

Chalet Hotels Ltd

Analyst Recommendation: BUY

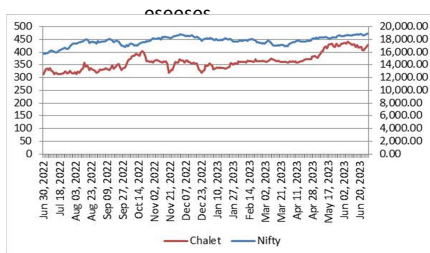
BSE Code: 542399

NSE:CHALET

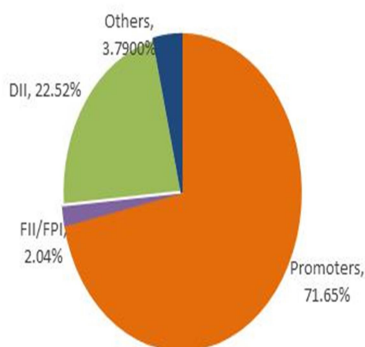
CMP: Rs 441
2 Year Target - Rs 516

Face Value	10.0
Market Cap (Rs cr)	9,041
Stock PE	57.6
Dividend Yield	0.00%
Shares O/S (Cr)	20.5
Book Value per Share (Rs)	75.3
Sensex	65205
Nifty	19,322

1 yr. Price Chart of Stock and BSE



Shareholding pattern as on 31st March 2023



Investor's Rationale

Asset owner with marquee assets in key geographies across India:

Part of the K Raheja Corp group, Chalet is an owner, developer, asset manager and operator of high-end hotels and a hotel led mixed-use developer in key metro cities in India such as Mumbai Metropolitan Region, Hyderabad, Bengaluru, and Pune. The Company's portfolio comprises nine fully operational hotels representing 2,802 keys (as of Jun'23), across mainstream and luxury segments, and commercial spaces, representing ~1.5msf in close proximity to the hospitality assets. Majority of the company's hotels are operated by international brands such as Marriott International and The Accor.

Riding the hotel industry upcycle through a strong expansion plan

Positioning itself to capture the expected hotel industry upcycle over FY23-28E, the company is undertaking an expansion plan where in it intends to take its operational hotel portfolio from 2,634 keys as of Mar'23 to 3,760 keys by FY26E of which 40% of the incremental room capacity expansion is on existing assets. Also, with an objective to de-risk the business considering cyclical nature of the hotel business, the company is undertaking an expansion of its rental portfolio and intends to take its operational rental area to 3.0msf by FY26E from 0.5msf as of Mar'23. This would entail a cumulative capex of Rs19-20bn over FY24-26E split evenly between hotels and office rental assets.

Valuation

We initiate coverage on the stock with a BUY recommendation and target price of Rs 516/share (valuing the company at 24x of its FY25E EPS implying upside of 17% from CMP).

	FY23	FY24E	FY25E	FY26E
Revenue (Rs.Cr)	1,128.50	1,396.10	1,739.90	1,912.80
EBITDA (Rs. cr)	452.80	635.20	858.30	964.60
Adj. profit (Rs.Cr)	185.80	275.70	441.50	513.20
EPS	9.1	13.4	21.5	25
P/E (x)	47.1	31.8	19.8	17.1
EV/Sales (x)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	24.7	17.9	13.3	11.7
ROE (%)	12.90%	16.40%	21.60%	20.40%
ROCE (%)	9.20%	11.70%	15.00%	15.50%

Cost-cutting initiatives have borne fruit

In line with initiatives taken by industry peers during Covid to re-evaluate cost structures, Chalet Hotels has also undertaken various cost-optimisation strategies such as a) negotiating for a lower minimum demand of electricity load at all locations (to reduce fixed charges), b) re-negotiating service contracts for internet & satellite, c) improving employee productivity & rationalizing cost to a large extent (staff to room ratio including contractual employees has declined from 1.18x in Dec'19 to 0.93x in Mar'23), d) centralizing finance functions for hotels managed by the Marriott Group. While this led to 33% reduction in fixed costs and 42% reduction in variable costs in FY22 as compared to FY20, the full benefits of these cost reduction initiatives are visible in FY23 with a noticeable decline in payroll and utilities (power) cost as a percentage of revenue.

Easing Riding the hotel industry upcycle through a strong expansion plan

According to the India Hospitality Industry Overview 2022 by HVS Anarock, industry level occupancies which recovered to 60% in CY22 are estimated to reach 66% in CY23, 68% in CY24 and 70% in CY25. At the same time, industry ARR which stood at Rs6,100 in CY22 is estimated to reach Rs7,106 in CY23, Rs7,639 in CY24 and Rs7,983 in CY25. In RevPAR terms, this implies that compared to CY22 industry RevPAR of Rs3,600, RevPAR may rise to Rs4,690 in CY23, Rs5,194 in CY24 and Rs5,588 in CY25 or a 15.8% CAGR in industry RevPAR over CY22-25. As per various industry estimates, with incremental room supply CAGR expected to range between 5-6% over CY22-26, the medium-term demand supply dynamics remain healthy for the Indian hotel sector.

While the company's peers are focusing largely on expansion through the asset-light management contract route (75-80% of incremental room portfolio), Chalet has chosen to undertake an expansion plan where in it intends to take its operational hotel portfolio from 2,634 keys as of Mar'23 to 3,760 keys by FY26, of which 40% of the incremental room capacity expansion is on existing assets. Including refurbishment capex, we estimate that the company would incur capex of Rs9-10bn over FY24-26E to fund its expansion plans.

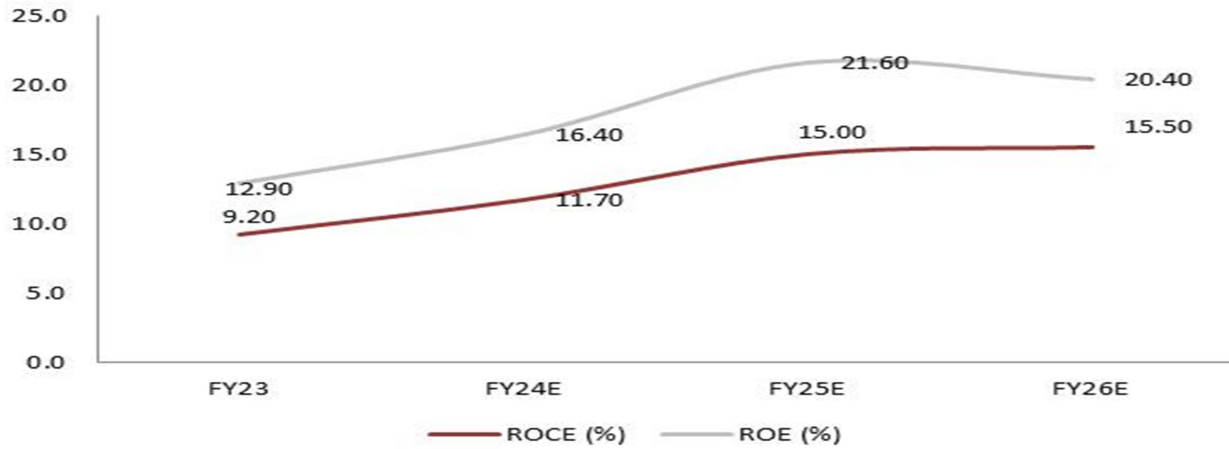
De-risking cash flows through annuity asset expansion

While we are of the view that the hotel industry is set for a sustained upcycle over FY23- 27E, given the cyclical nature of the hotel industry, we believe that the company's strategy of utilising its existing land bank to build rent-yielding office assets will be beneficial in the long run. Similar to its capex requirement of Rs9-10bn over FY24-26E for its hotel expansion plans, the company will require ~Rs9-10bn of capex to take its operational office portfolio from 0.5msf as of Mar'23 to 3.0msf by FY26E.

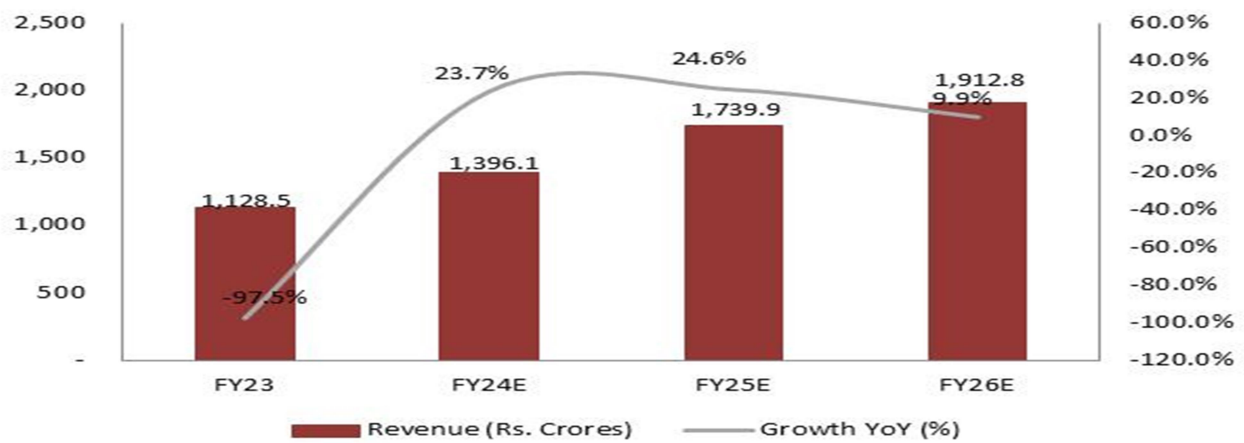
Bengaluru commercial complex: The first tower in the complex has a leasable area of 0.65msf and has received the Occupation Certificate (OC) and the handover has been given to a tenant in Q1FY24 (0.15msf with option of taking additional space) and the company is targeting to lease out ~85% of the space by Mar'24. Expected rentals are in the range of Rs60-62/psf/month. The second tower of 0.3msf (erstwhile Inorbit Mall) is also ready and will be handed over to tenants in either Q2FY24 or Q3FY24 upon receipt of the OC

Powai commercial complex: While both towers located in the Westin complex at Powai, Mumbai, the first tower in the complex has a leasable area of 0.78msf and is ready with the OC expected in Q2FY24 and rentals may start from Q4FY24 as the company looks to lease the space over the next six months with rentals ranging around Rs120+/psf/month. The second tower of 0.75msf is expected to see construction start in Q2FY24 and be completed over a period of 33 months (sometime in FY26E) at an estimated capex of Rs7bn.

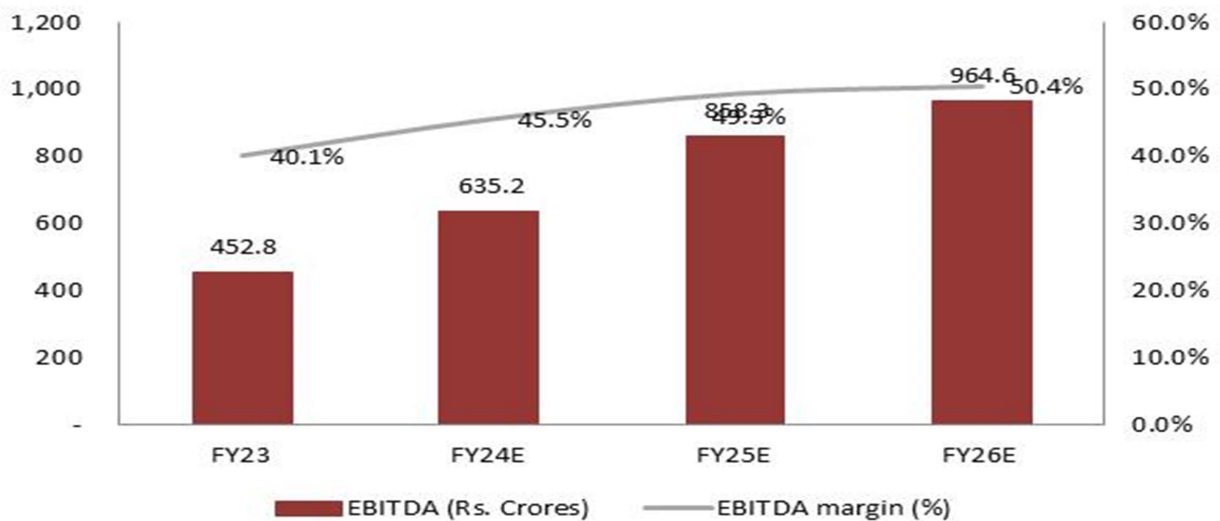
Return ratios on growth track



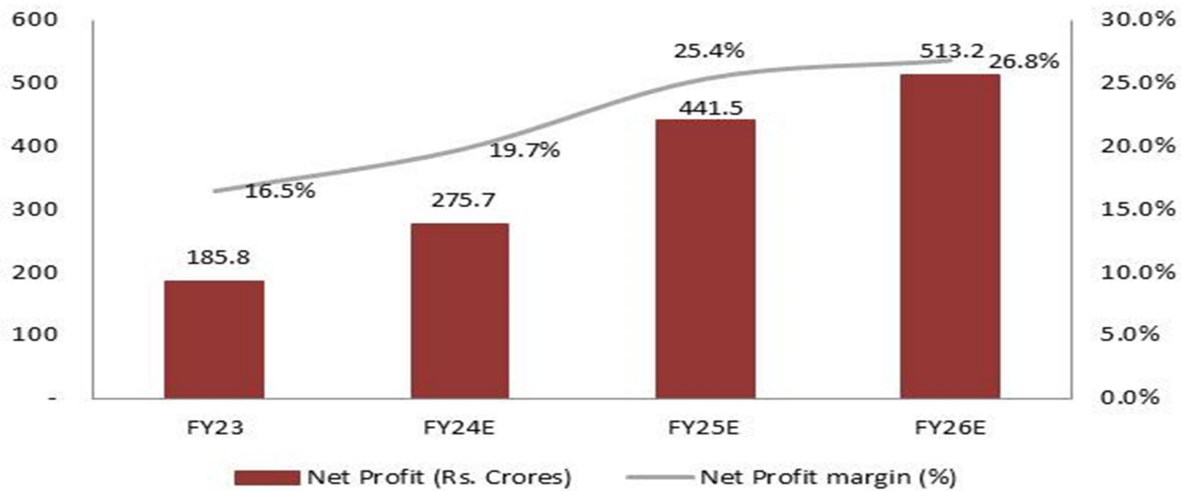
Revenue growth to be steady



EBITDA to grow going ahead



Net profit to surge going ahead



Outlook and Valuation

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Chalet - Company Overview

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- JW Marriott Mumbai Sahar (588 keys)
- The Westin Mumbai Powai Lake (600 keys)
- Lakeside Chalet Marriott Executive Apartments (173 keys)
- Four Points by Sheraton Navi Mumbai (152 keys)
- The Westin Hyderabad Mindspace (427 keys)
- The Westin Hyderabad Hitec City (168 keys)
- Bengaluru Marriott Hotel Whitefield (391 keys)
- Novotel Pune Nagar Road (223 keys)
- The Dukes Retreat (80 keys)



Balance sheet (Consolidated)

(Rs crore)	FY23	FY24E	FY25E	FY26E
Liabilities				
Paid up capital	205	205	205	205
Reserves and Surplus	1339	1615	2056	2569
Net worth	1544	1820	2261	2774
Minority interest	0	0	0	0
Total Debt	2794	2994	2919	2844
Other non- current liabilities	-77	-77	-77	-77
Total Liabilities	4261	4736	5103	5541
Assets	0	0	0	0
Total fixed assets	3860	3923	3786	3633
Capital WIP	98	462	1095	1665
Investments	61	61	62	62
Net Current assets	242	290	159	180
Deferred tax assets (Net)	-	-	-	-
Other non- current assets	-	-	-	-
Total Assets	4261	4736	5103	5541

Equity Research

Profit & Loss Account (Consolidated)

(Rs crore)	FY23	FY24E	FY25E	FY26E
Total operating Income	1129	1396	1740	1913
Operating Expenses	676	761	882	948
EBITDA	453	635	858	965
Depreciation	117	128	136	153
EBIT	336	508	722	811
Interest cost	155	180	175	171
Other Income	92	40	42	44
Profit before tax	273	368	589	684
Tax	87	92	147	171
Profit after tax	186	276	442	513
Minority Interests	-	-	-	-
P/L from Associates	-	-	-	-
Adjusted PAT	186	276	442	513



Cash Flow (Consolidated)

Y.E March (Rs crore)	FY23	FY24E	FY25E	FY26E
Pretax profit	273	367	589	684
Depreciation	117	128	136	153
Chg in Working Capital	-4	-25	25	40
Others	-67	0	0	0
Tax paid	3	-92	-147	-171
Cash flow from operating activities	477	558	778	877
Capital expenditure	-584	-555	-633	-570
Chg in investments	0	0	0	0
Other investing cashflow	-8	-1	-1	-1
Cash flow from investing activities	-592	-555	-634	-571
Borrowings	264	200	-75	-75
Others	-138	-180	-175	-171
Cash flow from financing activities	126	20	-250	-246
Net chg in cash	11	23	-106	61

Equity Research

Key Ratios & Valuations (Consolidated)

Y.E March (Rs crore)	FY23	FY24E	FY25E	FY26E
Growth (%)				
Net Sales	122.2%	23.7%	24.6%	9.9%
EBITDA	359.8%	40.3%	35.1%	12.4%
Net profit	-348.0%	48.3%	60.2%	16.3%
Margin (%)				
EBITDA	40.1%	45.5%	49.3%	50.4%
NPM	16.5%	19.7%	25.4%	26.8%
Return Ratios (%)				
RoE	12.9%	16.4%	21.6%	20.4%
RoCE	9.2%	11.7%	15.0%	15.5%
Valuation(x)				
P/E	47.1	31.8	19.8	17.1
EV/EBITDA	24.7	17.9	13.3	11.7
Per Share Data				
EPS	9.1	13.4	21.5	25



Equity Research

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Between 10% & -5%	Accumulate*	Upside between 10% & 15%
Reduce	Less than -5%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

** To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.*



Member: BSE, NSE, MCX, MCX-SX, CDSL

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