

# Chalet Hotels

## HOLD

Yet another best ever quarterly performance

### Summary

Chalet Hotels Ltd.'s (Chalet) Q3FY24 result was above our and consensus estimates on key parameters. Healthy improvement in operating metrics resulted in yet another best ever quarterly performance of the company. Apart from strong demand in domestic market, room for higher revenue contribution from foreign guests, incremental room inventory addition in a staggered way and growth of rental income from commercial space bodes well for the company's earnings in near term. However, after a sharp run up in the stock price, potential upside is capped from current level. We roll over to FY26E and downgrade the stock to HOLD (from buy) with a revised TP of Rs845 (earlier Rs659), assigning 30x EV/EBITDA on FY26E.

### Key Highlights and Investment Rationale

- Impressive growth in key operational metrics:** After a good show in H1FY24, Chalet's Q3FY24 earnings were commendable on all key parameters. Blended RevPAR was higher by 18% YoY to Rs7,838, aided by 8% increase in ADR at Rs10,974 over Q3FY23 and 600bps improvement in occupancy at 71%. Net sales was higher by 29% YoY to Rs3.7bn, while EBITDA was up by 46.3% YoY to 1.6bn. Adjusted net profit increased by 68.8% YoY to Rs0.7bn. We believe Q4FY24E to be equally promising given domestic demand is robust, driving RevPAR improvement for organized players including Chalet.
- Exciting journey to continue, HOLD with a TP of Rs845:** Chalet has been our preferred pick amongst the domestic hospitality space and the stock has performed extremely well since our initiating report. We remain positive on the company's growth journey ahead and we believe Chalet will outperform the industry growth rate, however, post run up in the stock price; potential upside is limited from current level. HOLD with a TP of Rs845.

<b>TP</b>	<b>Rs845</b>
<b>CMP</b>	<b>Rs762</b>
Potential upside/downside	11%
Previous Rating	BUY

Price Performance (%)			
	-1m	-3m	-12m
Absolute	15.1	33.6	110.2
Rel to Sensex	15.1	23.6	93.6

V/s Consensus			
<b>EPS (Rs)</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>
IDBI Capital	10.4	13.6	21.0
Consensus	13.5	19.3	23.7
% difference	(23.2)	(29.5)	(11.3)

Key Stock Data	
Bloomberg / Reuters	CHALET IN / CHAL.BO
Sector	Hotels
Shares o/s (mn)	205
Market cap. (Rs mn)	155,741
3-m daily avg Trd value (Rs mn)	9.6
52-week high / low	Rs795 / 346
Sensex / Nifty	71,060 / 21,454

Shareholding Pattern (%)	
Promoters	71.7
FII	3.1
DII	20.4
Public	4.8

### Financial snapshot

Year	FY22	FY23	FY24E	FY25E	FY26E
Revenue	5,078	11,285	13,307	15,456	18,172
Change (yoy, %)	78	122	18	16	18
EBITDA	985	4,528	5,495	6,580	8,303
Change (yoy, %)	1,295	360	21	20	26
EBITDA Margin (%)	19.4	40.1	41.3	42.6	45.7
Adj.PAT	(642)	1,435	2,356	2,879	4,432
EPS (Rs)	(3)	7	11	14.0	21.6
Change (yoy, %)	(49.7)	(323.6)	64.2	22	54
PE(x)	(239.7)	107.2	65.3	53.4	34.7
Dividend Yield (%)	-	-	-	-	-
EV/EBITDA (x)	177.0	38.6	31.2	25.6	19.7
RoE (%)	(4.7)	9.9	14.2	15.0	19.4
RoCE (%)	(0.5)	8.0	9	11.6	15.4

Source: IDBI Capital Research

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**Concall Highlights:**

- Consolidated revenue for Q3FY24 was reported at Rs3.8bn, up by 18% YoY.
- EBITDA reported as Rs1.7bn, up by 18% YoY, Margin at 45% while consolidated PAT stood at Rs706mn.
- ARR at INR 10,974, up by 8% YoY whereas same store ARR at INR 11,253, up by 11% YoY.
- RevPAR improved by 18% YoY to Rs7,838, while occupancy was at 71%, expansion of 6 percentage points YoY.
- For hospitality segment, Q3FY24 was recorded as the best third quarter with a robust 29% rise in revenue at Rs3.4bn.
- F&B segment has reported an increase of 27% YoY in revenue driven by MICE and increase in corporate travel.
- MMR region contributed 63% of Q3FY24's total revenue for hospitality segment.
- For 9MFY24, domestic travellers' rate has risen to 66%, complementing revenue from foreign travellers.
- Rental & Annuity Segment has 1.2 msf of leasable land with 67% occupancy and contributing revenue of Rs301mn in Q3FY24.
- Domestic demand in India is strong, and the company is able to pass on cost increases through pricing without impacting demand.
- Management believes there's headroom in occupancy growth contributed by MICE and stabilization of foreign corporate travel.
- Hotel inventory expansion at Marriott Bengaluru of 130 rooms and The Dukes Retreat, Lonavala of 70 rooms with completion date at Q4FY25 and Q3FY25 respectively.
- New hotel projects at The Taj, New Delhi Airport of 390 rooms has commenced and Hyatt Regency, Airoli, Mumbai of 280 rooms with project completion by FY26 and FY27 respectively.
- Cignus Bengaluru Tower II is nearing completion and will be ready for handover from Q4FY24.
- The handover at Cignus Powai Tower I, Westin Complex in Powai to begin from Q4FY24.

- Tower II at Cignus Powai will add another 0.8msf leasable area with completion by FY27.
- Anticipating the addition of approximately 870 rooms from announced development projects by FY27 with the management's target of reaching about 5,000 keys in the next three years.
- The leasable commercial office space pipeline is expected to reach 3.1 msf by FY27.
- The board also approved raising of funds up to Rs20bn through issue of equity shares or any other convertible instruments, subject to shareholders approval. The proceeds of the issue are intended to be utilized interalia towards paring down of debt, organic & inorganic growth, general corporate purposes and redemption of preference shares.
- Company's net debt stood at Rs24,054mn for Dec-23, with debt increase since FY19 mainly due to acquisitions and growth assets under construction targeting a 20% return.
- Out of the YTD capex spend of Rs3,000mn for FY24, Rs1500mn has been used in adding new inventory and hotels into the pipeline, which was largely funded through internal accruals.
- The company is looking at opportunities for inorganic growth through greenfield acquisitions of land parcels or ready hotels. With regions like Goa and Jaipur under consideration.

**Exhibit 1: Financial snapshot**

Particulars (Rs mn)	Q3FY24	Q2FY24	QoQ%	Q3FY23	YoY%
Total Revenue	3,737	3,145	18.8	2,897	29.0
Total Expenditure	2,077	1,886	10.1	1,763	17.8
EBITDA	1,660	1,260	31.8	1,135	46.3
<i>EBITDA Margin (%)</i>	44.4	40.0	438bps	39.2	525bps
Depreciation	353	350	1.0	281	25.6
Interest cost	482	501	-3.8	368	31.1
Other income	62	36	72.2	321	-80.6
PBT	887	445	99.4	806	10.0
Tax	180	80	124.4	388	-53.5
Adj. Net profit	706	364	93.9	419	68.8
Minority Interest & Exceptional Items	-	-	-	605	-100.0
Discontinued Operations	-	-	-	-	-
Reported Net Profit	706	364	93.9	1,024	-31.0
EPS (INR)	3.4	1.8	93.9	5.0	-31.0

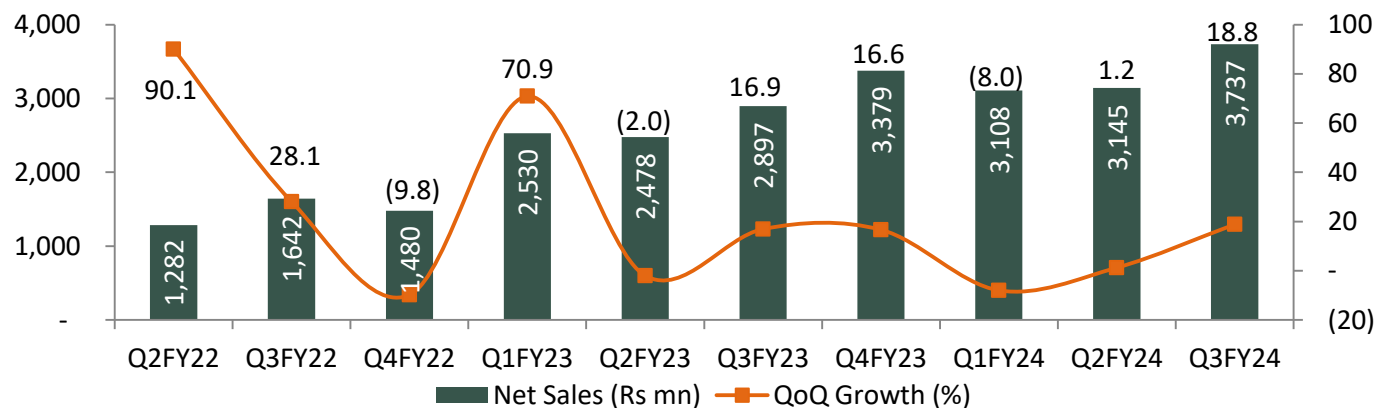
Source: Company; IDBI Capital Research

**Exhibit 2: Actual vs Estimates**

Particulars (Rs mn)	Q3FY24A	Q3FY24E	Variance (%)
Net Sales	3,737	3,667	2%
EBITDA	1,660	1,549	7%
<i>EBITDA Margin (%)</i>	44.4	42.2	218bps
Net Profit	706	553	28%
EPS (Rs)	3.4	2.7	28%

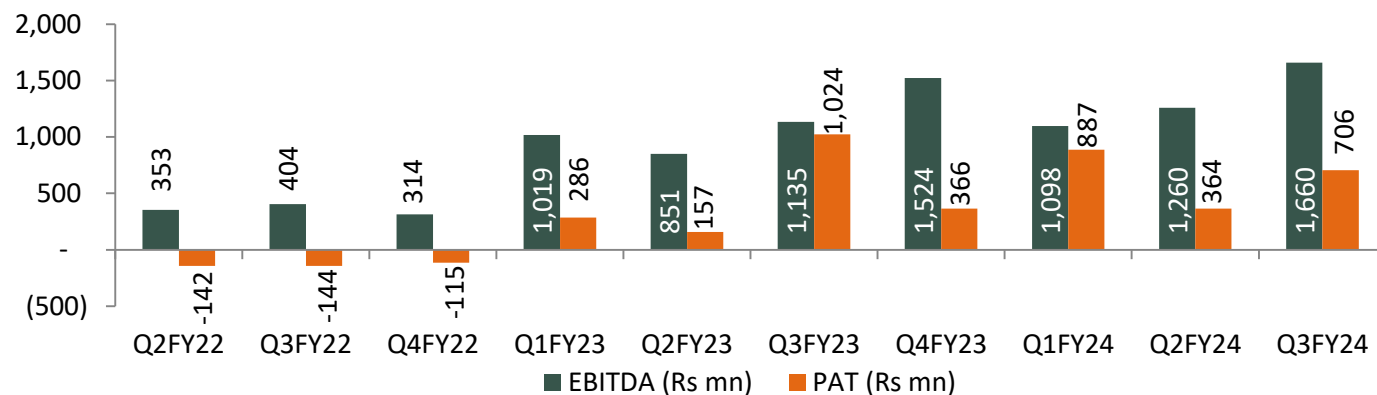
Source: Company; IDBI Capital Research

**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	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Net sales</b>	<b>2,856</b>	<b>5,078</b>	<b>11,285</b>	<b>13,307</b>	<b>15,456</b>	<b>18,172</b>
<i>Change (yoy, %)</i>	<i>(70.9)</i>	<i>78</i>	<i>122</i>	<i>18</i>	<i>16</i>	<i>18</i>
Operating expenses	(2,785)	(4,093)	(6,757)	(7,812)	(8,875)	(9,869)
<b>EBITDA</b>	<b>71</b>	<b>985</b>	<b>4,528</b>	<b>5,495</b>	<b>6,580</b>	<b>8,303</b>
<i>Change (yoy, %)</i>	<i>-97.9</i>	<i>1,295</i>	<i>360</i>	<i>21</i>	<i>20</i>	<i>26</i>
<i>Margin (%)</i>	<i>2.5</i>	<i>19.4</i>	<i>40.1</i>	<i>41.3</i>	<i>42.6</i>	<i>45.7</i>
Depreciation	(1,175)	(1,184)	(1,173)	(1,366)	(1,701)	(1,821)
<b>EBIT</b>	<b>(1,104)</b>	<b>(199)</b>	<b>3,355</b>	<b>4,129</b>	<b>4,880</b>	<b>6,482</b>
Interest paid	(1,520)	(1,444)	(1,545)	(1,525)	(1,576)	(1,103)
Other income	219	219	495	544	544	544
<b>Pre-tax profit</b>	<b>(2,446)</b>	<b>(1,469)</b>	<b>2,728</b>	<b>3,149</b>	<b>3,848</b>	<b>5,923</b>
Tax	1,092	720	(870)	(793)	(968)	(1,491)
<i>Effective tax rate (%)</i>	<i>44.6</i>	<i>49.0</i>	<i>31.9</i>	<i>25.2</i>	<i>25.2</i>	<i>25.2</i>
Minority Interest	0.5	(2.6)	-	-	-	-
<b>Net profit</b>	<b>(1,391)</b>	<b>(817)</b>	<b>1,858</b>	<b>2,356</b>	<b>2,879</b>	<b>4,432</b>
Exceptional items	(42)	(45)	423	-	-	-
<b>Adjusted net profit</b>	<b>(1,276)</b>	<b>(642)</b>	<b>1,435</b>	<b>2,356</b>	<b>2,879</b>	<b>4,432</b>
<i>Change (yoy, %)</i>	<i>(206.8)</i>	<i>(50)</i>	<i>(324)</i>	<i>64</i>	<i>22</i>	<i>54</i>
EPS	(6.2)	(3.1)	7.0	11.5	14.0	21.6
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	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Shareholders' funds</b>	<b>14,161</b>	<b>13,413</b>	<b>15,445</b>	<b>17,801</b>	<b>20,680</b>	<b>25,113</b>
Share capital	2,050	2,050	2,050	2,050	2,050	2,050
Reserves & surplus	12,110	11,362	13,395	15,751	18,630	23,062
<b>Total Debt</b>	<b>17,567</b>	<b>21,428</b>	<b>22,077</b>	<b>18,766</b>	<b>15,951</b>	<b>12,761</b>
Other liabilities	21,216	26,438	29,090	24,704	21,078	17,327
<b>Curr Liab &amp; prov</b>	<b>5,500</b>	<b>436</b>	<b>590</b>	<b>613</b>	<b>644</b>	<b>682</b>
Current liabilities	4,514	4,579	4,997	5,310	5,593	5,870
Provisions	985	933	191	197	205	213
<b>Total liabilities</b>	<b>25,731</b>	<b>31,017</b>	<b>34,087</b>	<b>30,014</b>	<b>26,671</b>	<b>23,197</b>
<b>Total equity &amp; liabilities</b>	<b>39,888</b>	<b>44,427</b>	<b>49,528</b>	<b>47,811</b>	<b>47,347</b>	<b>48,305</b>
	2,050	2,050	2,050	2,050	2,050	2,050
Net fixed assets	31,155	34,457	39,513	40,296	39,437	38,495
Investments	45	450	656	492	443	399
Other non-curr assets	2,797	3,099	2,315	2,484	2,644	2,794
<b>Current assets</b>	<b>5,891</b>	<b>6,422</b>	<b>7,044</b>	<b>4,539</b>	<b>4,822</b>	<b>6,618</b>
Inventories	3,912	3,935	4,129	1,652	1,734	1,821
Sundry Debtors	216	436	590	613	644	682
Cash and Bank	458	998	1,220	1,147	1,261	2,872
Loans and advances	439	-	-	-	-	-
<b>Total assets</b>	<b>39,888</b>	<b>44,427</b>	<b>49,528</b>	<b>47,811</b>	<b>47,347</b>	<b>48,305</b>

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	(2,446)	(1,469)	2,728	3,149	3,848	5,923
Depreciation	739	1,184	1,173	1,366	1,701	1,821
Tax paid	63	38	(0)	(860)	(1,001)	(1,447)
Chg in working capital	(2,134)	262	70	2,766	170	152
Other operating activities	-	-	-	-	-	-
<b>Cash flow from operations (a)</b>	<b>(3,779)</b>	<b>15</b>	<b>3,971</b>	<b>6,420</b>	<b>4,717</b>	<b>6,449</b>
Capital expenditure	(829)	(4,486)	(6,230)	(2,149)	(842)	(879)
Chg in investments	0	(405)	(206)	164	49	44
Other investing activities	-	-	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(829)</b>	<b>(4,890)</b>	<b>(6,436)</b>	<b>(1,985)</b>	<b>(793)</b>	<b>(834)</b>
Equity raised/(repaid)	-	-	0	-	-	-
Debt raised/(repaid)	725	3,861	649	(3,312)	(2,815)	(3,190)
Dividend (incl. tax)	-	-	-	-	-	-
Chg in minorities	-	(2)	(1)	-	-	-
Other financing activities	3,061	1,557	2,039	(1,197)	(527)	(486)
<b>Cash flow from financing (c)</b>	<b>3,786</b>	<b>5,416</b>	<b>2,687</b>	<b>(4,509)</b>	<b>(3,342)</b>	<b>(3,676)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(821)</b>	<b>541</b>	<b>222</b>	<b>(73)</b>	<b>583</b>	<b>1,939</b>



### Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Book Value (Rs)	69	65	75	87	101	122
Adj EPS (Rs)	-6.2	-3.1	7.0	11.5	14.0	21.6
Adj EPS growth (%)	-206.8	-49.7	-323.6	64.2	22.2	53.9
EBITDA margin (%)	2.5	19.4	40.1	41.3	42.6	45.7
Pre-tax margin (%)	-85.7	-28.9	24.2	23.7	24.9	32.6
Net Debt/Equity (x)	1.2	1.5	1.4	1.0	0.7	0.4
ROCE (%)	-3.2	-0.5	8.0	9.5	11.6	15.4
ROE (%)	-8.6	-4.7	9.9	14.2	15.0	19.4

### DuPont Analysis

Asset turnover (x)	0.1	0.1	0.2	0.3	0.3	0.4
Leverage factor (x)	2.7	3.1	3.3	2.9	2.5	2.1
Net margin (%)	-44.7	-12.6	12.7	17.7	18.6	24.4

### Working Capital & Liquidity ratio

Inventory days	500	283	134	45	41	37
Receivable days	28	31	19	17	15	14
Payable days	109	77	81	74	67	64

### Valuations

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
PER (x)	-122.5	-243.3	108.8	73.5	56.0	36.3
Price/Book value (x)	11.0	11.6	10.1	8.9	7.7	6.3
EV/Net sales (x)	60.7	34.8	15.7	12.6	10.6	8.8
EV/EBITDA (x)	2,454.9	179.4	39.1	33.4	25.9	20.0
Dividend Yield (%)	-	-	-	-	-	-

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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