JM FINANCIAL

Hotels

Hitting Top Gear

Favourable demand outlook | **Sector-wide focus on operational efficiencies** | **Balance sheets in good shape**

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Three reasons why you should read this report:

1. **Industry Cycles:** We have done an analysis of the industry specific cyclical trends over the last 25 years to identify what triggered the change in trends and how can we use them to forecast the operating environment for the next 2-3 years. We have also identified the events preceding an industry downturn, which investors can track to time their exits.

2. **Dichotomy of Asset Heavy vs. Asset Light:** We have covered the unit economics of the industry from the perspective of both, the asset owners and the brand owners. We explain the mechanics of a simple management contract and how it contributes to the bottom line of the brand owner. In the same case study, we demonstrate that though the fee business provides stability it needs to grow at much faster speed to significantly add to the profits.

3. **Not an easy business to succeed**: We have tried to estimate the entry ROCE for hotels operating in each segment. In the initial years, the ROCE tend to range between 9-10%. As the hotel stabilizes, with the improvement in occupancies, ARRs and margins, the returns improve to the 12% - 15% range. We have demonstrated all of these return profiles with suitable examples. Cyclical behavior plus the difficult operating environment make it one of the most challenging industries to succeed and are substantial entry barriers.

Hitting Top Gear

After a strong FY23, the outlook for the hospitality sector remains positive as demand trajectory continues to inch upwards on the back of buoyant domestic demand, revival of inbound tourism, and future events, namely, the G-20 summit and the ICC Cricket World Cup. On the other hand, the supply of rooms will be playing catch-up, and this augurs well for the incumbents. As per various industry estimates, room supply growth is expected to be 5-6% for FY23-FY27E; alternatively, hotel room demand is expected to grow at 8-10%. We build in higher occupancy levels and 8-10% ARR growth, arriving at an estimated Revenue/EBITDA CAGR for our coverage universe at 12.5%-21.2%/15.9%-30.9% over FY23-26E. Most of the hospitality brands (including brand owners in our coverage universe: IH and Lemon Tree) have been careful about portfolio expansion, and have built an asset-light development pipeline. Consequently, with a much leaner balance sheet, they still have adequate headroom to grow. As properties tend towards optimum occupancy levels, operating leverage combined with cost rationalisation efforts undertaken during the Covid-19 period should positively impact the bottom line, leading to substantial free cash flows (FCF). We expect Net Debt/EBITDA for our coverage universe to decline from 1.2x in FY23 to net cash positive in FY26E. Valuations are at 18.0–22.0x Sep'25 EV/EBITDA and reasonable given the favourable demand outlook and other tailwinds in the sector. We initiate coverage on the Hotels sector with a positive outlook. Preferred picks: Chalet and Lemon Tree.

Strong revival in domestic tourism; trajectory expected to sustain, going forward

Domestic travel has demonstrated a sustainable uptrend post the Covid-19 pandemic. Monthly air traffic has already exceeded pre-pandemic levels and YTD air traffic has grown 31%, indicating sustained momentum in FY24 also. Upcoming airports and planned expansion of existing large airports, e.g., Hyderabad, Bengaluru, Delhi, Pune, etc. is likely to further increase passenger volume. Domestic tourist arrivals in CY22 were at ~75% of the pre-Covid levels, but the strong air traffic data implies that CY23 domestic tourist arrivals should at least match CY19 levels. Business travel and inbound tourism are still below Covid-19 levels; any recovery should push growth further.

Demand-supply gap to widen; limited upcoming supply with 72% of the pipeline under active development

As per various industry estimates, branded room supply is expected to grow by 5-6% in FY23-FY27E. In comparison, hotel room demand is expected to grow at 8-10% (9.7% as per Lemon Tree Q4FY23 IP). Development cost per key ranges from INR 4mn to INR 20mn depending on the hotel category and it takes 30-42 months to complete construction. A considerable portion of the planned supply was shelved as capital expenditures were cut during the Covid-19 period. It is estimated that ~72% of the planned supply is being actively developed and will be completed on time. Consequently, this imbalance will not be corrected in the near term.

Portfolio growth largely through the asset-light route; balance sheets in good shape

Most of the hospitality brands (including brand owners in our coverage universe: IH and Lemon Tree) have been careful about portfolio expansion, and have built a pipeline heavily inclined towards asset-light additions. Consequently, with a much leaner balance sheet, they still have adequate headroom to grow. IHCL has a pipeline of ~9,900 rooms, of which ~74% is through the asset-light route. Lemon Tree has a pipeline of 3,285 rooms, of which ~78% is being pursued through the managed or franchised model. We see this trend continuing in the near to medium term with industry portfolios largely aligning towards a 50:50 mix of owned/leased and asset-light cohorts.

Deleveraging will allow headroom for future expansion; expect opportunistic buyouts or greenfield expansion

As properties tend towards optimum occupancy levels, operating leverage should positively impact the bottom line, leading to substantial free cash flows. We expect Net Debt/EBITDA for our coverage universe to decline from 1.2x in FY23 to net cash positive in FY26E. Some alternative routes for monetisation like REIT listing of the hotel Prop Cos are also being evaluated. We expect companies to deploy the liquidity generated in further growth. With adequate headroom to raise and deploy more capital, we should expect opportunistic buyouts (both brownfield expansion and portfolio acquisitions) along with greenfield expansion across geographies and business segments.

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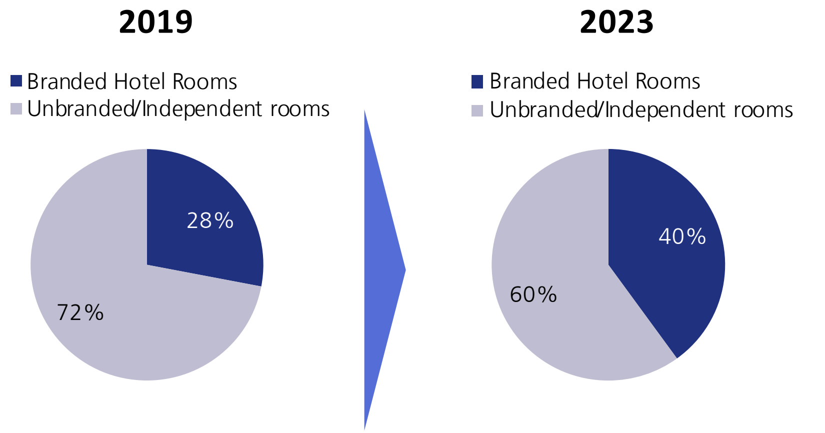
Brand penetration still lags RoW, midscale segment has ample headroom for growth

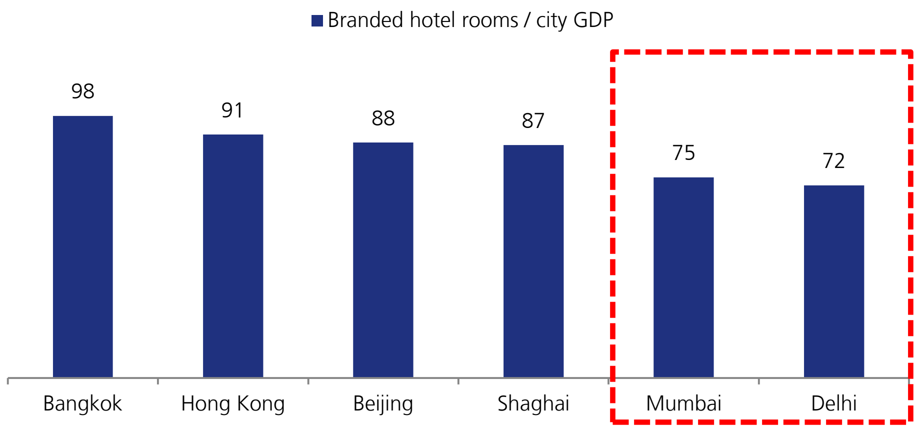
- India currently has over 375,000 keys including branded hotels, independently run hotels and aggregators. Of this, the branded inventory is ~150,000 keys, which implies ~40% brand penetration. Over the last 5 years, the branded segment has outgrown all other segments and penetration has consistently inched upwards, from ~28% in 2018 to ~40% in 2022 (Source: Hotelivate, JMFe). Despite this, brand penetration lags that in developed economies such as Japan, Australia and Singapore, and other mid-income countries like China (Exhibit 2).

Exhibit 1. India still remains a fragmented accommodation market



Source: JLL Report, JM Financial

Exhibit 2. Brand penetration comparison of India vs. key APAC markets

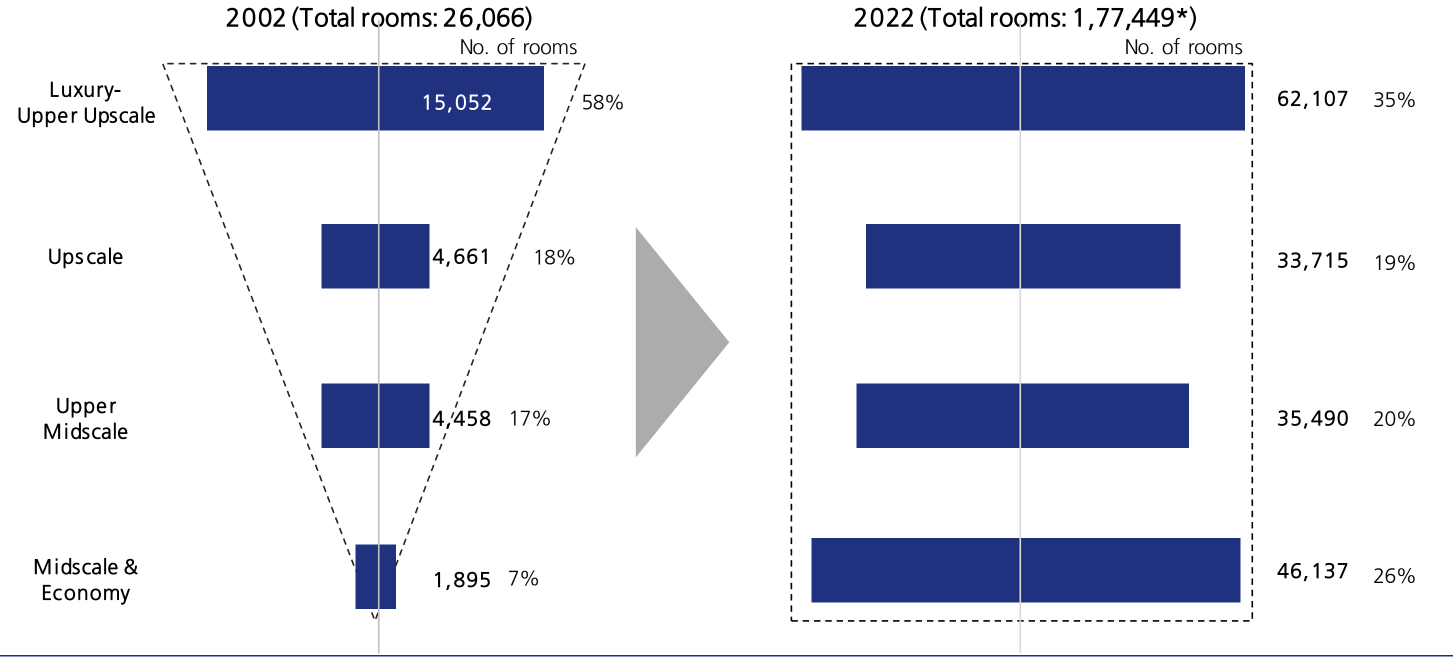


Source: BCG Report, JM Financial

- In 2002, 58% of India's branded hotel rooms were in the luxury/upper upscale segment vs. only 7% in midscale and economy (Exhibit 3). The share of the non-luxury segments has improved from 42% in 2002 to 65% in 2022, correcting the pyramid. However, the luxury and upper upscale segment still saw the highest number of room additions over 2002-2022 (31% of incremental addition).

- We believe **mid to upper midscale inventory is still inadequate** considering India's large and prospering middle class, as in an ideal scenario the pyramid should have been bottom-heavy. One of the reasons for this anomaly is that the economy/budget customer is largely being served by the unbranded/non-chain affiliated hotels.

Exhibit 3. India's key inventory: Inverted pyramid to hour-glass



Source: Hotelivate, JM Financial

Exhibit 4. Branded room supply to reach 195,596 by FY27E

Particulars	2021/22	Proposed Supply	Active Development of Supply	2026/27	Luxury	Upscale	Upper Midmarket	Midmarket	Budget
Agra	2,209	495	85%	2,630	0%	34%	0%	35%	31%
Ahmedabad	3,586	1,380	93%	4,869	21%	25%	0%	14%	40%
Amritsar	1,736	1165	82%	2,691	0%	23%	27%	21%	29%
Bengaluru	14,022	6,802	67%	18,579	5%	30%	24%	27%	13%
Chandigarh	2,676	316	100%	2,992	0%	0%	46%	0%	54%
Chennai	9,763	841	29%	10,007	0%	58%	12%	5%	25%
Dehradun	624	1016	78%	1,416	0%	46%	32%	0%	23%
Goa	8,244	2,810	79%	10,464	8%	11%	36%	30%	16%
Gurugram	6,151	2323	80%	8,009	0%	40%	23%	31%	7%
Hyderabad	7,450	2,979	11%	7,778	5%	6%	24%	65%	0%
Jaipur	5,478	3268	62%	7,504	14%	59%	12%	9%	6%
Kochi	2,585	302	67%	2,787	0%	44%	0%	0%	56%
Kolkata	4,878	853	65%	5,432	0%	42%	1%	32%	24%
Lucknow	1,884	1,300	100%	3,184	0%	34%	22%	23%	21%
Mumbai	13,217	5409	87%	17,923	28%	16%	21%	11%	24%
Navi Mumbai	1,395	642	78%	1,896	0%	65%	0%	35%	0%
New Delhi	15,082	1852	86%	16,675	10%	55%	19%	7%	10%
NOIDA	1,569	1,268	66%	2,406	0%	21%	25%	23%	32%
Pune	6,689	506	60%	6,993	1%	99%	0%	0%	0%
Udaipur	1,953	1,065	94%	2,954	12%	37%	18%	15%	18%
Other Cities	41,754	22646	73%	58,286	2%	21%	30%	34%	13%
Total Room Supply - Branded Hotels	**152,945**	**59,238**	**72%**	**195,596**	**6%**	**28%**	**24%**	**27%**	**15%**

Source: Hotelivate, JM Financial

- The popularity of mid-market or midscale hotels in India has grown in recent times due to growth of domestic tourism, changing lifestyles, increasing affinity towards competitively priced branded hotels and expansion of business activity to Tier 2 & 3 cities. New age hotel aggregators also recognised and leveraged the opportunity by attempting to consolidate the unbranded midscale hotels under their brands and were partially successful in their endeavour.

- As per Hotelivate, the majority (51%) of the upcoming supply during FY22-FY27E is in the upper midscale and midscale segment. This pattern of supply growth should further correct the hour-glass structure towards a normal bottom-heavy pyramid.
- Demand for this mid-priced segment is the strongest, as domestic travellers (the strongest growing tourist cohort) are value seekers and are moving increasingly towards the chain-affiliated mid-priced rooms rather than staying in independent/unbranded hotels.

Industry faces both cyclicality and seasonality

- The hotel sector is susceptible to external shocks – terror attack, adverse weather events and large scale outbreaks of infectious diseases. As with all other industries, it transverses through peaks and troughs of a business cycle (largely due to demand-supply inequilibrium) but earnings fluctuate significantly in these cycles due to high operating leverage. Depending on the market segments they serve, the fixed cost for hotels ranges between 50% and 60% (also includes fixed component of employee cost).

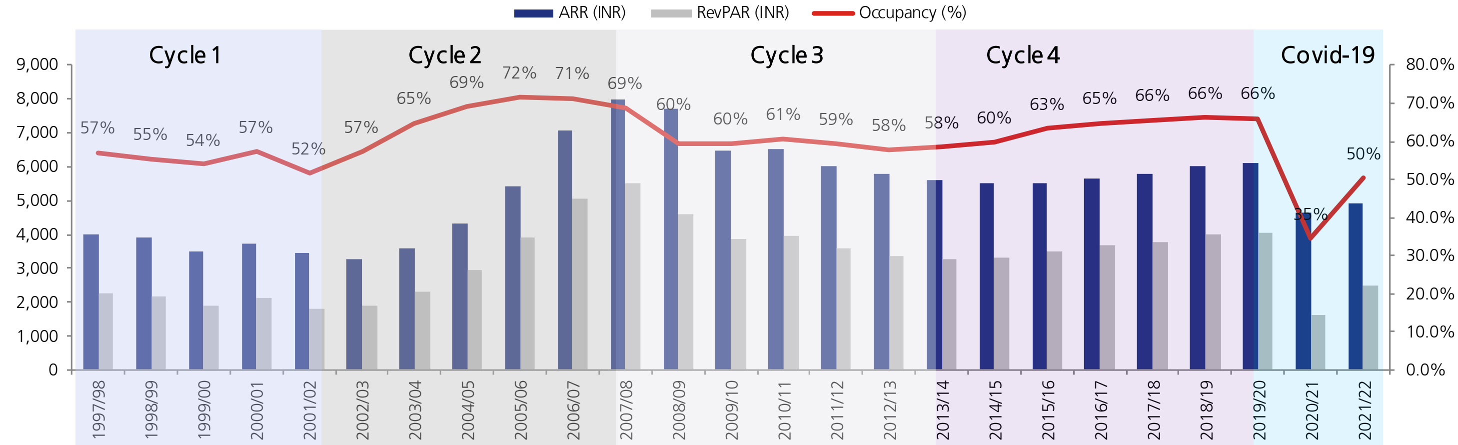
Exhibit 5. Demand & supply imbalance impacts pricing power

CAGR (%)	Cycle 1 FY98-02	Cycle 2 FY03-08	Cycle 3 FY09-14	Cycle 4 FY15-20	COVID-19 FY21-22	Estimates FY23-27E
Room Supply	6%	**8%**	14%	5%	5%	**5%**
Room Demand	5%	**13%**	12%	7%	3%	**10%**
Occupancy (% points change)	-5%	**17%**	-10%	8%	-16%	**~8%**
Average Occupancy	55%	65%	61%	63%	50%	**67%**
ARR	-3%	**15%**	-6%	1%	-10%	**~10%**
RevPAR	-6%	**21%**	-8%	4%	-22%	**~19%**
Inference	S>D	S<D	S>D	S<D	None	S<D
Impact	Occ↓;ARR↓	Occ↑;ARR↑	Occ↓;ARR↓	Occ↑;ARR↑	None	Occ↑;ARR↑

Source: Hotelivate, Lemon Tree 4QFY23 IP, JM Financial
Note: Room supply and demand growth have been calculated on certain approximations

- The period FY03-FY08 was probably the best one for India's hotel industry, led by a buoyant economic environment. On the back of growth in the services sector, domestic travel (both corporate and retail) outgrew growth in supply. A substantial amount of supply was planned during this period, with a large part of the inventory in the midscale/economy segment (due to the inverted pyramid, as per Exhibit 3).
- As the Global Financial Crisis (GFC) unfolded in FY08-FY09, the economy went into a recession and there was a sudden collapse in demand. As the planned inventory (in the previous cycle) got completed over the next 3-4 years, accompanied by modest growth in demand, occupancies dropped and, consequently, ARRs followed suit. The high growth period of FY03-FY08 was followed by a weak period from FY09 to FY14.
- During FY15 to FY20, the demand-supply imbalance corrected in favour of the industry, but that was followed by the Covid-19 outbreak and the consequent lockdowns over FY20-FY22.
- As per industry estimates, room supply growth will be subdued in the next 3 years. A considerable portion of the planned supply was shelved because hotel operators rationalised their capital expenditures during the Covid-19 period. On the other hand, domestic tourist demand recovered sharply post Covid-19, initially due to revenge consumption but that later translated into secular growth and is expected to match pre-Covid levels in CY23.
- The strong growth in the domestic segment and a relatively slower recovery in the business and inbound foreign tourism should continue further going into FY25E and FY26E. Consequently, hotel room demand is expected to grow at 9.7% CAGR in the CY23-CY27E period (Source: Lemon Tree IP, Q4FY23).
- We expect pan-India occupancy levels to move up to the peak occupancies of 72% - 75%, followed by ARR growth of 10% in the FY23-FY27E period. (Exhibit 5)

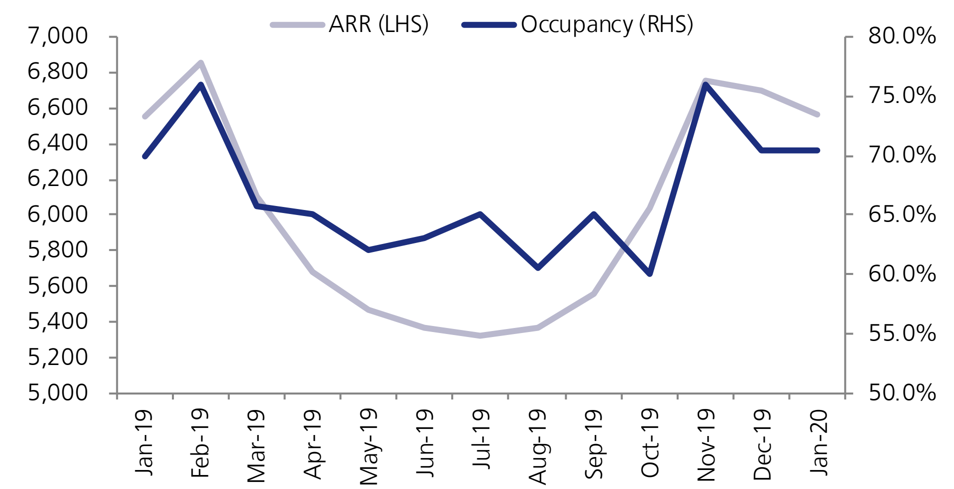
Exhibit 6. India: Long-term performance of the hotel sector



Source: Hotelivate, JM Financial

- Seasonality is a crucial factor that significantly affects the revenue of hotels. Hotels are exposed to recurring patterns of high and low demand over the year. Demand fluctuates due to various factors such as weather patterns, holidays and travel patterns. In India, 3Q (Sep-Dec quarter) is generally the best period followed by 4Q, 1Q and 2Q (in descending order). Hotels with a diversified portfolio – business vs. leisure, city centres vs. getaway, geographic diversification – can effectively mitigate the effects of seasonality.

Exhibit 7. Seasonality: Monthly ARRs & occupancies in CY19



Source: HVS Anarock, JM Financial

Events preceeding an industry downcycle

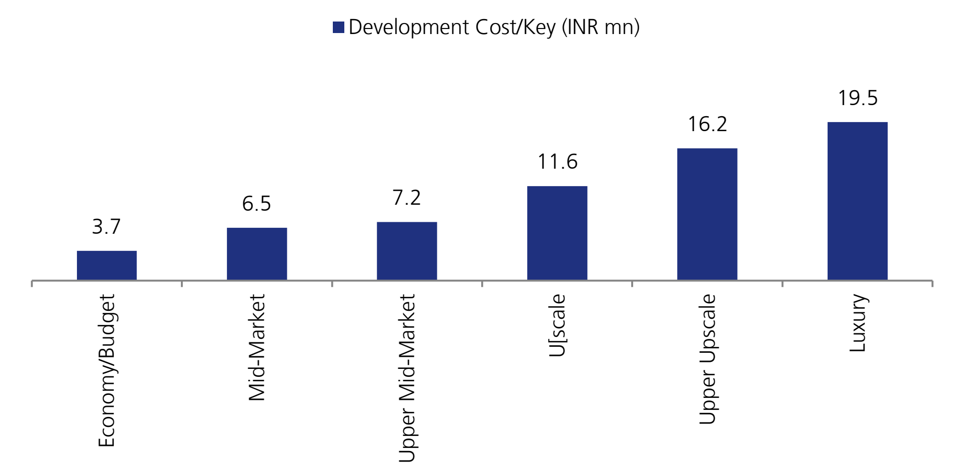
- **Timing:** Analysis of the past trends in the last 2 decades shows us that expansion phase (L-H) takes around 3 years and then the contraction happens in the next 2 years. Such cycles are largely linked to the development time of properties as supply catches up to demand in approximately 3 years.
- **Steady deterioration in operating environment:** As occupancies reach peak levels of 72%-75%, the average room rates (ARR) also start moving upwards with a lag of 3-6 months. As hotels operate with significant operating leverage, the marginal revenues flow directly to the bottom-line. Return metrics suddenly turn favourable for new hotel investments and pipeline increases rapidly. Peak occupancies generally last for 2 years before new supply comes in the market, and takes some time to get absorbed. Any downtrend in occupancies and ARRs need to be closely tracked to determine change of trend.

- **Other macro indicators:** There is a strong correlation between real GDP growth rate and the growth in demand for hotel rooms. Based on various estimates, the GDP multiplier is estimated to be in the range of 1.2x – 1.4x. Growth or de-growth in macroeconomic parameters like Private Final Consumption Expenditure (PCFE) and Per Capita Income also affect the consumer sentiments and hence affect domestic tourism demand. Variables like inflation and interest rates have a negative relationship with discretionary consumption, which includes hotel room demand as well. Any deterioration in the broader macro-economic environment will correspond to a similar effect on the hotel industry.

Hotels: Development involves substantial cost and time

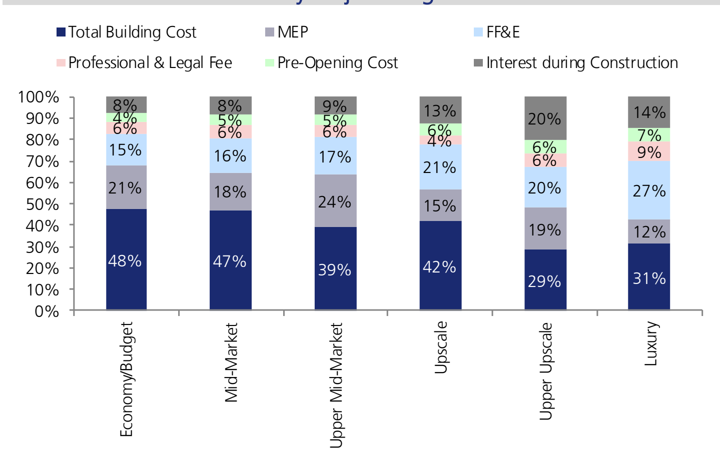
- The average development cost per key depends largely on the positioning of the hotel property - luxury, upscale or economy. The overall cost of development is equally split between cost of structure and amenities – MEP & FFE (Exhibit 9). The development cost per key can be ~INR 17-20mn for a luxury property and ~INR 4-7mn for a midscale/budget hotel (Source: Hotelivate). As with any real estate development, the average time to completion is ~36-42 months (Exhibit 10).
- The average time to complete the cold shell structure is 12-15 months and the fitment, last mile finishing of rooms and provision of amenities takes ~18-24 months.

Exhibit 8. Development cost per key



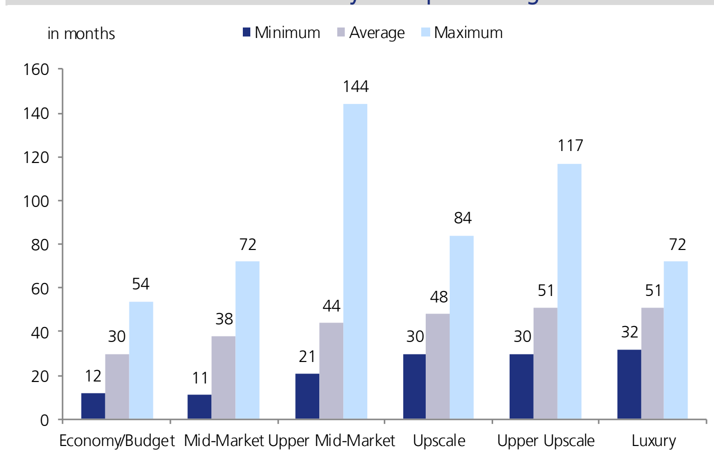
Source: Hotelviate 2021 report, JM Financial

Exhibit 9. Cost breakdown by major categories



Source: Hotelivate, JM Financial

Exhibit 10. Construction tenure by hotel positioning

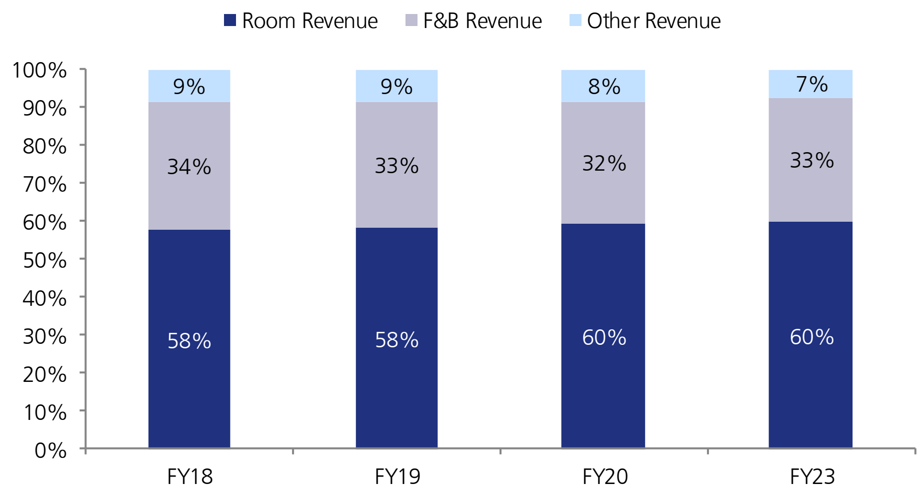


Source: Hotelivate, JM Financial

Operating leverage: A double-edged sword

- Typically, ~50% of aggregate hotel revenue comes from room rentals. Food and Beverages (F&B) contribute 40-45% and remaining 5-10% comes from other services like spa, in-property retail, laundry and transport services. The chart (Exhibit 11) below shows the revenue distribution of Chalet Hotels from FY18-FY20 and FY23 (we have left out the years impacted by Covid-19).

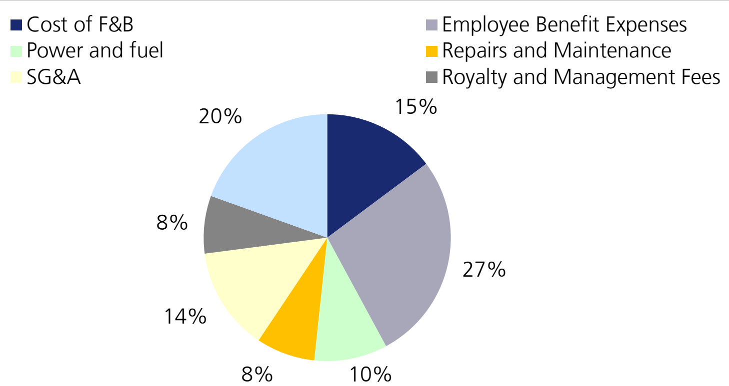
Exhibit 11. Revenue breakup



Source: Chalet Hotels, JM Financial

- Hotels have a high degree of operating leverage due to a relatively high level of fixed costs and conversely, a relatively low level of variable costs (Exhibit 12). When a hotel is below the break-even point, it can run into severe losses for an extended period due to the fixed costs. On the other hand, marginal profitability of selling each additional room after crossing the break-even point is remarkably high and flows through to the bottom line.

Exhibit 12. Cost drilldown



Source: Chalet Hotels, JM Financial

Difficult operating and regulatory environment

Despite considerable improvements in the recent past, the current regulatory environment makes it a difficult terrain for hotel owners. Land acquisition is challenging as laws differ from state to state and may run into delays due to administrative bottlenecks. There are numerous licences and approvals (up to 40+ in some states) that are needed to open/operate a hotel in India, leading to loss of time, effort and money. Growth in hotel room demand due to higher economic activity or any change in consumer preferences cannot be immediately matched with new supply. Supply catches up with demand with a lag of 30-36 months, factoring in the development timelines. A few of the important approvals and licences needed are summarised below:

- **Trade licence from municipal authorities:** Trade licences are required from the municipal authorities of areas where the hotels and retail properties are located, and where local laws require such trade licences to be obtained.
- **FSSAI Registration:** Hotels are required to obtain registration from the FSSAI, under the Food Safety and Standards Act, 2006 read together with the Food Safety and Standard (Licensing and Registration of Food Business) Regulations, 2011, for sale, storage or distribution of food products.
- **Shops and establishments registrations:** Mandatory registration is required under the respective shops and establishment acts of the states, wherever enacted or in force. The terms of registration, renewal procedure and requirement may differ under the respective state legislations.
- **Liquor licence under excise laws:** Any person selling alcohol, of various types and form, is required to obtain an appropriate licence under the state legislation. Such a licence is issued and classified based upon the nature and type of the alcohol. The categories of alcohol licences may include Indian made foreign liquor, foreign liquor, country liquor, beer and wine, or a combination thereof. In states where the company serves liquor at the owned or leased hotels, it is required to obtain a licence to serve liquor under the respective legislation of the state.
- **Star classifications and reclassifications for hotels:** Hotels have to apply for star classifications with the Hotels and Restaurants Approval and Classification Committee, Ministry of Tourism, Government of India. These star classifications are awarded to the hotels for a period of 5 years.
- **Licensing and controlling of places of public entertainment:** Hotel companies need to obtain licences to conduct live public entertainment activities on the hotel premises, under local rules for licensing and controlling of places of public entertainment. These licences are issued by the commissioner of police and subject to periodic renewals.
- **Environment-related approvals:** Various environment-related approvals and consents to operate under the Environment Protection Act, Air Act, Water Act, the EIA Notification and authorisation for collection, storage and disposal of hazardous waste under the Hazardous Waste Rules,
- **No objection certificates (NOC) from police and fire department:** Hotels are required to obtain an NOC from the relevant police and fire department, as applicable in the concerned jurisdictions of the hotels, to continue operations at the owned and leased properties.
- **NOC from the Airport Authority of India:** During construction, it is important to obtain an NOC from the Airport Authority of India, if applicable, which prohibits construction of any building or erection, placement, or raising of any moveable or immoveable structure or fixture within a certain radius of the airport premises.
- **Occupation certificate:** After construction is completed, an occupation certificate is needed from the relevant municipality in the concerned jurisdictions before the hotel can start operations. The occupation certificate is typically issued after considering certain other compliances of hotel buildings with, among others, approved plans, building standards, and fire safety standards.

Ownership structures prevalent in the hotel industry

- There are four basic types of hotel ownership and management: Owned, leased, managed, and franchised. These diverse modes of business operation complement each other and enable hotel companies to efficiently capitalise their brands for achieving sustained growth.
  - **Direct ownership of hotel properties:** Hotels under the ownership model are located on freehold land owned by the hotel company. The land is either owned directly by the company or by the company's subsidiaries or jointly controlled entities. For such hotels, the title to the buildings, and equipment and furniture/fixtures is held by the company.
  - **Lease arrangements:** Hotels are also built on certain land parcels that have been leased to the hotel company by governmental authorities or private parties. The term of such leases typically varies from 30 years to 99 years, which is typically renewable upon expiry for another term of equivalent period, subject to mutual agreement on the terms and conditions between the company and the lessor. The hotel company owns the building and furniture/fixtures and is required to pay a specified lease rental for the duration of the lease deed.
  - **Licensing arrangements:** Such agreements have been entered into with various parties, including governmental or quasi-governmental authorities, and are subject to payment of annual licence fee, which may be subject to escalation after periodic intervals. While the hotel company retains control over the management and operations of such hotels and is entitled to conduct business in the manner that it deems fit, it may require consent of the owners for significant alterations to the physical structures of the hotels. All costs and expenses related to the operation of the hotels are borne by the hotel company and the property is required to be returned to the licensor in good condition upon expiry of the license period, which ranges from 30 to 99 years.
  - **Operating and management contracts:** In such contracts, the hotel company takes over the operations of the hotel for and on behalf of the asset owner, for a fee. The hotel company also provides advice regarding project and design-related services at the construction stage through a separate technical services agreement. Under these arrangements, the hotel company is entitled to a basic management fee, which is a fixed percentage of the gross income of the hotel and an incentive fee linked to the gross operating profit of the hotel. In some cases, under the contracts, it may also receive marketing fee and project management fee. The term of these agreements typically ranges from 10 to 30 years, but the parties are also entitled to an early termination, subject to a minimum lock-in period.
  - **Franchising agreements:** Under franchising agreements the hotel company offers special expertise relevant for planning, development, organisation, operation, franchising and marketing of these hotels. Such agreements give the hotel owner the rights (along with obligations) to operate the hotel under the franchisor brand in exchange for fees. However, the use of the company's brand has been provided on a non-exclusive and non-transferable basis for operation of hotels by the individual asset owners.

Exhibit 13. Returns slightly favourable for upscale and midscale hotels

(INR mn)	Luxury	Upscale	Midscale	Economy
No. of Rooms	100	100	100	100
No of Room nights available	36,500	36,500	36,500	36,500
Occupancy (across segments)	62.0%	65.0%	70.0%	75.0%
Rooms nights occupied	22,630	23,725	25,550	27,375
ARR (INR)	12,500	9,500	7,500	5,000
Total rooms revenues	283	225	192	137
F&B - as % of room revenues	35.0%	35.0%	25.0%	10.0%
F&B Revenues	99	79	48	14
Total Revenues	**382**	**304**	**240**	**151**
F&B expenses	50	39	24	7
Fixed Costs	85	62	60	40
Variable Costs	57	51	60	44
Total Expenses	**191**	**152**	**144**	**90**
Property Level EBITDA	**191**	**152**	**96**	**60**
Margin	50.0%	50.0%	40.0%	40.0%
Development Cost Assumptions				
Land Costs (INR mn/room)	5.00	4.00	2.50	2.00
Development Cost (INR mn/room)	17.50	12.00	7.50	4.50
Total capital deployed (INR mn)	2,250	1,600	1,000	650
Initial ROCE (Incoming)	**8.5%**	**9.5%**	**9.6%**	**9.3%**
Operational Cost Assumptions				
Fixed Costs	60%	55%	50%	48%
Variable Costs	40%	45%	50%	53%

Source: JM Financial
Note: For representation only; based on internal estimates, channel checks and certain assumptions

Land costs assumed at 30% of development cost (may vary by location – metro/non-metro

Exhibit 14. Unit economics: asset owner vs. brand owner

Particulars (INR mn unless specified)	
No. of Rooms	100
No of Room nights available	36,500
Occupancy	62.0%
Rooms nights occupied	22,630
ARR (INR)	12,500
Total rooms revenues	283
F&B - as % of room revenues	35.0%
F&B Revenues	99
Total Revenues	**382**
F&B expenses	50
Fixed Costs	72
Variable Costs	48
Base Management Fees	8
Incentive Management Fees	13
Total Expenses	**191**
Property Level EBITDA	**191**
Margin	50.0%
Development Cost Assumptions	
Land Costs (INR mn/room)	5.00
Development Cost (INR mn/room)	17.50
Total capital deployed (INR mn)	2,250
ROCE	**8.5%**
Fees payment to the brand owner	
Base management fees	8
Incentive Management Fees	13
Total - fees paid under management contract	**22**
Fees paid as a % of Hotel EBITDA	**11.4%**

Source: JM Financial
Note: For representation only; based on internal estimates, channel checks and certain assumptions

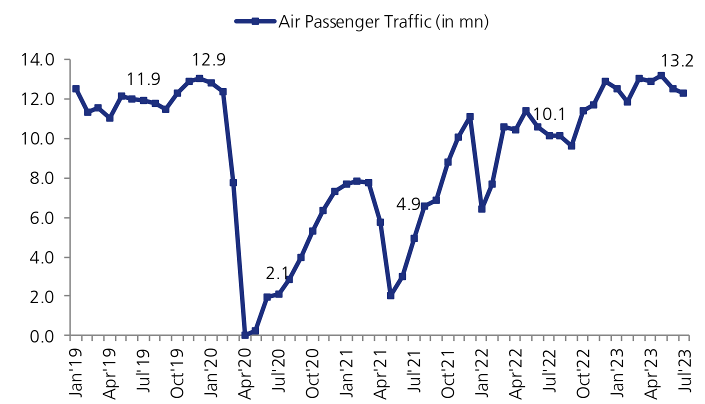
Base management fees assumed at 3% of room revenues

Incentive management fees assumed at 7% of EBITDA

Recent trends in the hospitality and tourism sector

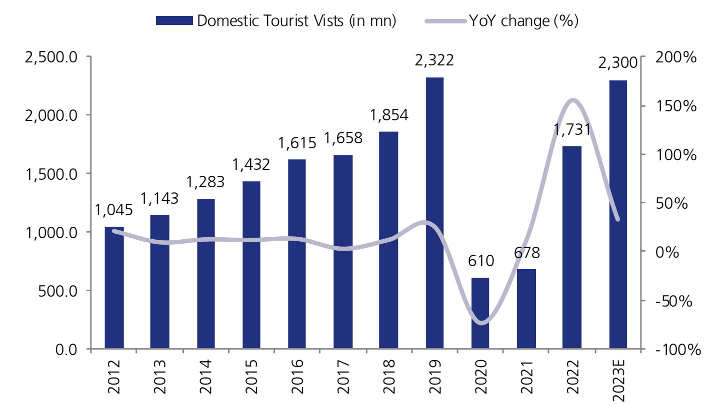
- **Strong revival in domestic air traffic augurs well for domestic travel demand:** Domestic travel has demonstrated a sustainable uptrend post Covid-19. Monthly air traffic has already exceeded pre-pandemic levels and YTD (Jul'23) air traffic has grown 31%, indicating sustained momentum in FY24 also. Upcoming airports and planned expansion of existing large airports, e.g., Hyderabad, Bangalore, Delhi, Pune, etc. is likely to further increase passenger volume. Domestic tourist arrivals in CY22 were at ~75% of pre-Covid levels, but the strong air traffic data should correspond to similar growth in domestic tourist arrivals for CY23. We expect domestic tourist arrivals in CY23 to match CY19 levels.

Exhibit 15. Monthly air traffic above pre-Covid levels



Source: AAI, JM Financial

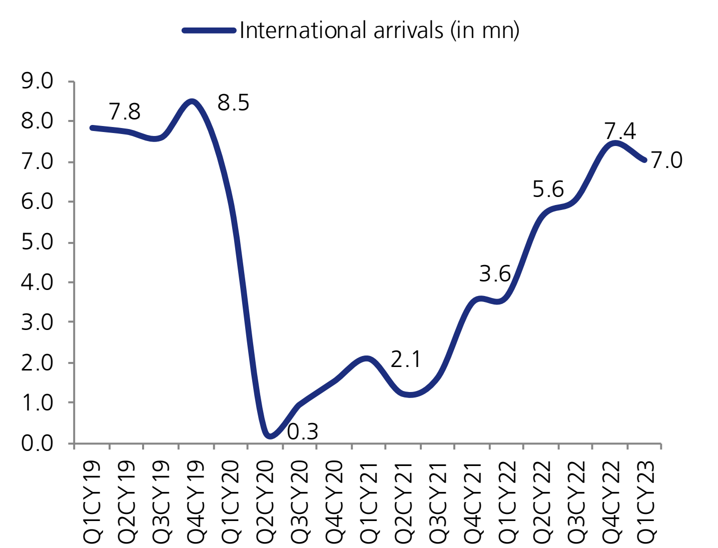
Exhibit 16. Domestic tourist arrivals – CY23 to match CY19



Source: Ministry of Tourism, JM Financial

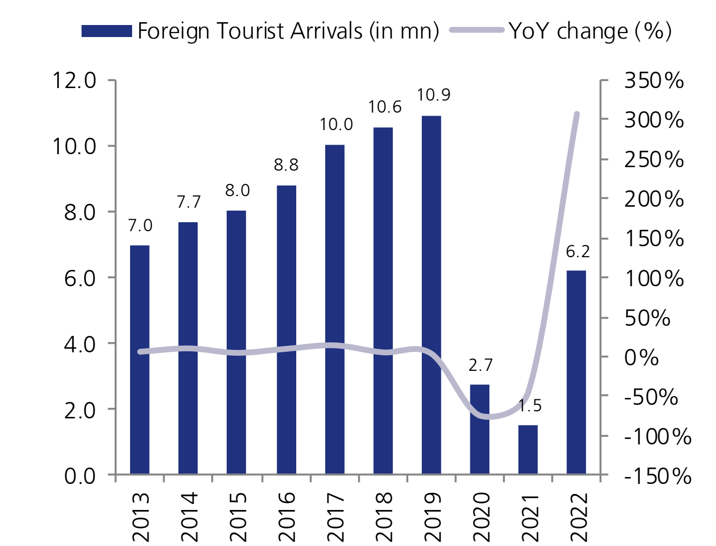
- **Foreign inbound travel has charted a slow recovery:** International travel was severely affected during the pandemic, due to lockdowns and country specific travel restrictions and is yet to recover to pre-Covid levels.

Exhibit 17. International arrivals still below CY19 levels



Source: DGCA, JM Financial

Exhibit 18. .. corresponds to similar trend in inbound tourism



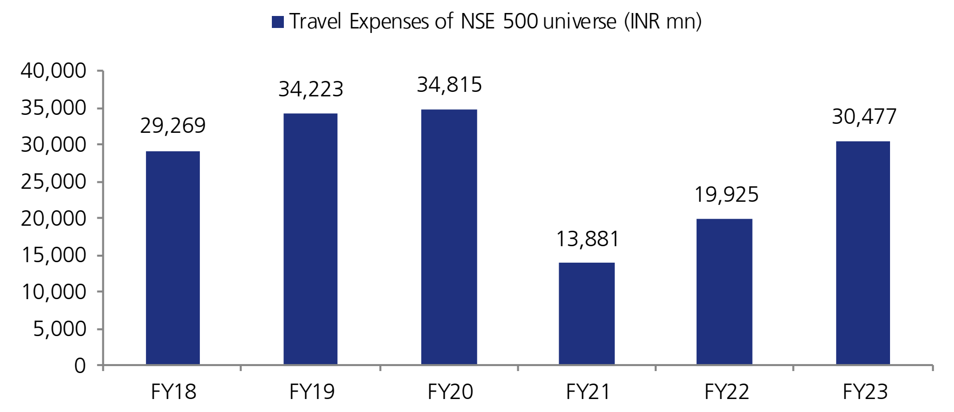
Source: DGCA, JM Financial

- Rising interest rates and persistent inflation have a negative effect on household disposable income and, consequently, on inbound leisure tourism as well. This has been a key factor in slower-than-expected recovery in inbound leisure tourism in the last 15-18 months.

- We expect foreign tourist arrivals to be significantly higher than the last 2 years; it may be even higher than CY19 levels due to the G-20 summit and the ICC Cricket World Cup. How that plays out going into the next year (CY25) needs to be monitored.

- **Business travel picking up strongly but still below FY19 levels:** The absolute number of business travellers may have come down after the pandemic as corporations are increasingly opting for web/video conferencing rather than in-person meetings. Business travel may not come back to pre-Covid levels soon, as preference for virtual meetings will continue, even in a post-pandemic world.

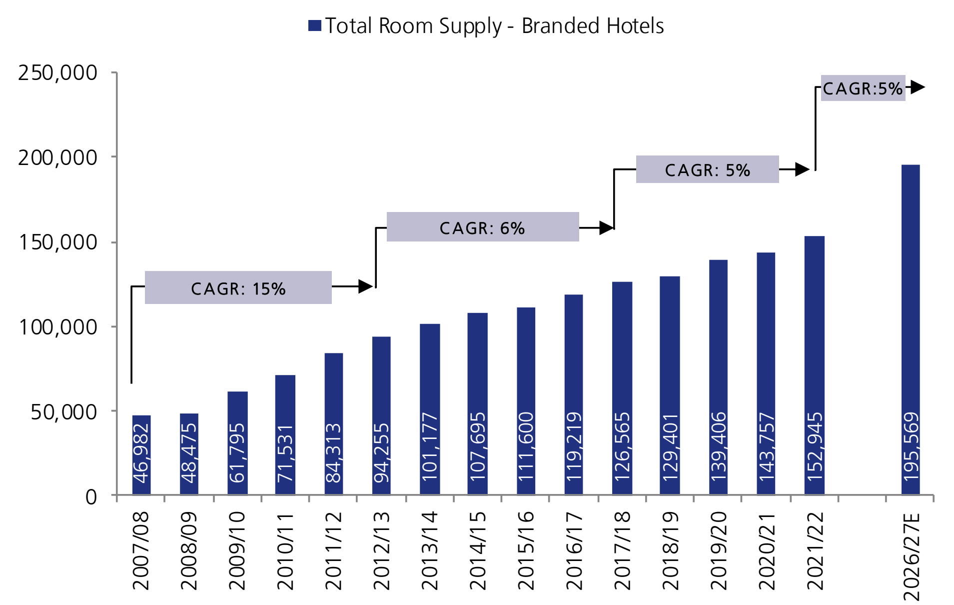
Exhibit 19. Business travel picking up strongly but still below FY19/20 levels



Source: Capital IQ, JM Financial

- **Demand to outgrow supply in the next 3-4 years:** As per various industry estimates, branded room supply is expected to grow by ~5-6% in FY23-FY27E. As per Hotelivate, branded room supply is estimated to grow at a 5% CAGR in the FY22-FY27E period. According to Lemon Tree Q4FY23 Results investor presentation, hotel room demand is expected to grow at 9.7% CAGR in the FY23-FY27E period. In line with these estimates, we hotel room to grow at 8-10% in the corresponding period.

Exhibit 20. Branded rooms: Estimated supply growth, FY22-FY27E



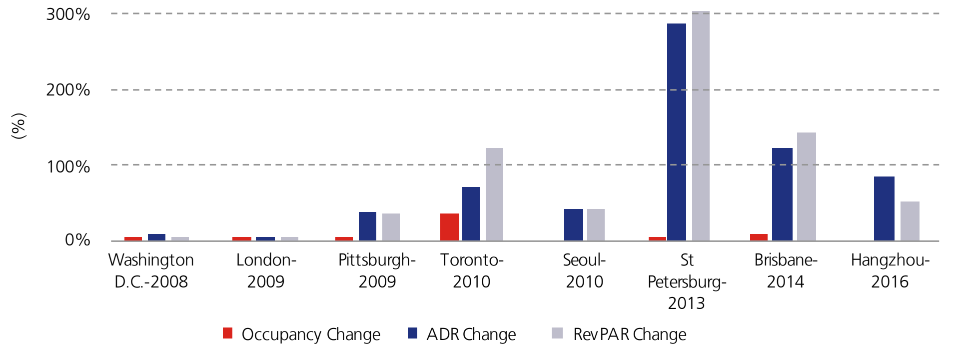
Source: Hotelivate, JM Financial

- **Short-term triggers:** The hospitality sector is expected to benefit in the short term (FY24) from certain events taking place in the country:

  - **India's G-20 Presidency:** India is the current president of the G-20 grouping and will host the G-20 summit later this year. According to an STR study, the host cities of the G-20 summit have reported a maximum spike of ~200% in average daily rates (ARRs) during the main summit event. The G-20 summit is scheduled to be held in New Delhi on

9th and 10th Sep'23. We believe it will positively affect room demand in New Delhi, Mumbai and the tourist destinations around these two locations.

Exhibit 21. G-20 Impact on host cities

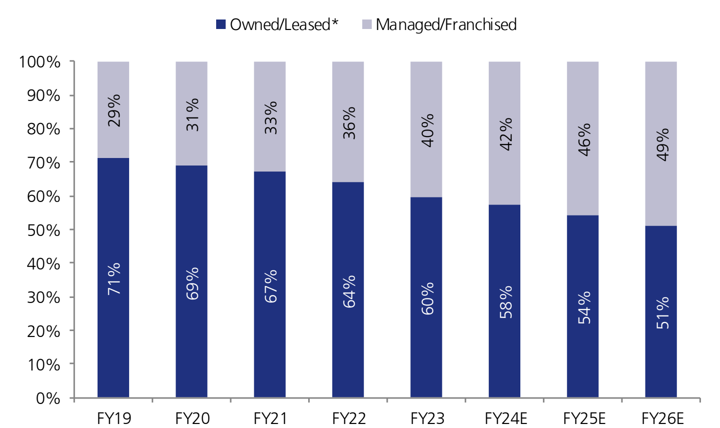


Source: STR, JM Financial

- Cricket World Cup: The upcoming ICC Men's Cricket World Cup 2023 is to be hosted in India from 15th Oct'23 to 19th Nov'23. The tournament will be held across 10 cities: Ahmedabad, Bengaluru, Chennai, Delhi, Dharamshala, Hyderabad, Kolkata, Lucknow, Mumbai and Pune. Hotel tariffs have already increased significantly during the event indicating a positive read-through for hotel companies.

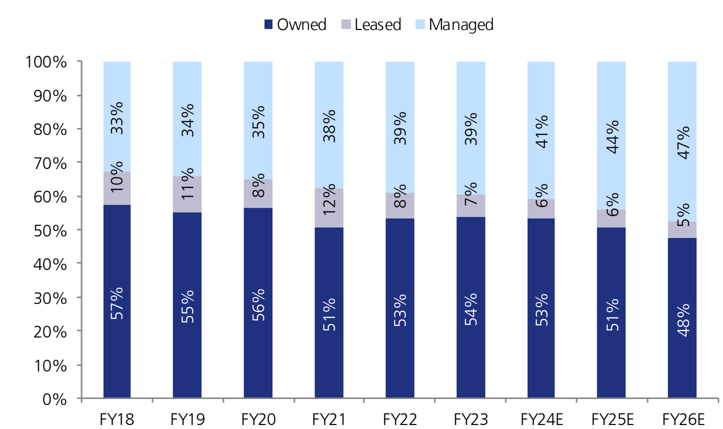
- **Portfolio growth largely through asset light strategy:** Most of the hospitality brands (including brand owners in our coverage universe: IH and Lemon Tree) have been careful about portfolio expansion, and have built a pipeline heavily inclined towards asset light additions. Consequently, with a much leaner balance sheet, they still have adequate headroom to grow through outright acquisitions to tap into the continued strength in demand.

Exhibit 22. IHCL: Portfolio becoming increasingly asset light



Source: Company, JM Financial
Note: Owned/Leased includes network hotels (enterprise level)

Exhibit 23. Similar trend for Lemon Tree

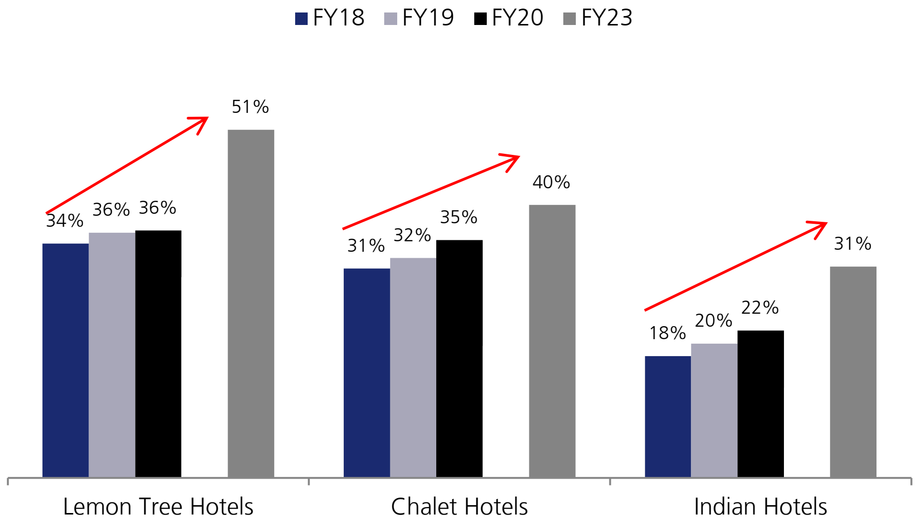


Source: Company, JM Financial

- **Focus on cost rationalisation:** The Covid-19 pandemic has forced hotel operators to re-think their cost structures. While traditional means like downsizing, multi-tasking, hiring of temporary/contractual labour are still being used, the industry is now adopting innovative and new-age technologies to drive operational efficiencies. Hotel rooms have been re-imagined with to have fewer touch points, which actually originated from the need for social distancing but now are driving operational efficiencies. New technologies like digital keys, digital payments and menu on QR codes are now considered mainstream.

  During the pandemic, the hotel companies have also looked to convert some of their fixed expenses to variable or partially variable expenses. Contracts were aligned towards potential earnings and more investments were made in new-age forecasting tools to limit surplus of food and overage of staffing.

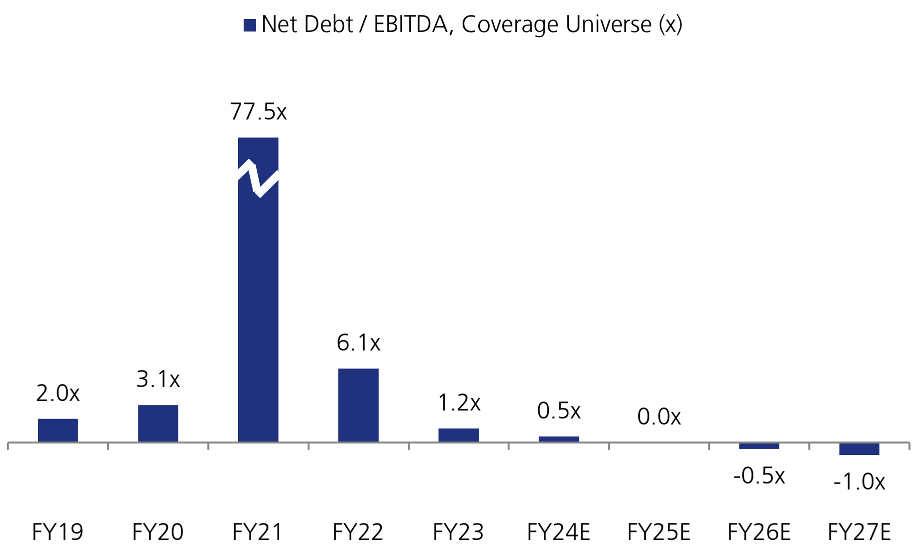
Exhibit 24. Industry wide focus on efficiencies leading to higher EBITDA margins



Source: Company, JM Financial
Note: For comparison, EBITDA has been adjusted for Ind-AS 116 treatment of lease rentals

- **Deleveraging of balance sheets:** As properties tend towards optimum occupancy levels, operating leverage should positively impact the bottom line leading to substantial free cash flows (FCF). Consequently, we expect Net Debt/EBITDA for our coverage universe to decline from 1.2x in FY23 to net cash positive in FY26E.

Exhibit 25. Deleveraging of balance sheets with healthy FCF generation



Source: Company, JM Financial
Note: EBITDA as reported by the company, not adjusted for Ind-AS 116 treatment of lease rentals

Valuation Tables

- We are constrained by the limited public market history of the peer set and the limited profitability track record of the sector to conclude on a P/E multiple valuation approach.
- Additionally, the asset holdings differ greatly across hotel companies (owned, leased & managed/franchised). The quality and stability of earnings depend considerably on the level of operating leverage in a hotel company. Consequently, net income/PAT based multiples may not be a true comparative benchmark for such companies. In view of these challenges, we have used EV/EBITDA multiple for valuation of the companies in the sector.

Exhibit 26. Comparison across key metrics

Particulars	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	CAGR FY23-26E (%)
Revenue (INR mn)										
Hotels										
Chalet Hotels	7,955	9,872	9,808	2,856	5,078	11,285	13,716	16,829	20,098	21%
Indian Hotels	41,036	45,120	44,631	15,752	30,562	58,099	66,348	76,773	82,793	13%
Lemon Tree	4,843	5,495	6,694	2,517	4,022	8,750	10,611	13,209	14,932	19%
EIH*	15,988	18,108	15,963	4,971	9,853	20,188	21,913	24,206	NA	NA
Royal Orchid Hotels*	1,895	2,038	2,050	809	1,385	2,636	3,190	4,370	NA	NA
QSR										
Westlife	11,349	14,020	15,478	9,860	15,765	22,782	26,279	30,476	34,873	15%
RBA (Standalone)	3,781	6,327	8,412	4,945	9,437	14,397	18,242	22,141	26,837	23%
Sapphire	NA	11,938	13,404	10,196	17,216	22,656	27,998	33,518	39,303	20%
Devyani	NA	12,871	14,830	11,194	20,641	29,728	37,362	46,490	56,517	24%
Jubilant Foodworks*	30,184	35,631	39,273	33,119	43,961	51,582	58,635	67,657	78,743	15%
EBITDA (INR mn)										
Hotels										
Chalet Hotels	2,447	3,192	3,429	71	985	4,528	6,273	8,065	10,149	31%
Indian Hotels	6,704	8,297	9,675	-3,618	4,048	18,046	21,735	25,965	28,080	16%
Lemon Tree	1,362	1,688	2,434	613	1,187	4,476	5,216	6,698	7,423	18%
EIH*	2,989	4,059	2,903	-2,919	-13	5,974	6,705	7,625	NA	NA
Royal Orchid Hotels*	307	342	306	-111	230	819	870	1,240	NA	NA
QSR										
Westlife	774	1,190	2,140	469	1,892	3,740	4,607	5,477	6,505	20%
RBA (Standalone)	81	790	1,040	150	902	1,654	2,613	3,987	5,096	46%
Sapphire	NA	1,460	1,856	1,244	3,050	4,284	5,369	6,752	8,094	24%
Devyani	NA	2,790	2,555	2,346	4,760	6,551	8,276	10,449	12,972	26%
Jubilant Foodworks*	4,401	5,998	8,656	7,712	11,088	11,516	13,260	16,094	18,298	17%
PAT (INR mn)										
Hotels										
Chalet Hotels	-929	-76	1,027	-1,391	-815	1,859	2,454	3,337	4,430	34%
Indian Hotels	1,009	2,868	3,544	-7,201	-2,477	10,026	12,762	15,354	16,682	18%
Lemon Tree	142	529	-95	-1,271	-874	1,146	1,312	2,145	2,568	31%
EIH*	1,958	1,490	1,651	-3,754	-951	3,291	4,038	4,794	NA	NA
Royal Orchid Hotels*	34	119	49	-325	294	470	660	870	NA	NA
QSR										
Westlife	129	213	-73	-994	-17	1,116	1,477	1,890	2,404	29%
RBA (Standalone)	-822	-383	-766	-1,739	-929	-718	-421	439	876	NM
Sapphire	NA	-680	-1,575	-985	465	2,334	1,029	1,497	1,893	-7%
Devyani	NA	-792	-1,217	-552	1,563	2,650	2,513	3,383	4,411	19%
Jubilant Foodworks*	1,962	3,180	2,788	2,305	4,181	3,530	4,597	6,112	7,406	28%

Source: Company, Bloomberg, JM Financial
Note :* refers to Bloomberg Estimates

Exhibit 27. Return ratios

Particulars	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
ROCE (%)									
Hotels									
Chalet Hotels	5%	7%	7%	NM	NM	6%	8%	9%	10%
Indian Hotels	2%	4%	6%	NM	0%	9%	10%	11%	11%
Lemon Tree	3%	5%	NM	NM	0%	8%	8%	11%	11%
EIH*	6%	5%	6%	NM	NM	10%	NA	NA	NA
Royal Orchid Hotels*	2%	7%	4%	NM	13%	19%	NA	NA	NA
QSR									
Westlife	4%	4%	9%	NM	10%	25%	28%	30%	33%
RBA (Standalone)	NM	3%	NM	NM	NM	1%	3%	8%	11%
Sapphire	NM	2%	1%	NM	14%	36%	14%	17%	19%
Devyani	NM	36%	14%	5%	50%	48%	33%	34%	34%
Jubilant Foodworks*	22%	29%	19%	12%	15%	12%	NA	NA	NA
ROE (%)									
Hotels									
Chalet Hotels	5%	0%	7%	NM	NM	10%	15%	17%	19%
Indian Hotels	2%	7%	7%	NM	NM	13%	15%	16%	15%
Lemon Tree	1%	4%	NM	NM	NM	8%	9%	13%	14%
EIH*	6%	4%	5%	NM	NM	10%	11%	12%	NA
Royal Orchid Hotels*	2%	7%	3%	NM	22%	32%	140%	132%	NA
QSR									
Westlife	2%	4%	1%	NM	0%	22%	24%	26%	28%
RBA (Standalone)	NM	NM	NM	NM	NM	NM	NM	1%	2%
Sapphire	NM	NM	NM	NM	6%	21%	8%	11%	12%
Devyani	NM	NM	NM	NM	45%	35%	23%	25%	25%
Jubilant Foodworks*	22%	29%	24%	18%	25%	18%	20%	23%	26%

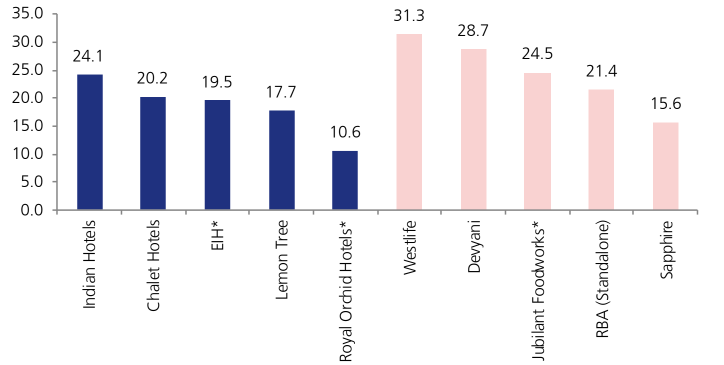
Source: Company, Bloomberg, JM Financial
Note :* refers to Bloomberg Estimates

Exhibit 28. EV / EBITDA & EV / Sales multiples across the spectrum

Particulars	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
EV/EBITDA (x)									
Hotels									
Chalet Hotels	51.7	39.6	36.9	1,792.3	128.5	27.9	20.2	15.7	12.5
Indian Hotels	77.6	62.7	53.7	NM	128.5	28.8	23.9	20.0	18.5
Lemon Tree	68.2	55.0	38.2	151.6	78.3	20.7	17.8	13.9	12.5
EIH*	43.8	32.2	45.1	NM	NM	21.9	19.5	17.2	NM
Royal Orchid Hotels*	29.9	26.8	30.0	NM	40.0	11.2	10.5	7.4	NM
QSR									
Westlife	186.4	121.2	67.4	307.2	76.2	38.6	31.3	26.3	22.2
RBA (Standalone)	702.4	72.3	54.9	380.9	63.3	34.5	21.8	14.3	11.2
Sapphire	NM	57.3	45.0	67.2	27.4	19.5	15.6	12.4	10.3
Devyani	NM	81.0	88.4	96.3	47.5	34.5	27.3	21.6	17.4
Jubilant Foodworks*	77.1	56.5	39.2	44.0	30.6	29.5	25.6	21.1	18.5
EV/Sales (x)									
Hotels									
Chalet Hotels	15.9	12.8	12.9	44.3	24.9	11.2	9.2	7.5	6.3
Indian Hotels	12.7	11.5	11.7	33.0	17.0	8.9	7.8	6.8	6.3
Lemon Tree	19.2	16.9	13.9	36.9	23.1	10.6	8.8	7.0	6.2
EIH*	8.2	7.2	8.2	26.3	13.3	6.5	6.0	5.4	NM
Royal Orchid Hotels*	4.8	4.5	4.5	11.3	6.6	3.5	2.9	2.1	NM
QSR									
Westlife	12.7	10.3	9.3	14.6	9.1	6.3	5.5	4.7	4.1
RBA (Standalone)	15.1	9.0	6.8	11.5	6.0	4.0	3.1	2.6	2.1
Sapphire	NM	7.0	6.2	8.2	4.9	3.7	3.0	2.5	2.1
Devyani	NM	17.6	15.2	20.2	10.9	7.6	6.0	4.9	4.0
Jubilant Foodworks*	11.2	9.5	8.6	10.2	7.7	6.6	5.8	5.0	4.3

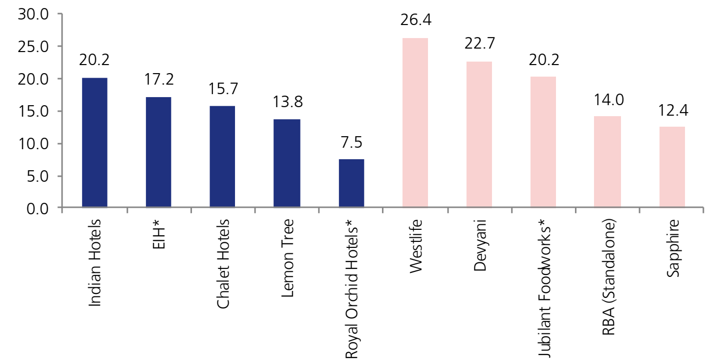
Source: Company, Bloomberg, JM Financial
Note :* refers to Bloomberg Estimates

Exhibit 29. FY24E EV/EBITDA



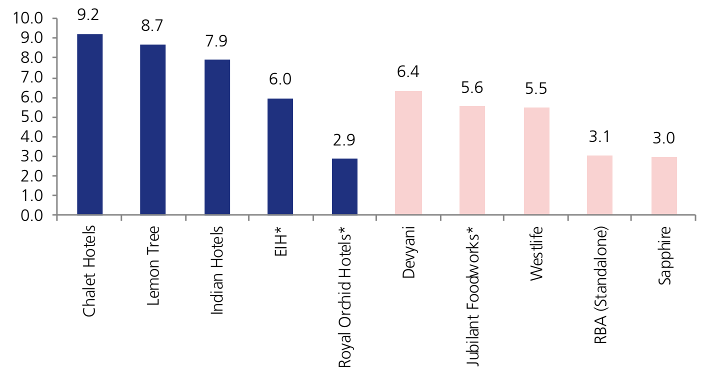
Source: Company, Bloomberg, JM Financial, Note: * refers to Bloomberg Estimates

Exhibit 30. FY25E EV/EBITDA



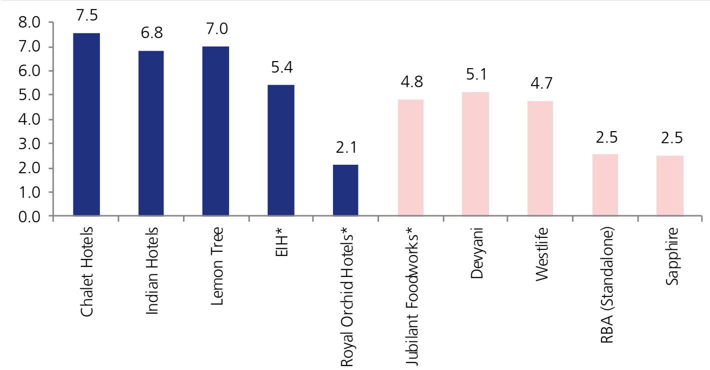
Source: Company, Bloomberg, JM Financial, Note: * refers to Bloomberg Estimates

Exhibit 31. FY24E EV/Sales



Source: Company, Bloomberg, JM Financial, Note: * refers to Bloomberg Estimates

Exhibit 32. FY25E EV/Sales



Source: Company, Bloomberg, JM Financial, Note: * refers to Bloomberg Estimates

JM FINANCIAL

Indian Hotels Company | BUY

On a strong footing

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We acknowledge the support of **Prithvi Shah** in the preparation of this report

Indian Hotels (IH) is the largest owner/operator of hotels in India with a diversified presence across customer segments and locations. IH has led the industry in portfolio additions and currently has a pipeline of ~9,900 rooms (74% of the pipeline is asset light), which is expected to drive growth in the core business. It has been able to create a hospitality ecosystem by expanding into adjacent categories and these new businesses are expected to contribute ~35% of EBITDA by FY26 (23% in FY22). As the re-launched Ginger portfolio and international hotels turn around, these strategic initiatives combined with positive demand trajectory in the sector will continue to yield results. We initiate coverage with BUY and a target price of INR 450, valuing it at 22.0x Sep'25 consolidated EBITDA.

- **Largest and fastest growing hospitality ecosystem:** IH is the 2nd largest operator of branded rooms (behind Marriott) and the largest owner/operator of hotels in India. It has focussed on an asset-light expansion strategy and has been fairly successful in expanding the portfolio to 263 hotels (including pipeline hotels) currently despite the Covid-19 disruptions during FY21-FY22. Some of the businesses have been re-positioned successfully (Ginger, TajSATS) and are recording good growth in earnings. It has also expanded in adjacent categories leveraging the reach and recall of the "Taj" and "Tata" brands to evolve into a complete hospitality ecosystem.

- **Legacy issues largely behind:** Over the last 5 years, under Aspiration 2022, the management has taken conscious efforts to divest non-core/loss making assets, simplify the holding structure at the hold co level and improve the brand architecture of IH. With a few exceptions like Sea Rock, legacy issues have largely been resolved and should augur well for the company as it is well poised to reap the benefits of the continued strength in the hospitality sector.

- **Strategic initiatives to drive growth:** IH has marked out ambitious plans for itself under the AHVAAN 2025 strategy. It is targeting a portfolio of 300+ hotels by FY26 consisting of 100 Taj, 75 Vivanta & SeleQtions, and 125 Ginger; amã portfolio is planned to reach 500+ properties in the same period. As the asset-light strategy plays out, the ratio of owned to asset light rooms will reach 1:1 and the management fees should grow to ~2.0x of FY23 levels. With continued focus on cost optimisation and higher contribution from new businesses (amã, Chambers & Qmin), EBITDA margin will improve to ~33%

- **Initiate with BUY, TP of INR 450:** IH's unmatched pan-India coverage, comprehensive presence across all customer segments, vastly improved brand architecture and sharper focus on capital allocation coupled with the favourable demand situation is yielding results with a positive flow-through into earnings. We are factoring in an ARR growth of 8-10%, occupancy improvement linked to the industry up-cycle and in-exit ARR growth of 5% for the hospitality business. We estimate a Revenue/EBITDA CAGR of 12.5%/15.9% over FY23-26E for IH. We expect RoE to improve further from 13.3% in FY23 to 14.5% in FY26E.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	450
Upside/(Downside)	17.7%
Previous Price Target	0
Change	NA

Key Data – IH IN	
Current Market Price	INR382
Market cap (bn)	INR542.9/US$6.5
Free Float	58%
Shares in issue (mn)	1,420.4
Diluted share (mn)	1,420.4
3-mon avg daily val (mn)	INR1,603.9/US$19.3
52-week range	406/263
Sensex/Nifty	65,151/19,365
INR/US$	83.2

Price Performance

%	1M	6M	12M
Absolute	-2.0	20.2	38.9
Relative*	0.4	12.5	28.5

* To the BSE Sensex

Financial Summary (INR mn)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	30,562	58,099	66,348	76,773	82,793
Sales Growth (%)	94.0	90.1	14.2	15.7	7.8
EBITDA	4,048	18,046	21,735	25,965	28,080
EBITDA Margin (%)	13.2	31.1	32.8	33.8	33.9
Adjusted Net Profit	-2,633	9,993	12,273	14,826	16,113
Diluted EPS (INR)	-1.9	7.0	8.6	10.4	11.3
Diluted EPS Growth (%)	0.0	0.0	22.8	20.8	8.7
ROIC (%)	0.0	13.5	16.3	21.0	24.3
ROE (%)	-4.9	13.3	14.4	15.3	14.5
P/E (x)	-206.0	54.3	44.2	36.6	33.7
P/B (x)	7.7	6.8	6.0	5.2	4.6
EV/EBITDA (x)	138.5	30.5	24.6	19.9	17.8
Dividend Yield (%)	0.1	0.3	0.3	0.3	0.3

Source: Company data, JM Financial. Note: Valuations as of 16/Aug/2023

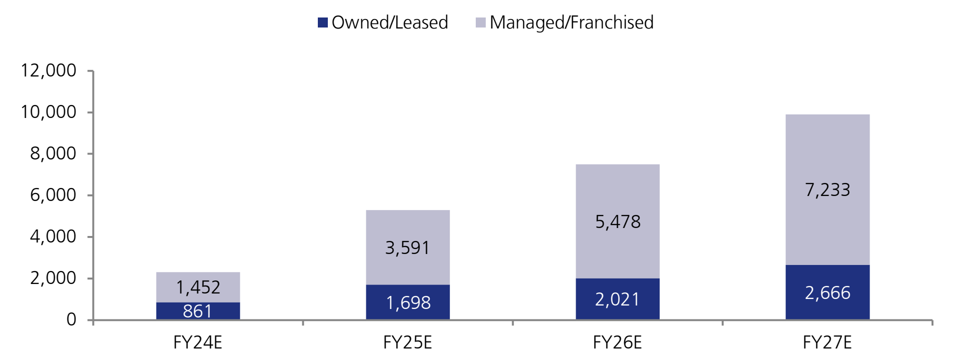
Focus Charts

Exhibit 1. Growth to be led by pipeline assets…

Brands (no. of keys)	FY23	FY24E	FY25E	FY26E	FY27E	Total
Taj	11,539	597	484	1,113	825	15,111
Vivanta	3,801	391	684	670	870	6,435
SeleQtions	1,361	405	458	104	0	2,332
Ginger	4,637	995	870	323	705	777
Total	**21,338**	**2,388**	**2,496**	**2,210**	**2,400**	**31,585**

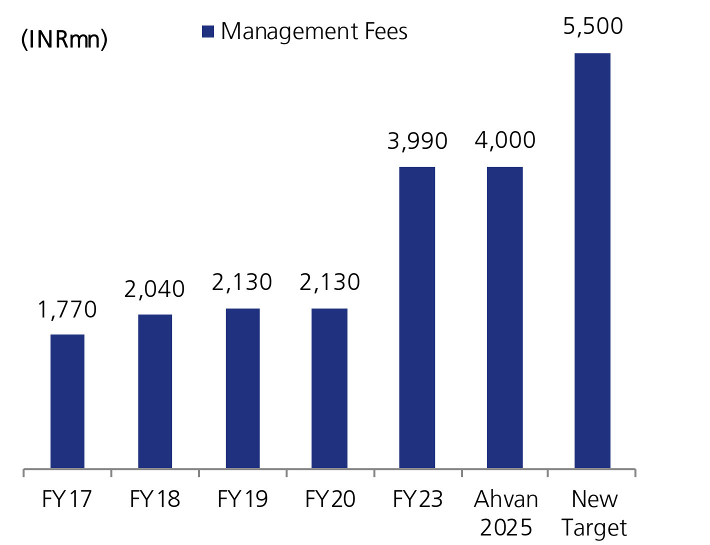
Source: Company, JM Financial

Exhibit 2. ...and will be majorly through the asset-light route



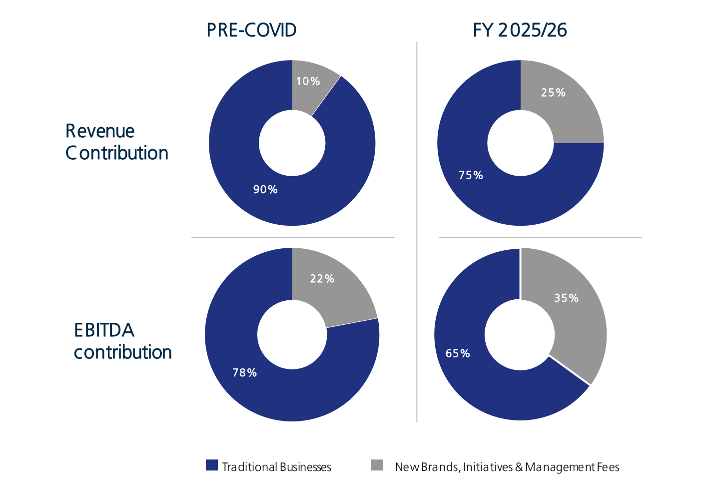
Source: Company, JM Financial

Exhibit 3. As IH turns asset light, fees increases two-fold



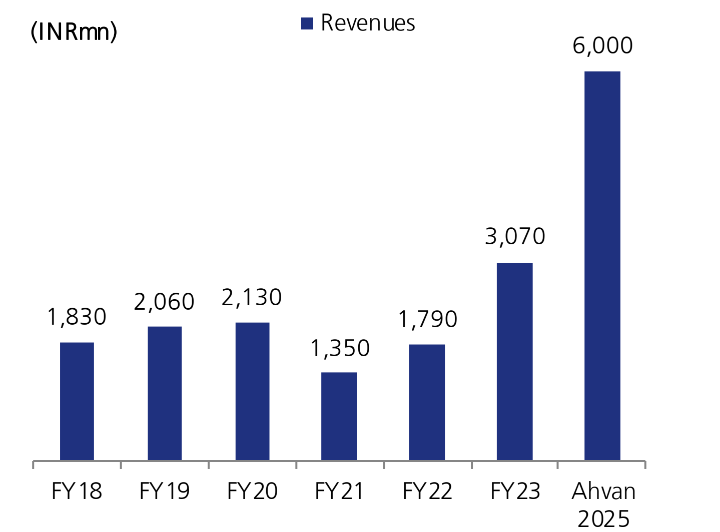
Source: Company, JM Financial

Exhibit 4. Higher contribution from newer businesses



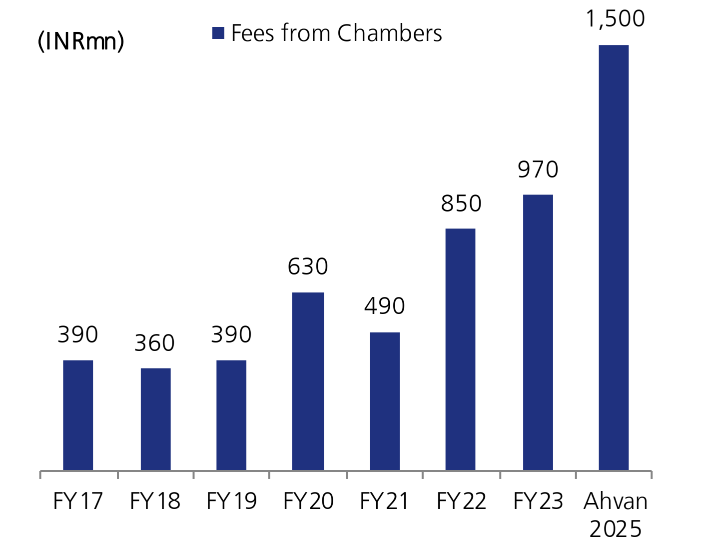
Source: Company, JM Financial

Exhibit 5. Ginger to reach 100+ properties by FY26



Source: Company, JM Financial

Exhibit 6. Rapid scale-up of Chambers



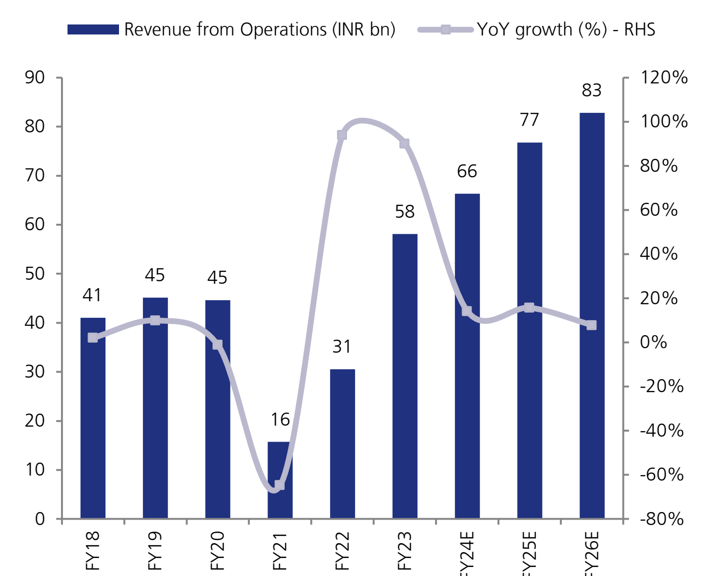
Source: Company, JM Financial

Exhibit 7. Ginger's EBITDA expected to grow at 32% CAGR; margin to expand further

Roots (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	CAGR FY23-26E (%)
Room Revenue	1,659	1,835	1,871	1,088	1,517	2,810	4,015	5,016	5,698	27%
Management and Other Fees	92	104	131	123	145	194	214	286	302	16%
Rental income and other revenue	91	96	103	44	47	41	43	45	48	5%
Revenue from Operations	**1,842**	**2,035**	**2,105**	**1,255**	**1,709**	**3,045**	**4,273**	**5,347**	**6,047**	**26%**
YoY Growth (%) -RHS	19%	10%	3%	-40%	36%	78%	40%	25%	13%	NM
EBITDA	139	149	483	16	347	1,126	1,821	2,272	2,573	**32%**
EBITDA Margin (%) - RHS	8%	7%	23%	1%	20%	37%	43%	42%	43%	NM
YoY Growth (%) -RHS	-10%	7%	224%	-97%	2118%	224%	62%	25%	13%	NM

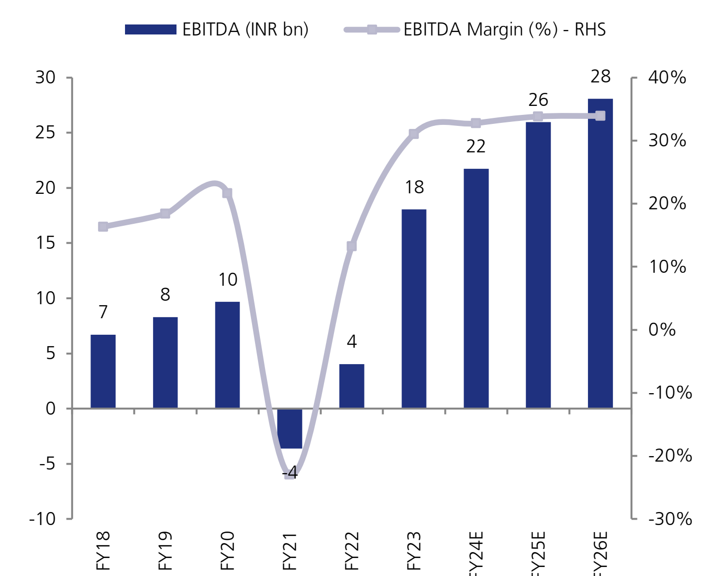
Source: Company, JM Financial
Note: EBITDA as reported by company, not adjusted for Ind-AS 116 treatment of lease rentals

Exhibit 8. IHCL consolidated revenue



Source: Company, JM Financial

Exhibit 9. IHCL consolidated EBITDA



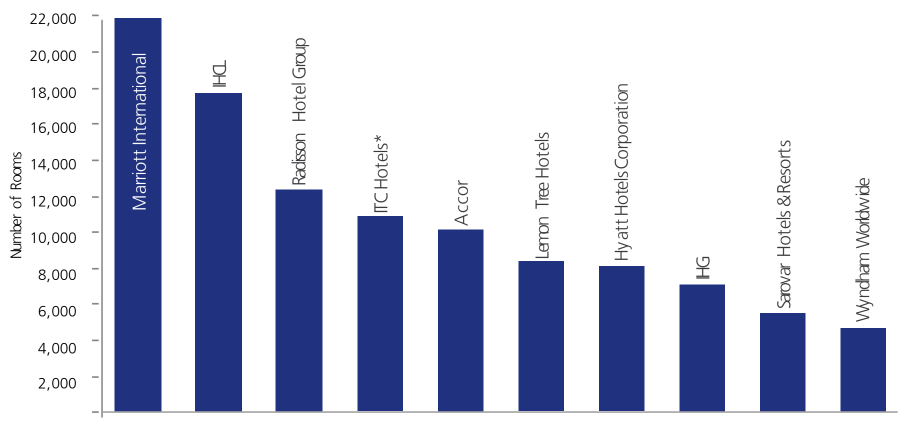
Source: Company, JM Financial
Note: EBITDA as reported by company, not adjusted for Ind-AS 116 treatment of lease rentals

Investment Thesis

Largest owner/operator of hotels in India

- The top 10 hotel brands manage over 110,000 keys, which account for over 70% of the total branded inventory in India (Source: Hotelivate Report, as of 30th Jul'22). IH has the 2nd largest share of this inventory at ~11%; it is behind Marriott International, which has ~14% share. It is the largest owner/operator in India and is almost 2x the size of the nearest competitor. IH has an operational portfolio of 186 hotels and 21,633 rooms (as on 30th Apr'23, including rooms under renovation) that covers almost every major travel destination in India.

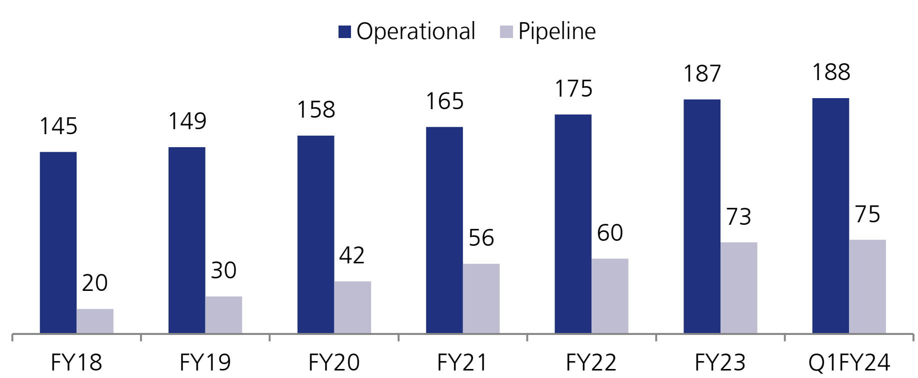
Exhibit 10. Top hotel brands by operational inventory



Source: JLL Report, JM Financial
Note: ITC Hotels includes Fortune Hotels and WelcomHeritage

- IH has focussed on an **asset-light expansion strategy** and has been fairly successful in expanding the portfolio to 263 hotels (including pipeline hotels) despite the Covid-19 disruptions during FY21-FY22.

Exhibit 11. Industry leading growth in portfolio



Source: Company, JM Financial

- In the last 5 years, the Taj portfolio has grown from 50 hotels to 100 hotels. Vivanta & SeleQtions cumulatively grew from 59 properties to 78 properties, and Ginger from 46 properties to 85.

Exhibit 12. IH hotel brand split – Operational Portfolio

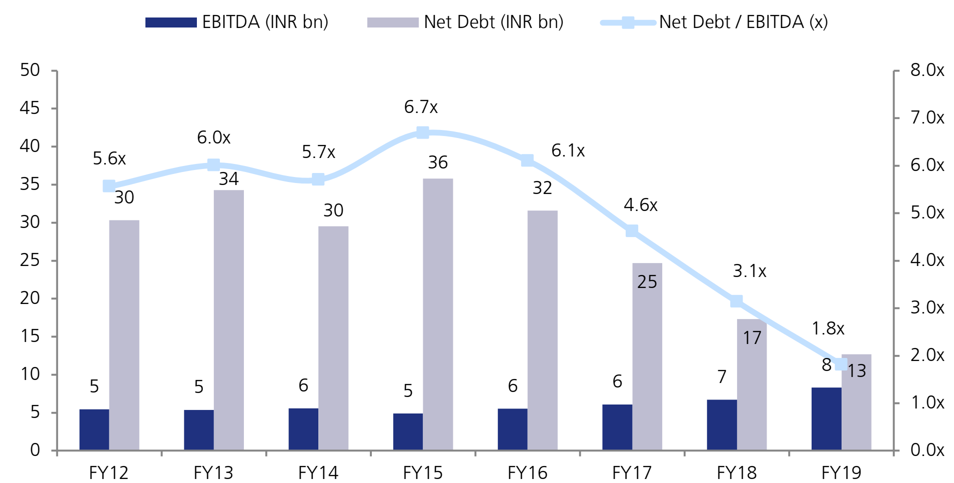
No. of Hotels				No. of Keys			
Brands	Hotels	Pipeline	Total	Brands	Hotels	Pipeline	Total
Taj	81	19	100	Taj	11,726	3,385	15,111
Vivanta	27	20	47	Vivanta	3,800	2,635	6,435
SeleQtions	21	10	31	SeleQtions	1,346	986	2,332
Ginger	59	26	85	Ginger	4,814	2,893	7,707
Total	**188**	**75**	**263**	**Total**	**21,686**	**9,899**	**31,585**

Source: Company, JM Financial
Note: Data as on 30-Apr-23

Legacy issues now largely behind

- Over FY06-08, IH aggressively acquired marquee assets across US, UK and Australia during buoyant times. As the global economy went into a downturn due to the 2008-09 financial crisis, these properties ran into losses, which led to a markdown in the valuation of these assets.
- In the domestic market, the Sea Rock acquisition ran into legal and regulatory roadblocks. A considerable amount of capital was blocked in this asset, with negative returns. The apex holding company for the Sea Rock property was brought under IH and later amalgamated into the parent company, with a substantial impairment in value. IH suffered other setbacks as the performance of the Ginger portfolio was way below expectations and continued to be a cash-trap.
- At the same time, IH faced severe competition from other global brands, which came with big purses and expanded quite rapidly in the country. Poor capital allocation resulted in below-par profitability, which subsequently affected the financial health, as leverage steadily increased at the parent company, with peak net debt of INR 36bn in FY15.

Exhibit 13. Leverage peaked in FY15



Source: Company, JM Financial

- **Divestment and sale of non-core and loss making properties:** In FY15, IH began divesting its non-core and loss-making assets to repay debt. The notable ones were the sale of Taj Boston, stake in Oriental Express Hotels (Belmond) and Taj Sydney. Additionally, it has divested the ownership of hotels in peripheral markets, and sold certain residential apartments owned by the company and other non-core assets like cross-holdings in other Tata Group companies.

Exhibit 14. Divestment of non-core assets

Date	Name of the Property	Proceeds ($mn)	Debt repaid ($mn)	Net inflow ($mn)	Net inflow (INR mn)
Jul-14	Hotel Blue, Sydney	24	-	24	1,800
Jul-16	Taj Boston	125	120	5	339
FY16	Tata Projects stake	9	-	9	585
FY17	Oriental Express stake	68	50	18	1,182
FY19	Various - undisclosed				2,460
FY20	Various - apartments, land & JV stake				2,050
FY21	Sale of residential apartments				210
FY22	Various - undisclosed				324
	Total				**8,950**

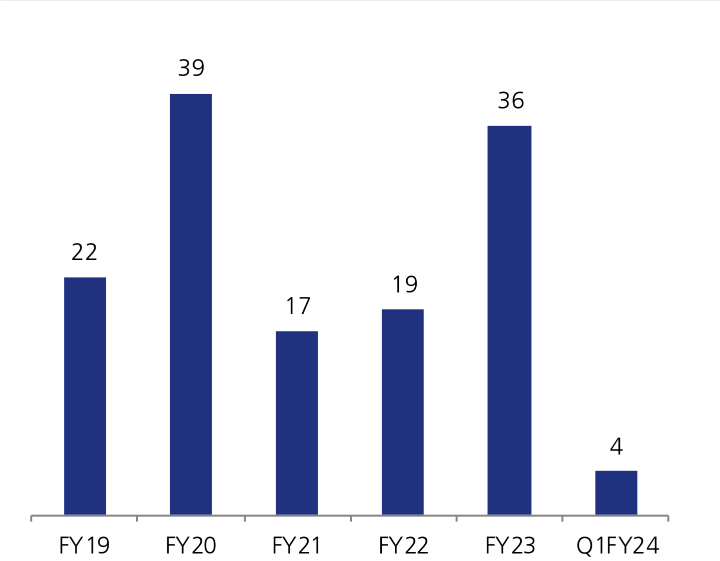
Source: Company, JM Financial

- **Rationalisation of holding structure:** IH has made conscious efforts to clean up the holding structure in the last 5 years to improve efficiency and governance.
  - International subsidiaries were transferred to IHOCO BV, a wholly-owned offshore subsidiary. Holdings in hotels in the USA, the UK, Sri Lanka and the Maldives and the two London restaurants were part of this transfer.
  - The direct (majority) ownership of the Sea Rock property was brought under IH, as Lands End Properties Private Ltd. (LEEPL) was amalgamated with the company
  - International Hotel Management Services, a wholly-owned subsidiary, was amalgamated with Indian Hotels
  - Apex Hotel Management Services (Pte) Ltd, Apex Hotel Management Services Pty Ltd, TIFCO Holdings, Chieftain Corporation NV and Samsara Properties Ltd were either sold, dissolved or liquidated
  - Roots Corporation (Ginger) was made a fully owned subsidiary of the company from a consortium of shareholders in Apr'22
  - The holding pattern of Taj Cape Town was restructured, and it became a wholly owned subsidiary of IH
  - Binding agreement was signed to acquire 100% shareholding in ELEL Hotels and Investments Limited (ELEL) from the Nanda family (Sea Rock Hotel)

Capable management "walking the talk"

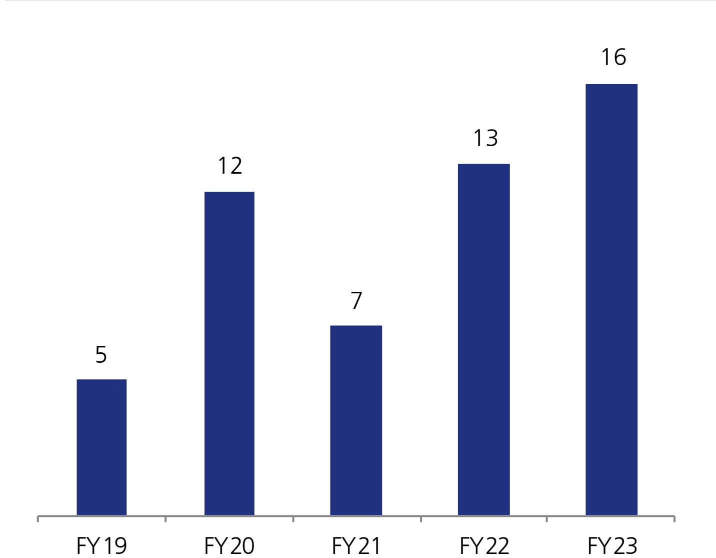
- IH launched its 5-year strategy Aspiration 2022 at its first Capital Markets Day held in Feb'18. The aim of this strategic intervention was to pivot IH into becoming "The Most Iconic and Profitable Hospitality Company in South Asia". The key objectives under this programme were:
  - 800bp margin expansion by FY23, to 25% EBITDA margin – to be equally contributed by revenue growth and cost optimisation
  - Asset-light greenfield expansion, mostly through management contracts
  - Monetisation/Divestment of non-core, non-performing assets and simplification of the group holding structure (covered in the previous section)
- **Healthy track record of new signings:** IH has led the industry in portfolio additions and new openings. It is now targeting 20 new openings in FY24 and has a strong pipeline of ~9,900 rooms, of which 74% rooms are through the managed or franchised route.

Exhibit 15. Industry leading new signings...



Source: Company, JM Financial

Exhibit 16. …resulting in consistent portfolio expansion



Source: Company, JM Financial

- Vastly improved brand architecture: The senior leadership at IH has gone through significant changes in the last decade. Consequently, the brand architecture of the company went through a lot of flux before settling down to what we see today. In Feb'17, it was announced that all properties of the IHCL group will be brought under a single brand - Taj Hotels Palaces Resorts Safaris. This single brand approach was done away with later, but the "Gateway" branding was dropped and a new brand "SeleQtions" was created. IH has successfully re-positioned its existing underperforming businesses and turned them around:
  - Ginger was repositioned as a midscale (Lean-Luxe) product from an economy offering (largely B&B before)
  - New brand identity of TAJ SATS (catering) was launched in FY19 and it has recorded superior growth led by market share gains. It has expanded successfully in newer segments and geographies, leveraging the synergies across the Tata Group aviation entities – Vistara, Air Asia and Air India.
  - Chambers (business club) was relaunched in FY21, along with JIVA (Spa) and Khazana (luxury lifestyle retail); JIVA was repositioned as "wellness" brand rather than just spas

Exhibit 17. Reimagining brandscape

New brand logo	VIVANTA	GINGER	WELLNESS CIRCLE	TAJ sats
Old brand logo	VIVANTA BY TAJ	GINGER HOTELS A TATA Enterprise	JIVA SPA	TAJSATS

Source: Company, JM Financial

- Synergies with other Tata Group businesses: Customer loyalty programmes such as Taj Innercircle and Tata NEU App contributed 20% to FY23 enterprise revenue.
- Expansion into adjacent categories: IH has been able to create a hospitality ecosystem with a new integrated approach wherein it is expanding in related/adjacent categories through new brands, leveraging the existing reach and recall of the Taj/other brands under the Tata Group.

Exhibit 18. New brands

Qmin curated quality cuisine	amã STAYS & TRAILS	SEVEN RIVERS BREWING CO.	niu&nau	anuka
Home delivery	Home Stays	Breweries	Salon	Multi-cuisine restaurant

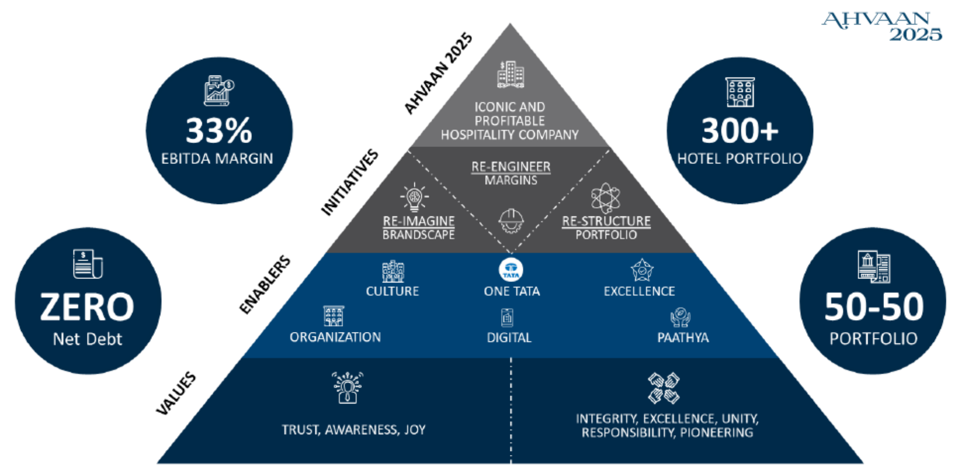
Source: Company, JM Financial

AHVAAN 2025: Multiple levers enabling future growth and margin expansion

- IH has marked out ambitious plans for itself under the AHVAAN 2025 strategy. Under this framework, it will focus on four main work streams:
  - reach a total of 300+ hotels across the portfolio by FY26 consisting of 100 Taj, 75 Vivanta & SeleQtions, 125 Ginger; plans to grow amã Stays & Trails portfolio to 500+ properties in the same period
  - target consolidated EBITDA margin of 33% by FY26E with 35% EBITDA share from management contracts and new businesses (Exhibit 20)
  - 50:50 ratio between owned/leased and management contract room keys

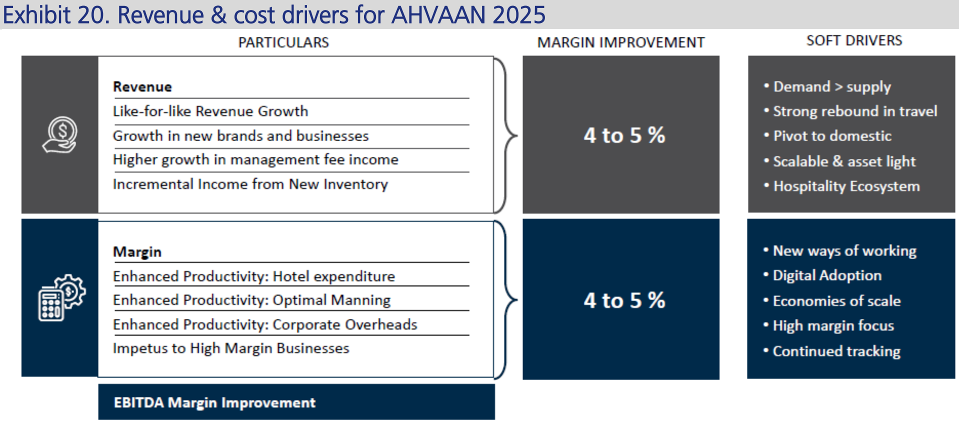
- Retain net debt-free status

Exhibit 19. AHVAAN 2025



Source: Company, JM Financial

Exhibit 20. Revenue & cost drivers for AHVAAN 2025



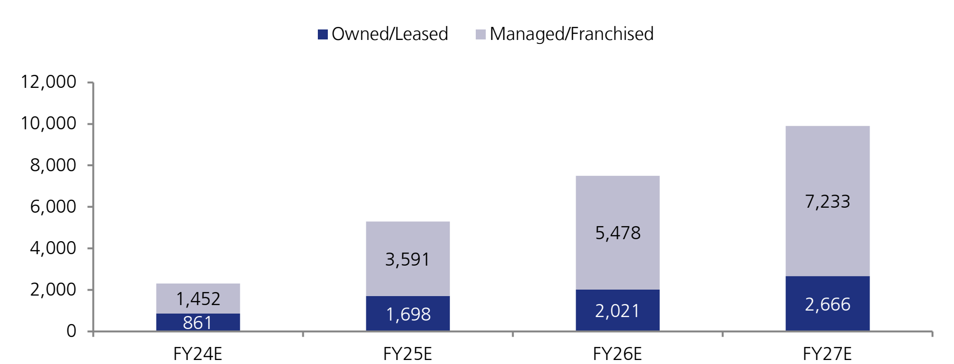
Source: Company, JM Financial

Exhibit 21. Growth to be led by pipeline assets…

Brands (no. of keys)	FY23	FY24E	FY25E	FY26E	FY27E	Total
Taj	11,539	597	484	1,113	825	15,111
Vivanta	3,801	391	684	670	870	6,435
SeleQtions	1,361	405	458	104	0	2,332
Ginger	4,637	995	870	323	705	7,707
Total	**21,338**	**2,388**	**2,496**	**2,210**	**2,400**	**31,585**

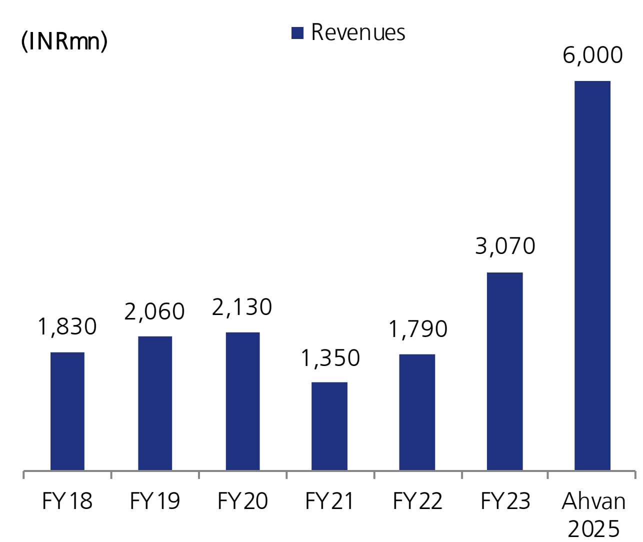
Source: Company, JM Financial

Exhibit 22. …and will be majorly through the asset-light route



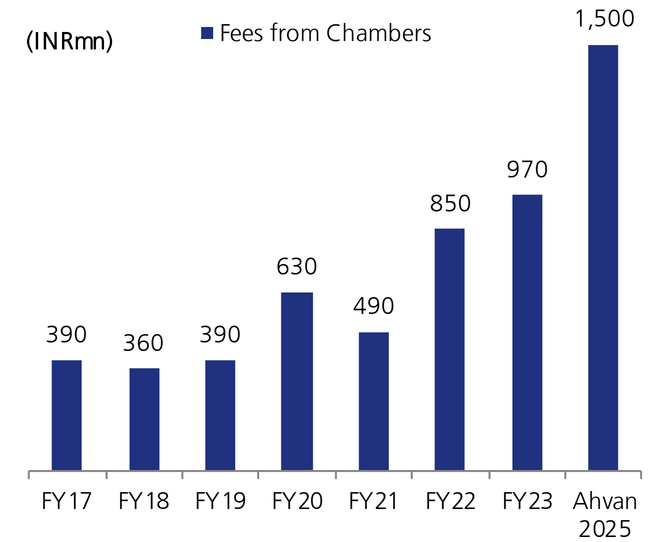
Source: Company, JM Financial

Exhibit 23. Ginger to reach 100+ properties by FY26



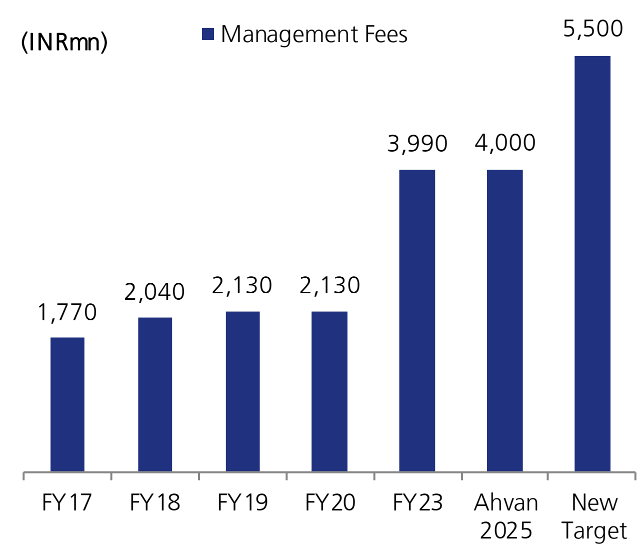
Source: Company, JM Financial

Exhibit 24. Rapid scale-up of Chambers



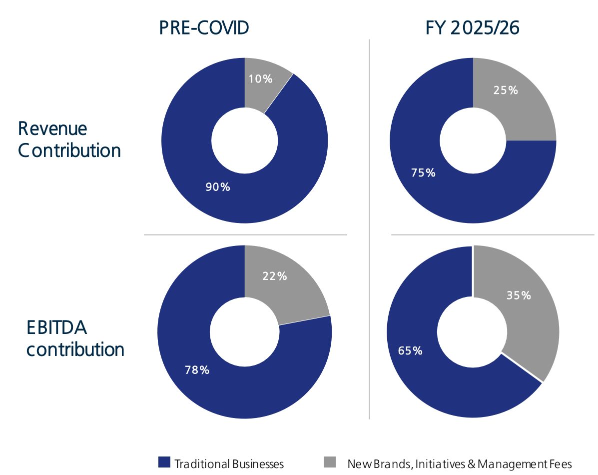
Source: Company, JM Financial

Exhibit 25. As IH turns asset light, fees increases two-fold



Source: Company, JM Financial

Exhibit 26. Enterprise level targets under AHVAAN



Source: Company, JM Financial

Exhibit 27. IH's turnaround reflected in the financial statements

Particulars	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Portfolio											
Owned & holding companies	11,867	12,040	12,413	12,473	12,474	12,797	12,781	12,940	13,106	13,170	12,914
Management Contracts	2,464	3,463	3,504	4,109	4,351	4,348	5,107	5,861	6,427	7,439	8,719
Total	**14,331**	**15,503**	**15,917**	**16,582**	**16,825**	**17,145**	**17,888**	**18,801**	**19,533**	**20,609**	**21,633**
% of asset light	**17%**	**22%**	**22%**	**25%**	**26%**	**25%**	**29%**	**31%**	**33%**	**36%**	**40%**
Financial metrics (INR mn)											
Revenue	37,434	40,662	41,886	40,230	40,206	41,036	45,120	44,631	15,752	30,562	58,099
EBITDA	5,376	5,596	4,886	5,522	6,096	6,704	8,297	9,675	-3,618	4,048	18,046
EBITDA Margin (%)	14%	14%	12%	14%	15%	16%	18%	22%	-23%	13%	31%
Adj. EBITDA	6,011	6,197	5,542	6,193	6,758	7,352	8,912	9,675	-3,618	4,048	18,046
Adj EBITDA Margin (%)	16%	15%	13%	15%	17%	18%	20%	22%	-23%	13%	31%
PAT	-4,302	-5,538	-3,781	-2,312	-633	1,009	2,868	3,544	-7,201	-2,477	10,026
PAT Margin (%)	NM	NM	NM	NM	NM	2%	6%	8%	NM	NM	17%
Leverage Factor	2.6	2.8	3.3	3.3	2.8	2.2	1.8	2.0	2.3	1.9	1.6
Asset Turnover Ratio	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.5	0.2	0.3	0.5
ROE	**0%**	**0%**	**-1%**	**-6%**	**-2%**	**2%**	**7%**	**7%**	**-22%**	**-5%**	**13%**
Gross Block	53,425	55,858	57,669	55,292	50,981	57,164	62,670	66,222	74,891	78,082	81,495
Net Debt	34,281	29,537	35,812	31,594	24,702	17,334	12,711	15,402	18,641	-1,055	-9,925
Ginger Operating Performance											
Revenue	955	1,164	1,257	1,416	1,546	1,842	2,035	2,105	1,255	1,709	3,045
EBITDA	124	195	192	230	155	139	149	483	16	347	1,126
EBITDA Margin (%)	13%	17%	15%	16%	10%	8%	7%	23%	1%	20%	37%
International Hotels Operating Performance											
Revenue	8,460	10,210	10,407	11,192	9,669	8,614	9,705	10,199	1,401	5,077	10,673
EBITDA	10	431	394	560	297	-56	774	765	-1,717	-316	994
EBITDA Margin (%)	0%	4%	4%	5%	3%	-1%	8%	7%	-123%	-6%	9%

Source: Company, JM Financial

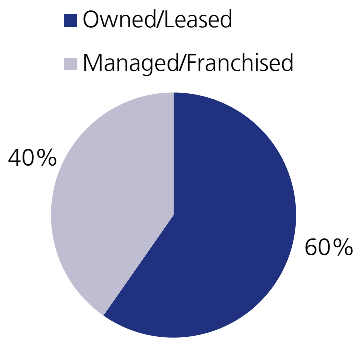
INR 15bn of equity fund raise through a rights issue in FY18

INR 40bn of equity fund raise through a rights and QIP issue in H2FY22

Company Overview

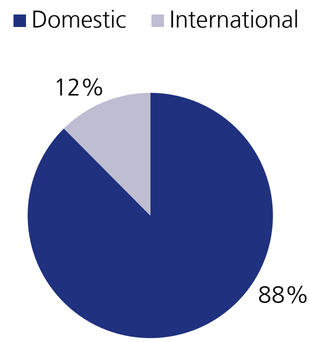
- IH is one of the leading hospitality chains in India by number of hotels (Source: Horwath HTL Report) and has evolved into a dynamic hospitality ecosystem. IH was incorporated in 1902 and is promoted by Tata Sons Private Limited, which held 38.2% of the company's shareholding as of 30th Jun'23.
- IH's primary business is of owning, operating and managing hotels and resorts under various brands including the flagship brand "Taj". The company's first hotel, the Taj Mahal Palace, Mumbai, commenced operations in 1903. As on 30th Apr'23, the IH portfolio consists of 21,633 rooms across 188 properties.

Exhibit 28. Rooms split by ownership



Source: Company, JM Financial

Exhibit 29. Room split by geography



Source: Company, JM Financial

IH brand portfolio

- IH has re-imagined its brand architecture to become a 'House of Brands'. Several newly launched brands have created alternative revenue streams to expand IH's hospitality ecosystem. New brands like Qmin, amã Stays & Trails, Seven Rivers microbrewery, and niu&nau have shown good traction in a short time span. Existing brands like Ginger and The Chambers were re-imagined and re-positioned within the markets. Several F&B brands such as Bombay Brasserie, Shamiana, Southern Spice, Golden Dragon, etc. have also been opened in new and existing hotels across destinations.
- Taj: "Taj" is the flagship (super premium, luxury) brand used by the company's palace hotels, landmark hotels, resorts and safaris and leisure destinations across the globe. It has achieved an important milestone of 100 hotels in its portfolio with 81 in operation and 19 in the pipeline. This brand alone contributes 72% and 66% of the enterprise revenue and EBITDA respectively.
- SeleQtions: "SeleQtions" is the upper upscale/upscale brand that includes a collection of IH's marquee and distinctive properties in and around India's key metro cities. IH has been growing this portfolio mostly through managed contracts. Currently, it has 21 operational hotels with another 10 hotels in the pipeline.
- Vivanta: "Vivanta" is in the upper upscale/upscale category of hotels. Such hotels are located in the business and leisure centres across India and South East Asia and are targeted towards the global cosmopolitan traveller. Currently there are 27 operational hotels are under this brand and another 20 are expected to come up in the next 3-4 years.
- Ginger: "Ginger" is the midscale brand for budget travellers and is operated through the company's subsidiary, Roots Corporation Limited. IH has a portfolio of 85 Ginger branded hotels across 50+ locations, including 26 under development. Within its portfolio, several properties are being upgraded to a "Lean Luxe model". Such properties now constitute 50% of its portfolio. In FY23, Ginger achieved its highest turnover surpassing INR 3,000mn with an EBITDA margin (before IHCL fees) of 39%.

- Ama: "amã Stays & Trails" is the company's homestay brand for exclusive and longer duration stays in unexplored destinations. During FY23, the portfolio grew by 50% with 21 new openings. Currently, there are 66 such properties serving guests and a further 51 are in the pipeline.

Business Beyond Hotels

- The Chambers: Exclusive business club across eight landmark Taj hotels in India, Dubai, London and New York. It added 170 members to close FY23 at 2,600 members. Membership fee earned during FY23 from The Chambers members was nearly INR 1,000mn.
- J Wellness Circle: 85+ spas offering rejuvenating wellness experiences across Taj, select Vivanta and SeleQtions hotels across the globe.
- F&B Brands: The F&B portfolio of IH has a number of brand concepts, which include multi-cuisine restaurants, speciality restaurants and the bistro/bar concepts.
  - Bombay Brasserie, Loya and Southern Spice: Indian cuisine
  - Machan & Shamiana: Multi-cuisine Fine Dining Restaurant
  - Paper Moon - Italian
  - Seven Rivers & House of Nomad – microbrewery and pub concepts
  - Thai Pavilion, House of Ming, Wasabi by Morimoto and Golden Dragon: East and South East Asian cuisines
- Khazana: In-hotel retail stores that sell handpicked artisanal mementos reflecting the finesse and richness of Indian craftsmanship.
- niu&nau: Reimagined salon concept that serves as a social hub and creative space, offering personalised experiences; currently, seven such salons are in operation.
- Qmin: Food delivery platform offering the best of cuisines, multi-feast menus, popular favourites, and virtual celebrations. It is currently present in 24 cities and has offline presence through Qmin Shop, Qmin Truck, Qmin Café and Qmin @ Ginger. 17 Ginger hotels now also have Qmin QSRs as an 'All Day Diner'.
- TajSats: India's largest airline catering company with 58% market share. It has a portfolio of eight kitchens located in Mumbai, New Delhi, Kolkata, Bengaluru, Goa, Mopa, Chennai and Amritsar. It also expanded into non-aviation segments like institutional catering, outdoor catering and corporate gifting (new brand of artisan chocolates). It has also hosted a multi-cuisine restaurant on the Qmin app.

Key Management

- Mr Puneet Chhatwal, Managing Director & Chief Executive Officer: He was previously the chief executive officer of Deutsche Hospitality/ Steigenberger Hotels AG. He has been in senior international leadership roles for almost 20 years. He was living in Europe for the past 28 years and was the first non-European to head a European hospitality organisation with his innovative leadership. In his association with Steigenberger Hotels AG, the group witnessed a growth of more than 50% in portfolio along with increased presence in gateway destinations.
- Mr Girdhar Sanjeevi, Executive Vice President & Chief Financial Officer: In a career spanning 30 years, Mr Sanjeevi worked in both finance and commercial roles handling multiple roles across businesses - consumer businesses, financial services, and retail. He joined IHCL from Merck & Co, where he was the CFO for South Asia and the Business Head for Pakistan, Bangladesh, Sri Lanka and Nepal. Prior to that, he held senior management positions in ILF&S, Diageo Plc and ITC.
- Mr Rohit Khosla, Executive Vice President – Operations (North and West India): Mr Khosla joined IHCL in 1999 as Executive Assistant Manager, at the capital's iconic landmark, Taj Palace, New Delhi, and has held several positions within the group since then. Currently he oversees hotels in northern, eastern and western India, Taj Tashi, Bhutan, and the

operations of Taj Safaris in India and Nepal. He is a post graduate from Institute of Hotel Management, Mumbai, and has been felicitated with numerous industry awards.

- **Mr Prabhat Verma: Executive Vice President – Operations (South India, International and Expressions):** He is a hotel management graduate from IHMCTAN, Kolkata. Mr Verma joined IHCL in 1990 as a management trainee and has held key positions like General Manager of Taj Malabar, Cochin, and Taj Coromandel, Chennai. He has won numerous industry accolades including Young General Manager of the Year 2005, 5 Star Deluxe category by FHRAI and the 'International Cooperation between the UK and India Award' (2012) by Asian Voice.

Board of Directors

Exhibit 30. IHCL: Board of Directors

Name	Position	Brief profile
N. Chandrasekaran	Non-Executive Director & Chairman	Natarajan Chandrasekaran is the Chairman of the board of Tata Sons, the holding company and promoter of more than 100 Tata operating companies.
Nasser Munjee	Non-Executive, Independent Director	An alumnus of London School of Economics, Nasser held various positions at HDFC for over 20 years, including serving as its executive director, managing director of IDFC and is currently the Chairman of DCB Bank.
Hema Ravichandar	Non-Executive, Independent Director	As a Strategic HR Advisor, she currently is an external consultant to numerous organisations across the world. She is an alumnus of the Indian Institute of Management, Ahmedabad
Venkataramanan Anantharaman	Non-Executive, Independent Director	Senior banking professional with extensive advisory experience with stints at Deutsche Bank, Standard Chartered and Credit Suisse.
Anupam Narayan	Non-Executive, Independent Director	He has previously held senior roles in global hotel companies like Best Western, Red Lion Hotels etc.; Mr. Narayan holds an UG degree from IIT Kanpur and an MBA from the University of Florida.
Puneet Chhatwal	Managing Director & CEO	Previously the CEO of Deutsche Hospitality / Steigenberger Hotels AG. He has held senior international leadership roles in the hospitality industry for the last 20 years.

Source: Company, JM Financial

Subsidiary Financials and Estimates

Exhibit 31. Piem Hotels – abridged financials

Piem (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	CAGR FY23-26E (%)
Room Revenue	1,630	1,790	1,786	701	1,230	2,341	2,706	2,915	3,061	9%
F&B Revenue	1,696	1,863	1,858	730	1,280	2,436	2,842	3,061	3,214	10%
Other Revenue	195	202	203	68	111	194	203	213	224	5%
Revenue from Operations	**3,521**	**3,855**	**3,847**	**1,500**	**2,621**	**4,970**	**5,751**	**6,189**	**6,498**	**9%**
YoY Growth (%) -RHS	2%	10%	0%	-61%	75%	90%	16%	8%	5%	NM
EBITDA	**276**	**440**	**544**	**-456**	**-8**	**1,229**	**1,470**	**1,654**	**1,666**	**11%**
EBITDA Margin (%) - RHS	8%	11%	14%	-30%	0%	25%	26%	27%	26%	NM
YoY Growth (%) -RHS	-15%	60%	24%	-184%	-98%	-15396%	20%	13%	1%	NM

Source: Company, JM Financial
Note: EBITDA as reported by company, not adjusted for Ind-AS 116 treatment of lease rentals

Exhibit 32. Benaras Hotels – abridged financials

Benaras (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	CAGR FY23-26E (%)
Room Revenue	270	358	317	113	263	523	591	637	669	9%
F&B Revenue	180	216	287	116	212	374	473	509	535	13%
Other Revenue	33	30	33	14	24	51	53	56	59	5%
Revenue from Operations	**483**	**604**	**636**	**243**	**499**	**948**	**1,117**	**1,202**	**1,262**	**10%**
YoY Growth (%) -RHS	-6%	25%	5%	-62%	106%	90%	18%	8%	5%	NM
EBITDA	**121**	**182**	**208**	**4**	**147**	**377**	**463**	**480**	**491**	**9%**
EBITDA Margin (%) - RHS	25%	30%	33%	2%	29%	40%	41%	40%	39%	NM
YoY Growth (%) -RHS	-21%	50%	14%	-98%	3430%	156%	23%	4%	2%	NM

Source: Company, JM Financial
Note: EBITDA as reported by company, not adjusted for Ind-AS 116 treatment of lease rentals

Exhibit 33. Roots Corporation – abridged financials

Roots (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	CAGR FY23-26E (%)
Room Revenue	1,659	1,835	1,871	1,088	1,517	2,810	4,015	5,016	5,698	27%
Management and Other Fees	92	104	131	123	145	194	214	286	302	16%
Rental income and other revenue	91	96	103	44	47	41	43	45	48	5%
Revenue from Operations	**1,842**	**2,035**	**2,105**	**1,255**	**1,709**	**3,045**	**4,273**	**5,347**	**6,047**	**26%**
YoY Growth (%) -RHS	19%	10%	3%	-40%	36%	78%	40%	25%	13%	NM
EBITDA	139	149	483	16	347	1,126	1,821	2,272	2,573	**32%**
EBITDA Margin (%) - RHS	8%	7%	23%	1%	20%	37%	43%	42%	43%	NM
YoY Growth (%) -RHS	-10%	7%	224%	-97%	2118%	224%	62%	25%	13%	NM

Source: Company, JM Financial
Note: EBITDA as reported by company, not adjusted for Ind-AS 116 treatment of lease rentals

Exhibit 34. St. James Court – abridged financials

St. James Court (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	CAGR FY23-26E (%)
Room Revenue	2,265	2,722	2,891	161	1,511	3,417	3,868	4,092	4,297	8%
F&B Revenue	422	479	524	33	351	675	774	818	859	8%
Other Revenue	106	109	100	238	132	91	98	104	110	6%
Revenue from Operations	**2,793**	**3,310**	**3,515**	**432**	**1,995**	**4,183**	**4,739**	**5,015**	**5,266**	**8%**
YoY Growth (%) -RHS	-10%	18%	6%	-88%	362%	110%	13%	6%	5%	NM
EBITDA	**204**	**737**	**809**	**-409**	**-252**	**477**	**688**	**709**	**692**	**13%**
EBITDA Margin (%) - RHS	7%	22%	23%	-95%	-13%	11%	15%	14%	13%	NM
YoY Growth (%) -RHS	-69%	262%	10%	-150%	-38%	-289%	44%	3%	-2%	NM

Source: Company, Bloomberg, JM Financial
Note: EBITDA as reported by company, not adjusted for Ind-AS 116 treatment of lease rentals

Exhibit 35. The United Overseas Holdings – abridged financials

The United Overseas Holdings	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	CAGR FY23-26E (%)
Room Revenue	2,773	3,031	3,097	333	1,845	3,397	4,040	4,647	4,879	13%
F&B Revenue	2,578	2,738	2,863	39	509	2,161	2,828	3,485	3,903	22%
Other Revenue	470	626	723	597	728	932	998	1,069	1,122	6%
Revenue from Operations	**5,821**	**6,396**	**6,683**	**969**	**3,082**	**6,490**	**7,866**	**9,200**	**9,904**	**15%**
YoY Growth (%) -RHS	-11%	10%	4%	-86%	218%	111%	21%	17%	8%	NM
EBITDA	**-260**	**37**	**-45**	**-1,308**	**-64**	**517**	**876**	**982**	**1,073**	**28%**
EBITDA Margin (%) - RHS	-4%	1%	-1%	-135%	-2%	8%	11%	11%	11%	NM
YoY Growth (%) -RHS	-29%	-114%	-222%	2824%	-95%	-905%	69%	12%	9%	NM

Source: Company, JM Financial
Note: EBITDA as reported by company, not adjusted for Ind-AS 116 treatment of lease rentals

Financial Analysis

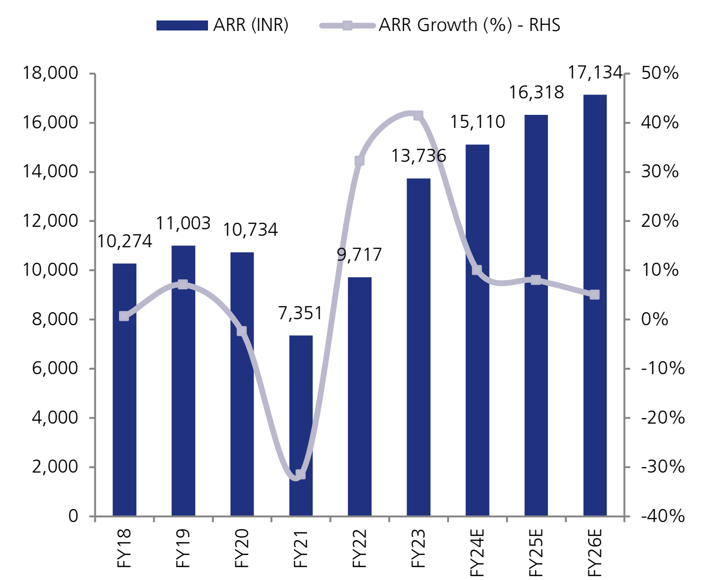
Exhibit 36. Quarterly financial snapshot

INR mn	1QFY24	1QFY23	YoY	4QFY23	QoQ	FY23	FY24E	FY23-24 YoY
Revenue from operations	14,664	12,661	16%	16,254	-10%	58,099	66,348	14%
Cost of sales	1,155	1,039	11%	1,255	-8%	4,729	5,297	12%
Gross margin (%)	92%	92%	34bps	92%	-15bps	92%	92%	16bps
Employee expenses	4,287	3,596	19%	4,218	2%	15,823	18,577	17%
Other expenses	5,121	4,247	21%	5,426	-6%	19,502	20,739	6%
EBITDA	4,102	3,779	9%	5,355	-23%	18,046	21,735	20%
EBITDA margin (%)	28.0%	29.8%	-187bps	32.9%	-497bps	31.1%	32.8%	170bps
Depreciation	1,091	1,026	6%	1,076	1%	4,161	4,644	12%
Interest costs	565	624	-9%	570	-1%	2,361	2,143	-9%
Other income	493	271	82%	291	69%	1,389	2,119	53%
PBT	2,939	2,401	22%	4,000	-27%	12,914	17,066	32%
Profit from associates	254	147	NM	368	NM	814	855	NM
Tax	833	648	NM	980	NM	3,232	5,120	58%
Minority Interest	136	108	26%	106	28%	502	528	NM
Adjusted PAT	2,224	1,792	24%	3,283	-32%	9,993	12,273	23%
Extraordinary Income	0	-91	NM	0	NM	33	0	NM
PAT	2,224	1,701	31%	3,283	-32%	10,026	12,273	22%

Source: Company, JM Financial

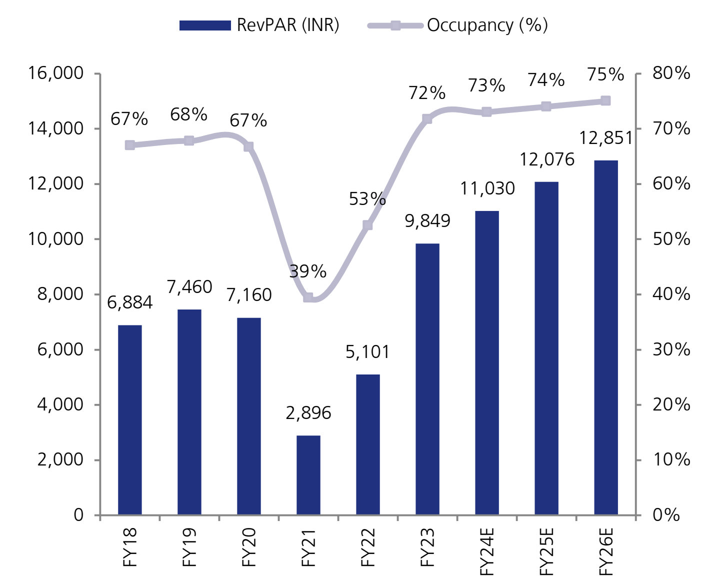
- We model 8% and 10% ARR growth in FY24E and FY25E respectively and expect occupancies inch up further with peak occupancies being achieved in FY26E(Exhibit 37). We expect IHCL's consolidated revenue to grow at a CAGR of 12.5% over FY23-FY26E to INR 82.3bn in FY26E (Exhibit 39) led by improved ARR, better occupancy and room additions.
- EBITDA is expected to grow at a CAGR of 15.9% to INR 28.1bn over the same period led by higher contributions from new high-margin businesses and reduction in overheads. We currently estimate EBITDA margin to move upwards from 31.1% in FY23 to 33.9% in FY26E, which is broadly in line with the AHVAAN targets set by the company's management (Exhibit 40).

Exhibit 37. ARR growth for IHCL standalone



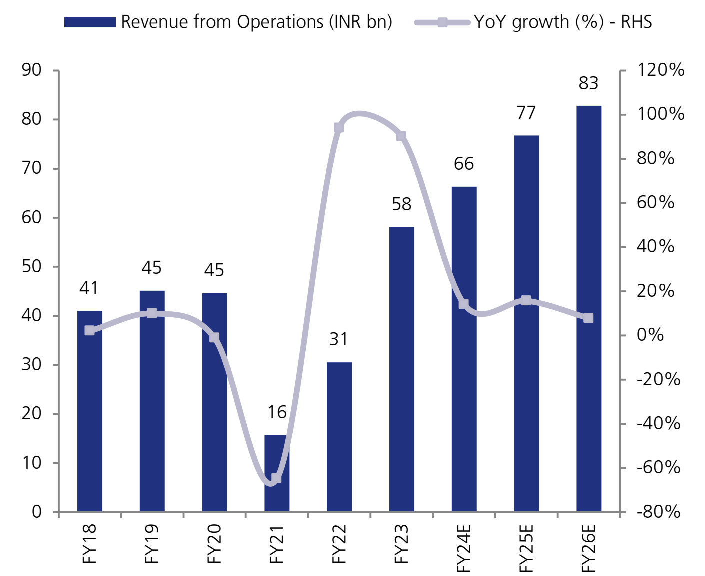
Source: Company, JM Financial

Exhibit 38. RevPAR and occupancy for IHCL standalone



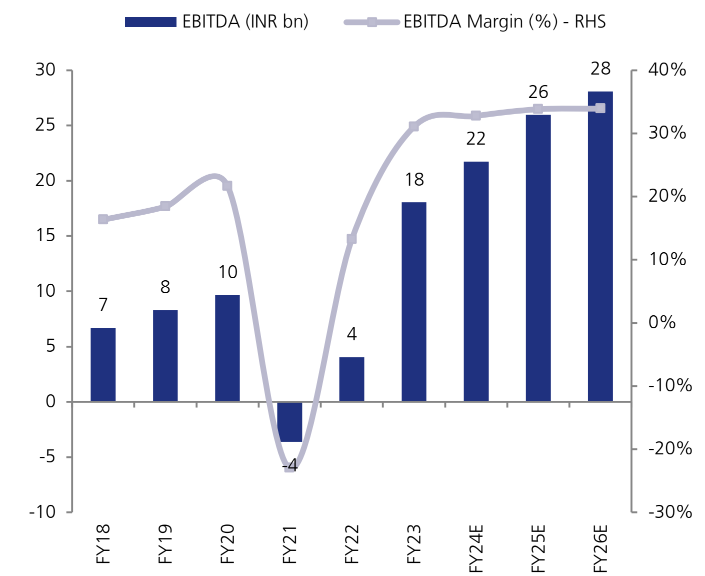
Source: Company, JM Financial

Exhibit 39. IHCL consolidated revenue



Source: Company, JM Financial

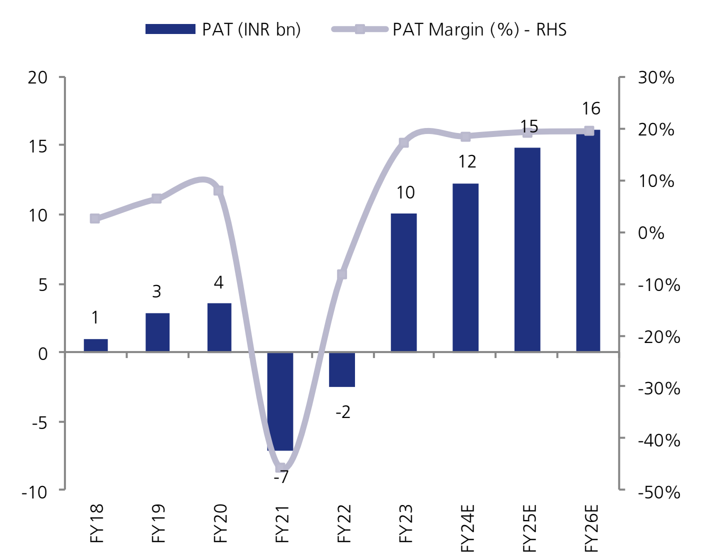
Exhibit 40. IHCL consolidated EBITDA



Source: Company, JM Financial
Note: EBITDA as reported by company, not adjusted for Ind-AS 116 treatment of lease rentals

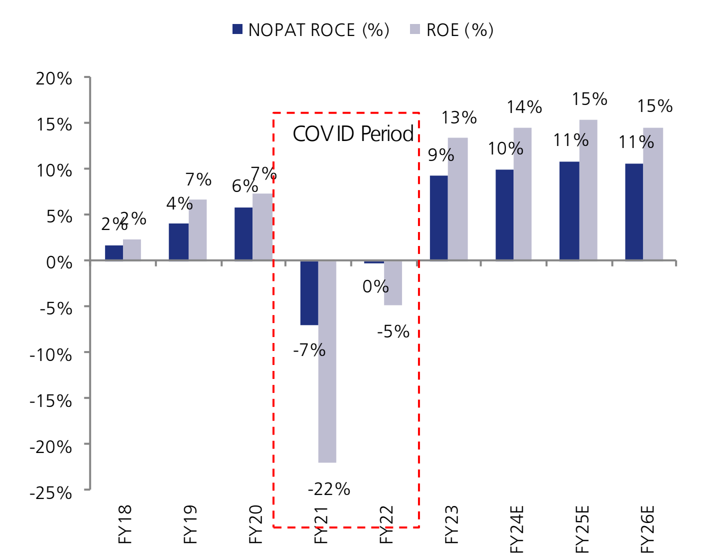
- Among key subsidiaries of IH, we expect Roots EBITDA margin to reach 42% in FY26E, from 37% in FY23 (Exhibit 33), as the revamped portfolio reaps benefit of higher ARRs as occupancies ramp up in the refurbished hotels. Among international subsidiaries, we expect St. James to demonstrate earnings growth over FY23-FY26E and US operations to achieve break-even in FY24 (Exhibit 34 and 35).

Exhibit 41. Profitability improves due to operating leverage



Source: Company, JM Financial

Exhibit 42. Return ratios on an upward trajectory



Source: Company, JM Financial
Note: EBITDA as reported by company, not adjusted for Ind-AS 116 treatment of lease rentals

- We have modelled 17.1% CAGR in consolidated PAT for IH during FY23-FY26E (Exhibit 41). We believe IH's comprehensive presence across all customer segments, vastly improved brand architecture and sharper focus on capital allocation coupled with the favourable demand situation in the sector is yielding results with a positive flow through into earnings.

Valuation

- We initiate coverage on IHCL with a BUY recommendation and a Sep'24 TP of INR 450, ascribing a 22.0x Sep'25E EV/EBITDA. We are constrained by the limited public market history of the peer set and the limited profitability track record of the sector to conclude on a P/E multiple valuation approach.
- Additionally, the asset holdings differ greatly across hotel companies (owned, leased & managed/franchised). The quality and stability of earnings depend considerably on the level of operating leverage in a hotel company. Consequently, net income/PAT based multiples may not be a true comparative benchmark for such companies.

Exhibit 43. Valuation summary of Indian Hotels (IH)

(INR mn), unless specified	EBITDA Sep-25	Multiple	Value	Value/PS
IHCL - ex JV				
Consolidated Enterprise Value	27,023	22.0x	594,501	419
Less: Minority Interests			-5,796	(4)
Add: Net Cash			47,215	33
Sub-Total			635,920	
Adjustment: Investments in JVs and Associates			12,237	9
IH - Total Equity Value			648,156	448
Target Price (INR)			**450.0**	

Source: JM Financial; Data as on 16th Aug'23
Note: Post Ind-AS 116 EBITDA, where the lease rentals are included in finance related costs

Exhibit 44. Valuation: Peer set

Company	Ticker	Currency	CMP	Mcap (INR bn)	P/E (x) FY24E	P/E (x) FY25E	P/E (x) FY26E	EV/EBITDA (x) FY24E	EV/EBITDA (x) FY25E	EV/EBITDA (x) FY26E	EV/Sales (x) FY24E	EV/Sales (x) FY25E	EV/Sales (x) FY26E
Asset Owners													
Chalet	CHALET IN EQUITY	INR	480	98	36.2	25.3	17.4	19.5	15.6	12.0	8.4	7.0	5.7
Asset/Brand Owners													
EIH	EIH IN EQUITY	INR	211	132	32.5	27.4	NA	21.1	18.6	NA	6.5	5.9	NA
Indian Hotels	IH IN EQUITY	INR	383	544	43.4	36.4	32.9	26.2	23.0	21.1	8.5	7.7	7.2
Lemon Tree	LEMONTRE IN EQUITY	INR	95	75	45.7	27.5	22.3	19.1	14.3	13.2	9.7	7.6	6.9
Royal Orchids Hotel	ROHL IN EQUITY	INR	297	8	14.1	9.6	NA	10.6	7.5	NA	2.9	2.1	NA
Mahindra Resorts and Hotels	MHRL IN EQUITY	INR	343	69	39.2	33.4	NA	21.1	18.4	NA	4.9	4.4	NA

Source: Company, Bloomberg, JM Financial; Data as on 16th Aug'23.

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	30,562	58,099	66,348	76,773	82,793
Sales Growth	94.0%	90.1%	14.2%	15.7%	7.8%
Other Operating Income	0	0	0	0	0
Total Revenue	**30,562**	**58,099**	**66,348**	**76,773**	**82,793**
Cost of Goods Sold/Op. Exp	2,572	4,729	5,297	6,114	6,534
Personnel Cost	11,502	15,823	18,577	23,032	27,322
Other Expenses	12,440	19,502	20,739	21,661	20,857
EBITDA	**4,048**	**18,046**	**21,735**	**25,965**	**28,080**
EBITDA Margin	13.2%	31.1%	32.8%	33.8%	33.9%
EBITDA Growth	0.0%	345.8%	20.4%	19.5%	8.1%
Depn. & Amort.	4,061	4,161	4,644	5,374	5,795
EBIT	-13	13,885	17,090	20,591	22,285
Other Income	1,552	1,389	2,119	2,161	2,204
Finance Cost	4,277	2,361	2,143	2,063	1,986
PBT before Excep. & Forex	-2,738	12,914	17,066	20,689	22,503
Excep. & Forex Inc./Loss(-)	156	33	0	0	0
PBT	-2,582	12,946	17,066	20,689	22,503
Taxes	-358	3,232	5,120	6,207	6,751
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	-598	1,316	1,382	1,451	1,524
Reported Net Profit	-2,477	10,026	12,273	14,826	16,113
Adjusted Net Profit	**-2,633**	**9,993**	**12,273**	**14,826**	**16,113**
Net Margin	-8.6%	17.2%	18.5%	19.3%	19.5%
Diluted Share Cap. (mn)	1,420.4	1,420.4	1,420.4	1,420.4	1,420.4
Diluted EPS (INR)	**-1.9**	**7.0**	**8.6**	**10.4**	**11.3**
Diluted EPS Growth	0.0%	0.0%	22.8%	20.8%	8.7%
Total Dividend + Tax	866	1,733	1,633	1,633	1,633
Dividend Per Share (INR)	0.5	1.0	1.0	1.0	1.0

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	70,623	79,820	90,460	103,652	118,131
Share Capital	1,420	1,420	1,420	1,420	1,420
Reserves & Surplus	69,202	78,399	89,039	102,232	116,711
Preference Share Capital	0	0	0	0	0
Minority Interest	5,930	6,601	6,073	5,519	4,938
Total Loans	19,848	8,183	6,683	5,183	3,683
Def. Tax Liab. / Assets (-)	-704	-15	64	140	211
Total - Equity & Liab.	**95,696**	**94,588**	**103,280**	**114,494**	**126,963**
Net Fixed Assets	86,089	91,506	92,301	91,913	91,654
Gross Fixed Assets	78,082	81,495	87,495	90,495	92,995
Intangible Assets	26,896	30,901	31,840	32,826	33,862
Less: Depn. & Amort.	20,822	24,131	28,775	34,149	39,945
Capital WIP	1,933	3,242	1,742	2,742	4,742
Investments	10,643	11,370	11,938	12,535	13,162
Current Assets	32,584	32,230	46,814	64,088	82,140
Inventories	1,008	1,092	1,990	2,303	2,484
Sundry Debtors	2,553	4,465	5,308	6,142	6,623
Cash & Bank Balances	7,835	7,364	20,716	35,351	51,666
Loans & Advances	865	844	886	930	977
Other Current Assets	20,322	18,466	17,914	19,362	20,389
Current Liab. & Prov.	33,620	40,517	47,773	54,043	59,992
Current Liabilities	22,874	27,896	30,258	32,410	34,227
Provisions & Others	10,747	12,622	17,516	21,633	25,765
Net Current Assets	-1,036	-8,287	-959	10,046	22,147
Total – Assets	**95,696**	**94,588**	**103,280**	**114,494**	**126,963**

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	-2,582	12,946	17,066	20,689	22,503
Depn. & Amort.	4,061	4,161	4,644	5,374	5,795
Net Interest Exp. / Inc. (-)	3,542	1,910	2,143	2,063	1,986
Inc (-) / Dec in WCap.	1,212	241	5,131	2,692	3,228
Others	-67	-563	327	344	361
Taxes Paid	551	-2,504	-5,120	-6,207	-6,751
Operating Cash Flow	**6,716**	**16,190**	**24,192**	**24,956**	**27,122**
Capex	-2,851	-4,276	-5,439	-4,986	-5,536
Free Cash Flow	3,866	11,914	18,752	19,969	21,587
Inc (-) / Dec in Investments	-4,463	1,809	-806	-854	-904
Others	-9,097	1,084	0	0	0
Investing Cash Flow	**-16,412**	**-1,383**	**-6,245**	**-5,840**	**-6,440**
Inc / Dec (-) in Capital	39,820	13	0	0	0
Dividend + Tax thereon	-524	-644	-1,633	-1,633	-1,633
Inc / Dec (-) in Loans	-16,558	-11,937	-1,500	-1,500	-1,500
Others	-6,150	-2,711	-1,461	-1,346	-1,234
Financing Cash Flow	**16,588**	**-15,279**	**-4,594**	**-4,480**	**-4,368**
Inc / Dec (-) in Cash	**6,893**	**-471**	**13,352**	**14,635**	**16,315**
Opening Cash Balance	943	7,835	7,364	20,716	35,351
Closing Cash Balance	7,835	7,364	20,716	35,351	51,666

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	-8.6%	17.2%	18.5%	19.3%	19.5%
Asset Turnover (x)	0.3	0.5	0.5	0.6	0.6
Leverage Factor (x)	1.9	1.6	1.5	1.4	1.3
RoE	-4.9%	13.3%	14.4%	15.3%	14.5%

Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	49.7	56.2	63.7	73.0	83.2
ROIC	0.0%	13.5%	16.3%	21.0%	24.3%
ROE	-4.9%	13.3%	14.4%	15.3%	14.5%
Net Debt/Equity (x)	0.2	0.0	-0.2	-0.3	-0.4
P/E (x)	-206.0	54.3	44.2	36.6	33.7
P/B (x)	7.7	6.8	6.0	5.2	4.6
EV/EBITDA (x)	138.5	30.5	24.6	19.9	17.8
EV/Sales (x)	18.3	9.5	8.1	6.7	6.0
Debtor days	30	28	29	29	29
Inventory days	12	7	11	11	11
Creditor days	53	43	49	50	50

Source: Company, JM Financial

Lemon Tree Hotels | BUY

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All eyes on Mumbai Aurika

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We acknowledge the support of Prithvi Shah in the preparation of this report

Lemon Tree Hotels (LT) is the market leader in the domestic upper midscale, midscale and economy segment. It operates seven brands including Aurika, which is LT's upscale brand. We believe LT stands to benefit from the industry upcycle owing to its market leadership in the fastest-growing mid-priced (midscale & economy) segment. LT has been successful in delivering sustainable margin improvement of 700-800 bps with a relentless focus on cost optimisation and lean operations. Aurika Sky City, Mumbai, is the flagship property of LT and will lead earnings growth along with rapid scale-up in fees as the asset light portfolio also grows over the next 5 years. We initiate coverage with BUY and a TP of INR 115, valuing it at 20.0x Sep'25 consolidated EBITDA.

- **Market leader in the domestic mid-priced hotel segment:** LT is the market leader in the mid-priced segment and one of the largest owner/operator of rooms in India. It operates seven brands with a considerable presence in the lower end of the market. Its entire range of proprietary brands is differentiated and target distinct segments without any overlap or brand dilution. LT operates a portfolio of 90 operational hotels having 8,491 rooms and a development pipeline of 46 hotels having a total of 3,724 rooms (as on 30th Jun'23).

- **Aurika Sky City to lead earnings growth:** Aurika Sky City is located near Mumbai airport's T2 terminal and is on track to start operations from Oct'23. The flagship property has 669 rooms, ample amenities for MICE activities and a number of F&B outlets. We expect Aurika Sky City to achieve occupancies of ~60% and ARRs of INR 12,100 in FY25E. With an expected property EBITDA margin of ~55%, it is likely to generate Revenue/EBITDA of INR 2.4bn/INR1.2b in FY25E and the contribution to LT's consolidated EBITDA would be ~17.0%.

- **Asset-light pipeline to lift EBITDA margin:** LT's growth was largely asset heavy and through debt in the first 10-12 years. It was strategically significant for a relatively new hotel business to keep execution timelines and budgets in tight control. With full ownership of the assets, such monitoring and course correction is easier. As the portfolio achieved critical size, LT has pivoted to an asset-light approach for portfolio expansion. LT expects to add ~5,500, rooms (out of the total target of ~7,000 rooms) in the next 5 years through the asset-light route to its portfolio.

- **Initiate with BUY, TP of INR 115:** LT is the largest mid-priced hotel chain by number of owned rooms and has deep moats in the form of cost leadership and in-house development, operation and management capabilities. The Mumbai flagship coupled with the company's strategic focus on asset light expansion should drive earnings, going forward. We estimate Revenue/EBITDA CAGR of 19.5%/19.3% over FY23-26E for LT; we are not building any margin expansion and expect LT's EBITDA margins to remain at ~50%. We expect RoE to improve further from 13.6% in FY23 to 19.6% in FY26E.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	115
Upside/(Downside)	21.4%
Previous Price Target	0
Change	NA

Key Data – LEMONTRE IN	
Current Market Price	INR95
Market cap (bn)	INR75.1/US$0.9
Free Float	56%
Shares in issue (mn)	791.6
Diluted share (mn)	791.6
3-mon avg daily val (mn)	INR437.8/US$5.3
52-week range	103/66
Sensex/Nifty	65,539/19,465
INR/US$	82.9

Price Performance			
%	1M	6M	12M
Absolute	2.7	20.5	31.0
Relative*	4.3	12.2	20.4

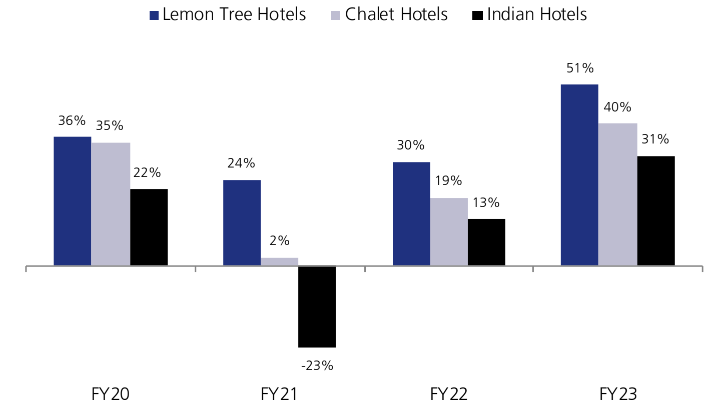
* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	4,022	8,750	10,611	13,209	14,932
Sales Growth (%)	59.8	117.5	21.3	24.5	13.0
EBITDA	1,187	4,476	5,216	6,698	7,596
EBITDA Margin (%)	29.5	51.2	49.2	50.7	50.9
Adjusted Net Profit	-874	1,146	1,312	2,145	2,697
Diluted EPS (INR)	-1.1	1.4	1.7	2.7	3.4
Diluted EPS Growth (%)	0.0	0.0	14.5	63.5	25.8
ROIC (%)	0.4	9.0	9.3	12.0	14.1
ROE (%)	-10.0	13.6	14.3	19.6	20.2
P/E (x)	-86.8	66.3	57.9	35.4	28.2
P/B (x)	9.1	8.9	7.7	6.3	5.2
EV/EBITDA (x)	82.7	22.1	18.9	14.3	12.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 16/Aug/2023

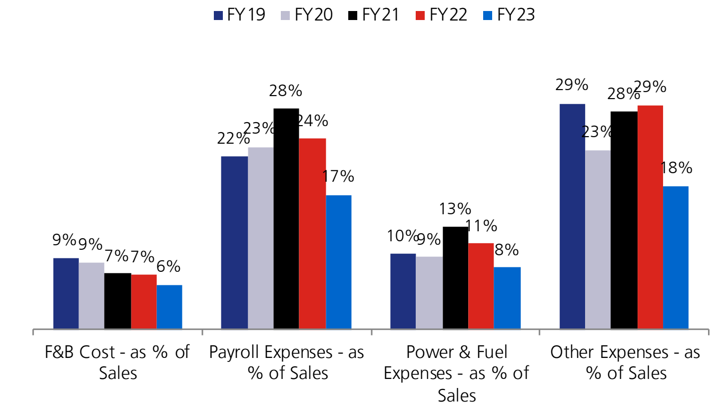
Focus Charts

Exhibit 1. Industry leading EBITDA margins



Source: Company, JM Financial

Exhibit 2. LT's relentless focus on cost on all fronts



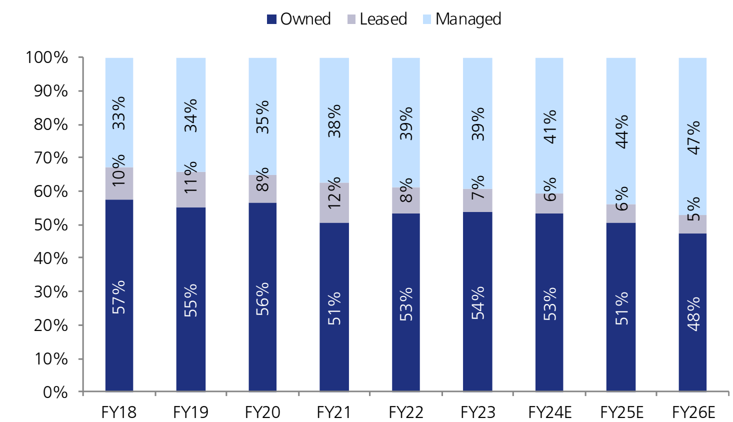
Source: Company, JM Financial

Exhibit 3. Aurika to contribute c. 17% of FY25E EBITDA

(INR mn)	FY25E
No. of Rooms	669
Occupancy in FY25E	60.00%
ARR (INR)	12,100
Total rooms revenues	1,773
F&B Revenues	620
Total Revenues	**2,393**
Total Expenses	**1,034**
Property Level EBITDA	**1,359**
Adjustment for Corporate O/H	7.00%
Adjusted EBITDA	**1,192**
Contribution to LT EBITDA	17.40%

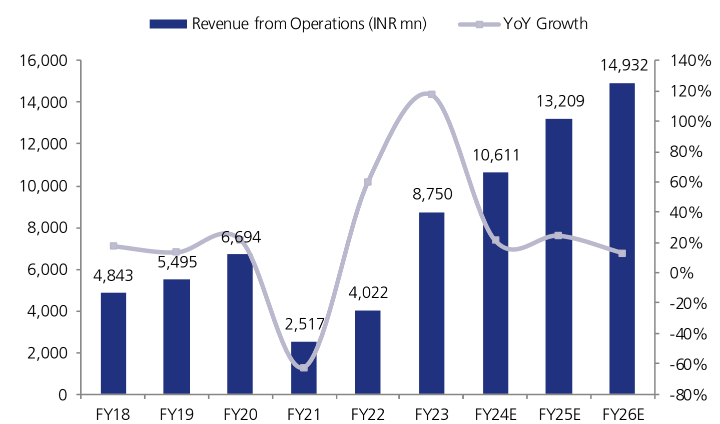
Source: Company, JM Financial

Exhibit 4. Focus on asset light portfolio expansion



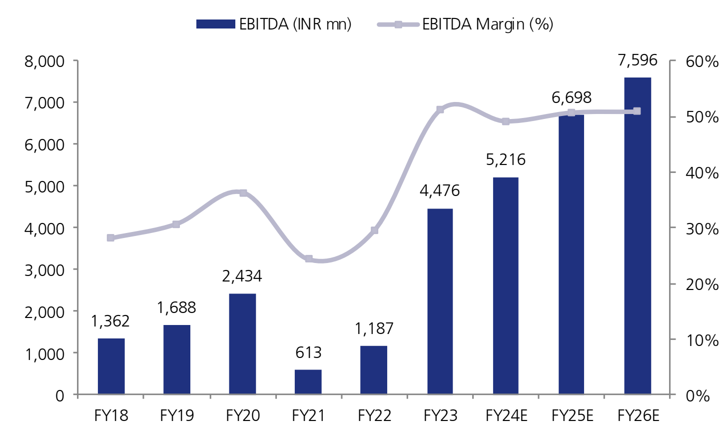
Source: Company, JM Financial

Exhibit 5. Revenue to almost double by FY26E



Source: Company, JM Financial

Exhibit 6. EBITDA margins likely to remain in range



Source: Company, JM Financial
Note: EBITDA as reported by company, not adjusted for Ind-AS 116 treatment of lease rentals

Investment Thesis

Market leader in the domestic mid-priced hotel segment

- LT is the market leader in the upper midscale, midscale and economy segments and serves all kind of customers across the value chain. It operates seven brands covering almost all segments from midscale/economy hotels to upper upscale hotels. Its entire range of proprietary brands is differentiated and targets distinct segments without overlap or brand dilution.

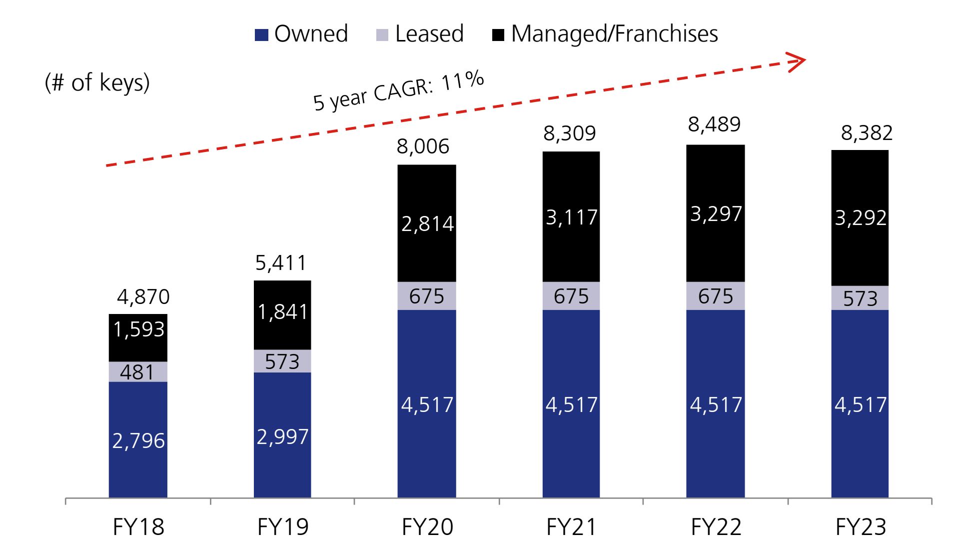
Exhibit 7. LT has ~12% market share in the branded midscale/economy segment

Segment	Industry Inventory	LT Inventory as in CY22	LT as a % of Industry Inventory	Brands
Luxury and Upper Upscale	62,107	194	0.2%	Aurika
Upscale	33,715			
Upper Midscale	35,490	2,514	7.1%	Lemon Tree Premier
Midscale and Economy	46,137	5,674	12.3%	Lemon Tree, Red Fox, Keys (Prima, Select & Lite)
Total	**177,449**	**8,382**	**4.7%**	

Source: Company, JM Financial

- All activities ranging from acquiring land to project design, project management, and construction of the hotels are being done in-house through Grey Fox Project Management, its 100% subsidiary (Grey Fox is being merged with LT, subject to NCLT approval). This is a significant competitive advantage that gives LT the ability to cut costs with an integrated approach to the hospitality business.
- LT through its deep focus on mid-priced segments has pioneered the correction of branded supply to move away from the inverted pyramid structure of the industry. It is the largest mid-priced hotel chain by number of owned rooms. As on 30th Jun'23, it has an operational portfolio of 90 hotels having 8,491 rooms and a development pipeline of 46 hotels having a total of 3,724 rooms.

Exhibit 8. LT room growth: 5-year CAGR of 11%

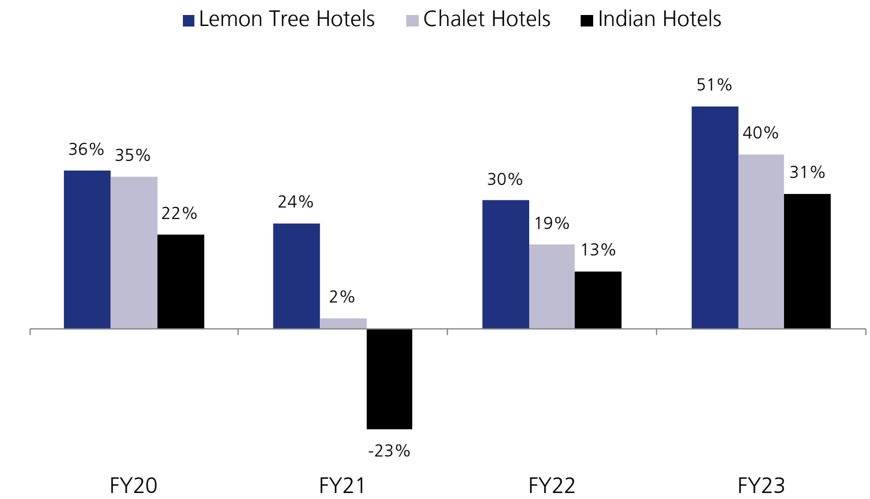


Source: Company, JM Financial

Industry leading margin through cost rationalisation and business innovations

- During the pandemic, margin was impacted significantly due to low occupancies and ARR, especially during lockdowns. LT managed to break-even at the EBITDA level through various sustainable cost-saving initiatives such as rationalisation of headcount, multi-tasking employees, reducing overhead expenses, and installation of solar rooftops across selected properties, among others (Exhibit 9 and Exhibit 11).

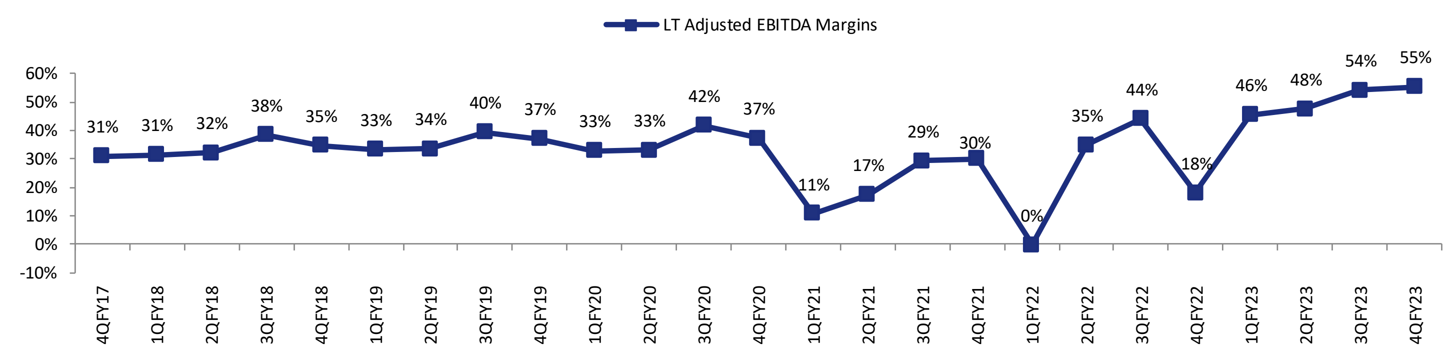
Exhibit 9. Industry leading EBITDA margin



Source: Company, JM Financial

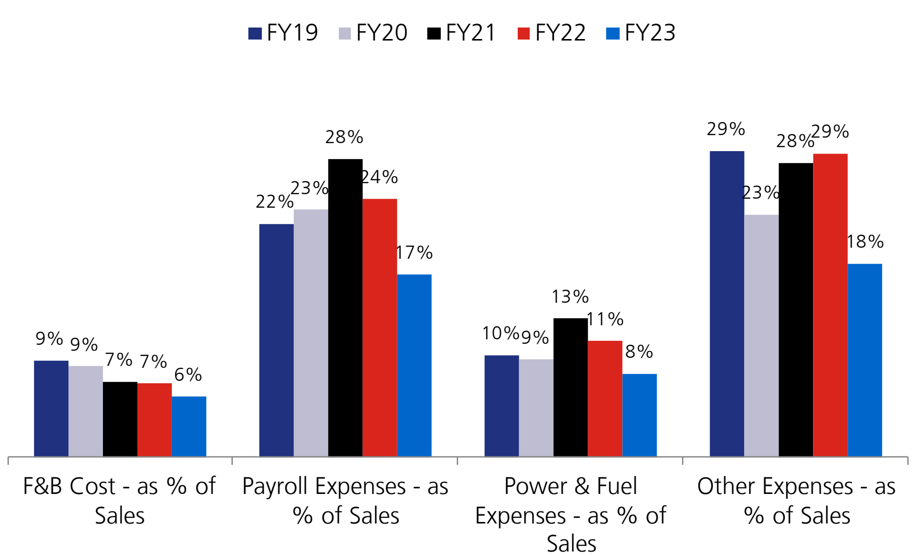
- Consequently, EBITDA margin expanded to 55% in 4QFY23, vs. previous recorded peak EBITDA margin of 41% during 3QFY20 (margin improvement of 14pps, ignoring the effects of seasonality on these numbers).

Exhibit 10. Quarterly EBITDA margin profile for LT



Source: Company, JM Financial
Note: Post Ind-AS 116 EBITDA, where the lease rentals are included in finance related costs; adjusted for all years.

Exhibit 11. LT's relentless focus on cost on all fronts



Source: Company, JM Financial

Aurika Sky City to contribute significantly to EBITDA

- The upcoming Aurika Sky City near the T2 Terminal of the Chhatrapati Shivaji Maharaj International Airport is the flagship hotel of the company. It is being developed as an upper upscale property and will come under the Aurika brand. The property has 669 rooms and is being planned with considerable amenities: ~15,000 sq.ft. of events space and four F&B options. According to the management, the hotel is on track to start operations from Oct'23E.
- Aurika Sky City will be housed in Fleur Hotels, a subsidiary of LT, where it holds 58.91% stake (Source: LT 4QFY23 IP), with the rest being held by APG.
- We expect Aurika Sky City to achieve occupancies of ~60% in FY25E, the first full year of operation, which compares well with other similar properties in the area. We build an FY25E ARR of INR 12,100 for the Mumbai property. Our assumption for such ARRs rests on two arguments:
  - The Aurika at Udaipur has recorded ARRs of ~14,500 in FY23, and the Mumbai property can certainly achieve the management guided rates of ~INR 12,000.
  - ARRs in the micro-market are ~INR 12,000–18,000, which implies that our assumption is at the lower end of the range.
- As per our assumptions, Aurika MIAL is likely to generate Revenue/EBITDA of INR 2.4bn/INR 1.2bn in FY25E. The total contribution to the LT consolidated EBITDA will be ~17.0%.

Exhibit 12. Aurika Sky City will significantly impact LT's bottom line in FY25E

(INR mn)	FY25E
No. of Rooms	669
No of Room nights available	244,185
Occupancy in FY25E	60.0%
Rooms nights occupied	146,511
ARR (INR)	12,100
Total rooms revenues	1,773
F&B - as % of room revenues	35.0%
F&B Revenues	620
Total Revenues	**2,393**
F&B expenses	310
Payroll and welfare costs	388
Utilities	114
Management Fees	83
Housekeeping	62
Others	78
Total Expenses	**1,034**
Property Level EBITDA	**1,359**
Margin	56.8%
Adjustement for Corporate O/H	7.0%
Adjusted EBITDA	1,192
Adjusted EBITDA margin	49.8%
EBITDA per room	1.78
Contribution to LT EBITDA	17.4%

Source: Company, JM Financial
Note: For representation only; based on internal estimates, channel checks and certain assumptions

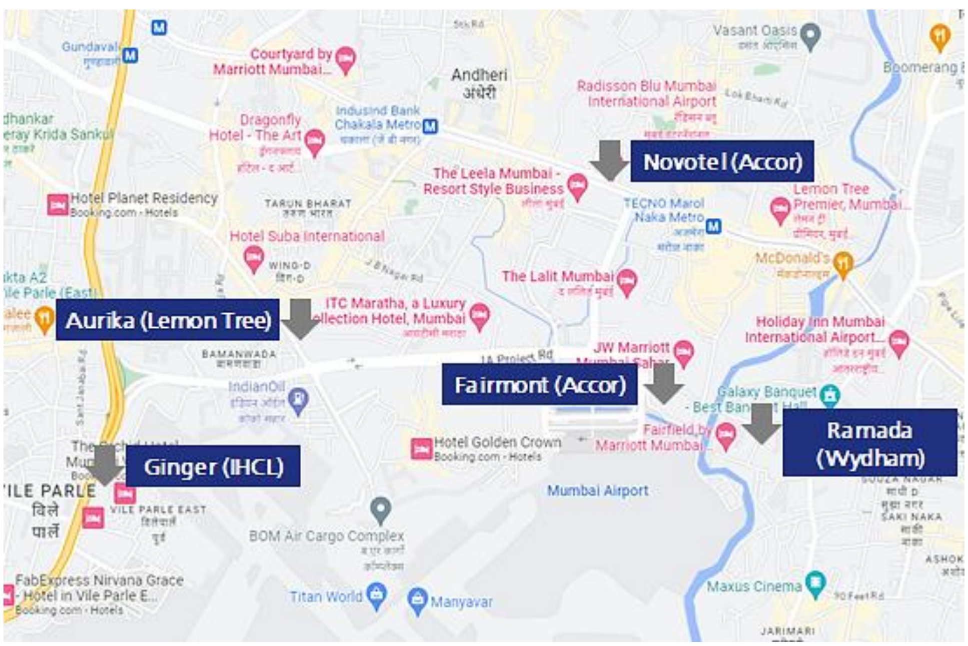
- Significant inventory coming up in the micro-market: In the next 12 months, ~2,000 rooms will be added to the Sahar micro-market inventory (Exhibit 13), the same location where Aurika Skycity is located (Exhibit 14). Though this number is significant, the market can easily absorb the upcoming supply, as in peak season the hotels are overbooked to the extent of 20% (as per our channel checks). In our opinion, these new hotels should be able to capture market share from the smaller/independent hotels so maintaining occupancies should not be a problem. However, we will have to watch out for the pricing pressure playing out with increasing competitive intensity in this market.

Exhibit 13. Upcoming hotels in Sahar, Mumbai

Sl. No.	Hotel Brand	Rooms	Status
1	Aurika	669	To be launched in Oct'23
2	Novotel	268	Already operational; launched in Q1CY23
3	Ramada Plaza by Wydham, Mumbai Sahar	300	Originally expecetd by 2022, will come by CY23 end
4	Ginger, Santacruz	371	To be launched in Oct'23
5	Fairmont	580	To be completed by Q1CY24
	Total	2,188	

Source: JM Financial

Exhibit 14. Locations of the upcoming hotels on map

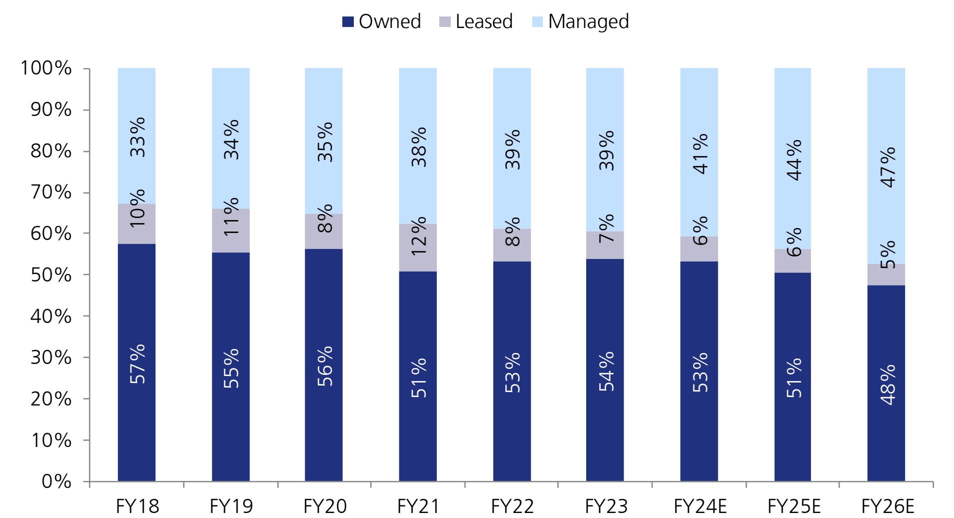


Source: Company, JM Financial

Asset light pipeline to support the EBITDA margins

- LT's growth was largely asset heavy and financed by debt in the first 10-12 years. It was strategically significant for a relatively newer hotel business to keep execution timelines and budgets in tight control. With full ownership of the assets, such monitoring and course correction is easier. As its portfolio achieved critical size and the Lemon Tree brand recognition grew over the years, LT has pivoted to an asset-light approach for portfolio additions.

Exhibit 15. Focus on asset-light portfolio expansion



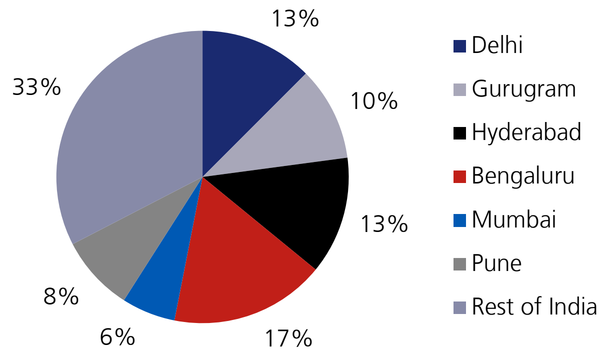
Source: JM Financial, Company

- Addition of a new upscale (Aurika) brand to the LT portfolio was done in line with the company's strategy to grow the management fee business by expanding the asset light portfolio by ~5,500 rooms (almost equal to the current size of the asset light portfolio) in the next 3-4 years. The Aurika brand should help increase the LT's share of fee income as higher ARRs and auxiliary earnings would be much higher in an upscale brand compared to the mid-priced portfolio of LT, excluding Aurika.
- The flow-through of management fees will be directly to EBITDA, and hence margin should improve as the share of the asset-light portfolio continues in the future. Though margin accretive, such fees do not have an impact unless significant scale is achieved. As per LT's management, one owned hotel is equal to six managed/franchised hotels in terms of bottom line impact.

Presence across demand-dense locations India

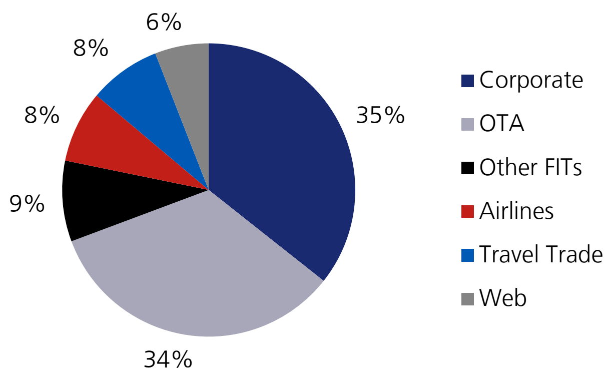
- 67% of LT's room inventory is located in India's tier-I cities, which are stronger markets with significant depth and trade at higher ARRs. These include the cities of Gurugram (NCR), Hyderabad, New Delhi (NCR), Bengaluru, Mumbai, and Pune. Also, ~85% of LT's customers comprise domestic travellers, owing to its presence in the midscale/economy and upper midscale segments (Exhibit 16).
- We believe that the above customer profile has enabled LT to see faster recovery in room occupancies after the pandemic. Any recovery in domestic corporate travel which accounts for ~45% of its room revenue share, should lift grow further (Exhibit 17).

Exhibit 16. 67% of LT's room inventory is located in India's tier-I cities



Source: Company, JM Financial

Exhibit 17. Q1FY24 Room revenue share by revenues

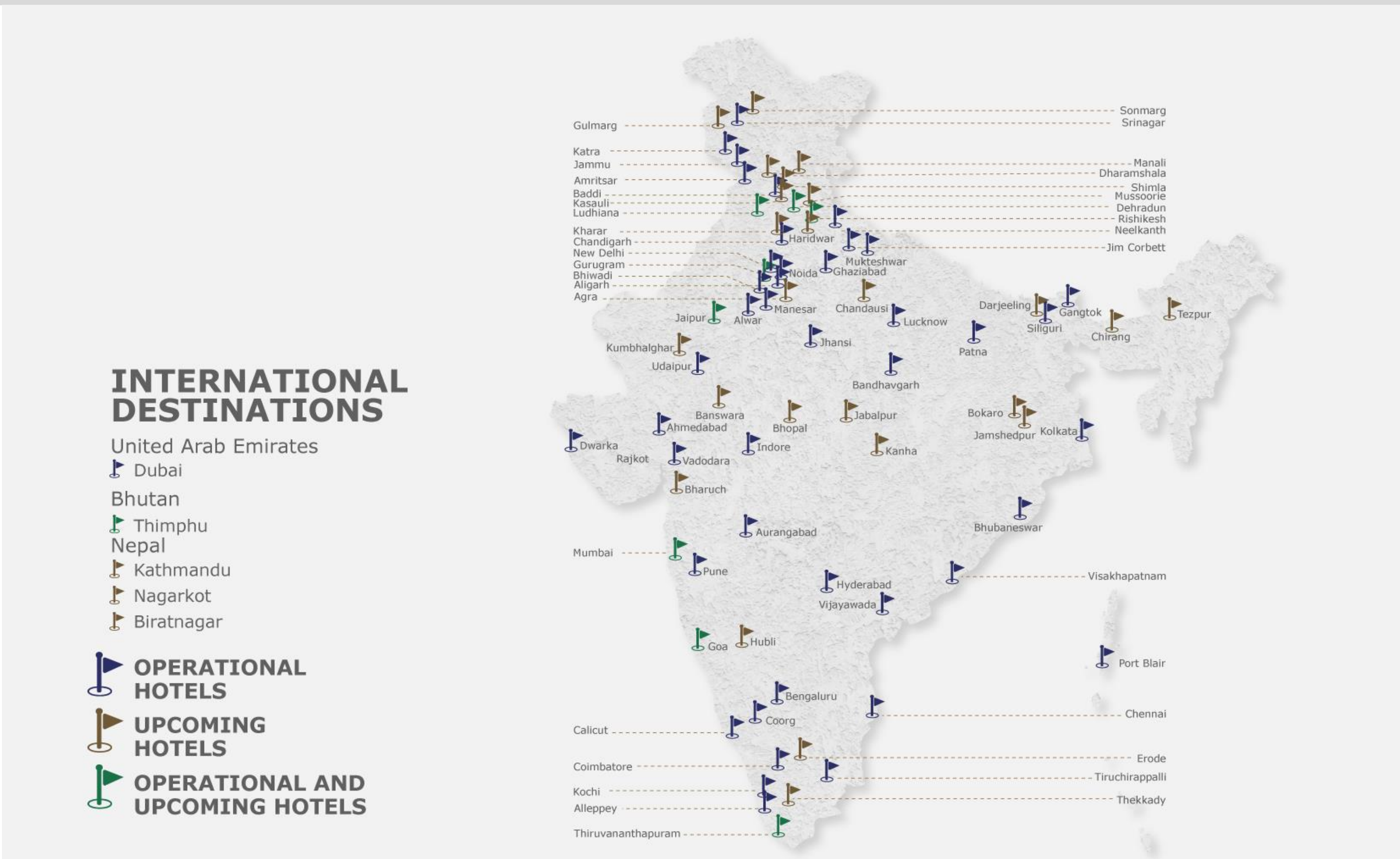


Source: Company, JM Financial

Company Profile

- Lemon Tree is India's largest mid-market hotel chain and one of the largest overall, based on controlling interest in owned and leased rooms. It operates across the upper upscale, upscale, upper-midscale, midscale, and economy segments.
- LTHL opened its first hotel with 49 rooms in May'04 and currently operates 8,491 rooms in 90 hotels across 55+ destinations in India and abroad under its various brands, viz., Aurika Hotels & Resorts, Lemon Tree Premier, Lemon Tree Hotels, Red Fox Hotels, Keys Prima, Keys Select and Keys Lite. As the current pipeline becomes operational, LT will be operating ~12,200 rooms in 136 hotels across 65+ destinations, in India and abroad.
- Lemon Tree Hotels, including Keys Hotels, are located across India, in metro regions including the NCR, Mumbai, Kolkata, Bengaluru, Hyderabad and Chennai, as well as numerous other tier I and II cities such as Pune, Ahmedabad, Chandigarh, Jaipur, Indore, Aurangabad, Udaipur, Vishakhapatnam, Kochi, Ludhiana, Thiruvananthapuram and Vijayawada.
- The company expanded internationally with hotels opening in Dubai in Dec'19 and in Bhutan in Feb'20. New hotels are also set to open internationally in Bhutan and Nepal.

Exhibit 18. Lemon Tree Hotel Portfolio



Source: Company, JM Financial

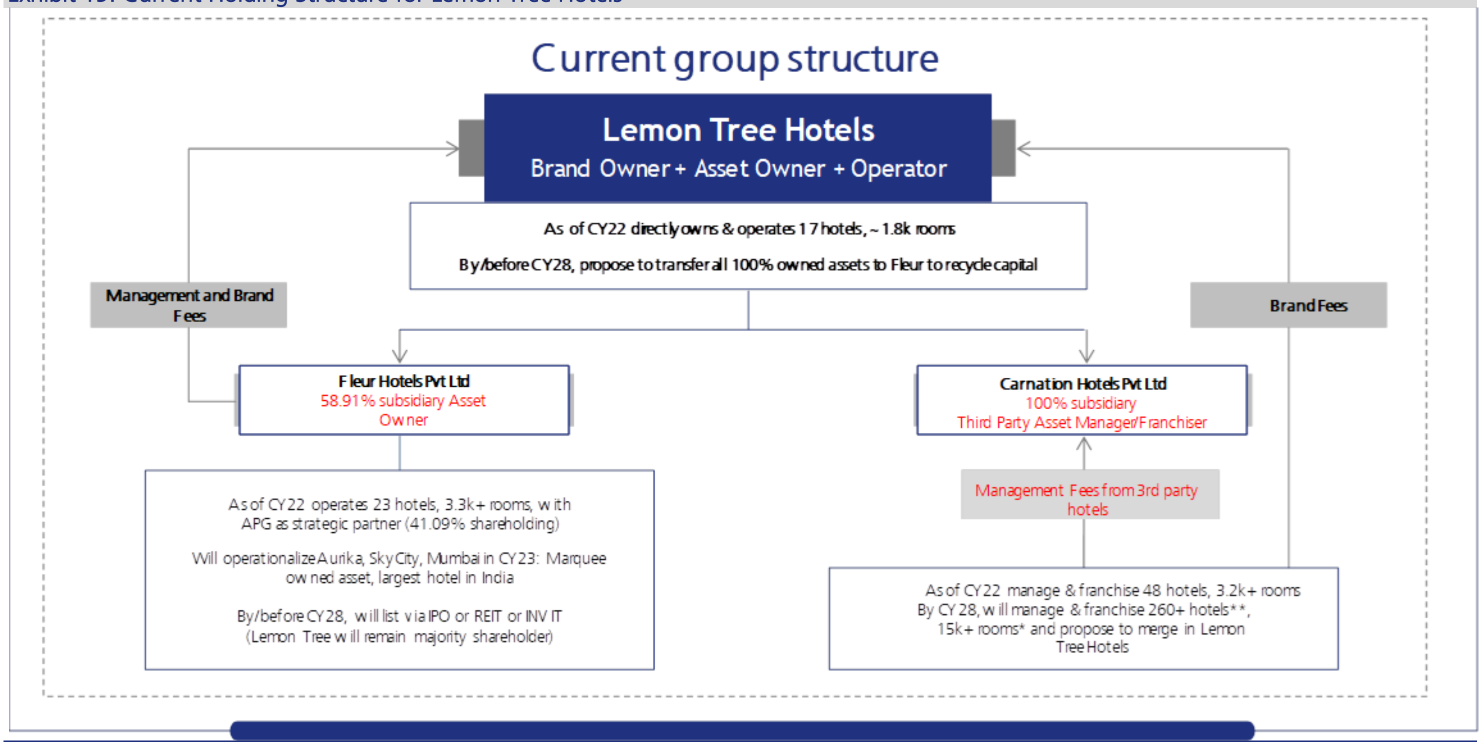
Key management personnel

- **Patanjali Govind Keshwani, Chairman & Managing Director:** Mr Keswani has a bachelor's degree in electrical engineering from the Indian Institute of Technology, New Delhi, and a postgraduate diploma in management from the Indian Institute of Management, Kolkata. He was with the Taj Group for 17 years as Chief Operating Officer of Taj Business Hotels, and has over 32 years' work experience.
- **Vikramjit Singh, President:** Mr Singh is a Harvard Business School, Shri Ram College of Commerce and Mayo College alumni. He also has a Post Graduate Diploma in Hotel

Management and Administration from the Taj Group of Hotels. He has played a leadership role at Lemon Tree Hotels with a special focus on revenue/sales and hotel operations. He drives the sales organisation, revenue generation strategy and efficient running of hotels with the core Sales and Operations teams. Mr Singh is also the Chair of the Hospitality and Tourism Committee of the PHD Chamber of Commerce and Industry and member of the Board of Governors at the IMS Unison University, Dehradun.

- Kapil Sharma, Executive Vice President & Chief Finance Officer: Mr Sharma is a qualified Chartered Accountant with B.Com (H) degree from Hans Raj College, University of Delhi. His diverse experience spans across businesses from Investment Banking, Financial services, Logistics services, Manufacturing to Hospitality Industry. He joined Lemon Tree from Leroy Somer & Controls India Private Limited where he worked for several years as Head-Finance and Accounts. Mr Sharma has more than 25 years of experience in the finance and commercial functions covering mergers & acquisitions, private equity, debt instruments, project financing, joint venture and capital market listing etc. He has previously worked with Onida Finance Limited and AFL Limited.

Exhibit 19. Current Holding Structure for Lemon Tree Hotels



Source: Company, JM Financial

Board of directors

Exhibit 20. Lemon Tree board of directors

Name	Position	Brief Profile
Patanjali G. Keshwani	Chairman & Managing Director	Refer to previous section
Niten Malhan	Vice Chairman and Lead Independent Director	Founder and managing partner of New Mark LLP; previously was a Partner at Warburg Pincus.
Freyan Jamshed Desai	Independent Director	She has been on the board since Jun'17 and has considerable experience in legal matters. Previously was a partner in Amarchand & Mangaldas & Suresh A. Shroff & Co for 5 years.
Paramartha Saikia	Independent Director	He has been on the Board since Jun'17. He was the CEO of J. Walter Thomson Sdn. Bhd. in Malaysia. He has experience in management, marketing and brand development.
Arindam Bhattacharya	Independent Director	Senior Partner and Director of The Boston Consulting Group, India, and the co-leader of Bruce Henderson Institute, BCG's thought leadership institution. He has completed his education from IIT Kharagpur, IIM Ahmedabad and University of Warwick.
Willem Albertus Hazeleger	Director	He holds an executive MBA from INSEAD. He has been associated with APG Asset Management N.V. since 2009. At present, he serves as the CEO of APG Investments Asia Limited.
Aditya Madhav Keswani	Director	He holds a bachelor's degree in arts from the NYU. Post which he has joined the Board in Jun'15.

Source: Company, JM Financial

Financials

Revenue / EBITDA to grow at a CAGR of ~20.0%

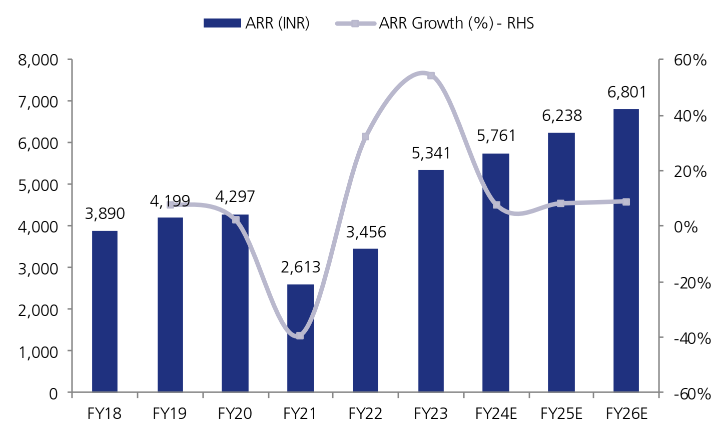
- We estimate LT's revenue to grow at a CAGR of 19.5% over FY23-26E to INR 14.93bn in FY26E largely led by management fees, ARR growth and stable occupancy of 70-75%. Furthermore, room additions to its managed portfolio, which is expected to grow at a CAGR of 16.6% to 5,224 keys in FY26E will contribute significantly to LT's revenue growth. However, we assume EBITDA to grow at a similar CAGR over FY23-26E and expect the margins to be broadly around the 50% mark.

Exhibit 21. Strong growth across both owned/leased and asset light portfolios

Particulars (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	CAGR FY23-26E (%)
Revenue from Operations	4,843	5,495	6,694	2,517	4,022	8,750	10,611	13,209	14,932	19.5%
Room Revenue	3,416	3,939	4,920	1,974	3,023	6,755	8,264	10,318	11,606	19.8%
F&B Revenue	864	982	1,122	339	581	1,333	1,653	2,064	2,321	20.3%
Management Fees	64	47	79	77	176	393	444	567	734	23.2%
Others	499	527	574	128	242	269	250	260	270	0.1%
EBITDA	1,362	1,688	2,434	613	1,187	4,476	5,216	6,698	7,596	19.3%
EBITDA Margin (%)	28%	31%	36%	24%	30%	51%	49%	51%	51%	

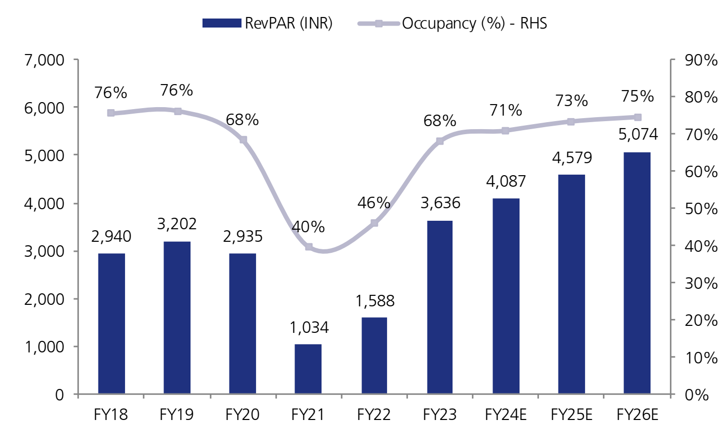
Source: Company, JM Financial
Note: EBITDA as reported by company, not adjusted for Ind-AS 116 treatment of lease rentals

Exhibit 22. Steady ARR growth…



Source: Company, JM Financial

Exhibit 23. …along with high occupancy resulting in higher RevPAR



Source: Company, JM Financial

Exhibit 24. Room inventory to grow by 10% CAGR

Portfolio by brands (Keys)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	CAGR FY23-26E (%)
Owned & Leased	3,277	3,570	5,192	5,192	5,192	5,090	5,759	5,828	5,828	4.6%
Aurika Hotels & Resorts	0	0	139	139	139	139	808	808	808	79.8%
Lemon Tree Premier	957	1,158	1,603	1,603	1,603	1,603	1,603	1,603	1,603	0.0%
Lemon Tree Hotels	1,561	1,562	1,562	1,562	1,562	1,562	1,562	1,631	1,631	1.5%
Red Fox by Lemon Tree Hotels	759	850	952	952	952	850	850	850	850	0.0%
Keys by Lemon Tree Hotels	0	0	936	936	936	936	936	936	936	0.0%
Managed	1,593	1,841	2,814	3,117	3,297	3,292	3,950	4,543	5,224	16.6%
Total Rooms	4,870	5,411	8,006	8,309	8,489	8,382	9,709	10,371	11,052	9.7%

Source: Company, JM Financial

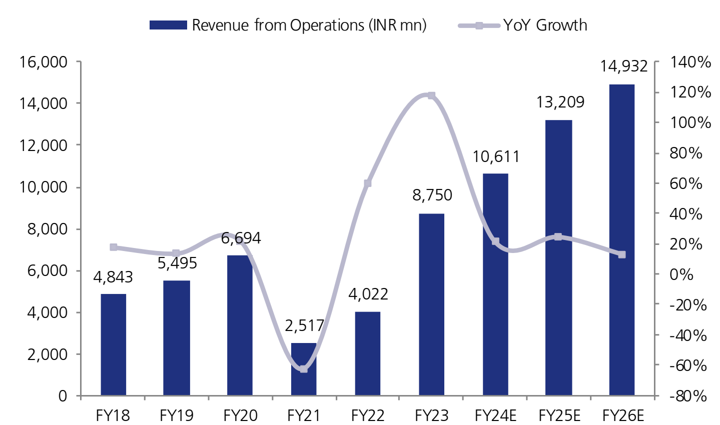
Financial charts

Exhibit 25. Quarterly financial snapshot

INR mn	1QFY24	1QFY23	YoY	4QFY23	QoQ	FY23	FY24E	FY23-24 YoY
Revenue from operations	2,223	1,920	16%	2,527	-12%	8,750	10,611	21%
Cost of sales	124	116	7%	129	-3%	499	628	26%
Gross margin (%)	94%	94%	44bps	95%	-50bps	94%	94%	-22bps
Employee expenses	426	345	23%	410	4%	1,497	1,797	20%
Other expenses	627	583	8%	589	6%	2,278	2,970	30%
EBITDA	1,045	876	19%	1,399	-25%	4,476	5,216	17%
EBITDA margin (%)	47.0%	45.6%	141bps	55.4%	-834bps	51.2%	49.2%	-199bps
Depreciation	228	245	-7%	235	-3%	966	1,273	32%
Interest costs	481	429	12%	452	7%	1,823	1,911	5%
Other income	24	3	835%	20	15%	88	91	4%
PBT	359	204	76%	732	-51%	1,774	2,123	20%
Profit from associates	3	3	NM	1	NM	9	9	NM
Tax	87	71	NM	143	NM	377	534	42%
Minority Interest	41	-3	NM	150	-73%	260	286	NM
Adjusted PAT	235	139	69%	440	-47%	1,146	1,312	14%
Extraordinary Income	0	0	NM	0	NM	0	0	NM
PAT	235	139	69%	440	-47%	1,146	1,312	14%

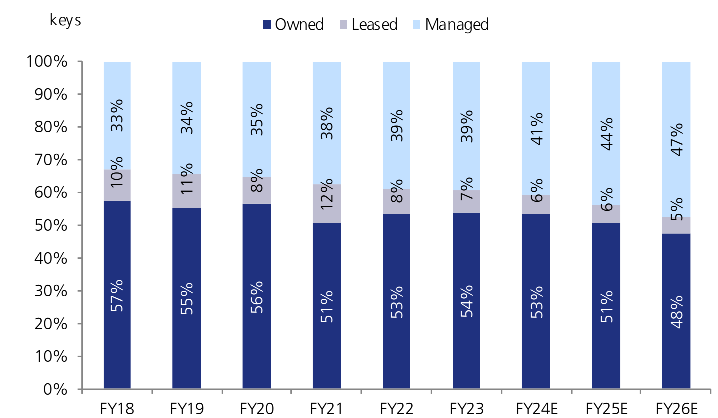
Source: Company, JM Financial

Exhibit 26. Revenue to almost double by FY26E



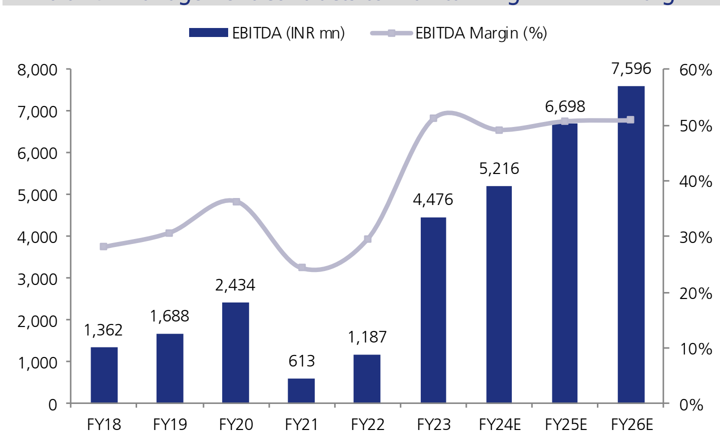
Source: Company, JM Financial

Exhibit 27. Well balanced portfolio



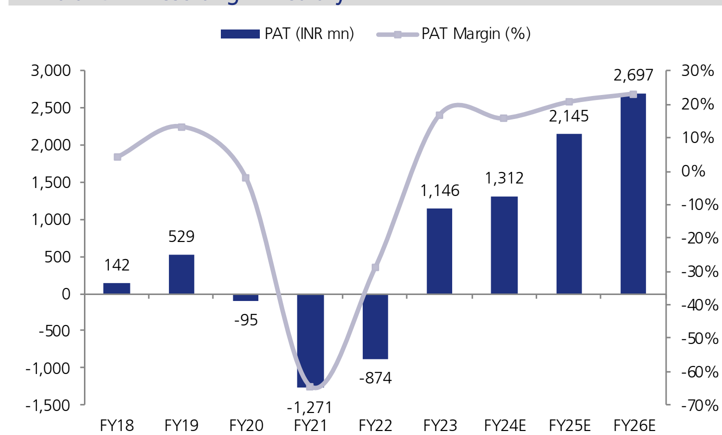
Source: Company, JM Financial

Exhibit 28. Management contracts to maintain high EBITDA margin…



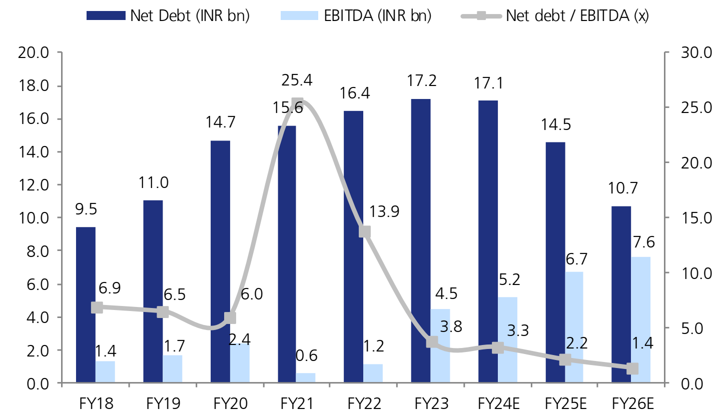
Source: Company, JM Financial
Note: EBITDA as reported by company, not adjusted for Ind-AS 116 treatment of lease rentals

Exhibit 29. …resulting in healthy PAT



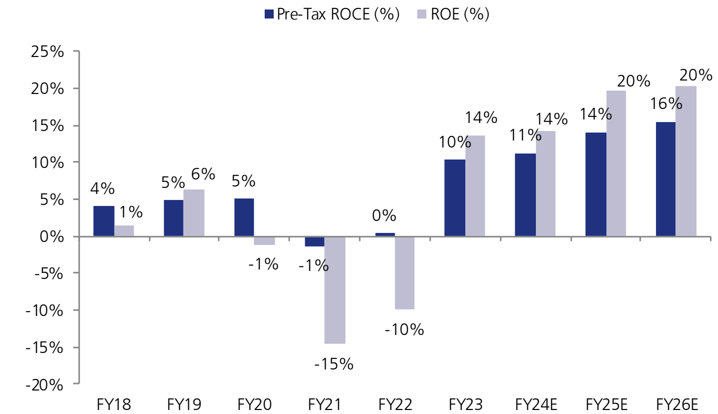
Source: Company, JM Financial

Exhibit 30. Net debt to gradually come down



Source: Company, JM Financial
Note: EBITDA as reported by company, not adjusted for Ind-AS 116 treatment of lease rentals

Exhibit 31. Healthy return ratios



Source: Company, JM Financial
Note: EBITDA as reported by company, not adjusted for Ind-AS 116 treatment of lease rentals

Valuation

- We initiate coverage on Lemon Tree with a BUY recommendation and a Sep'24 TP of INR 115, ascribing a 20.0x Sep'25E EV/EBITDA. We are constrained by the limited public market history of the peer set and the limited profitability track record of the sector to conclude on a P/E multiple valuation approach.
- Additionally, the asset holdings differ greatly across hotel companies (owned, leased & managed/franchised). The quality and stability of earnings depend considerably on the level of operating leverage in a hotel company. Consequently, net income/PAT based multiples may not be a true comparative benchmark for such companies.

Exhibit 32. Valuation Table

Particulars	Unit	Sep-24	Per Share	Comments
Consolidated EBITDA (Sep'25E) - FY+1	INR mn	7,147		
Adjustment for Fleur APG stake	41%	2,144		Lemon Tree share of EBITDA - 70%
Lemon Tree share of EBITDA	INR mn	5,003		As per management guidance
Valuation Multiple	Multiple	20.0x		Blended multiple for LT standalone & Carnation Hotels
Enterprise Value		100,063		
Less: Net Debt (Sep'24E)	INR mn	9,314		Majority of the debt sits on Fleur Hotels
Equity Value	INR mn	90,749	114.6	
Target Price	INR	-	115.0	

Source: Company, JM Financial; Data as on 16th Aug'23
Note: Post Ind-AS 116 EBITDA, where the lease rentals are included in finance related costs

Exhibit 33. Valuation: Peer set

Company	Ticker	Currency	CMP	Mcap (INR bn)	P/E (x)			EV/EBITDA (x)			EV/Sales (x)		
					FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Asset Owners													
Chalet	CHALET IN EQUITY	INR	480	98	36.2	25.3	17.4	19.5	15.6	12.0	8.4	7.0	5.7
Asset/Brand Owners													
EIH	EIH IN EQUITY	INR	211	132	32.5	27.4	NA	21.1	18.6	NA	6.5	5.9	NA
Indian Hotels	IH IN EQUITY	INR	383	544	43.4	36.4	32.9	26.2	23.0	21.1	8.5	7.7	7.2
Lemon Tree	LEMONTRE IN EQUITY	INR	95	75	45.7	27.5	22.3	19.1	14.3	13.2	9.7	7.6	6.9
Royal Orchids Hotel	ROHL IN EQUITY	INR	297	8	14.1	9.6	NA	10.6	7.5	NA	2.9	2.1	NA
Mahindra Resorts and Hotels	MHRL IN EQUITY	INR	343	69	39.2	33.4	NA	21.1	18.4	NA	4.9	4.4	NA

Source: Company, Bloomberg, JM Financial; Data as on 16th Aug'23.

Financial Tables (Consolidated)

Income Statement (INR mn)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	4,022	8,750	10,611	13,209	14,932
Sales Growth	59.8%	117.5%	21.3%	24.5%	13.0%
Other Operating Income	0	0	0	0	0
Total Revenue	**4,022**	**8,750**	**10,611**	**13,209**	**14,932**
Cost of Goods Sold/Op. Exp	279	499	628	929	1,045
Personnel Cost	973	1,497	1,797	2,066	2,273
Other Expenses	1,584	2,278	2,970	3,516	4,018
EBITDA	**1,187**	**4,476**	**5,216**	**6,698**	**7,596**
EBITDA Margin	29.5%	51.2%	49.2%	50.7%	50.9%
EBITDA Growth	93.7%	277.2%	16.5%	28.4%	13.4%
Depn. & Amort.	1,043	966	1,273	1,585	1,792
EBIT	143	3,510	3,943	5,113	5,805
Other Income	210	88	91	95	98
Finance Cost	1,809	1,823	1,911	1,934	1,849
PBT before Excep. & Forex	-1,456	1,774	2,123	3,273	4,054
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	-1,456	1,774	2,123	3,273	4,054
Taxes	-72	377	534	824	1,020
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	-489	268	295	324	356
Reported Net Profit	-874	1,146	1,312	2,145	2,697
Adjusted Net Profit	**-874**	**1,146**	**1,312**	**2,145**	**2,697**
Net Margin	-21.7%	13.1%	12.4%	16.2%	18.1%
Diluted Share Cap. (mn)	790.8	791.6	791.6	791.6	791.6
Diluted EPS (INR)	**-1.1**	**1.4**	**1.7**	**2.7**	**3.4**
Diluted EPS Growth	0.0%	0.0%	14.5%	63.5%	25.8%
Total Dividend + Tax	0	0	0	0	0
Dividend Per Share (INR)	0.0	0.0	0.0	0.0	0.0

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	8,312	8,537	9,849	11,994	14,691
Share Capital	7,908	7,916	9,228	11,372	14,070
Reserves & Surplus	404	621	621	621	621
Preference Share Capital	0	0	0	0	0
Minority Interest	5,676	5,597	5,311	4,997	4,651
Total Loans	16,986	17,457	17,549	17,644	15,242
Def. Tax Liab. / Assets (-)	-461	-365	-365	-365	-365
Total - Equity & Liab.	**30,515**	**31,227**	**32,344**	**34,269**	**34,220**
Net Fixed Assets	33,479	34,395	35,371	35,095	34,121
Gross Fixed Assets	29,792	30,191	36,441	37,691	37,691
Intangible Assets	5,250	4,987	4,737	4,545	4,363
Less: Depn. & Amort.	4,508	5,475	6,748	8,333	10,125
Capital WIP	2,946	4,691	941	1,191	2,191
Investments	37	45	45	45	45
Current Assets	2,374	2,518	3,035	5,913	7,520
Inventories	81	105	106	132	149
Sundry Debtors	291	560	743	925	1,045
Cash & Bank Balances	543	237	477	3,094	4,508
Loans & Advances	59	10	10	10	10
Other Current Assets	1,400	1,606	1,700	1,752	1,807
Current Liab. & Prov.	5,375	5,732	6,108	6,784	7,466
Current Liabilities	4,853	4,956	5,307	5,956	6,611
Provisions & Others	523	775	801	827	855
Net Current Assets	-3,001	-3,214	-3,073	-871	54
Total – Assets	**30,515**	**31,227**	**32,344**	**34,269**	**34,219**

Source: Company, JM Financial

Cash Flow Statement (INR mn)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	-1,446	1,782	2,123	3,273	4,054
Depn. & Amort.	1,043	966	1,273	1,585	1,792
Net Interest Exp. / Inc. (-)	1,786	1,773	1,911	1,934	1,849
Inc (-) / Dec in WCap.	27	-403	-71	238	306
Others	-41	-63	-277	-305	-336
Taxes Paid	-16	-207	-534	-824	-1,020
Operating Cash Flow	**1,353**	**3,849**	**4,425**	**5,902**	**6,645**
Capex	-668	-1,618	-2,500	-1,500	-1,000
Free Cash Flow	686	2,231	1,925	4,402	5,645
Inc (-) / Dec in Investments	-26	50	0	0	0
Others	240	-1,264	250	192	182
Investing Cash Flow	**-454**	**-2,832**	**-2,249**	**-1,308**	**-818**
Inc / Dec (-) in Capital	8	17	-286	-314	-346
Dividend + Tax thereon	0	0	0	0	0
Inc / Dec (-) in Loans	-239	92	261	272	-2,217
Others	-1,400	-1,432	-1,911	-1,934	-1,849
Financing Cash Flow	**-1,631**	**-1,323**	**-1,935**	**-1,977**	**-4,412**
Inc / Dec (-) in Cash	**-732**	**-306**	**240**	**2,617**	**1,415**
Opening Cash Balance	1,275	543	237	477	3,094
Closing Cash Balance	543	237	477	3,094	4,508

Source: Company, JM Financial

Dupont Analysis

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	-21.7%	13.1%	12.4%	16.2%	18.1%
Asset Turnover (x)	0.1	0.2	0.3	0.3	0.4
Leverage Factor (x)	4.1	4.2	4.0	3.5	3.0
RoE	-10.0%	13.6%	14.3%	19.6%	20.2%

Key Ratios

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	10.5	10.8	12.4	15.2	18.6
ROIC	0.4%	9.0%	9.3%	12.0%	14.1%
ROE	-10.0%	13.6%	14.3%	19.6%	20.2%
Net Debt/Equity (x)	2.0	2.0	1.7	1.2	0.7
P/E (x)	-86.8	66.3	57.9	35.4	28.2
P/B (x)	9.1	8.9	7.7	6.3	5.2
EV/EBITDA (x)	82.7	22.1	18.9	14.3	12.0
EV/Sales (x)	24.4	11.3	9.3	7.2	6.1
Debtor days	26	23	26	26	26
Inventory days	7	4	4	4	4
Creditor days	75	57	57	74	89

Source: Company, JM Financial

Chalet Hotels | BUY

Strong capex-led growth

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We acknowledge the support of Prithvi Shah in the preparation of this report

Chalet Hotels (Chalet) is the owner, developer, asset manager and operator of a high-end hospitality portfolio located in the key markets of Mumbai Metropolitan Region, Hyderabad, Bengaluru, New Delhi, and Pune. With limited room supply coming in the subject micro-markets, it is well placed to benefit from the imminent upcycle. Banking on continued strength in the hospitality sector and an expected recovery in CRE, an ambitious expansion is underway. Chalet has earmarked a capital outlay of INR 20bn to expand its hospitality portfolio by ~970 rooms to 3,770 keys by FY26E and annuity portfolio to 3.0msf from 1.2msf by FY27E. We assume coverage with a BUY and an SoTP-based Sep'24 TP of INR 620, ascribing an EV/Sep'25 EBITDA of 18.0x and cap rate of 8.0% (for Sep'25 NOI) for the hospitality and annuity assets respectively.

- **Well poised to capture the industry upcycle:** New supply of branded keys in metro locations is likely to be muted, with an estimated 5-year CAGR of 3.9% (FY22-27E), and it will be significantly lower than that in non-metro cities in the same period (FY22-27E CAGR: 5.9%). With limited supply coming in these micro-markets, it is well placed to benefit from the imminent upcycle. Also, ARR lags occupancy and given the industry average occupancy is c.68-70%, pricing power should come through 3QFY24 onwards.

- **Capex-led revenue growth:** Chalet has embarked on an expansion plan to grow its room inventory from 2,802 keys in FY23 to 3,770 keys by FY26E. Around 30% (288 rooms) of this incremental room capacity expansion is set to come from brownfield expansion in the existing properties of Pune, Lonavala, and Bengaluru. Upcoming hotels are located in Airoli, Navi Mumbai (280 keys) and DIAL complex (400 keys). We estimate the company to incur a total capex (including maintenance capex) of INR 9.5-10.0bn during FY24E-26E on its hospitality assets.

- **Cyclicality in hospitality hedged by annuity portfolio:** The strategy of sweating its land banks by CRE assets in the vicinity of its hotels has played out well for Chalet. Currently, it has two operational assets totalling 1.2msf; The Orb at Sahar, Mumbai (0.5msf) and Cignus Whitefield Bangalore Tower 1 (0.7msf). We estimate Chalet will incur an additional capex of INR 10bn (including maintenance capex) over FY24-27E to expand its annuity portfolio to 3.0msf (2.5x over FY23). Share of revenue from commercial assets is likely to rise gradually, contributing 11%/13%/15% in FY24/FY25/FY26 respectively.

- **Assume coverage with a BUY, TP of INR 620:** Chalet's high-end hospitality portfolio, active asset management strategy and K Raheja C's lineage gives a distinct competitive advantage when the industry is focusing on asset-light growth. We factor in an ARR growth of 8-10%, occupancy improvement on the industry up-cycle and exit ARR growth of 5% for the hospitality business and 8% exit cap rate for annuity assets. Hospitality business and annuity assets contribute ~81% and ~18% respectively to enterprise value. We expect Chalet to report a Revenue/EBITDA CAGR of 21.2%/30.9% over FY23-FY26E. Hence, we expect RoE to improve from 10.0% in FY23 to 18.9% by FY26E.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	620
Upside/(Downside)	29.2%
Previous Price Target	0
Change	NA

Key Data – CHALET IN	
Current Market Price	INR480
Market cap (bn)	INR98.4/US$1.2
Free Float	28%
Shares in issue (mn)	205.0
Diluted share (mn)	205.0
3-mon avg daily val (mn)	INR112.4/US$1.4
52-week range	512/304
Sensex/Nifty	65,539/19,465
INR/US$	82.9

Price Performance

%	1M	6M	12M
Absolute	6.1	32.1	33.7
Relative*	7.8	23.0	22.9

* To the BSE Sensex

Financial Summary (INR mn)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	5,078	11,285	13,716	16,829	20,098
Sales Growth (%)	77.8	122.2	21.5	22.7	19.4
EBITDA	985	4,528	6,273	8,065	10,149
EBITDA Margin (%)	19.4	40.1	45.7	47.9	50.5
Adjusted Net Profit	-771	1,436	2,524	3,514	4,666
Diluted EPS (INR)	-3.8	7.0	12.3	17.1	22.8
Diluted EPS Growth (%)	0.0	0.0	75.8	39.2	32.8
ROIC (%)	-0.3	5.7	7.7	8.9	10.4
ROE (%)	-5.6	10.0	15.1	17.8	19.6
P/E (x)	-128.8	69.1	39.3	28.2	21.3
P/B (x)	7.4	6.4	5.5	4.6	3.8
EV/EBITDA (x)	126.2	28.0	20.5	16.4	12.7
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 16/Aug/2023

Focus Charts

Exhibit 1. Hospitality portfolio; to add 972 keys by FY26E

Hospitality Portfolio	Keys	Remarks
Operational Portfolio		
Novotel, Pune Nagar Road	223	Acquired this asset in FY20 at an EV of INR 2.9bn (INR 13mn/key)
JW Marriott, Mumbai Sahar	588	
Marriott Hotel, Bengaluru Whitefield	391	
The Westin, Hyderabad Mindspace	427	
Four Points by Sheraton, Navi Mumbai, Vashi	152	
Westin, Mumbai, Powai Lake	600	
Lakeside Chalet, Mumbai-Marriott Executive Apartments	173	
The Dukes Retreat	80	Acquired this asset in Mar'23 at an EV of INR 1.33bn (INR 17mn/key)
Westin Hyderabad Hitec City	168	
Total Operational	**2,802**	
Under-Construction Portfolio		
Novotel, Pune Expansion	88	To be operational by FY24E
The Dukes Retreat Expansion	70	To be operational by FY25E
Marriott Hotel, Bengaluru Expansion	130	To be operational by FY25E
DIAL	400	To be operational by FY26E
Hyatt Regency Airoli, Navi Mumbai	280	To be operational by FY26E
Total Under-Construction	**968**	
FY26E Portfolio	**3,770**	

Source: Company, JM Financial

Exhibit 2. Commercial portfolio; leasable area to more than double by FY27E

Commercial Portfolio	Area (msf)	Remarks
Operational Portfolio		
The Orb at Sahar, Mumbai	0.5	
Cignus Whitefield Bangalore Tower 1	0.7	Tenants moving in by Aug'23
Total Operational	**1.2**	
Under-Construction Portfolio		
Cignus Powai Tower 1	0.8	To be operational by FY24E
Cignus Powai Tower 2	0.8	To be operational by FY27E
Cignus Whitefield Bangalore Tower 2	0.3	To be operational by FY24E; Previously the Inorbit Mall
Total Under-Construction	**1.9**	
FY27E Portfolio	**3.0**	

Source: Company, JM Financial

Exhibit 3. Revenue growth to come from both, hospitality and annuity business

Particulars (INR mn)	FY23	FY24E	FY25E	FY26E	CAGR FY23-26E (%)
Hospitality Revenue	10,281	12,200	14,667	17,003	18.3%
Rental & Annuity Business	1,004	1,516	2,162	3,094	45.7%
Revenue from operations	**11,285**	**13,716**	**16,829**	**20,098**	**21.2%**
Consolidated EBITDA	**4,528**	**6,273**	**8,065**	**10,149**	**30.9%**
EBITDA Margin (%)	40.1%	45.7%	47.9%	50.5%	

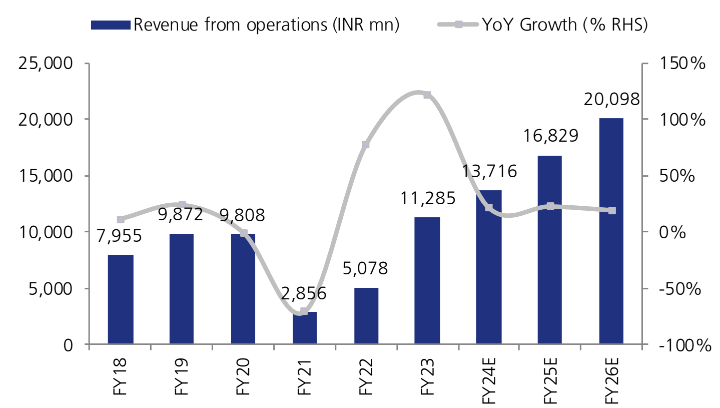
Source: Company, JM Financial

Exhibit 4. Key operating metrics and future projects

Particulars	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	CAGR FY23-26E
Pune								
Hotels	1	1	1	1	1	1	1	NA
Keys	223	223	223	223	311	311	311	NA
ARR (INR)	5,255	2,871	3,505	5,460	5,897	6,251	6,563	6%
RevPAR (INR)	2,155	804	2,243	4,586	3,833	5,000	5,251	5%
Occupancy (%)	41%	28%	64%	84%	65%	80%	80%	NA
Mumbai								
Hotels	4	4	4	4	5	5	6	NA
Keys	1,513	1,513	1,513	1,513	1,593	1,663	2,343	NA
ARR (INR)	8,309	4,056	4,714	9,741	10,512	10,989	11,151	5%
RevPAR (INR)	5,982	1,420	2,734	7,208	7,932	8,543	8,062	4%
Occupancy (%)	72%	35%	58%	74%	75%	78%	72%	NA
Bangalore								
Hotels	1	1	1	1	1	1	1	NA
Keys	391	391	391	391	391	521	521	NA
ARR (INR)	9,093	4,611	4,403	8,825	9,708	10,290	10,804	7%
RevPAR (INR)	6,638	1,107	1,233	5,383	6,310	7,203	7,347	11%
Occupancy (%)	73%	24%	28%	61%	65%	70%	68%	NA
Hyderabad								
Hotels	1	1	1	1	2	2	2	NA
Keys	427	427	427	427	595	595	595	NA
ARR (INR)	8,688	4,161	4,850	9,624	10,232	10,671	11,130	5%
RevPAR (INR)	6,082	791	2,183	6,641	6,230	7,704	8,348	8%
Occupancy (%)	70%	19%	45%	69%	61%	72%	75%	NA
Delhi								
Hotels	0	0	0	0	0	0	1	NA
Keys	0	0	0	0	0	0	400	NA
ARR (INR)	0	0	0	0	0	0	10,000	NA
RevPAR (INR)	0	0	0	0	0	0	4,500	NA
Occupancy (%)	0%	0%	0%	0%	0%	0%	45%	NA
Total Portfolio								
Hotels	7	7	7	7	9	9	11	NA
Keys	2,554	2,554	2,554	2,554	2,890	3,090	3,770	NA
ARR (INR)	8,482	4,040	4,576	9,169	9,899	10,317	10,589	5%
RevPAR (INR)	6,022	1,213	2,334	6,602	6,921	7,799	7,399	4%
Occupancy (%)	71%	30%	51%	72%	70%	76%	70%	NA

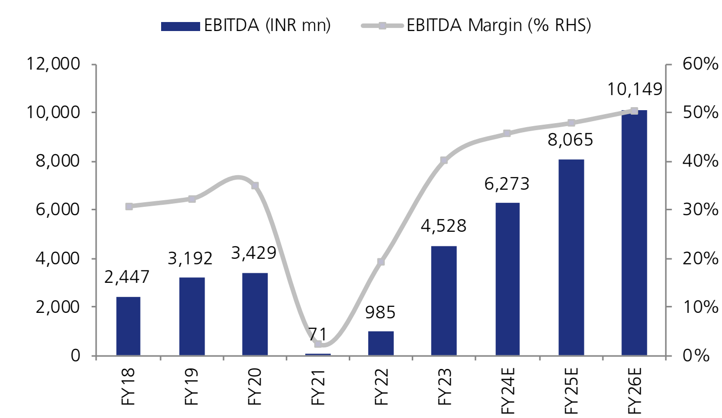
Source: Company, JM Financial

Exhibit 5. Revenue growth largely led by capex …



Source: Company, JM Financial

Exhibit 6. … with a healthy flow-through to EBITDA



Source: Company, JM Financial

Investment Thesis

High-end hospitality assets located in key geographies

- **2,802 operational keys across nine high-end properties:** Chalet has an operational portfolio of 2,802 keys in nine high-end properties across key markets of Mumbai, Hyderabad, Bengaluru and Pune. Chalet is an asset owner and its hotels operate in the luxury, upper upscale and upscale segments. While the company's main focus is developing greenfield projects, it is also open to make opportunistic acquisitions. For e.g.:
  - **Novotel, Pune Nagar Road:** Acquired this asset in Jan'20, adding 223 rooms at an EV of INR 2.9bn (via a share purchase) representing an EV/key of INR 13mn.
  - **The Dukes Retreat:** Acquired this asset in Mar'23, adding an 80-room resort spread over c. 7.5acres at an EV of INR 1.3bn (via a share purchase) indicating an EV/key of INR 17mn.
- **Globally recognised brands:** Chalet has entered into long-term management contracts with international hospitality chains, Marriott and Accor. As a result, the company benefits from the management's expertise, access to online reservation systems and marketing strategies of these organizations. Six of Chalet's hotels are managed by the Marriott group under the brands of JW Marriott, Westin, Marriott and Four Points by Sheraton while one hotel is run by the Accor group under the Novotel brand.
- **Located in markets with depth; prominent CBDs in metro cities:** Chalet's hotels are located in high density business districts of key metro cities in India generally with high barriers to entry. For instance, its hotels are in close proximity to international airports, major IT parks and retail destinations making it ideal for both business and leisure travellers. Furthermore, its hotels provide a wide variety of amenities such as i) fine dining and specialty restaurants ii) large banquet halls, ball rooms and executive lounges for weddings and conferences and iii) swimming pools, spas and gymnasiums.

Exhibit 7. Chalet's hotels are strategically located with proximity to international airports, IT parks and high-density retail destinations

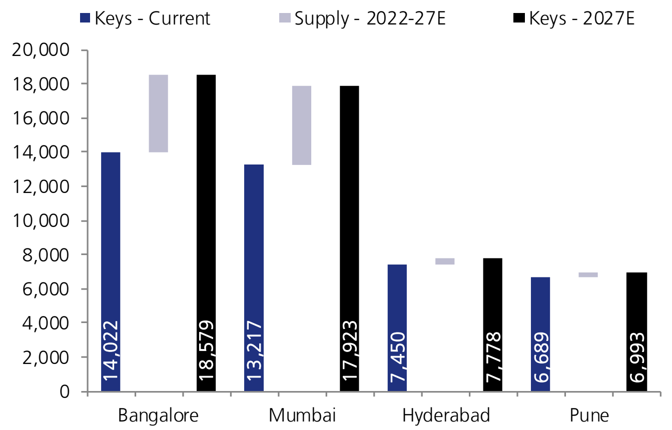
Portfolio	City	Operator	Location	Remarks
Hotel Portfolio				
Novotel, Nagar Road	Pune	Accor	Weikfield IT City Infopark, Viman Naga	5-star hotel located in close proximity to the Pune International Airport (5min drive) and the business district of the city
JW Marriott, Sahar	Mumbai	Marriott	IA Project Road, Chhatrapati Shivaji International Airport, Andheri	5-star hotel conveniently located near Mumbai's international and domestic airports and with some of the best amenities
Marriott Hotel	Bangalore	Marriott	Plot No 75, Whitefield	5-star hotel near International Tech Park (ITPL) and in the vicinity of Grade-A urban consumption centres like Phoenix Marketcity and Nexus Forum Mall
The Westin Mindspace	Hyderabad	Marriott	Raheja IT Park Hitec City, Madhapur	5-star hotel in the Hyderabad City centre with easy access to major business and IT parks
Four Points by Sheraton, Vashi	Navi Mumbai	Marriott	Sector 30A, Vashi	4-star hotel located near the CIDCO Exhibition Centre, Reliance Corporate Park and Millennium Business Park
Westin, Powai Lake	Mumbai	Marriott	Chinmayanand Ashram, Powai	5-star hotel overlooking the scenic Lake Powai with a luxury spa and world class amenities
Lakeside Chalet, Executive Apartments	Mumbai	Marriott	Chinmayanand Ashram, Powai	Executive apartments located besides Powai Lake offering several amenities and specialty restaurants
The Dukes Retreat	Khandala	NA	Mumbai-Pune Highway, Khandala, Lonavala	A resort located at comfortable drivable distance from Mumbai and Pune offering a weekend getaway holiday and picturesque views of the Western Ghats
Westin Hitec City	Hyderabad	Marriott	Hitec City	5-star hotel very close to Chalet's Westin, Hyderabad Mindspace
DIAL	Delhi	Taj	Terminal 3, Indira Gandhi International Airport	5-star hotel opposite Terminal 3 at the IGI Airport in New Delhi
Hyatt Regency	Navi Mumbai	Hyatt	Airoli	Strategically located in the heart of Airoli enabling business travellers a convenient accommodation as well as an easy commute between Navi Mumbai and Thane.
Commercial Portfolio				
The Orb at Sahar, Mumbai	Mumbai	-	Chhatrapati Shivaji International Airport, JW Marriott Sahar, Andheri East	Grade-A office rental space to corporates within the proximity of JW Marriott Sahar and has a few retail outlets
Cignus Powai Tower 1	Mumbai	-	Westin Complex, Powai	Premium office space in close proximity with its hotels
Cignus Powai Tower 2	Mumbai	-	Westin Complex, Powai	Premium office space in close proximity with its hotels
Cignus Whitefield Bangalore Tower 1	Bangalore	-	EPIP Area, Whitefield	Office block adjacent to its Marriott Hotel, Whitefield and is easily accessible as it has a metro station (currently under construction) at the entrance of the complex
Cignus Whitefield Bangalore Tower 2	Bangalore	-	EPIP Area, Whitefield	Office block (re-purposed mall) next to the Cignus Whitefield Tower 1

Source: Company, JM Financial

Well poised to capture the industry upcycle

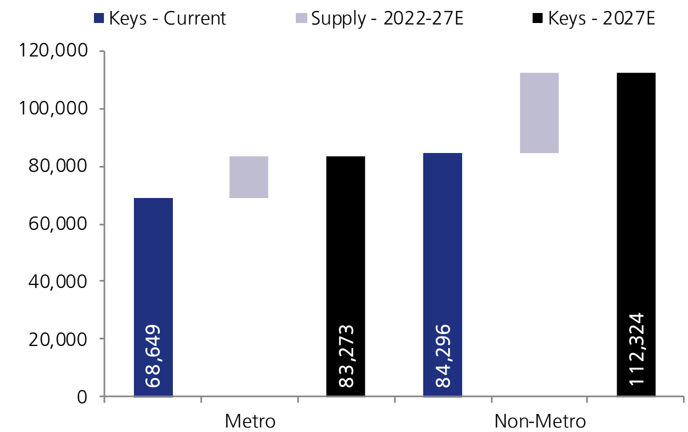
- **Limited supply and high occupancy to give pricing power:** Bengaluru and Mumbai are likely to see an addition of 4,550 keys and 4,700 keys respectively over the next 5 years on the current base of 14,000+ keys and 13,000+ keys; Pune and Hyderabad, however, are likely to see even lower new supply in the same period (based on the active development of hotels currently). With limited supply coming in these micro-markets, where Chalet has a presence, it is well placed to benefit from the imminent upcycle. Furthermore, ARR lags occupancy and given that industry average occupancy is c.68-70%, true pricing power for the likes of Chalet should come through 3QFY24 onwards.

Exhibit 8. Limited branded room supply in key metro cities



Source: Hotelviate, JM Financial

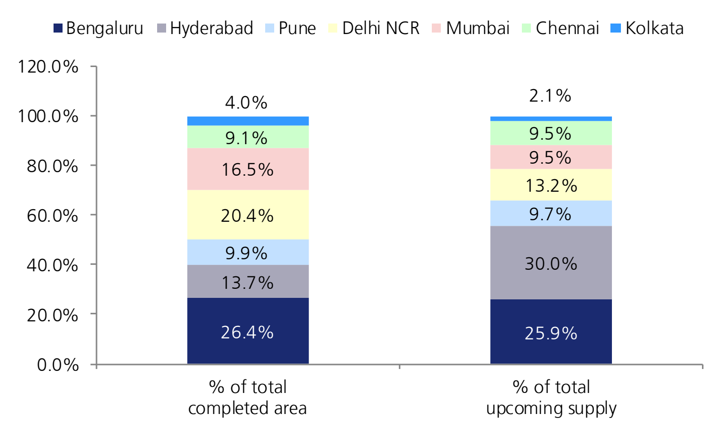
Exhibit 9. Majority of supply coming in non-metro locations



Source: Hotelviate, JM Financial

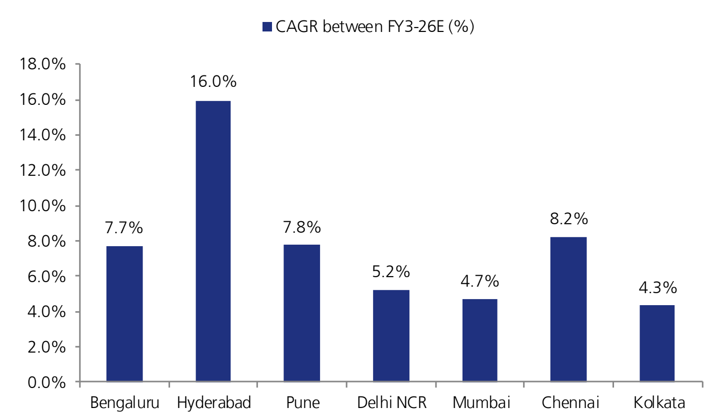
- **Metro vs. non-metro cities:** New supply of branded keys in metro locations is likely to be muted at 3.9% CAGR from FY22-27E, and will be significantly lower than that in non-metro cities (5.9% CAGR from FY22-27E). The demand for hotel rooms should also be positively impacted by office space addition (c. 168msf FY26E, of which c. 70% is upcoming in cities where Chalet has a presence), which implies that the demand-supply gap will stay favourable over the next few years.

Exhibit 10. Bengaluru is the largest office market…



Source: Cushman & Wakefield, JM Financial

Exhibit 11. …while offices supply growth is highest in Hyderabad



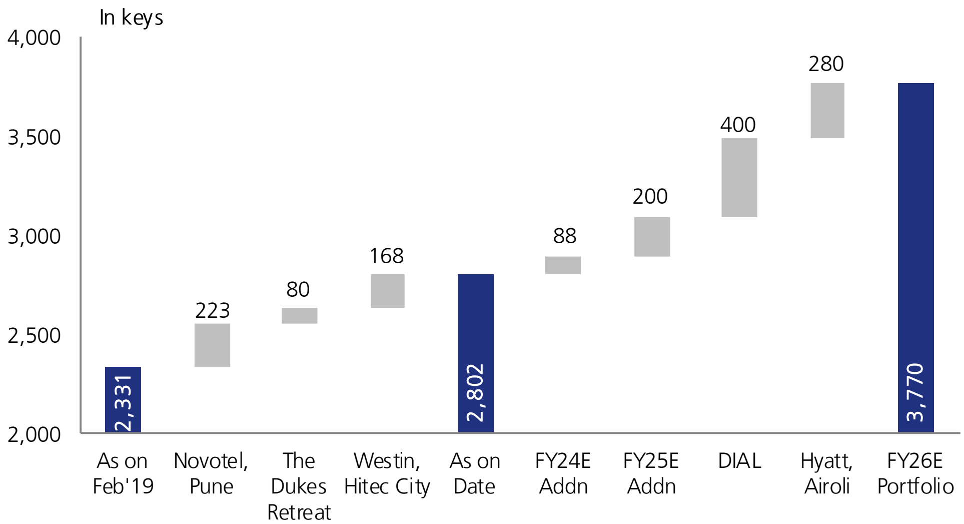
Source: Cushman & Wakefield, JM Financial

- **Domestic tourism driving demand; foreign inbound travel yet to bounce back:** Domestic travel has demonstrated a sustainable uptrend post the Covid-19 pandemic. Monthly air traffic has already exceeded pre-pandemic levels and YTD air traffic has grown 31%. International travel was severely affected during the pandemic due to lockdowns and country specific travel restrictions and is yet to recover to pre-Covid levels. Given Chalet is a luxury segment player managed by global operators, a significant portion of its revenue came from foreign guests. As revenue recovers to pre-Covid levels, the company stands to benefit from incremental demand.

Core business growth driven by greenfield expansions

- **Ambitious capital expenditure outlay planned:** Chalet has laid out an expansion plan which will see its room inventory increase from 2,802 keys to 3,770 keys by FY26E. Around 30% of this incremental room capacity expansion is set to come from additions to existing operational hotels. We estimate the company to incur a total capex (including maintenance capex) of INR 9.5-10bn from FY24E-26E on its hospitality assets. The tailwinds in the industry are significantly helping Chalet increase its internal accruals through strong EBITDA performance; as a result, the company will have sufficient funds to finance its capex, going forward.

Exhibit 12. ~970 rooms to be added in the next 3 years



Source: Company, JM Financial

- **Novotel, Pune (88 rooms):** Chalet is set to add another 88 rooms at its Novotel, Pune hotel. The additional rooms are ready and the company is waiting to receive the occupancy certificate of the floors to open up the inventory. The rooms are expected to be operational by 2HFY24E.

- **Marriot Hotel Whitefield, Bengaluru (130 rooms):** Chalet will be adding another 130 rooms at its Marriott hotel in Bengaluru, which was previously an office space in the Accenture Learning Centre Tower. The designs for the additional rooms are ready and work is expected to start within the next few months with the company targeting to complete the expansion in FY25E.

- **The Dukes Retreat, Khandala (70 rooms):** Chalet recently forayed into the leisure segment with The Dukes Retreat acquisition, an 80-room resort spread over 7.5acres for an enterprise value of INR 1,330mn. Strategically located on a hill station between the cities of Mumbai and Pune, The Dukes Retreat is an ideal destination for leisure travellers, wedding celebrations and corporate events. The company will reposition the property to a 5-star lifestyle resort through major renovation, upgradation and inventory addition (70 rooms) taking the total key count to 150. Presently around 60% of the existing inventory (c. 48 rooms) is under renovation and Chalet has guided for all 150 rooms to be operational by 2HFY25E. The total capex incurred for both renovation and addition of rooms is expected to be c. INR 1bn.

- DIAL Hotel, Delhi (400 rooms): In early FY23, Chalet was announced as the successful bidder to develop and operate a 5-star hotel at Terminal 3 of the Delhi International Airport (which is the road across the arrivals section of the terminal). The contract is being awarded by Delhi International Airport Limited (DIAL) a consortium between GMR group and Airport Authority of India on a long-term lease. It will be a 400-room hotel and is expected to be operational by FY26E. The cold shell will be delivered by DIAL after which Chalet will complete the interiors and the fit outs. Furthermore, the company (through its wholly owned subsidiary Chalet Airport Hotels Private Limited) has entered into an agreement with The Indian Hotels Company Limited (IHCL) to run this hotel under the Taj brand. We estimate Chalet to incur a total capex of INR 3-3.5bn (c. INR 2.6bn for construction) once the shell is provided by DIAL.

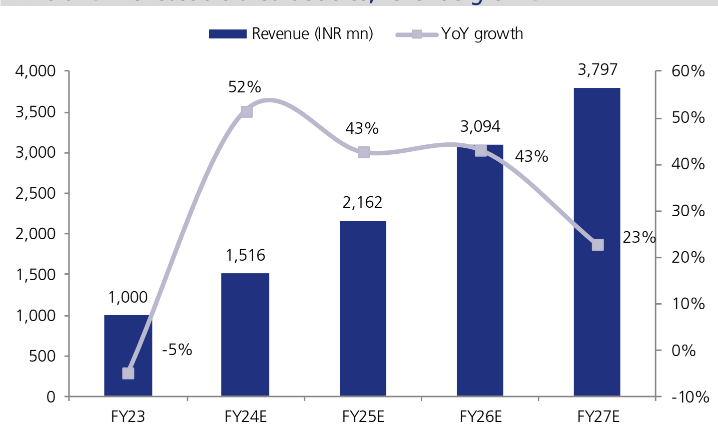
- Hyatt Regency Airoli, Navi Mumbai (280 rooms): Chalet will be adding a new 280-room hotel in Airoli, Navi Mumbai, to its portfolio which will be operated by Hyatt and is expected to be operational by FY26.

Cyclicality in hospitality hedged by annuity portfolio

- Efficient use of land banks to develop steady rent yielding assets: Chalet has adopted a strategy of sweating its land banks by building steady rent-yielding commercial assets within the vicinity of its hotels. As on 30th Jun'23, the company has two operational assets totalling 1.2msf, namely, The Orb at Sahar, Mumbai (0.5msf) and Cignus Whitefield Bangalore Tower 1 (0.7msf). The tower in Bengaluru was only recently completed and the first client will move in and occupy the first three floors in Aug'23. We estimate the company will incur an additional capex of INR 10bn (incl. maintenance capex) over FY24-27E. On the back of leasable area expansion, we estimate revenue and EBITDA to grow to ~3.0x FY23A levels, at a CAGR of 45.7% and 45.4% respectively from FY23-26E. Share of revenue from commercial assets is likely to increase gradually, contributing 11%/13%/15% in FY24/FY25/FY26 respectively.

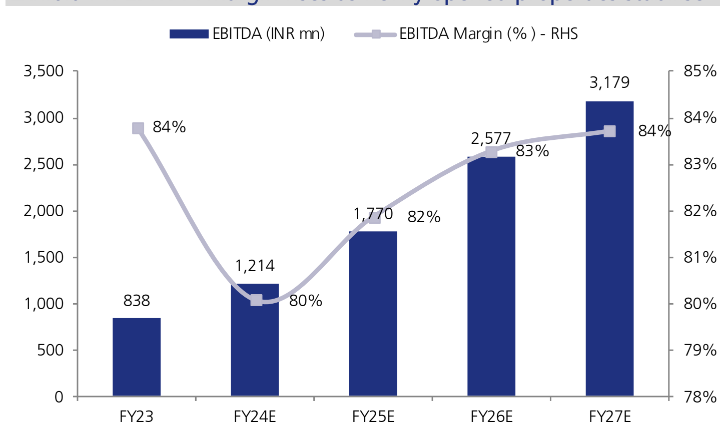
- Commercial capex: Chalet is expected to have a total leasable area of 3.0msf by FY27. The company currently has three assets under-construction:
  - **Cignus Powai Tower 1 (0.8msf) and Tower 2 (0.8msf):** Cignus Powai Tower 1 at the Westin Complex is in the final stages of completion and is set to become operational in this financial year. With respect to the Cignus Powai Tower 2, all approvals have come through and site preparation work has already commenced. This asset is likely to be operational by FY27 and will incur a capex of c. INR 7bn.
  - **Cignus Whitefield Bengaluru Tower 2 (0.3msf):** Cignus Whitefield Bengaluru Tower 2 is a repurposed mall (previously Inorbit Mall, Bengaluru) in the final stages of completion and will be ready for handover to tenants from Sep'23.

Exhibit 13. As leasable area doubles, revenue grow 3x



Source: Company, JM Financial

Exhibit 14. EBITDA margin rises as newly opened properties stabilise



Source: Company, JM Financial

Chalet's gearing is at a comfortable level and expected to come down

- **Significant portion of debt backed by quality assets:** Chalet's total debt as on Jun'23 stands at INR 24.7bn out of which INR 12.5bn is attributable to assets under-construction and the rest to operating assets. Out of the portion allocated to operating assets a significant portion would be of self-amortising nature (LRD) backed the lease rentals coming from the annuity assets.

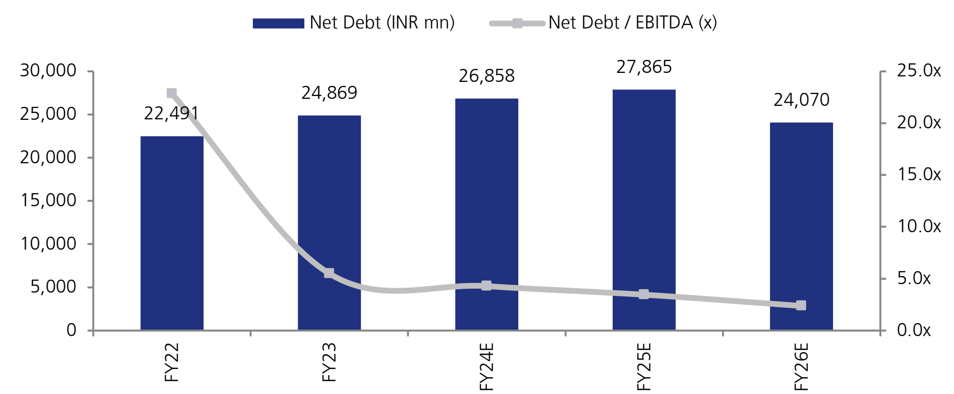
Exhibit 15. Significant portion Chalet's debt backed by high quality assets

Particulars (INR mn)	Mar'18	Mar'19	Mar'21	Mar'22	Mar'23	Jun'23
Gross Block	**36,248**	**39,750**	**45,382**	**49,062**	**54,118**	**NA**
Debt						
Allocable to operating assets	23,339	13,581	14,403	14,147	11,757	12,176
Allocable to under-construction/to be operationalized assets	3,684	891	4,308	8,191	12,611	12,493
Total Debt	**27,023**	**14,472**	**18,711**	**22,338**	**24,368**	**24,669**
EBITDA	3,005	3,668	290	1,204	5,023	1,136
Capex Spend YTD	1,100	656	1,433	3,489	4,398	806
Interest Rate (%)	8.4%	9.4%	8.0%	7.5%	8.8%	8.6%

Source: Company, JM Financial

- We expect Chalet's net debt to peak in FY25E at ~INR 28 bn, assuming a modest ramp-up in commercial revenues and completion of the residential project in FY27E. As the new assets stabilise and the residential project becomes cash surplus, we expect the leverage to come down to a comfortable level of INR 24 bn in FY26E.

Exhibit 16. Chalet's net debt to peak in FY25E



Source: Company, JM Financial

- According to our estimates, Net Debt/EBITDA in FY26E would be at 2.4x and would come down even further in FY27E to ~1.6x as free cash flow from the operational assets increases significantly FY26E onwards..

Business Overview

- **High-end branded properties:** Chalet is an owner, developer and asset manager of high-end hotels in key metro cities. Its hotel platform comprises 2,802 keys across nine operational properties. In addition to the hospitality portfolio, Chalet has a commercial portfolio comprising 1.2msf of leasable area and an occupancy of 45% (recently completed 0.7msf, which is in the process of leasing).

Exhibit 17. Hospitality portfolio to reach 3,770 keys by FY26E

Hospitality Portfolio	Keys	Remarks
Operational Portfolio		
Novotel, Pune Nagar Road	223	Acquired this asset in FY20 at an EV of INR 2.9bn (INR 13mn/key)
JW Marriott, Mumbai Sahar	588	
Marriott Hotel, Bengaluru Whitefield	391	
The Westin, Hyderabad Mindspace	427	
Four Points by Sheraton, Navi Mumbai, Vashi	152	
Westin, Mumbai, Powai Lake	600	
Lakeside Chalet, Mumbai-Marriott Executive Apartments	173	
The Dukes Retreat	80	Acquired this asset in Mar'23 at an EV of INR 1.33bn (INR 17mn/key)
Westin Hyderabad Hitec City	168	
Total Operational	**2,802**	
Under-Construction Portfolio		
Novotel, Pune Expansion	88	To be operational by FY24E
The Dukes Retreat Expansion	70	To be operational by FY25E
Marriott Hotel, Bengaluru Expansion	130	To be operational by FY25E
DIAL	400	To be operational by FY26E
Hyatt Regency Airoli, Navi Mumbai	280	To be operational by FY26E
Total Under-Construction	**968**	
FY26E Portfolio	**3,770**	

Source: Company, JM Financial

Exhibit 18. Commercial portfolio to reach 3.0msf by FY27E

Commercial Portfolio	Area (msf)	Remarks
Operational Portfolio		
The Orb at Sahar, Mumbai	0.5	
Cignus Whitefield Bangalore Tower 1	0.7	Tenants moving in by Aug'23
Total Operational	**1.2**	
Under-Construction Portfolio		
Cignus Powai Tower 1	0.8	To be operational by FY24E
Cignus Powai Tower 2	0.8	To be operational by FY27E
Cignus Whitefield Bangalore Tower 2	0.3	To be operational by FY24E; Previously the Inorbit Mall
Total Under-Construction	**1.9**	
FY27E Portfolio	**3.0**	

Source: Company, JM Financial

- **Active asset management model:** Chalet follows an active asset management model across all its hotels. It appoints global operators such as Marriott and Accor who, in return, provide Chalet with their management expertise, online reservation systems, marketing strategies, systems and processes, human resources and operational know-how. As part of the asset management model, Chalet:
  - regularly engages with the management team at each hotel in order to agree on budgeting, cost management and financial targets. It achieves this by conducting detailed monthly review meetings with the respective hotel management team;
  - discusses and optimise price strategies to maximise room yield;
  - assists in renewing licences, consents etc.

Exhibit 19. Excluding the COVID blip, Chalet has maintained a combination of healthy revenue growth and high margin

Particulars (INR mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Hospitality Revenue	**6,807**	**8,395**	**9,137**	**8,755**	**2,018**	**4,058**	**10,281**
Room Revenue	3,961	4,856	5,341	5,219	1,132	2,195	6,157
F&B Revenue	2,327	2,822	3,016	2,798	684	1,565	3,386
Others	518	717	780	738	203	298	738
Rental & Annuity Business	114	166	271	811	781	934	1,000
Other Operating Revenue	197	-606	464	243	57	86	4
Revenue from operations	**7,118**	**7,955**	**9,872**	**9,808**	**2,856**	**5,078**	**11,285**
Consolidated EBITDA	**2,211**	**2,447**	**3,192**	**3,429**	**71**	**985**	**4,528**
EBITDA Margin (%)	31%	31%	32%	35%	2%	19%	40%

Source: Company, JM Financial

- **Backed by K Raheja Corp, a leading Indian real estate developer:** Chalet is a part of the K Raheja Corp group, which is a leading business group in India. The Raheja group has extensive experience in developing large scale real estate and commercial projects and, as a result, has a strong understanding of the industry and market trends. Chalet leverages this to identify suitable locations and opportunities. It also leverages the experience and relationships of these companies with construction companies to develop hotels at optimal cost and quality.

- **Residential development:** Chalet has one ongoing luxury residential project (Raheja Vivarea) in Koramangala, Bengaluru. The project comprises 321 units across nine towers of 10 floors each and two towers of 11 floors each. The estimated cost of the project is INR 4.25bn and is expected to be completed by FY26. The RERA registration has been completed. Sales for the project will start in the festive season towards the end of CY23.

- **Management profile:**
  - **Sanjay Sethi:** Mr Sethi is the Managing Director and Chief Executive Officer of Chalet Hotels. He holds a diploma in hotel management, catering and nutrition from IHM Pusa. Prior to joining the company, he worked with ITC Limited as the COO for its hotels division. He has more than 30 years of experience in the hospitality industry, including senior management roles Bergguren Hotels and IHCL.
  - **Milind Wadekar:** Mr Wadekar is the Chief Financial Officer of Chalet Hotels. He is a qualified Chartered Accountant and has been associated with the group since 2009. Prior to joining the company, he was working with the erstwhile Hotel Leela Ventures Limited as Corporate Financial Controller. He has more than 15 years of experience in managing various parts of hospitality financial functions.

Exhibit 20. Board of directors

Name	Position	Brief Profile
Ravi Raheja	Promoter & Non-Executive Director	He holds a bachelor's degree in commerce from the University of Mumbai and an MBA from the London Business School. He is the group president of K Raheja Corp Group. He has over 26 years of experience across real estate, hotel and retail industries.
Neel Raheja	Promoter & Non-Executive Director	He is the group president of K Raheja Corp Group. He has been instrumental in the diversification of the K Raheja Corp Group's business from real estate development to retail and hospitality for the last two decades.
Hetal Gandhi	Chairman & Independent Director	He is a Chartered Accountant and Commerce Graduate from Mumbai University. He is the co-founder and Managing Director of Tano India Advisors Private Limited (TIA). He has over 3 decades of experience in the financial services industry.
Arthur De Haast	Independent Director	He has been elected as a Life Fellow of the Institute of Hospitality. He is Chairman of the Global Capital Markets Advisory Council of JLL. He has over 36 years of experience in the hospitality and real estate sector
Joseph Conrad D'Souza	Independent Director	He is a graduate of the Senior Executive Programme from the London Business School. He has been associated with HDFC Limited since 1984, where his responsibilities include corporate planning & budgeting, corporate finance and investor relations.
Radhika Piramal	Independent Director	She holds a Bachelor's degree in Arts from Brasenose College, University of Oxford and a MBA from Harvard Business School. She is currently the Executive Vice Chairperson of VIP Industries Ltd

Source: Company, JM Financial

Financials

Hospitality revenue: Growth led by portfolio expansion and ARR growth

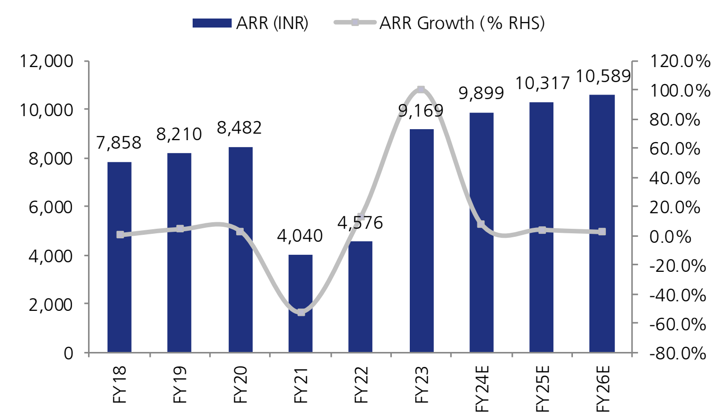
- **ARR growth and stable occupancies**: For FY23-26E, we estimate ARR to grow at 7% CAGR and occupancy in the range of 70-75%. We estimate Chalet's hospitality revenue / EBITDA to grow at a CAGR of 18.3% / 20.6% respectively over FY24E-26E as:
  - Chalet will add 880 keys by FY26E of which 680 keys will be from two new properties (DIAL and Hyatt, Airoli) and the remaining will be through expansions in existing hotels.
  - We have assumed DIAL to achieve occupancy of 45% in its first year of operations because of its proximity to the IGI airport, resulting in higher demand led by the airline industry.

Exhibit 21. Revenue to grow led by portfolio additions

Particulars (INR mn)	FY23	FY24E	FY25E	FY26E	CAGR FY23-26E (%)
Hospitality Revenue	10,281	12,200	14,667	17,003	18.3%
Hospitality EBITDA	4,318	5,059	6,294	7,572	20.6%

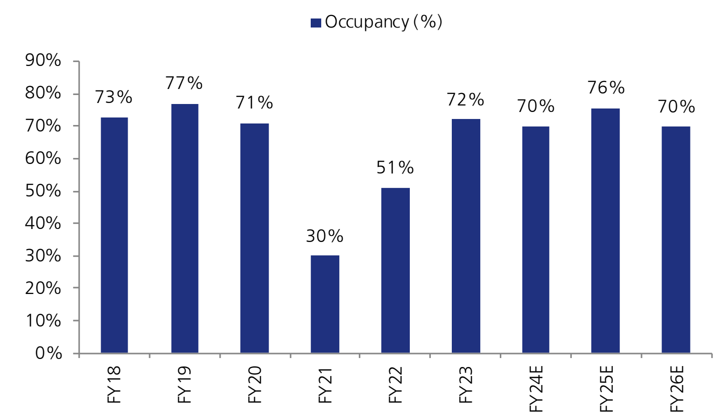
Source: Company, JM Financial

Exhibit 22. Pricing power to kick in…



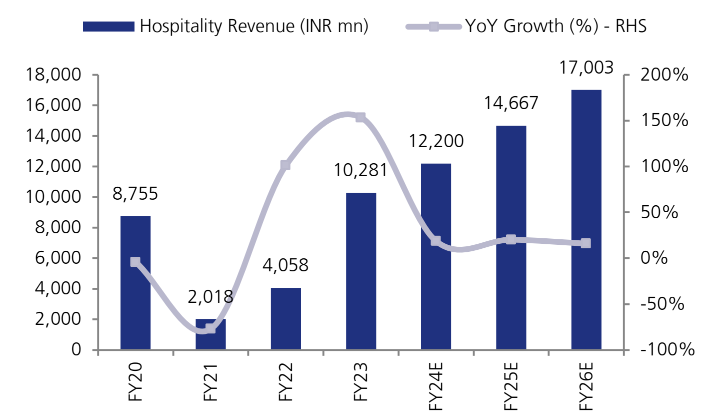
Source: Company, JM Financial

Exhibit 23. …led by high occupancy rates



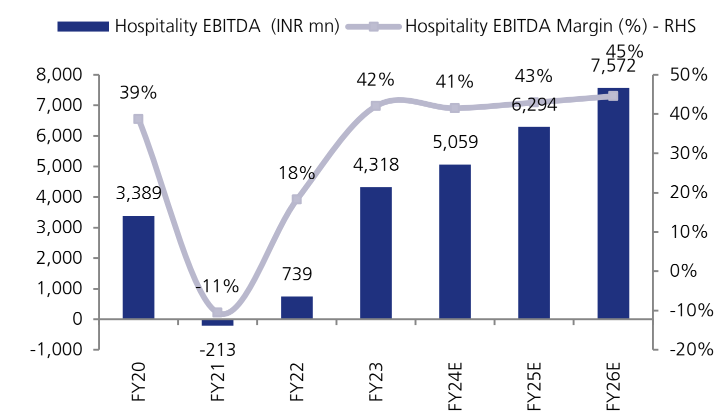
Source: Company, JM Financial

Exhibit 24. New properties to aid revenue growth…



Source: Company, JM Financial

Exhibit 25. …with steady EBITDA margin



Source: Company, JM Financial

Commercial business revenue / EBITDA to grow 3x over 3 years

- **Growth led by incremental leasable area in strong office markets**: For FY23-26E, we estimate commercial annuity revenue to grow at a CAGR of 45.7% on the back of leasable area increasing from 1.2msf to 3.0msf by FY27E (2.4msf by FY24 end). We are building in an in-place rental of INR 125-135psf per month for Chalet's offices in Mumbai and c. INR 60psf per month for the two towers in Bangalore. Given that commercial annuity business is a high-margin one, we expect Chalet to clock an EBITDA margin of 80-85%. Hence, we project EBITDA to grow at a CAGR of 45.4% over FY23-26E.

Exhibit 26. Commercial business to contribute significant to overall growth

Particulars (INR mn)	FY23	FY24E	FY25E	FY26E	CAGR FY23-26E (%)
Commercial Revenue	1,000	1,516	2,162	3,094	45.7%
Commercial EBITDA	838	1,214	1,770	2,577	45.4%

Source: Company, JM Financial

Financial Summary

Exhibit 27. Quarterly financial snapshot

INR mn	1QFY24	1QFY23	YoY	4QFY23	QoQ	FY23	FY24E	FY23-24 YoY
Revenue from operations	3,108	2,530	23%	3,379	-8%	11,285	13,716	22%
Cost of sales	382	349	9%	381	0%	1,477	1,894	28%
Gross margin (%)	88%	86%	151bps	89%	-102bps	87%	86%	-72bps
Employee expenses	467	333	40%	413	13%	1,511	1,738	15%
Other expenses	1,161	829	40%	1,061	9%	3,769	3,811	1%
EBITDA	1,098	1,019	8%	1,524	-28%	4,528	6,273	39%
EBITDA margin (%)	35.3%	40.3%	-494bps	45.1%	-977bps	40.1%	45.7%	561bps
Depreciation	310	297	4%	298	4%	1,173	1,372	17%
Interest costs	454	391	16%	405	12%	1,545	1,910	24%
Other income	38	69	-45%	79	-52%	495	515	4%
PBT	372	399	-7%	899	-59%	2,305	3,506	52%
Profit from associates	0	0	NM	0	NM	0	0	NM
Tax	-515	104	NM	323	NM	870	1,052	21%
Minority Interest	0	0	-127%	-1	-95%	0	0	NM
Adjusted PAT	887	296	200%	577	54%	1,436	2,454	71%
Extraordinary Income	0	-10	NM	-184	NM	423	0	NM
PAT	887	285	211%	393	126%	1,859	2,454	32%

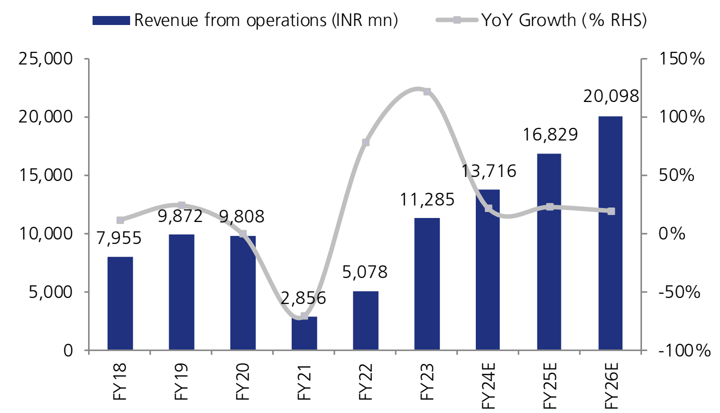
Source: Company, JM Financial

Exhibit 28. Strong revenue growth led by both segments

Particulars (INR mn)	FY23	FY24E	FY25E	FY26E	CAGR FY23-26E (%)
Hospitality Revenue	10,281	12,200	14,667	17,003	18.3%
Rental & Annuity Business	1,004	1,516	2,162	3,094	45.7%
Revenue from operations	**11,285**	**13,716**	**16,829**	**20,098**	**21.2%**
Consolidated EBITDA	**4,528**	**6,273**	**8,065**	**10,149**	**30.9%**
EBITDA Margin (%)	40.1%	45.7%	47.9%	50.5%	

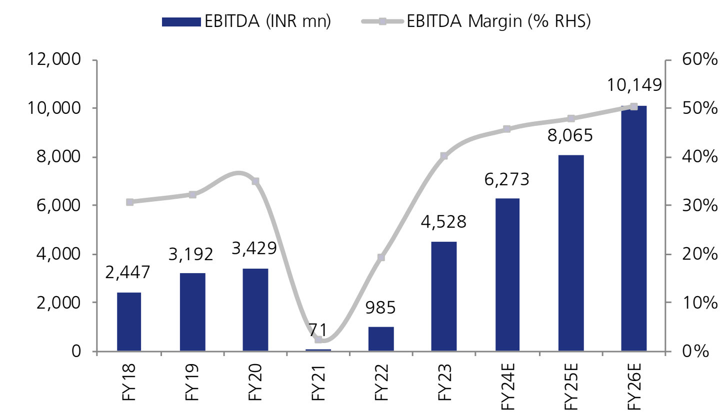
Source: Company, JM Financial

Exhibit 29. Growth largely led by capex…



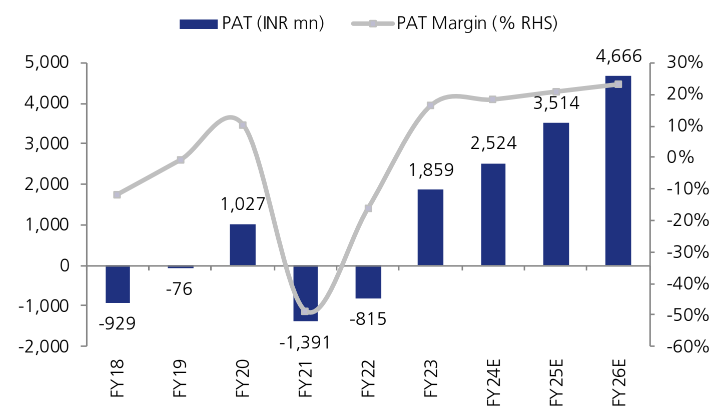
Source: Company, JM Financial

Exhibit 30. …with a healthy flow-through to EBITDA



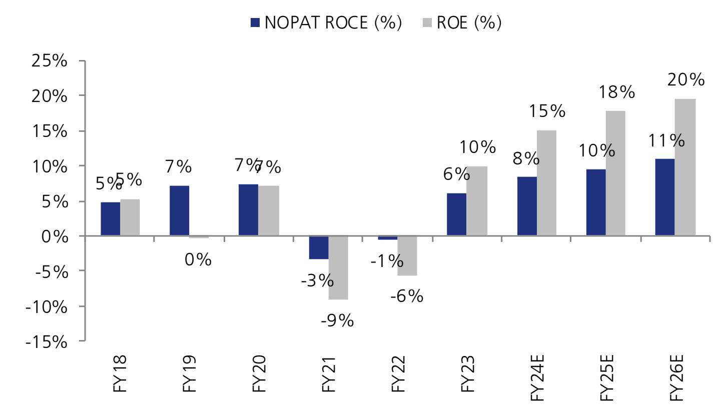
Source: Company, JM Financial

Exhibit 31. Operating leverage leads to higher PAT…



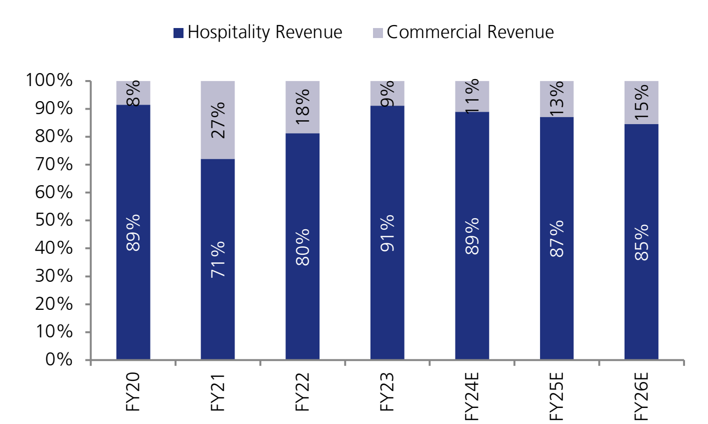
Source: Company, JM Financial

Exhibit 32. …resulting in improved return ratios



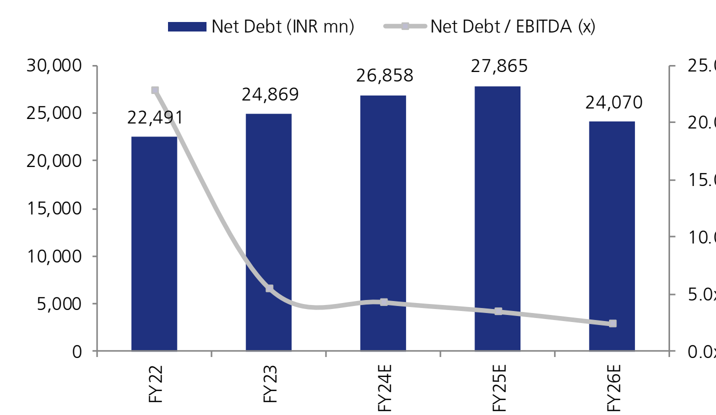
Source: Company, JM Financial

Exhibit 33. Commercial revenue share inching upwards



Source: Company, JM Financial

Exhibit 34. Net Debt to come down as assets become operational



Source: Company, JM Financial

Valuation

- **Assume coverage with BUY, TP of INR 620:** We assume coverage on Chalet with a BUY recommendation and a Sep'24 TP of INR 620. We value the company on an SOTP basis; hospitality business is valued at 18.0x EV/EBITDA on Sep'25E Hospitality EBITDA, GAV of annuity assets is calculated by applying an 8% capitalisation rate on Sep'25E exit rentals and Gross Development Value method has been used for Vivarea, Bengaluru (both residential and office assets).

Exhibit 35. Chalet: SoTP valuation

Chalet Hotels (INR mn unless specified)	
Hospitality EV	**124,798**
EV/EBITDA Multiple (x)	18.0x
Hospitality EBITDA (Sep'25E)	6,933
Rental EV	**27,172**
Rental EBITDA (Sep'25E)	2,174
Cap Rate	8.0%
Residential EV	**1,745**
Total EV	**153,715**
Net Debt (adj. for promoter loan)	**27,632**
NAV	**126,353**
Shares Outstanding (INR mn)	205
Sep'24 TP	**620**

Source: JM Financial

Exhibit 36. Valuation: Peer set

Company	Ticker	Currency	CMP	Mcap (INR bn)	P/E (x)			EV/EBITDA (x)			EV/Sales (x)		
					FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Asset Owners													
Chalet	CHALET IN EQUITY	INR	480	98	36.2	25.3	17.4	19.5	15.6	12.0	8.4	7.0	5.7
Asset/Brand Owners													
EIH	EIH IN EQUITY	INR	211	132	32.5	27.4	NA	21.1	18.6	NA	6.5	5.9	NA
Indian Hotels	IH IN EQUITY	INR	383	544	43.4	36.4	32.9	26.2	23.0	21.1	8.5	7.7	7.2
Lemon Tree	LEMONTRE IN EQUITY	INR	95	75	45.7	27.5	22.3	19.1	14.3	13.2	9.7	7.6	6.9
Royal Orchids Hotel	ROHL IN EQUITY	INR	297	8	14.1	9.6	NA	10.6	7.5	NA	2.9	2.1	NA
Mahindra Resorts and Hotels	MHRL IN EQUITY	INR	343	69	39.2	33.4	NA	21.1	18.4	NA	4.9	4.4	NA

Source: Company, Bloomberg, JM Financial; Data as on 16th Aug'23.

Financial Tables (Consolidated)

Income Statement (INR mn)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	5,078	11,285	13,716	16,829	20,098
Sales Growth	77.8%	122.2%	21.5%	22.7%	19.4%
Other Operating Income	0	0	0	0	0
Total Revenue	**5,078**	**11,285**	**13,716**	**16,829**	**20,098**
Cost of Goods Sold/Op. Exp	991	1,477	1,894	2,293	2,685
Personnel Cost	1,000	1,511	1,738	2,050	2,296
Other Expenses	2,102	3,769	3,811	4,421	4,967
EBITDA	**985**	**4,528**	**6,273**	**8,065**	**10,149**
EBITDA Margin	19.4%	40.1%	45.7%	47.9%	50.5%
EBITDA Growth	1,294.9%	359.8%	38.5%	28.6%	25.8%
Depn. & Amort.	1,184	1,173	1,372	1,683	2,010
EBIT	-199	3,355	4,902	6,382	8,140
Other Income	219	495	515	535	557
Finance Cost	1,444	1,545	1,810	1,896	2,030
PBT before Excep. & Forex	-1,424	2,305	3,606	5,021	6,666
Excep. & Forex Inc./Loss(-)	-45	423	0	0	0
PBT	-1,469	2,728	3,606	5,021	6,666
Taxes	-720	870	1,082	1,506	2,000
Extraordinary Inc./Loss(-)	-65	0	0	0	0
Assoc. Profit/Min. Int.(-)	1	0	0	0	0
Reported Net Profit	-815	1,859	2,524	3,514	4,666
Adjusted Net Profit	**-771**	**1,436**	**2,524**	**3,514**	**4,666**
Net Margin	-15.2%	12.7%	18.4%	20.9%	23.2%
Diluted Share Cap. (mn)	205.0	205.0	205.0	205.0	205.0
Diluted EPS (INR)	**-3.8**	**7.0**	**12.3**	**17.1**	**22.8**
Diluted EPS Growth	0.0%	0.0%	75.8%	39.2%	32.8%
Total Dividend + Tax	0	0	0	0	0
Dividend Per Share (INR)	0.0	0.0	0.0	0.0	0.0

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	13,410	15,441	17,965	21,480	26,146
Share Capital	2,050	2,050	2,050	2,050	2,050
Reserves & Surplus	11,360	13,391	15,915	19,429	24,096
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	25,340	27,939	30,431	33,094	31,567
Def. Tax Liab. / Assets (-)	12	0	0	0	0
Total - Equity & Liab.	**38,762**	**43,380**	**48,396**	**54,574**	**57,713**
Net Fixed Assets	34,456	39,513	43,987	50,151	51,978
Gross Fixed Assets	49,062	54,118	60,168	68,198	72,200
Intangible Assets	816	1,062	956	860	774
Less: Depn. & Amort.	15,744	16,645	18,017	19,699	21,709
Capital WIP	322	978	880	792	713
Investments	450	656	683	710	738
Current Assets	9,521	9,359	10,615	10,745	12,206
Inventories	3,935	4,129	4,801	5,049	5,024
Sundry Debtors	436	590	686	841	1,005
Cash & Bank Balances	245	445	766	317	1,457
Loans & Advances	0	0	0	0	0
Other Current Assets	4,905	4,195	4,363	4,538	4,719
Current Liab. & Prov.	5,665	6,148	6,890	7,032	7,210
Current Liabilities	1,758	2,458	3,052	3,041	3,059
Provisions & Others	3,908	3,691	3,838	3,992	4,151
Net Current Assets	3,856	3,210	3,725	3,712	4,996
Total – Assets	**38,762**	**43,379**	**48,395**	**54,573**	**57,712**

Source: Company, JM Financial

Cash Flow Statement (INR mn)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	-1,424	2,305	3,606	5,021	6,666
Depn. & Amort.	1,184	1,173	1,372	1,683	2,010
Net Interest Exp. / Inc. (-)	1,387	1,228	1,810	1,896	2,030
Inc (-) / Dec in WCap.	-452	-35	15	-279	-6
Others	0	-357	0	0	0
Taxes Paid	38	31	-1,082	-1,506	-2,000
Operating Cash Flow	**622**	**4,769**	**5,721**	**6,814**	**8,700**
Capex	-396	-1,715	-5,991	-8,031	-4,002
Free Cash Flow	226	3,054	-270	-1,216	4,698
Inc (-) / Dec in Investments	-3,019	-4,125	0	0	0
Others	-546	-84	0	0	0
Investing Cash Flow	**-3,961**	**-5,924**	**-5,991**	**-8,031**	**-4,002**
Inc / Dec (-) in Capital	500	251	0	0	0
Dividend + Tax thereon	0	0	0	0	0
Inc / Dec (-) in Loans	7,234	9,976	2,492	2,664	-1,528
Others	-4,419	-8,873	-1,900	-1,896	-2,030
Financing Cash Flow	**3,315**	**1,355**	**592**	**767**	**-3,558**
Inc / Dec (-) in Cash	**-24**	**199**	**321**	**-449**	**1,140**
Opening Cash Balance	269	245	445	766	317
Closing Cash Balance	245	445	766	317	1,457

Source: Company, JM Financial

Dupont Analysis

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	-15.2%	12.7%	18.4%	20.9%	23.2%
Asset Turnover (x)	0.1	0.3	0.3	0.3	0.4
Leverage Factor (x)	2.7	2.9	2.8	2.7	2.4
RoE	-5.6%	10.0%	15.1%	17.8%	19.6%

Key Ratios

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	65.4	75.3	87.6	104.8	127.5
ROIC	-0.3%	5.7%	7.7%	8.9%	10.4%
ROE	-5.6%	10.0%	15.1%	17.8%	19.6%
Net Debt/Equity (x)	1.9	1.8	1.7	1.5	1.2
P/E (x)	-128.8	69.1	39.3	28.2	21.3
P/B (x)	7.4	6.4	5.5	4.6	3.8
EV/EBITDA (x)	126.2	28.0	20.5	16.4	12.7
EV/Sales (x)	24.5	11.2	9.4	7.8	6.4
Debtor days	31	19	18	18	18
Inventory days	283	134	128	110	91
Creditor days	77	81	101	84	74

Source: Company, JM Financial

APPENDIX I

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Rating	Meaning
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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REIT refers to Real Estate Investment Trusts.

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