasing team.

As far as Powai is concerned, they are expecting a fairly fast ramp-up moment the building is ready for a show around. So, no major concerns on the leasing side on any of these two offices. In fact, the recent report that came out, I think the Economic Times or Times of India, just about four or five days has given the demand dynamics of office space in many cities in India. And Mumbai has come out strongest. First, the Bengaluru come out strongest, followed by Mumbai. So these two cities clearly are the top two cities for office space leasing in India today. And both our assets are in these two locations.

Jinesh Joshi: One last question from my side. I think in the opening remarks, you mentioned that the promoter contribution towards Koramangala was at about INR 200 crores. But I think in the results release, we have mentioned that additional INR 35 crores has been given out by directors as an interest free loan towards the project. So does it mean that the total promoter contribution right now is at INR 235 crores and not INR 200 crores?

Milind Wadekar: Let me come in. Jinesh, the promoters have subscribed to preference shares of INR 200 crores. They are committed to fund entire project expenditure of Koramangala. Now we have taken INR 35 crores interest-free loans from promoters. So, contribution from promoters as of today, total is INR 235 crores. But for preference shares, it is INR 200 crores and interest free loans it is INR 35 crores. Both are interest-free.

Sanjay Sethi: Both are interest-free but on the pref share side, it is INR 200 crores and the new loan is INR 35 crores. This is basically to kick start the project because the project will be self-financing the moment we start our sales process.

Moderator: Our next question is from the line of Vikas Ahuja from Antique Stock Broking Limited.

Vikas Ahuja: 1 clarification regarding the previous question. So you said that despite the pricing strategy, the occupancy would have been same, even if we would have given a lower pricing to clients, the occupancy would have been 55%. But if I compare it with pre-COVID levels during this quarter, we used to do somewhere around 65%, 66%. It is still 10 percentage points below the past. So is it largely because of the corporate recovery still weak? That's why the occupancy is where it is?

And secondly, any colour you can give on overall corporate bookings when we can see them going back to pre-COVID level, maybe somewhere in the second half. Any colour around that would be great?

Sanjay Sethi: Sure. So look, I think it's driven -- the occupancy impact was driven by, as I said, the multiple holidays in October and then, of course, the typical, which is an annual phenomena the second half of December. This time, the holidays got bunched up in October for both Diwali and Dussehra and you can add Ashtami and Bhai Dooj became quite a few holidays.

The second thing on the occupancy side that was dragging it down was that the foreign travel is still not back to full steam. And Marriott Whitefield, which is very heavily relying on foreign travel, has had a slower start to the rest of the portfolio. And I want to reiterate again, if we had reduced the prices or kept the price lower, we would probably not have reached the RevPAR that we have.

So, the strategy has actually paid off. And I think, to a large extent, this is a long -- mid- to long-term game in play here that we want to reposition the hospitality industry in India to fair pricing, which is clearly higher rates than where we were in the recent years.

Vikas Ahuja: And 1 last question. I mean, overall, what we are hearing is that corporate rate negotiation has gone really well for most of the hotels. So is it fair to assume that pricing next quarter should be actually much better than what we have achieved, which is already all-time high barring, if we look at the current portfolio we have. Is that a fair understanding? And that's about it.

Sanjay Sethi: You know what's going to happen is that the ADR that we experience of 10,000-plus is driven by -- whilst they were off periods, there were also peak periods during this period. First November to third week of December was high-peak period, which meant people went to retail rates to get the rate. The increase in prices for the contracted accounts is clearly higher.

As I've explained in the last call that we have taken the strategy of staying away from, avoiding as much as possible on the last room available to corporates, which allows us to maybe give competitive pricing, but not give them rooms on a high occupancy periods, which will mean that they'll have to go to retail pricing at that period to book rooms. I think it's going to pay off our current all indicators point towards improvement in rates and occupancies should be back on in periods when we don't have holidays.

Moderator: Our next question is from the line of Sumant Kumar from Motilal Oswal.

Sumant Kumar: Yes, sir. So can you talk about the Bengaluru market, the occupancy in Q3 was lower. So how -- what was the key reason and how things are improving there?

Sanjay Sethi: I think Bengaluru, if you can if you look at the numbers over here, occupancy for our hotels for this quarter was only 50% that is again driven largely by holidays and the fact that during Christmas and New Year, foreigners don't travel. And they tend to ebb out a lot earlier than everyone else. And Bengaluru's reliance on foreign travel is much higher.

The fact that it's now got connected with international flights on direct flights to US, both East Coast and West Coast, we expect that to pick up very sharply. We are happy that we are able to now reposition the hotel at the INR 9,500 price point in the last quarter, which is very close to where we were in Q3 of FY20. And confident that in the coming months and coming quarters, this hotel will do extremely well.

Bengaluru has had dynamics of three or four micro markets that come into play in that city. City Center has a little more perennial business around the year. So the hotels that are actually in that City Center area get less affected by dips and valleys and peaks. Then there is a market at the outer ring road or Marathahalli area, Sarjapur area, which again is very heavily relying on IT, but this is the first to pick up when the IT picks up.

And then there is Whitefield market, where we have the advantage of lesser number of rooms compared to the other markets, and we are taking advantage of the position. And the fourth one is the Electronic City to the eastern -- south-eastern side of the back of Bengaluru, which picks up last. In our view, we think Bengaluru will come back to previous performances very soon. And we are not taking a short view on this, whilst we understand that in the short term, this dragged the portfolio down a bit. In the mid- to long term, we are very confident Bengaluru will add to our portfolio.

Sumant Kumar: Do you think the occupancy, our company level occupancy will reach at the pre-pandemic level in the coming quarters?

Sanjay Sethi: I cannot give you exact number. But yes, there's no reason why we'll not be reaching the pandemic occupancies.

Sumant Kumar: So out of the foreign mix reach than the pre-pandemic level in Q4 and what is the current level? The foreign customer mix?

Sanjay Sethi: Yes. On the foreign customer mix, as I said, the flights have just been announced. Some of them have started. Some are starting from March. Air India has announced multiple flights to East and West Coast. So it will take a little while of time to get the impact in place. But I think this quarter will be a good quarter for Hyderabad and Bengaluru.

Sumant Kumar: Any colour on corporate rate hike on negotiated price? Whatever the range we are talking about.

Sanjay Sethi: It's very difficult to average that out because each customer or a client is treated in a different fashion depending on the volume of business, etcetera. But yes, we expect healthy growth on the average room rates on the corporate side.

Moderator: Our next question is from the line of Pradyumna Choudhary from JM Financial.

Pradyumna Choudhary: So just wanted to understand, from a longer-term perspective, how do we see ourselves in terms of the mix between our hospitality revenue and commercial revenue over a longer term, say, maybe three, four years down the line?

Sanjay Sethi: So what's going to happen Pradyumna is that over the next three or four years, there will be some increase in the share of office revenues, commercial revenues because there are a couple of large assets coming into play now. And on the hospitality side, we'll see some addition of a few 250-odd rooms this year -- in the coming year and the rest a little longer it will take. But by the time we reach fourth, fifth year from now, there'll be stability on the office side and the growth should kick off on hospitality side fairly aggressively.

Overall, we expect maybe about 75% of the business revenue is still coming from hospitality at its lowest and roughly around 65% to 70% of the EBITDA coming from hospitality. But then that will turn the tide because by then, we would have exhausted all the land that's available for office assets.

Pradyumna Choudhary: So like beyond that, the focus still remains on the hospitality side, but maybe opportunistic forays into commercial ones beyond what we already have planned.

Sanjay Sethi: Yes. So a, just to sort of take you back a little bit. Our whole entry into office was driven by sweating our real estate assets that we had. And I've given an example on multiple calls that, for example, at JW Sahar where we have almost 600 rooms, we could've built 1,200, but that would have killed the market, made our asset unviable. So we decided to sweat the assets in a more realistic fashion where we kept the room count at a little under 600 rooms, but we sweated the rest of the FSI and the potential of the land through building complementary assets on the office side, which then creates demand for our hotels. And on the reverse side, the hotel branding creates a halo effect for rental premiums on the office side. So it became complementary, and we were able to sweat the real estate part of it. But once we get done with Powai, Sahar and the Bengaluru real estate assets, we really don't have any more land lying with us, which we can monetize through to any more office assets. What happens in the future is a little unpredictable. If we get a large part of the land, we may still do a mixed use, I'm not saying that we will not. We'll do what is best for the company, but primarily reiterating we are a hotel company, and that's the growth focus for us.

Pradyumna Choudhary: And secondly, regard -- the management contracts that we have with -- like with Marriott and Accor. So what are the -- what is the tenure of the contracts?

Sanjay Sethi: They range from 10 to 12 to 20 years. And actually, a couple of them had expired a couple of years back. We renewed the Hyderabad one. We use that opportunity to upwardly move the branding for Powai from Renaissance to Westin, which is two notches up. And we've got Four Points By Sheraton whose contract has expired, but we've got an extension and we're sort of working on the strategy on how to reposition that asset.

Pradyumna Choudhary: If I were to ask you, like, in terms of most of many other hotel companies that are going asset-light, so I believe we stand in a good ground, right? Like because there will surely be demand for our portfolio even if some of these contracts expire, right? Like is it a point of strength or a point of weakness in case there's any contract, which is nearing expiry. So how do you see it?

Sanjay Sethi: Great question, Pradyumna. So I think, yes, you're right, there's an opportunity there. And I think it's a point of strength because the asset is ours, right? We can go either way that we want. We are the one that will have the control on that. And at some point of time, if we decide to create our own brand, that creates an opportunity for us to run our hotels on our own brand. And then maybe if we create the brand, run some hotels for other owners also. But that's an option open to us.

We will -- we study those options, and we look at what the right strategy for us is. Right now, we are very focused on delivering some of the assets that we're developing. At the same time, we are building capabilities of running our hotels. As we know, we've got the Four Points by Sheraton on franchise. We run The Resort in Madh Island. We've got the Hyatt Regency that has to be built on franchise. And the Delhi Airport hotel of ~400 rooms that we're building, is also in the franchise arrangement. So clearly, we are developing our own in-house operating capabilities. The brand is just 1 step further from there.

Moderator: Our next question is from the line of Nihal Mahesh Jham from Nuvama.

Nihal Mahesh Jham: Yes, thank you so much and good evening.

Moderator: I'm sorry to interrupt, if you're on speaker phone, can you please switch your handset?

Sanjay Sethi: We're getting a lot of disturbance on background noise, Nihal. Do you want to come back in the queue in a bit?

Nihal Mahesh Jham: I'll do that. Sure.

Moderator: Our next question is from the line of Prateek Kumar from Jefferies.

Prateek Kumar: Yes. My first question is on your cost. You mentioned about a lumpy cost continuing in your business as well. So can you please quantify that number? And what could be this number like going forward as well?

Sanjay Sethi: Yes. I'll ask Milind to sort of look up that number. –Let me just dwell a little bit more on those costs that I was talking about. On the repairs and maintenance side because for just 2, 2.5 years that we had of the pandemic period, we had held back some costs, and we're sort of getting the hotels back in full shape. So the FF&E cost that were to be incurred during the period were deferred, and they are now being consumed in the Indian accounting system, we have to move them from FF&E cost to P&L costs, and that's what's happened. That's one.

Second is with the demand going up and the rates going up so aggressively, it's extremely important that we put our 'A' game forward. So we've reassessed our requirement for repositioning the hotels even from a quality perspective. And so we've put in some money behind that.

The third area was on the raw material side of hotels. We've had a little bit of an increase on cost percentages to revenue in food and beverage, and that's driven by a slight impact of the inflation that we are all facing at this point of time and also we will be need to tighten our belts over some of the control systems internally to get that right. So these are the areas that we're working on.

I must highlight that Milind already mentioned that we've been able to bring the two largest costs down on payroll costs, which is the largest operating cost in our business, we're down to 12%, which is a very healthy performance. And on the heat, like power or energy or utility costs, we are at 6%, which is again amongst the industry's best. Milind, you have a number that you want to share?

Milind Wadekar: I mean, our expenses were higher under two heads, primarily repair and maintenance, which was higher by around INR 4 crore for the quarter. If we compare it with the same quarter of FY20, and operating supplies, operating supplies, we charged off to P&L as and when we buy it. So, with the increase in occupancy, some costs hit our P&L that increase is around INR 3 crores. But two major heads, we have reduced cost. On HLP side, same-store business, our HLP cost is lower by INR 6 crores for nine months as compared to nine months of FY20.

Sanjay Sethi: I hope that answers the question for you.

Prateek Kumar: Yes. So also can you just revisit again, like you mentioned about like still some room left for coming on more like for Mumbai complex. So how many rooms are still expected to be renovated and how then is this whole 120 room expected to be operational?

Sanjay Sethi: So there are 600 rooms in the hotel and 173 serviced apartments. Out of the 600 rooms, 121 rooms were under renovation. That also meant that the floor under the 121 rooms was used carefully because we didn't want the sound to disturb our guests. So overall impact of 150 rooms for this quarter. Those 121 rooms have been handed over to operations, and they are in the process of snagging and simulating those rooms to open them out to our guests.

With that completion, and that will be completed in the next couple of weeks, we'll be left with only 29 rooms, 29 keys that need to be renovated. We're not doing it right now because of the occupancy and demand period being high. We'll probably do it in off season now.

Prateek Kumar: So for fourth quarter, these 120 rooms should be available for...

Sanjay Sethi: For about half the fourth quarter because we're already at the end of January. And it will take another couple of weeks for them to be activated, so we're saying by second week of February, they should be all back in action.

Prateek Kumar: One more question regarding Bengaluru market and general up on consumption. Is there any trend on like some slowdown because of general IT slowdown in terms of local environment and impacting business, particularly in terms of maybe Bengaluru or some other markets in terms of up in consumption because of impact on start-up industry and IT industry?

Sanjay Sethi: Not that we've noticed because whilst you'll see that the Bengaluru occupancies are lower, the dates when we didn't have the holidays, the occupancies were very high and so were the rates. So, we believe that the demand continues to be strong. It is just a holiday season that affected the occupancies and the rates during this period. And again, I want to repeat that the direct US flight will make a lot of difference to Bengaluru.

Prateek Kumar: So January should be trending like November in that...

Sanjay Sethi: So January -- from ninth January onwards is expected to trend like November because the first week again is a slow week because people just come back post new year holidays, then 7th and 8th was a weekend. So it's post that the kick-in happens.

Prateek Kumar: And one last question on transient trades. So there will be some portion of your business, which will be obviously tied to like quantum rates or contractual rates. So is this transient rates also benefiting significantly on your like reported rates?

Sanjay Sethi: Yes, they are. In fact, that's what's -- so the transient contract is what is driving our rates overall up. One, first level is the contracting that has been done at higher rates. Second, because if you haven't signed up a large delta on the rate side, the accounts or the companies don't get the last room available benefit, in which case they have they are forced to go to the retail rates and retail rates are significantly higher than any contracted rates.

Moderator: There are no further -- I'm sorry, we have a question from the line of Rajiv Bharati from DAM Capital.

Rajiv Bharati: Can you spell out what is the INR 330 crores capex in the nine months piece-wise where it was and now for Q4, how much is due and remaining the INR 110 crores similar thing where it is going to us?

Sanjay Sethi: Sure. I'll let Milind answer that question. Go ahead, Milind.

Milind Wadekar: Yes, Rajiv. Out of this INR 330 crores, the major spend was for commercial office space, which we are building in Powai Phase 3 and Bengaluru. We have spent some amount on Westin Hotel, New Westin Hotel at Hyderabad. And there was some normal repairs and maintenance capex, which we are incurred.

Rajiv Bharati: Sir, is it possible to quantify the big pieces here, let's say, about...

Milind Wadekar: INR 180 crores, was for Powai Phase 3. INR 70 crores was for Bengaluru and the balance was for hotel projects and hotel renovation.

Sanjay Sethi: There's two hotel projects underway, the Novotel, Pune, with 88 more rooms and the 168 room, Hyderabad hotel.

Rajiv Bharati: And assuming trajectory something like INR 80 crores will be due for Q4 as well?

Milind Wadekar: Our capex for next 15 months will be around INR 600 crores. Out of INR 600 crores, INR 335 -- INR 340 crore will be on commercial office space. Hotel side, we'll be spending around INR 150 crores and renovation projects we will be spending around INR 125 crores.

Rajiv Bharati: Sure. And to the previous participant's question, which is the payroll and the utility cost on the non-hospitality business, where it is inching up, till what time should we, let's say, for modelling sake, this will continue at this pace?

Milind Wadekar: So, in our payroll cost, we have accounted for ESOP expenses, which is as per accounting standards. So now with this it will average it out now, and there won't be any major increase.

Sanjay Sethi: We don't see any unusual increase happening on that front, Rajiv.

Rajiv Bharati: So, the payroll expenses on the non-hospitality side, basically, I subtracted the employee cost minus, let's say, the hospitality piece. That number was INR 3.5 crores in Q1 then INR 6 crores and INR 7.6 crores. So I just wanted to know, is it stabilized now at INR 7.6 crores, it is going to inch up for modelling section, should we take, let's say.

Milind Wadekar: Out of INR 7.6 crores, INR 3.5 crore are ESOP expenses. So expenses are almost flat quarter-on-quarter. So, if you take out ESOP expenses which we started accounting in last two quarters, the expenses are flat.

Rajiv Bharati: And similarly, on the utility side, so is it correct to do, let's say, other expenses minus the hospitality utilities and that trajectory is basically INR 68 crores, INR 75 crores, INR 82 crores. And you said that this is linked to occupancy. So if occupancy holds up, this number should not come down, right?

Milind Wadekar: It is around 6% of revenue, but...

Sanjay Sethi: No, tell non-hospitality.

Milind Wadekar: Yes, you are right.

Sanjay Sethi: So non-hospitality, yes, there will be some increases as office occupancy is going. But remember that we charge this off to the tenants. So concurrently, the CAM charges will be...

Milind Wadekar: These are pass-throughs only. CAM, Common Area Maintenance charges for non-occupied portion will hit our P&L. Otherwise, it will be passed through and we'll recover it from tenants.

Rajiv Bharati: And as and when this – let's say, the DIAL thing opens up, do you require manpower to be deployed in the next – I mean, to be employed, which are not there in the system as of now. As and when it – before the…

Sanjay Sethi: Very minimal, Rajiv, maybe some– for the sake of supervision of the project on site for the near future, nothing else because the Shell, remember is being built by DIAL. Shell is leased to us. So the initial next 1.5 years are largely going to go towards building the Shell out our involvement will really come after that. At that point of time, we'll have a project here, but most of the project costs are kept separately and we've provided for them in our capital budget.

In terms of manning the hotel, I think we'll probably start with very few people six months before opening and then build up a team to come to the opening point. But in the near future, we don't see any additional happening. In any case, we will continue to stay disciplined on our people to room ratios and make sure the productivity levels are really high.

Milind Wadekar: The project team salary will be capitalized, and it forms part of the capital cost of the project.

Moderator: Mr. Nihal Mahesh Jham your line been unmuted.

Nihal Mahesh Jham: Sir, I had 1 question on the Bengaluru market performance. I do understand you highlighted about there being the impact of holidays, which I think is a phenomenon in Q3 of every year in a way. So if I have to compare the Bengaluru market streak over occupancy versus this one, would you attribute the lower occupancy primarily say to lesser number of foreign guests coming in because you've alluded to that fact quite a lot in the discussion?

Sanjay Sethi: So two things, as I said earlier, it is a combination of the holidays with the Diwali and Dussehra both being mid-week, and because both these holidays impact foreigners coming in here because they know there's very little work that happens in Bengaluru. Dussehra is a big-ticket event in Bengaluru. And both happened on the same month. That's what impacted the month.

And of course, the foreign travel not being back to normal yet, it did impact a bit. But the periods where in the same month, when we had clear period, we saw the occupancies go extremely high and the rates are very high also. So I think it's more of a phenomenon of the holiday than the majority of the impact coming from foreign travellers.

Nihal Mahesh Jham: That's helpful. And just a last related follow-up was that overall, if you look at across your property and for the market, fair to say that the domestic corporate travel for you has more or less completely come back and foreign travel, as you said, is something that you expect currently at 70%, 80%, inches back to that 100%. Is that the right situation in the market in terms of overall corporate recovery?

Sanjay Sethi: Yes. So I think the reality today is that domestic business travel is actually 53% higher than pre-pandemic. And the foreign travel is at 70% of pre-pandemic. And that combined together leading to what the results we're getting. And we believe as international travel comes in, it will lead to a natural movement towards high paying guests, whichever segment they come from to make sure we optimize our revenues.

Moderator: Our next question is a follow-up from the line of Pradyumna Choudhary from JM Financial.

Pradyumna Choudhary: So just another question related to basically how do we go? Like what criteria do we have when we choose to go for a project in terms of the kind of range of IRR or return or payback period we normally target?

Sanjay Sethi: Sure. So, Pradyumna, in terms of hotel projects, we look at 3 or 4, 2 or 3 metrics actually. One, of course, is the overall project IRR. And there, we look at mid-teens and upwards. On equity IRR, we look at 20 and upward. On the Return on Capital Employed in the third year, which is a stable year, we look at atleast 12%. And the fourth one is that it has to be NPV accretive for us.

So these are the four parameters that we look at. We also, of course, look at various other parameters like depth of market, the ability to get run an efficient operations, the size of the competition and all of that. But the key financial parameters that we look at are the four that I shared with you earlier.

Milind Wadekar: We also look at whether it is EPS accretive or not in a stabilised year.

Pradyumna Choudhary: So basically, the IRR, equity IRRs, what was the number you said?

Sanjay Sethi: So we said at the third year, which is the first stable year, full year, we look at least 12% EBIT by capital employed.

Pradyumna Choudhary: And I understand that right now, we only have like commercial portfolio in terms of work hotels like leisure. And previously, I think you guys have mentioned that you will be open to having something in Goa or somewhere. So, like what is the idea, like over the longer term, again, is it something where we'll look at a more diversified mix or is it something where it would be, again, more focused on the non-leisure side?

Sanjay Sethi: So we've -- our strategy, midterm strategy right now is to diversify the portfolio, get some leisure assets in. We do believe that the majority of the assets will continue to be in the big city, big box hotels. But we do want sort of maybe 25%, 30% of the room inventory coming from leisure. So we de-risk ourselves from cycles where business travel doesn't happen.

And add to that, the diversification of the asset class, which is the office side of the business, which allows us a steady annuity income. So that combined together will, I think, give us the ideal mix.

Moderator: Our next question is from the line of Vikas Ahuja from Antique Stockbroking.

Vikas Ahuja: So just one thing. Just trying to understand that after all the commercial portfolio coming in, maybe we would be exhausting most of our land parcel and then -- maybe the airport property. How would we grow beyond that, maybe FY26 or after? I know maybe DIAL property will come maybe a year later but how should we look at a strategy or growth after exhausting our land?

Sanjay Sethi: So Vikas, we are a growth-oriented company. And just because we finished the current pipeline of project doesn't mean that we're not going to look for more projects. Our balance sheet will enable us to deploy more capital in the not too distant future. And we'd like to look for more opportunities to grow the portfolio. As I said, in terms of the mix of the assets that we like, we think business hotels at the upper upscale luxury positioning in big cities, we've got probably go to the sweet spot for us. We will get a leisure portfolio in play at some point of time and the business -- the office assets will be there.

In addition to that, if we get any M&A opportunities in the market from a platform of hotels, we are open to considering those also. Right now, there's nothing that we think which is viable. But if that comes our way, we would like to look at that. Let me sum it up by saying that the growth which will be practical but aggressive as the strategy will continue.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Sanjay Sethi for closing comments.

Sanjay Sethi: Thank you so much. Before we end, we'd like all of us here would like to wish you and your dear ones a brilliant 2023, and we look forward to engaging with you more this year. Thank you.

Milind Wadekar: Thank you.

Moderator: Ladies and gentlemen, on behalf of Chalet Hotels Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.