

Chalet Hotels

BUY

Robust operational performance continues

Summary

Chalet Hotels Ltd.'s (Chalet) Q4FY23 result was beat to our and consensus estimates on key parameters. The company continued its robust operational performance in Q4FY23 as well, which resulted into highest ever quarterly net sales and best ever margins. Chalet reported occupancy/ADR of 74% /Rs11,304 compared to 56%/5,429 in Q4FY22. The management sounded optimistic on demand dynamics to continue in near term. Net sales increased by 128%YoY to Rs3,379mn, while EBITDA came in at Rs1,524mn, higher by 385% YoY. The company reported net profit of Rs392mn compared to net loss of Rs116mn in Q4FY22. Chalet's foray into leisure segment by acquisition of Dukes Retreat, Lonavala is encouraging and paves the way for further inventory addition in that space. We have marginally increased our earnings estimates for FY24E/FY25E. Maintain BUY with a TP of Rs457, assigning 20x EV/EBITDA on FY25E.

Key Highlights and Investment Rationale

- Best ever quarterly performance:** After a robust performance in Q3, Chalet continued its growth momentum on key operational parameters. ADR further inched up by 11% QoQ to Rs11,304, while occupancy improved by 9% QoQ to 74%. Hospitality revenue increased by 16.7% QoQ to Rs3,097mn, while Retail and Commercial portfolios reported 15.2% QoQ revenue growth at Rs281mn. With acquisition of Dukes Retreat, Chalet has forayed into leisure destination. We believe healthy demand traction, demand-supply mismatch and Chalet's focus on cost optimization bodes well for healthy earnings growth in future.
- On a roll, BUY with a TP of Rs457:** We like Chalet amongst the domestic hospitality space given its inventory addition in hotel and commercial segment and value unlocking opportunities in Koramangla project. We believe the stock is in sweet spot to benefit from healthy demand outlook in corporate travel in near term. BUY with a TP of Rs457.

TP	Rs457
CMP	Rs393
Potential upside/downside	16%
Previous Rating	BUY

Price Performance (%)			
	-1m	-3m	-12m
Absolute	8.3	8.1	36.7
Rel to Sensex	5.0	6.3	24.0

V/s Consensus		
EPS (Rs)	FY24E	FY25E
IDBI Capital	14.2	15.5
Consensus	11.0	14.9
% difference	29.2	3.8

Key Stock Data	
Bloomberg / Reuters	CHALET IN / CHAL.BO
Sector	Hotels
Shares o/s (mn)	205
Market cap. (Rs mn)	80,524
3-m daily avg Trd value (Rs mn)	3.3
52-week high / low	Rs410 / 277
Sensex / Nifty	61,761 / 18,266

Shareholding Pattern (%)	
Promoters	71.7
FII	2.0
DII	21.1
Public	5.2

Financial snapshot

Year	FY21	FY22	FY23	FY24E	FY25E
Revenue	2,856	5,078	11,285	14,787	16,659
Change (yoy, %)	(71)	78	122	31	13
EBITDA	71	985	4,528	6,298	7,227
Change (yoy, %)	(98)	1,295	360	39	15
EBITDA Margin (%)	2.5	19.4	40.1	42.6	43.4
Adj.PAT	(1,276)	(642)	1,435	2,904	3,175
EPS (Rs)	(6.2)	(3.1)	7.0	14.2	15.5
Change (yoy, %)	-	-	(323.6)	102.3	9.3
PE(x)	-	-	56.1	27.7	25.4
Dividend Yield (%)	-	-	-	-	-
EV/EBITDA (x)	1,279	95.1	22.4	15.8	13.4
RoE (%)	(8.6)	(4.7)	9.9	17.2	15.9
RoCE (%)	(3.2)	(0.5)	8.0	11.1	12.3

Source: IDBI Capital Research

Concall Highlights:

- Q4 was the strongest quarter for the company till date with historical best average room rates & room revenue.
- ARR grew by 108% YoY to Rs11,304, while occupancy was up by 1800bps YoY to 74%.
- Chalet entered into northern market by signing first asset in Delhi, while it forayed into leisure segment with acquisition of Dukes Retreat, Lonavala.
- Additional 88 rooms at Novotel, Pune are ready and company is awaiting the final OC of the building to start commercial use.
- The Westin Hyderabad with 168 rooms is in the process of being handed over to the operator this month and will be operational from next month.
- The F&B Business contributed 30.5% of total overall revenue at Rs946mn.
- Rental & Annuity Segment contributed 8% to overall revenue in Q4FY23.
- The project work at the hotel at Delhi airport with about the rooms is as per schedule with expected completion in FY26E.
- The company has debt of around Rs2400crs at the end of Q4FY23. The management expects it to peak out to Rs2,650crs and then it will start reducing.
- The company has Capex plan of Rs600crs in FY24E. Capex of Rs280cr on commercial projects including second commercial tower and the balance Rs320crs includes spillover capex of new hotel at Hyderabad, hotel expansion at Pune, capex on new hotel in Delhi and expansion of Marriott Hotel.
- The cost of finance as on March,2023 is at 8.75% against 7.5% at the beginning of the year.
- The EBITDA and EBITDA margins will improve further with the operationalization of all new investment in commercial office building and hotels.

Exhibit 1: Financial snapshot

Particulars (Rs mn)	Q4FY23	Q3FY23	QoQ (%)	Q4FY22	YoY (%)
Total Revenue	3,379	2,897	16.6	1,480	128.3
Total Expenditure	1,855	1,763	5.3	1,166	59.1
EBITDA	1,524	1,135	34.2	314	384.8
<i>EBITDA Margin (%)</i>	45	39	592bps	21	2386bps
Depreciation	298	281		303	
Interest cost	405	368		356	
Other income	79	321		55	
PBT	899	806	11.5	(289)	NA
Tax	323	388		(185)	
Adj. Net profit	576	419	37.7	(104)	NA
Minority Interest & Exceptional Items	(184)	605		(11)	
Discontinued Operations	-	-		-	
Reported Net Profit	392	1,024	-61.7	(116)	NA
Adj. EPS (INR)	2.8	2.0	-61.7	(0.5)	NA

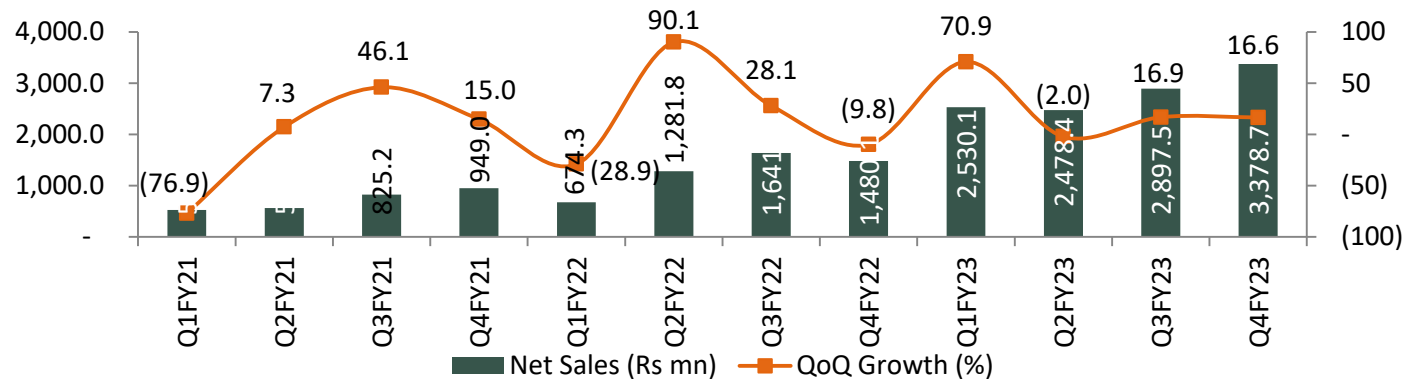
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs Estimates

Particulars (Rs mn)	Q4FY23A	Q4FY23E	Variance (%)
Net Sales	3,379	3,016	12%
EBITDA	1,524	1,167	31%
<i>EBITDA Margin (%)</i>	45.1	38.7	639bps
Net Profit	392	433	-10%
EPS (Rs)	2.8	2.2	-10%

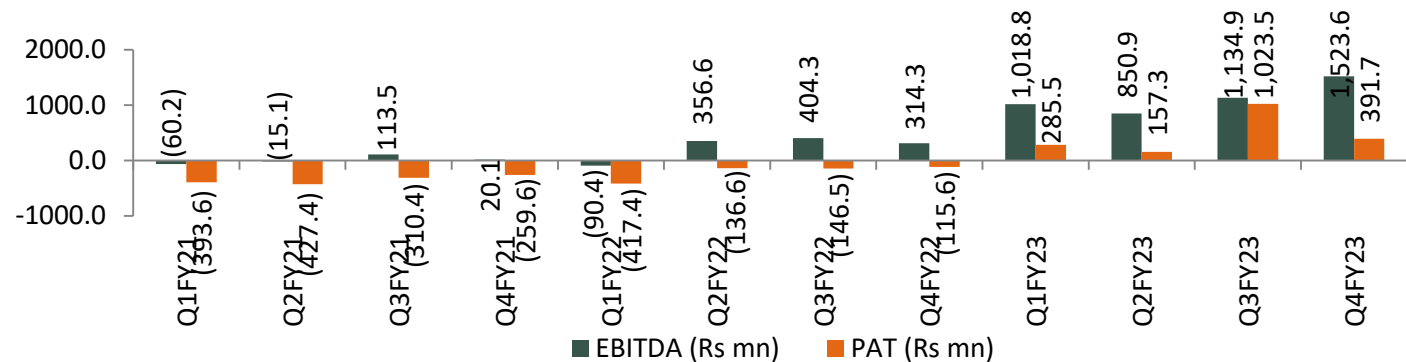
Source: Company; IDBI Capital Research

Exhibit 3: Consolidated revenue analysis



Source: Company; IDBI Capital Research

Exhibit 4: EBITDA/PAT analysis



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	9,808	2,856	5,078	11,285	14,787	16,659
<i>Change (yoy, %)</i>	<i>(0.6)</i>	<i>(70.9)</i>	<i>77.8</i>	<i>122.2</i>	<i>31.0</i>	<i>12.7</i>
Operating expenses	(6,380)	(2,785)	(4,093)	(6,757)	(8,488)	(9,431)
EBITDA	3,429	71	985	4,528	6,298	7,227
<i>Change (yoy, %)</i>	<i>7.4</i>	<i>(97.9)</i>	<i>1,294.9</i>	<i>359.8</i>	<i>39.1</i>	<i>14.7</i>
<i>Margin (%)</i>	<i>35.0</i>	<i>2.5</i>	<i>19.4</i>	<i>40.1</i>	<i>42.6</i>	<i>43.4</i>
Depreciation	(1,133)	(1,175)	(1,184)	(1,173)	(1,366)	(1,681)
EBIT	2,295	(1,104)	(199)	3,355	4,933	5,546
Interest paid	(1,462)	(1,520)	(1,444)	(1,545)	(1,596)	(1,848)
Other income	279	219	219	495	544	544
Pre-tax profit	1,071	(2,446)	(1,469)	2,728	3,881	4,243
Tax	(12)	1,092	720	(870)	(977)	(1,068)
<i>Effective tax rate (%)</i>	<i>1.1</i>	<i>44.6</i>	<i>49.0</i>	<i>31.9</i>	<i>25.2</i>	<i>25.2</i>
Minority Interest	30.5	0.5	(2.6)	-	-	-
Net profit	1,089	(1,354)	(752)	1,858	2,904	3,175
Exceptional items	(105)	(78)	(110)	423	-	-
Adjusted net profit	1,194	(1,276)	(642)	1,435	2,904	3,175
<i>Change (yoy, %)</i>	<i>(3,481.5)</i>	<i>(206.8)</i>	<i>(49.7)</i>	<i>(323.6)</i>	<i>102.3</i>	<i>9.3</i>
EPS	5.8	(6.2)	(3.1)	7.0	14.2	15.5
Dividend per sh	-	-	-	-	-	-
<i>Dividend Payout (%)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Shareholders' funds	15,546	14,161	13,413	15,445	18,349	21,524
Share capital	2,050	2,050	2,050	2,050	2,050	2,050
Reserves & surplus	13,495	12,110	11,362	13,395	16,299	19,474
Total Debt	16,842	17,567	21,428	22,077	19,869	18,876
Other liabilities	954	3,649	5,009	7,013	5,957	5,625
Curr Liab & prov	6,788	4,514	4,579	4,997	5,310	5,593
Current liabilities	5,823	3,529	3,647	4,806	5,112	5,388
Provisions	966	985	933	191	197	205
Total liabilities	24,585	25,731	31,017	34,087	31,136	30,093
Total equity & liabilities	40,128	39,888	44,427	49,528	49,481	51,613
Net fixed assets	31,065	31,155	34,457	39,513	41,996	42,612
Investments	45	45	450	656	492	443
Other non-curr assets	2,255	2,797	3,099	2,315	2,484	2,644
Current assets	6,762	5,891	6,422	7,044	4,509	5,914
Inventories	3,924	3,912	3,935	4,129	1,652	1,734
Sundry Debtors	417	216	436	590	613	644
Cash and Bank	1,279	458	998	1,220	1,117	2,352
Loans and advances	367	439	-	-	-	-
Total assets	40,128	39,888	44,427	49,528	49,481	51,613

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	1,071	(2,446)	(1,469)	2,728	3,881	4,243
Depreciation	1,035	739	1,184	1,173	1,366	1,681
Tax paid	(201)	63	38	(0)	(1,026)	(1,091)
Chg in working capital	684	(2,134)	262	70	2,766	170
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	2,588	(3,779)	15	3,971	6,986	5,003
Capital expenditure	(11,033)	(829)	(4,486)	(6,230)	(3,849)	(2,297)
Chg in investments	6,812	0	(405)	(206)	164	49
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(4,221)	(829)	(4,890)	(6,436)	(3,685)	(2,247)
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	3,450	725	3,861	649	(2,208)	(993)
Dividend (incl. tax)	-	-	-	-	-	-
Chg in minorities	-	-	(2)	(1)	-	-
Other financing activities	(1,365)	3,061	1,557	2,039	(1,197)	(527)
Cash flow from financing (c)	2,085	3,786	5,416	2,687	(3,405)	(1,520)
Net chg in cash (a+b+c)	452	(821)	541	222	(103)	1,235

Financial Ratios

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Book Value (Rs)	75.8	69.1	65.4	75.3	89.5	105.0
Adj EPS (Rs)	5.8	-6.2	-3.1	7.0	14.2	15.5
Adj EPS growth (%)	-	-	-	-323.6	102.3	9.3
EBITDA margin (%)	35.0	2.5	19.4	40.1	42.6	43.4
Pre-tax margin (%)	10.9	-85.7	-28.9	24.2	26.2	25.5
Net Debt/Equity (x)	1.0	1.2	1.5	1.4	1.0	0.8
ROCE (%)	7.5	-3.2	-0.5	8.0	11.1	12.3
ROE (%)	8.0	-8.6	-4.7	9.9	17.2	15.9

DuPont Analysis

Asset turnover (x)	0.3	0.1	0.1	0.2	0.3	0.3
Leverage factor (x)	2.5	2.7	3.1	3.3	2.9	2.5
Net margin (%)	12.2	-44.7	-12.6	12.7	19.6	19.1

Working Capital & Liquidity ratio

Inventory days	146	500	283	134	41	38
Receivable days	16	28	31	19	15	14
Payable days	61	109	77	81	68	63

Valuations

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
PER (x)	61.3	-	-	56.1	27.7	25.4
Price/Book value (x)	4.7	5.2	5.5	5.2	4.4	3.7
EV/Net sales (x)	9.0	31.6	18.4	9.0	6.7	5.8
EV/EBITDA (x)	25.9	1,279.1	95.1	22.4	15.8	13.4
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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