The Indian Hotels Company Limited

IHCL Earnings Call - FY 2019/2020 – Q3 Results

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Management :

Mr. Puneet Chhatwal, Managing Director & CEO

Mr. Giridhar Sanjeevi, Executive Vice President & CFO

Operator: Good day, and welcome to the Indian Hotels Company Limited's Q3 FY20 earnings call being hosted by Mr Puneet Chhatwal, Managing Director and CEO, IHCL, and Mr Giridhar Sanjeevi, EVP and CFO, IHCL.

As a reminder, all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to turn the conference over to Mr Giridhar Sanjeevi. Please go ahead, sir.

Giridhar Sanjeevi: Hi. Good evening all of you. Thank you for joining us for the Indian Hotels Analyst Call after the Q3 results. We welcome all of you and for the efforts taken to join the call. I now pass on the phone to Puneet Chhatwal to start the conference.

Puneet Chhatwal: Good evening, everyone. Let me start immediately with the financial performance highlights of the third quarter. Our revenue was up 5% on INR1,338 crores last year to INR1,409 crores in Q3 this year. We had 32% growth in EBITDA totalling INR462 crores. Our EBITDA margin reached 32.78%, which was a 662 basis point increase and a profit after tax of INR203 crores, which is an increase of 26% over last year.

I think if we look at the same on a nine-month, or a year-to-date basis, we again have the top line growth of 5% and EBITDA growth of 44% to a figure of INR854 crores and a EBITDA margin of 24.44% aided by 116 accounting standard change but still totalling 660 basis point. And a PAT of INR280 crores, which is 63% more than PAT of last year. If we did this pre-116, then it would've hit INR310 crores, which is higher than the full year PAT for last year.

So, we are kind of pleased with the performance on all four parameters. And this is well illustrated by the last ten years if we see that we have had the best Q3 and the best nine months' financial performance in a decade. And it does not matter which metric we look at, whether it's the revenue, it's the EBITDA, it's the EBITDA margin, it's the PBT or the PAT, both for the three months and the year-to-date, in all metrics we are ahead and have had the best performance in the decade.

I think this has been aided by revival of the Indian hospitality landscape. In Q1 this year and in Q2, the demand versus supply, the gap was negative in Q1 and marginally positive in Q2, but the gap has improved in Q3. And I think this is good. The Q1, the reasoning might have been because it was a one-off as this is an election year. And in the election year, we know that especially the government business, which is a significant part of our business, especially in our conference properties like the Taj Palace or the Lands End or the Coromandel did take an impact of that. But I think the entire industry did, as it happens once every five years. And thereafter, there has been slight recovery which got accelerated in Q3.

Having said that, the Q3 recovery could have been far stronger, that was the belief that we had in the last financial year if we were asked about this year, but we all know and have been reading in the news about general sentiment in the market, all certain destinations, especially for us which were hit like Guwahati where we have an IHCL property or towards the end of December in Delhi. But generally, we are very pleased with the performance and with this trend.

And this is evidenced in the next slide that we show to you on the RevPAR growth, which seems to be back on track, which had fallen to less than 3% in the previous two quarters and is coming back to around 6%. Now 6% growth on RevPAR is good because the occupancies have been at a high level for quite a number of years now. And that means the most of the growth that is coming will be driven by the rate and not by the volume.

On our aspiration to execution, we wanted to give you a brief update on the key highlights. As a reminder, the pyramid maybe said we will go from 17% to 25% EBITDA margin, that was 800 basis point increase. We will sign 15 new projects every year and have a balanced portfolio that our growth will be more driven by asset-light or management fee contract business versus owned and leased hotels. And I think going forward, we want to take you through as to what we have done on that front.

We're all time high on hotel signings. So, last year we signed more than 3,000 rooms totalling 22 hotels. This year-to-date, we have already signed 24 hotels totalling 2,800 rooms and I think we will exceed the number of rooms signed for last year. And definitely we have already exceeded the number of hotels signed. And today we can tell you very proudly that we have a industry-leading pipeline in terms of the number of rooms added this year, which is far higher than anyone else. And some of the statistics is going to be shared by some companies like HVS or JLL in the months to come at their events. So, they have shared with us. We will let them share with you what we feel pleased to be having the industry leader position in the number of signings.

When it comes to the asset-light model, you will see that we had given the guidance of going towards 50-50 in terms of managed and own contracts. As things stand today, we are a portfolio of 197 hotels, totalling 24,000 rooms. And the share of management contracts in this stands, in January, at 42%. And we will continue to increase this number to get to 50% first on the total portfolio, and as a next step in terms of number of rooms in operation and without counting for those in the pipeline because that's a very important factor in the change in our business model in terms of our margin expansion.

We had said that we will open a hotel a month in 2019. And I think going forward we'll open more than a hotel a month. We have already opened nine hotels in the first nine months of this financial year. And we have had one opening in the month of January, the Fateh Prakash Palace in Udaipur to complement our Lake Palace as well as our convention and wedding resort destination of the Taj Aravali also in Udaipur. So, this is our third property in Udaipur.

After that, as we speak today, we are opening the Devi Ratn in Jaipur which will be a part of our SeleQtions brand. So, that takes the total number of openings to 11. We have also given you, for the first time, guidance on our pipeline. You will see that Taj has 12 hotels in pipeline totalling 2,547 rooms. Under SeleQtions we have three. And then Vivanta, there is another 12 properties of Vivanta and 13 for Ginger. So, 84% of all these hotels in the pipeline is managed. We have one hotel which we've guided, The Connaught, which is a licensed asset and otherwise – and about to open in April; but we're very pleased to see the trend that what we had promised of adding contracts on a fee-based model is what we are demonstrating to you here on this slide.

Then when it comes to the RevPAR growth in the Q3, the RevPAR growth in the market was 1.8. We did very well by doing double the market at 3.6. In Q3, the growth was at 5.5%. We did 5.6%. And we did trade off by not changing our rates, especially towards the last week of December. We could have gone for occupancy but that's a short-term thing. We decided not to compromise on rates and to maintain them at the level, which obviously results directly in the profitability because your operating cost per room after a certain level does not translate always into profitability unless you go for a higher rate, and the higher rate translates directly into profitability and the flow-through is much higher.

Just a snapshot on the RevPAR growth in key cities. These key cities are very important because we are very heavily represented in these key cities. So, the RevPAR growth in key cities remains very strong. Mumbai is at plus 8%. Delhi at plus 7%. Chennai has seen growth after the water scarce in Q1 and Q2. The Q3, Chennai came back very strongly with double-digit growth of 10%. Hyderabad was also at plus 9%. And Bangalore also at double-digit growth of 10%.

Then as we have also guided to you, we have been very focused on alternative revenue streams. We had relaunched Chambers. We have had 200 additional global members, some upgraded their membership to global, some new members. So, I would say half is new and half is migration to global, that created INR30 crores in terms of incremental revenue for us. We've remained focused on a smart strategy we said which is a combination of asset-light and asset-heavy. Whenever there is an opportunity to have a brand-enhancing proposition like we had with the Fateh Prakash Palace or like we have with The Connaught, we would take small stakes or small investments or we will move for licensing or leasing, otherwise we will be very focused on margin enhancing growth, which is fuelled through asset management, that's the A, with strong relationship with the owners that do more hotels with us and a continuous tracking of our portfolio.

Further, we have taken some of our food and beverage brands also global. We have the – we have had the relaunch of Bombay Brasserie in Cape Town. We have added Shamiana in the newly opened Jumeirah Lakes Towers in Dubai. For those of you who know Shamiana from Taj Mahal Palace in Colaba in Mumbai know that it's a very, very well-recognised brand. We are taking House of Ming, which is from Taj Mansingh to London. We'll be opening in a couple of months and we're also expanding Golden Dragon. We just upgraded our Chinese restaurant in Coromandel in Chennai to Golden Dragon and are going to convert the one in Santacruz also to Golden Dragon as that's a brand people really like. We are also now scaling up our salon brand, the Niu & Nau and the first brew pub or the micro brewery with the name 7Rivers is to be launched in Bangalore. Works are almost 70% complete. So, by April we think we would've opened our first micro brewery followed by the second in Goa and more to come. And we have now 13 amã Stays & Trails bungalows operational with another six in pipeline which we'll be opening over the next two months.

So, that's an update on some of our new initiatives. But we're more proud to announce that Ginger brand which we are very much focused on in the last few years has now achieved the 50th opening and totalling 4,500 keys across 35 locations. You must have noticed that it has another 13 in the pipeline. Actually, that number is already been overtaken. We'll be very soon announcing another one which we just signed today. So, we have another 14 in the pipeline. And now we will also be going for some big box Ginger properties as some of you know and have read starting with the one which is in Santacruz where we received the initial planning permissions called the IOD from the government a few weeks ago.

12 of the Gingers were repositioned into the lean luxe segment. They were renovated. And 50% would've been done by the end of this financial year. And within the very first few months, the average growth in Q3 for the average room rate in the Ginger – in the repositioned Ginger in the new lean luxe segment is around 26%. And RevPAR growth for the first nine months in Ginger is 7.4% really aided through the repositioned brand and the repositioned new customer proposition. And the highest ever TripAdvisor score of 4.27.

Also, we wanted to give you a highlight on our operating cost base. And that is pretty evident that our raw material cost have – if we compare the nine months of the last four financial years has gone down from 23.3% to 21.6%. The payroll cost has gone from 34.9% to 33.1%. Fuel, power and light has gone down from 6.6% to 6.2% and other expenditure has also declined from 28.7% to 27% for the first nine months of this year.

Some of you might wonder that in Q3, there maybe a number that shows increase but that is really because of certain wage settlements, which as per law, come in into certain properties. So, like in Q3, we had for Taj Mahal Palace Tower, which will now come the next time in three years from now, which might distort the figure for a quarter but I think we have to take some of these costs on an annual basis because in a quarterly basis, they do show certain deviations.

We have also continued our journey of margin expansion, which we already started in Q4 when we announced the Aspiration 2022 in February. Those of you who were there will remember when we did the first Capital Market Day. And we had a very good Q4 and we have still been able to build on that base and have been continuously expanding our margins at an EBITDA level. And I think the highlight has been that for this year, year-to-date, we are already sitting at 660 basis points for the first nine months of this year.

In summary, before I hand over to my colleague, Giridhar Sanjeevi, there is a strong performance exhibited across parameters with highest number of hotels signed in any financial year ever. We have significant growth in portfolio on the basis of an asset-light model. We've opened one hotel a month in 2019 and we are geared to open more than a hotel a month in 2020 based on the pipeline that we have.

We have higher Q3 RevPAR growth compared to industry in '18-'19 and '19-'20. We have created alternate revenue streams, as well as going forward these revenue streams will create values in those individual brands. Ginger reaches a milestone of 50 hotels. Lean luxe positioning of Ginger is delivering – is beginning to deliver strong results for Ginger, which we will keep you updated on quarter-by-quarter basis going forward and we are continuing on our journey of cost optimisation and EBITDA margin expansion.

Over to you, Mr Sanjeevi.

Giridhar Sanjeevi: Thank you. Over to the financial update now. Building on what Mr Chhatwal has said, I think the consolidated reported P&L statement for Q3 essentially reflects the different parameters that were highlighted. The revenue per operations grew. As a result of our working all the different revenue lever, number one being the room revenue, number two being the F&B growth, number three being the alternate revenue streams like Chambers, etc., and number four is the growth in management contracts.

All of these have helped us in terms of driving the revenue from operations. The non-operating revenue represented sale of apartments that we did in this quarter, which got us about 30 crores or so in terms of profitability. As a result, the EBITDA margins went up. The finance costs were well managed. We had an event in terms of the refinancing of debt, which we were able to do at lower cost. So, that is also – will help going forward.

On the provision for tax and other items, there are no other exceptionals to note. And fundamentally the profit after tax came up by INR203 crores, which is a significant increase from the previous quarter. Exceptional items, nothing much to note except other income had a sale of flats of 30 crores or so. On a nine-month basis, the performance effectively reflects the cumulative performance of the first three quarters. It reflects where it was, as we just said, on revenue, cost parameters, finance cost, sales of non-core assets and others. And also, the tax – deferred tax impact that we had – positive impact we had in the previous quarter. All of this translates to INR280 crores of PAT. And I think what is to be noted is that last year we ended the year with INR287 crores. And I think in nine months pretty much we have kind of hit the same number in the current year. So, I think that is a positive development here.

On the exceptional items, again this year there were no specific exceptional items which impacted. And sale of flats included in non-operating revenue has been about INR62 crores or so.

In terms of the network revenue, I think what we saw was that the domestic business clearly grew. Room revenue grew by 11% and F&B revenue grew by 7.1% and RevPAR is 5.6% as highlighted. On an international basis, this is, of course, a network-related growth. The UK and the US properties have done very well. And I think that is reflected in the performance of the UK and US properties. On the F&B revenue and room revenue, there has been some decline. But I think you should look at the own properties which matter, which is UK and the US properties.

In terms of the network revenue nine months, essentially it reflects again the RevPAR growth – room revenue growth of 8.5%, F&B revenue growth of 4.4% and the international business did better on a nine-month basis. UK in particular has done extremely well and US losses have been also contained.

Moving onto standalone. The standalone reflects the total revenue growth of 9% to INR890 crores. EBITDA was at INR353 crores. And the PAT was INR168 crores for the quarter. If I look at the quarterly numbers, it effectively reflects the – our efforts in revenues, cost optimisation, finance cost optimisation, leading to Q3 PAT of INR168 crores.

On the exceptionals, nothing much to report on exceptional for the quarter. On the nine months' performance, the total revenue crossed INR2,000 crores, 6% growth. EBITDA was INR646 crores, margin at INR30.43 crores and PAT of INR309 crores. You will see that the PAT went up from INR99 crores in – for the nine months in the previous year to INR309 crores in the current period. This was aided by, number one, improvement in operating performance; number two, the non-core asset sales; and number three, interest cost optimisation; and number four, is the deferred tax credit of INR87 crores that we received in the previous quarter, all of these have helped, plus of course last year we had exchanged losses which impacted the performance. This year, we did not have any, what do you say, the translation losses actually. So, all of these factors helped in terms of a significant increase in PAT from INR99 crores to INR309 crores.

And that is what the nine months P&L reflects as we just discussed. Exceptional items we discussed again. And I think one point to note in exceptionals is that you will notice that the US losses have been lowered by about INR5 crores, INR27 crores for the nine months as compared to INR32 crores, reflecting our continuous efforts in terms of trying to manage the US cost action.

Cost optimisation, as we alluded, the corporate overheads have gone down from 7.7% in the previous year to 6.8%. Raw material cost has gone down by nearly a percent to 21.6%. The heat, light and power costs have dropped and payroll costs have also dropped actually. So, we continue to focus on – comprehensively on our cost optimisation.

In terms of unlocking value through simplification and monetisation, we sold land in Pune, which is done yesterday, about INR63 crores or so. Residential apartments, we sold about 73.2. We realised INR73.2 crores. And through simplification and reorganisation of shareholding, we realised sale proceeds of our shareholding in Taj Madras Flight Kitchen of INR29.8 crores, giving us a total monetisation of approximately INR175 crores or so. And that effort will continue and these monies are being used to reduce debt actually. So, this will continue to simplify and unlock value as we have said as part of our Aspiration 2022.

And the next one is really the improvement in net debt to EBITDA and net debt to equity. As you can see right from March 2016 when we were at peak of 6.47 net debt to EBITDA and 1.65 of net debt to equity, it has come down to 1.76 now in terms of the net debt to EBITDA and 0.34 in terms of net debt to EBITDA.

I think that is where the presentation ends actually. We will be happy to take questions at this point in time.

Operator: Thank you, sir. Participants if you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions. I would request everyone to say their name and the company they belong to before asking a question. We will now take our first question.

Himanshu Shah: Hello?

Operator: Yes, please go ahead sir.

Himanshu Shah: Yeah. Sir, Himanshu from Dolat Capital. Thanks. Thanks a lot for the opportunity and congratulations on a great set of numbers. Sir, first couple of bookkeeping question. There has been profit from joint ventures and associates in this quarter whereas there have been losses in last two quarters. Can you just help to clarify this, the reason for losses in previous two quarters and the profit in this quarter?

Giridhar Sanjeevi: So, I think the way to – I mean, let me answer this question. I think basically, Himanshu, I think if you see what we have tried to do is to try and make sure that not just Indian Hotels standalone but also the rest of the network, which is all the other companies also improving performance. So, what we have seen this time is that there is an all-round improvement in performance across the network.

So, number one is that the Roots Corporation we said has improved. Banaras Hotels has improved. US losses have come down. St James' Court has done very well. In terms of Taj GVK Hotels has done better. Taj SATS has also improved despite the loss of jet business which happened. So, therefore, we have seen all round improvement in across the different entities actually.

Himanshu Shah: Okay.

Giridhar Sanjeevi: If we got further query, maybe we can pick it up offline. But I think message to the analysts is that and to those on the call is that it is not just the standalone which has – where the performance improvement has taken place but also across the network.

Himanshu Shah: Fair enough. Sir, secondly, if you can just provide some colour, we are – there is almost a pipeline of 5,600 room and 84% of that is management contract. But in terms of room count if you can provide in standalone like, what would be the room count that will come in standalone over next 12 to 18 months – 15 months?

Giridhar Sanjeevi: So, what happens in standalone is that all the management contracts income is booked in standalone actually. So, therefore as far as the entire pipeline is concerned, except the Ginger, which has its own P&L, I think you will see that it comes in standalone. In standalone, the two properties that – three properties which have come onto the P&L have been Taj Connemara last year, which came back after the renovations. As you know, we signed up to the Fateh Prakash, which opened – which we took over on 1st January. So, there the – will take on the P&L.

And third, The Connaught in Delhi will come on stream sometime in the month of April or May. I think these will be the three, which will kind of come onto the P&L. And Andamans, of course, came on stream about a year ago.

So, these are the four. Andaman, Connemara, Fateh Prakash and Connaught will be the two properties where we'll get the benefit of the full P&L. And the all other management contracts except Ginger, we booked the management income in Indian standalone actually.

Himanshu Shah: Fair enough, sir. Thank you. That's it from my side.

Operator: Thank you. We'll take a next question.

Speaker: Hello?

Operator: Please go ahead sir.

Speaker: Congratulations on good set of numbers. This question to Puneet. Puneet, in your initial remark, you have mentioned that end of December because of this protest against CAA has impacted, which has largely now has happened in January. So, any colour there how this occupancy is getting impacted because of this protest?

Puneet Chhatwal: The occupancy has stayed quite resilient. But as I said, we could have gone – I think I would clarify once more. We could have gone for higher occupancy but the rate. If you reduce the rate, then the climb on that stake is take much longer. So, we took a conscious decision instead of going for 100% occupancy to go for in lot of our properties and assets 90-plus but we maintained the rate. So, that was a long-term decision because once you start reducing rates, it's very difficult to climb back up and has an impact also on your profitability. But your occupancies have grown and will continue to grow.

Speaker: Okay. And second thing, Puneet, I mean, in Q3 because of the reduction on GST, so how much that has helped us, I mean, because ultimately with the increase in the rate, I mean, customer ultimate billing may not be getting impacted, so benefit of that we have seen in – going ahead how do we see that?

Puneet Chhatwal: I think policymaking does not have immediate impact whether negative or positive. It takes a bit of time.

Speaker: Okay.

Puneet Chhatwal: However, unrest of like current health hazard, kind of virus, these things have immediate impact. So, policymaking, it takes time because you have also got contracted rates for a long time, contracted certain rates. And you've sold a part of your inventory in advance. So, I think the move is positive in the reduction of GST. We think it was a very important step towards the right goal. So, it will eventually assist – having a 28% GST on certain category of rooms is very counterproductive.

So, I think that we have to thank the government and the policymaking people that they have taken the step in the right direction. But it takes a few quarters for that to help, right? It does not happen overnight that if you announce something in the first week of October that it is relevant as of 1st October, then 10th October or 11th October your margin in terms of rate starts getting added by the difference between 28% and 18%. So, that just does not work.

Speaker: Okay. And Sanjeevi, I mean, how much CapEx we have done in FY20? I mean, and how much we have planned for FY21?

Giridhar Sanjeevi: So, I think for the current year nine months in Indian Hotels, we have spent about INR204 crores or so and another INR98 crores we hope to spend, which means around INR302 crores is what we would've spent for the first nine months across Indian Hotels and other parts of the network. And the forecast is that we will do about 335 crores in standalone and maybe another INR165 crores in other. So, we will spend the total CapEx in renovation of about INR500 crores by March 2020.

Speaker: And next year any plan?

Giridhar Sanjeevi: So, next year plans are work – we are working through. I think we will continue to sort of focus on revenue-enhancing, what do you say, renovations actually. And we will come back to you for next year's numbers once they have been firmed up. We'll come back to you in the next couple of months maybe by the next investor call or so.

Speaker: And any colour on this starting, I mean, work on this Ginger at – or domestic airport near, which is we have the property in the place? And any colour on this movement on this Taj Lands End, I mean, near the property that we had – I mean, so where is the current status?

Puneet Chhatwal: So, on the Santacruz property near the airport, we are waiting now for – we got the IOD, which is the intimation of disapproval, which means basically approval. Now we have applied for the commencement certificate. We hope to get it so that we can start works in six weeks' time. And as far as Sea Rock is concerned, we communicated in the last quarter that we will be negotiating to close and acquire 100% share in that business.

Speaker: Okay.

Puneet Chhatwal: And we are very far ahead in our negotiations. It'll take a little more time and then we will have the certainty if that comes to a closure.

Speaker: So, apart from the Santacruz Ginger, are we building any new property in near future?

Giridhar Sanjeevi: Nothing immediately on the plan. I think what we are doing is really the Mansingh renovation which is going. I think that's about it in terms of –

Puneet Chhatwal: Is your question related to Ginger or is it related to expansion category?

Speaker: Any new expansion, I mean new property.

Puneet Chhatwal: See, we are doing a lot of hotels but where we are spending money is on the renovation of Mansingh on the repositioning of The Connaught and we will spend money on building this flagship Ginger near the airport. We already own the land for 25 years, so there is no cost on that.

Other than that, at this point of time as on this call, we neither have a plan nor are we in negotiations to build something out of our own pocket.

Speaker: And when do you expect this Taj –

Puneet Chhatwal: Sorry, go ahead. Yes, go ahead.

Speaker: When do we expect this Taj Mansingh renovation, complete renovation will be over and so we will be able – and what level that property is currently operating or it's not operating at all?

Puneet Chhatwal: No, no, no. It is very much operating. It has four floors out of order. That's how we will do floor-wise renovation. We are six weeks delayed because of the construction ban that was imposed by the honourable Supreme Court because of the pollution in Delhi. The first few renovated products, the all-day dining Machan and The Chambers will be opening within the next six to ten weeks.

Speaker: Okay. And –

Puneet Chhatwal: Which are very important because of the value proposition of The Chambers, the real new value proposition of Chambers will be seen at the Taj Mansingh first.

Speaker: And Puneet you share, I mean, RevPAR increase for our major cities, but what is the status of Goa, which declined in Q3 also. So, how – what is the status for Goa, I mean, RevPAR, I mean – and where do we see because there we have a lot of many properties in Goa.

Puneet Chhatwal: Yeah. It is true that Goa did not have the kind of year we are used to for last ten years but Goa did – for us, our Taj Properties, Goa still did an average rate north of

INR14,500 and a very high RevPAR. We've had a RevPAR increase, although the market went down for us, Goa went up by 3%.

Speaker: Okay.

Puneet Chhatwal: And we are very pleased to announce that Taj Exotica has been the RevPAR leader in its comp set for the full year last year. And both Aguada and Holiday Village have seen significant investments in the last 12 months and we are doing – we're renovating further to reposition them to where they've always belonged as these are very iconic assets which bring back memories to a lot of people who really like to go back to Holiday Village or they like to go back to Fort Aguada.

And so, we are kind of backing our crown jewels and definitely these two properties will continue to see enhancements and capital improvements and renovations and nicer pool and a nicer gym. We just opened a new gym in Holiday Village. We renovated around 40 villas there. So, that – for us Goa has done very well and we will continue to back Goa as – of course, there has been a slowdown this year but it's at a very high level. It's the highest paid market still in India.

Speaker: Okay, great. And can I squeeze one more question, Sanjeevi?

Giridhar Sanjeevi: Yes, of course.

Speaker: Sanjeevi, our derivative contract that we had taken, I mean, for acquiring the property in US. So, when do we – what is the outstanding now derivative amount and when do we expect that full unwinding happening?

Giridhar Sanjeevi: Yeah, the full unwinding will happen in 2021 sometime in July or so, because one of the contracts we unbound – there are four contracts totalling up to about 108 million. So, half of it was unwound about a couple of months ago and the balance we will hold till maturity because these are mifor contracts and it doesn't make sense to kind of cancel before because the market is thin and it's illiquid. So, we will unwind it in July 2021 or near about that date.

Speaker: Okay, thank you. That's all from my side. I wish you all the best.

Puneet Chhatwal: Thank you.

Operator: Thank you, sir. We'll take the next question.

Nihal Jham: Thank you so much. This is Nihal Jham from Edelweiss. And first of all, congratulations to the management for the good set of numbers. Sir, my first question was the INR500 crore number that you mentioned for CapEx, was that the system-wide CapEx or the consolidated CapEx that Indian Hotels will be doing this year?

Giridhar Sanjeevi: That's a system-wide but it's consolidated.

Puneet Chhatwal: No, no, no, it's system-wide because CapEx number, or what we report for IHCL would be any – we have guided that on that – on previous calls also that's almost 4% to 5% which is half of that number. And as the system-wide revenue is around 8,000 crores that number comes to INR400 crores to INR450 crores.

Nihal Jham: Fair enough. So, I am guessing that for Indian Hotels that number will be 4-5% of the INR5,000 crores of revenues approximately that we have.

Puneet Chhatwal: That's correct.

Nihal Jham: Absolutely. Sir, the second question was that, obviously, signings and openings are something which are going great guns. Just in terms of the management fees, I'm not sure what is the y-o-y growth in revenue there. But where do you see – when that can also start seeing such strong traction and growth? And I know that as a part of vision 2022 you have a proportion of rooms that you want coming out of management contracts, but do we have an internal guidance about somewhere the share of revenues that should be driven by management fees?

Giridhar Sanjeevi: Yeah. No, I think the management fees for the first nine months has been about INR223 crores, which is roughly around 6% or so growth. And the forecast this year is about INR234 crores or so in terms of management fees, which will be at least 5% plus. So, I think these continue to grow well actually. And also bear in mind that some of the openings – yeah. And I think the other one is that this year is the first year where we are seeing the openings. So, you will start seeing the full year effects starting with 2021. So, we expect that the pace of growth will be higher going forward actually.

Nihal Jham: Absolutely. I'm guessing from the year ahead considering the number of rooms that we opened, there is at least will be 20-30% increase in room count itself that will be then; and I'm assuming that the room rates or the management fee on these rooms is more or less the same. So, can we expect that the management fees can grow at a rate of 25-30% after this year?

Puneet Chhatwal: It sounds like a very, very optimistic number. So, either the base you are working off is only on standalone and not consolidated because if you're at 20,000 rooms, you're saying we will open 30% more rooms would mean like 6,000 more rooms. We have only 5,600 rooms in the pipeline.

Nihal Jham: No, in terms of management rooms I mean.

Puneet Chhatwal: Yeah. That's what I'm saying. So, it will not be that kind of number. Let's say a little less – so if we sign every year 3,000 to 3,500 rooms, we would open approximately 1,800 to 2,000.

Giridhar Sanjeevi: Yeah.

Puneet Chhatwal: Because it just takes time and something happens in a marketplace. And this year we think – we have opened up till now 1,400 rooms. We're opening a large property in Goa, which is 300 rooms. We are opening Devi Ratn today, which is another 100. So, it comes to 1,800 rooms. Maybe next year it will be 2,200 rooms. And with the exception of Connaught, everything will be on a managed contract but on operating lease basis; but there is no project coming online where there is investment CapEx involved.

And that's a number we are very confident about, confident in terms of absorbing the growth in a very good professional and a profitable fashion.

Nihal Jham: Absolutely. So, just last question on my side. I'm sorry I missed but what was the reason for the fall in the international business RevPAR and the F&B portion?

Giridhar Sanjeevi: I think the international business, see, that is a network thing. So, if you look at properties like Sri Lanka, which was impacted because of the terrorist attack, I think those were some of the reasons which impacted actually. But other than that, if you look – for us what matters is really US and UK actually. And US – UK did very well. There was a 9% growth in RevPAR for London, because that matters because we consolidate actually.

The USA was kind of about minus 3% or so. In fact, Campton was flat. Pierre was about minus 4%. Other than that, the rest of the properties was very management contracts. So, I think it's more information in terms of –

Puneet Chhatwal: And that's only for Q3. What Mr Sanjeevi said is only for Q3. If we looked at year-to-date, then London is like 15% growth.

Giridhar Sanjeevi: Yeah.

Puneet Chhatwal: And US is more or less flat at minus 1%. So, for our portfolio – so that is – that together – we have to look at London and New York and San Francisco together. It's still collectively a very healthy increase.

Nihal Jham: Fair enough, sir. I'll get back in the queue. Thank you so much and best wishes ahead.

Giridhar Sanjeevi: Thank you.

Operator: Thank you, sir. We take a next question now.

Satyam Thakur: Hi. Good evening everyone. This is Satyam Thakur from Morgan Stanley. Puneet, my first question is to you. Hi, can you guys hear me?

Puneet Chhatwal: Yes, Satyam. Please go ahead.

Satyam Thakur: Okay. Yeah, sorry about that. Yeah, so Puneet so my first question is that I noticed that on the slide where you talk about the key micro market and what the RevPAR performance was in them, so – and those were pretty much like the bigger – all the big metros it covered that and Goa I think. So, in all of those your RevPAR growth was 8-10% range on y-o-y basis, whereas your network same-store is like 5.6%. So, which are the cities or markets which are bringing down this average? I mean, it sounds like most of the smaller towns and the frontier markets, which we're getting into, that is where RevPAR growth is just not happening. And that makes me worry because I was analysing all your growth in properties that you have signed in the last 18 to 24 months and that is titled towards more these frontier markets than in the past than your portfolio, say, two years back. So, is there any structural challenge in these markets where supply growth is much stronger or maybe the appetite for – or the demand for five star properties is not as much, so which is right now RevPAR growth is going to continue to be a challenge. How do you think about this?

Puneet Chhatwal: I don't really agree with the comment. I think technically what you have said is right that the growth in these markets is 8% or 9% but the overall growth in the portfolio is 5.6%. That also comes from the fact that – and all the secondary tertiary markets that you were talking about, they are very much related to Ginger and Vivanta branding. So, as we have re-imagined our brand-scape, some of these brands are very relevant for those markets. We are not building a Taj in Chikmagalur or in Tawang or in Shillong. We have Vivanta in Shillong and we have identified strategically Northeast as a very Vivanta and a Ginger-driven market. This is an example because maybe one day it will be very good market for Taj branding but today the state capitals in the Northeast are just right for a Vivanta or a upscale kind of branding.

So, in those markets, these kind of hotels will do well. There is definitely a challenge when the times are a bit difficult. So, in Guwahati, if there is some kind of rioting that happens and the market kind of shuts down, then it has an impact; or we had a closure of a hotel in Langkawi in Malaysia because one of the pipes which was bringing water burst out.

So, things like this happen in a marketplace but the world is not built only on Mumbai, Delhi, Bangalore, Rome, London and Paris. There are markets which in their respect are very good markets over long term and for different kinds of brands. As I said, as long as we are not investing in a Taj branded property, then it's fine. It also costs much more to build a Taj than to build a Ginger or a Vivanta. So, I think we have to look at it from a brand point of view – by brand, by geography and by contract type.

Satyam Thakur: Okay, fair enough.

Puneet Chhatwal: And we are ready to share that with you, Satyam. When we meet, we can do that analysis for you on terms of openings by brand, by geography and by contract type.

Satyam Thakur: Yeah, that would be good to look at. Okay. And moving on to something which I thought was more positive that in this quarter despite the economic growth being where it is and despite this quarter having been affected by the whole CAB protest and things like that, we still did 5.6% RevPAR growth, which is definitely better than what we did in the first half – what the industry did in the first half. So, and incrementally from here, next – as we go into the next year or as of this calendar year, we will have the pricing renegotiation that we have done on the corporate side, that also will kick in from channel checks. It seems like that has also gone well. So, then net-net, would you agree that this kind of RevPAR growth can continue or maybe even better or how do you see this calendar year shaping up on RevPAR growth?

Puneet Chhatwal: It seems like a leading question, Satyam. You were trying to putting a question where we say yes or no. I personally feel that given the fact that last year or this year Q1 was impacted by one off, that's the elections, given the fact that we had some macroeconomic challenges in the GDP growth number, where we stand, the market with a little bit of outlook we have, if we get through this current virus situation, on the Coronavirus, I think, coming from a lower base, we can safely assume higher RevPAR growth than this year. If you're coming from a higher base, it's difficult, but if you're coming from a lower base, which is sub-7%, I think we should aim for 7% plus, that's what we have guided. So, if you are starting at 5.6%, the average of two years should it be 7%, then I think we should perform definitely better than 5.6%.

Satyam Thakur: Okay. And lastly, like I had one other question on Ginger Roots Corporation because you shared this time that you have completed this – moving 20% of your portfolio already to lead luxe and there you have managed 26% improvement in

ADR, which is very handsome. So, has this started kind of filtering into EBITDA growth or better EBITDA growth for Roots Corporation already or do you see that starting to shape up soon at least because this year I suspect it might be charging the renovation process and things like that; but how are you reading the performance of Roots Corporation from here?

Puneet Chhatwal: Just say that again Satyam on Ginger, what –

Satyam Thakur: I'm saying the ADR improvement is very good in Roots Corporation.

Puneet Chhatwal: Yes.

Satyam Thakur: Yeah. So, has that started to kind of flow into better EBITDA improvement at Roots Corporation yet?

Puneet Chhatwal: No, no. Absolutely, we are very focused on Ginger brands since last two years. We believe in the Ginger story. We have opened now 50^{th} hotel. We will – we are very strongly – if you follow some of our signings and announcements, we have accelerated significantly the growth of Ginger. And now we are talking about big box Gingers like the one in Santacruz. One hotel will have 370 rooms.

So, we'll be aiming for a few more bigger boxes near the airports in city centres totalling 300-plus rooms so that we give that final touch to the lean luxe brand. Obviously, on one, we are monetising on our land bank, which we had, and the others we will go into an operating lease or a management contract model or a combination of these. And hopefully before the end of next quarter, we'll be able to give some guidance on that where we stand and recommence construction or not.

But this – it will not be like 100 rooms or what ten hotels on an average. It could be three properties giving 1,000 rooms.

Satyam Thakur: Okay. Great. That makes sense. Thank you and all the best.

Giridhar Sanjeevi: We have time for a couple of questions. Yeah, we have time for a couple of questions now.

Operator: Okay. Sure sir. Thank you. We take a next question.

Sumant Kumar: Yeah. Hi. This is Sumant Kumar from Motilal Oswal. Sir, my question is regarding corporate rate negotiation. How it is going on currently? And what is expectation in the percentage term?

Giridhar Sanjeevi: Yeah, business and corporate, as you know, Sumant is only about 15% of the total business. And I think you should assume that's the corporate rate negotiations have given us maybe 4-5% in terms of rate growth actually.

Sumant Kumar: Right.

Giridhar Sanjeevi: Average, yeah.

Sumant Kumar: And regarding the – despite of muted top line, so by subsidiary business, we have seen a significant improvement in operating profit. So, can we say that St James and PM and Root Corporation have performed better?

Giridhar Sanjeevi: I think St James is the best performance in terms of improvement. I think Roots Corporation has improved. And then one second, I'll just come back to you. I think St James – Roots have improved. St James has definitely improved. SATS has improved – it's been across the board. I mean, across the board improvement across the different categories actually.

Sumant Kumar: Okay. The Piem hotel also has better performance.

Giridhar Sanjeevi: Piem because of some renovations has been a bit down but – because we had some dividends last year but operating performance has been okay actually. At an operating level, it is fine.

Sumant Kumar: Okay. So, we can say that St James and Root Corporation has driven overall subsidiary performance.

Giridhar Sanjeevi: I think so. I think you should make a comment that across the board all the companies have improved. St James in particular has been very, very good.

Puneet Chhatwal: St James has also been very good because it had this year of World Cup Cricket. We had Wimbledon. We had all this, but this year with World Cup Cricket we did get an additional boost, especially as an Indian brand or a brand coming from India, we did get a very good occupancy and rates in those months driven by Indian customers.

Sumant Kumar: Okay. Thank you so much.

Giridhar Sanjeevi: The last question please.

Operator: Sure sir. Thank you. We take up our last question.

Ritika Agarwal: Hello. Thank you for taking my question sir. This is Ritika Agarwal from QUEST Investment. Sir, could you throw some light on the demand/supply scenario in the market that we will be seeing in the medium-term according to your analysis?

Giridhar Sanjeevi: I think we have explained that in terms of the green shoots that we put up in the presentation. We are certainly seeing the uptick in terms of where the demand supply gap, the balance has shifted to the demand being higher than supply. So, we have started seeing that. And the luxury will, of course, see the biggest gap because supply is low in luxury. And for upscale and upscale is also the similar situation. Mid-scale and economy also we are seeing that the demand is higher than supply.

So, I think on a medium-term basis, we should see the demand kind of being better than supply. And if you see, it compares well with the international passenger arrivals, the domestic passenger – airline passenger growth. All of this if you see, it's consistent with those underlying macro parameters actually.

Ritika Agarwal: Okay sir. Sir, my second question is regarding the strategic partnership that the company has announced with GIC Singapore and the deployment of INR4,000 crores. So, has there been any steps taken – any hotel finalised in that regards?

Giridhar Sanjeevi: Yeah. We did announce last quarter the acquisition of one of the properties, and that should be completed before the end of March. I think we should be completing it. We are evaluating now three or four other properties. And we will update as and when we kind of are ready because these are all, as you know, pre-NCLT or NCLT type properties. It takes time to sort of announce, but we are working on those.

Ritika Agarwal: Okay sir. Sir, last question would be, are there any major renovations currently the company is undergoing in any of the properties?

Giridhar Sanjeevi: No, I think our renovation plan is consistent with what they have already – always said actually. I think the major renovation is really, at this point of time, Mansingh, which we are kind of doing it after the license – after we won the auction about a year ago or so. So, that continues. Other than that, I think the others are all in line with what we have always spoken about.

Ritika Agarwal: Okay sir. That's it from my side. Thank you so much and all the best.

Giridhar Sanjeevi: Thank you. I just want to take the opportunity to thank all the participants for participating in this call. We're, of course, available for separate meetings and questions. I think do write to us and we'll be happy to take them. Many thanks for coming and joining this call today.

Operator: Thank you. This concludes today's conference call. Thank you for your participation. You may now disconnect your lines.