The Indian Hotels Company Limited

IHCL Earnings Call – Q2 FY 2022/23 Results

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Management :

Mr. Puneet Chhatwal, Managing Director & CEO

Mr. Giridhar Sanjeevi, Executive Vice President & CFO

Moderator: Ladies and gentlemen good day and welcome to The Indian Hotels Company Limited Earnings Call Q2 FY2022-23 being hosted by Mr. Puneet Chhatwal – Managing Director and CEO, IHCL and Mr. Giridhar Sanjeevi – EVP and CFO, IHCL. As a reminder all participant lines 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 assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to handover the conference over to Mr. Puneet Chhatwal. Thank you and over to you sir.

Puneet Chhatwal: Good morning, everyone. Thank you for joining so early. It is our pleasure to walk you through our responsible profitable growth continuation and the journey, presenting the second quarter results. Firstly, this is the best ever second quarter that we have had, when we went and checked more than a decade of the results that have been presented. Our revenue came in at 1,258 crores which is a 22% increase over the same quarter last year or I would say pre-COVID level with an EBITDA of 319 crores, another 76% increase in the EBITDA margin of 25.4%. Profit after tax of 122 crores, strong free cash flows and we were net cash positive with approximately 388 crores. Our journey on margin expansion and flow through continues. As you can see when we embarked on giving this kind of guidance way back in 2018 on the journey of Aspiration 2022, our guidance and our aim was to get to 25% margin and Q2 being the weakest of the four quarters, we have been able to deliver that 25 already in this, following a very strong Q1 at 31. The same thing is on our PBT. Our PBT is positive for the first time in last 11 years and the PAT is also at a healthy level of 122 crores.

Further what is making all this happen? Of course, we have an upswing which is happening. Business is coming back to normal especially on the domestic front. There is still a lot of expectation in terms of international arrivals going back to pre-COVID level as of early '23. If we see the tourism breaking news this morning, that's what was stated that the expectation is as of Jan, the international incoming will go back to the pre-pandemic level. But also, there are other activities. At the international front we are expecting more conference meetings, incentives to follow.

The second reason that we have witnessed is a very strong revenue growth index. Our RGI in most of our key markets is already above 30%. That means we are performing 30% better than the comp set and in certain markets like Rajasthan, Goa, Kerala, it's almost double. Our not like-for-like growth is also assisting us with the change in the business model. Our signings have seen a very strong momentum. Even this year we are year to date at 16 new signed contracts added to the pipeline and 9 openings have happened. We expect 9 more hotels to open and our pipeline today is more than 8,000 rooms. So, the pipeline of the total portfolio corresponds to 30%. And if you were to look at as a percentage of the number of rooms in operation, we're getting close to 40%. It's a very strong pipeline and even if there was some washout which there always is, we are still looking at a very healthy growth momentum going forward based on a fee based driven model. So that we are in line with the guidance that we've given on Ahvaan 2025 of having a balanced portfolio of 50% coming through owned and leased and 50% through fee-based business. Some of our recent openings include the Sawai Man Mahal on the grounds of Rambagh and other palace, which is opened, the Taj Wayanad in Kerala, Vivanta in Shillong and also Vivanta in Ahmadabad. We also have two state of the art Ginger properties that opened in two very strategic locations. One is Ginger in Ahmadabad and the other one is in Mumbai, Ginger in Goregaon.

In order to strengthen our brands further we have been continuously innovating with new concepts and also polishing and upgrading our legacy brands like The Chambers, which we have mentioned. But of the new launches, we recently launched our new Indian concept called Loya. It is launched at Taj Palace in Delhi. It will be followed by Taj West End, Taj Mahal Palace in Colaba and Taj Lands End over the next 9 to 12 months. Another partnership we had entered into just pre-pandemic with Paper Moon from Italy has also opened up at the Fort Aguada. We are very excited to bring this Italian concept which complements our very well-established Trattoria in Mumbai which we are also planning to expand in the next quarters.

On our new businesses; this is how we have assisted our traditional businesses and you will keep hearing more and more about our new F&B concepts, new launches as we move into the third quarter related to our backbone which is our Taj brand or our traditional portfolio under SeleQtions and Vivanta. But under the new businesses, our Qmin is beginning to be a nicely established and positioned brand which is moved from not just home delivery, not just trucks but the Qminization of Ginger which we said 8 of those restaurants have been completed. We expect now that the portfolio has reached 25 QSR outlets, 11 which we took over from Tata Cha, 8 in the Ginger, the others in The Connaught in Delhi, the Ambassador, the President, the Taj Wellington Mews, the one in Guwahati taking the total to 25. Then the Qmin business has already crossed a GMV of 125 crores since we started. We are very pleased with the contribution of Qmin and the way it has evolved. In these new businesses we would also like to mention amã. amã our homestay has now crossed the portfolio of 100 homestays with 57 in operation, the others in various stages of development and in the phases of getting the licenses. Some of very beautiful homestays have got added to the portfolio, especially one in the Lonavala area and another one a new one in Goa, called Hacienda de Bastora. Also, very pleased in the new businesses we count Ginger. Ginger had a very good quarter and a very good H1. If we looked at Ginger from a H1 perspective, we've had a revenue of 143 crores, an EBITDA of 56 crores and a margin of 39%. Ginger has been PBT positive for each of the 6 months of the first half of the year. We are expecting a lot of hotels to open under Ginger before the end of the financial year. As I mentioned earlier, we are expecting to open 9 more and of these 9, we expect 5 properties to be branded as Ginger branded Properties. Why we also call responsible profitable growth because a responsible business is at the core of anything that we do, as a Tata Group Company. Our 2030 goals just for the sake of reminder to all of us is 100% wastewater recycling, 100,000 youth to be scaled for livelihood. Now these 100,000 youth will have at least 25% women. This is the target we have set for us. 50% energy from renewable sources, 100% hotels EarthCheck certified, 100% hotels go beyond single use plastic and 100% adoption of UNESCO's intangible cultural heritage projects in geographies that we operate in and 100% business meetings and conferences to go green. We are calling these energized green meetings. Some of the projects that are underway, you must have read about it is whether it's a collaboration with Tata Power to have EV charging stations which is now (+225) and the count keeps increasing every day. Renewable energy, sustainable cooling projects with IFC from Washington, preserving cultural heritage, strong ten projects underway the latest one being in Orrisa, our traditional one being in Madhya Pradesh in Chhindwara. Also, our focus remains on the campaign which we did which we called 'She Remains The Taj' in diversification on women referral program, on skills for women. We have also collaborated recently with the Orissa government in Bhubaneshwar and in Assam to build a skilling center. We are currently having 13 skilling center and 1200 students being trained. We have started a newsletter internally, to just inculcate deeply embed the whole thinking and the whole way of doing business under our Pathya. That's what we call the program and we are calling it Pathya Vani.

Moving on to some of the key trends that are emerging. I think let me just give you a brief on that before we open up for questions. HVS Anarock came up recently with a Q3 outlook of demand outpacing the supply. But they said the demand on a RevPar level should have a double-digit increase. From whatever we have seen of the last six weeks in this quarter we can confirm that we are witnessing similar trend. This is very critical because Q3 is the strongest quarter and if you have that growth and if it's mainly driven through average room rates then the flow through would be higher. That's one and if we turn the clock back to almost 10 years ago, the number of branded hotel supply in operation almost equaled the number of branded hotel supply under development, under construction or in pipeline. That number has come down significantly and is currently at 40% of the number of branded rooms in operation, so that should help. The second key trend on the demand generators is air passenger traffic is expected to reach pre-pandemic level with very strong growth which is also coupled., it's aided, it's getting help from both recovery in corporate travel as well as domestic leisure which continues to be strong and international travel is also picked up strongly. We can all see on the cost of tickets that the demand there is also very strong. Further as of the middle of this month we expect a very strong wedding season this time to kick in, which will also be further assisted by India’s taking over the presidency of G20. We expect more and more delegations, more and more events happening which should help the sector, not just Indian Hotels rather the entire sector should benefit from it. Yes, we still maintain our guidance of Ahvaan 2025 based on all these trends to achieve what we have guided on a (+300) hotel portfolio, a balanced portfolio 50% owned and leased and 50% driven from fee-based business, a 33% margin at the end of the cycle and no corporate debt, zero debt at corporate level in terms of running business. All in all, I would say yes, the journey is exciting because it seems we are at the beginning of an upswing in the cyclicality of our business and the way we are positioned with the operating leverage of the owned and leased portfolio coupled with now the ever increasing size of our asset light growth, together with the new businesses which are high margin driven businesses, we feel confident in achieving the guidance that we have provided unless, anything like a COVID-19 or any other event comes in the way. But even there the management will continue to navigate as we have done in the past. With that I would like to open up for questions unless Giri. you want to add something?

Giridhar Sanjeevi: No sir I think let's do the questions because of the time, that's fine.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask question may press * and 1 on the touchtone phone. If you wish to remove yourself from question que you may press * and 2. Participants are requested to use handset while asking a question. Ladies and Gentleman, we will wait for a moment while the question queue assembles. The first question is from the line of Sumant Kumar from Motilal Oswal.

Sumant Kumar: Hi Sir, Good morning. My question is regarding the occupancy for US, UK, Delhi and NCR and Rajasthan is still lower than pre-pandemic level, so any thoughts on that?

Puneet Chhatwal: UK and US the occupancy or let's put it this way the RevPar in UK and US is at 92% and 96% respectively compared to pre-COVID. We expect that as of this quarter we will get to almost 100%. In terms of Delhi NCR as I said before with the government delegations and the G20 picking up that should recover fully. The challenge in Delhi is also every year with the weather situation and I think that does not mean that the demand goes away, it only gets displaced to a later month or later weeks. So, I do expect demand to pick up in Delhi, the occupancies must rise. For us, Taj Man Singh's renovation is also having an impact. If anybody who is Delhi based will go and see that half of the facade has become very beautiful. But that means half of the facade is without windows and we are not able to sell those rooms. This renovation is expected to be completed at the end of this quarter and it will be repositioned. It is almost already repositioned, as the flagship property like we always had and the rates almost have doubled there but on a very lower base. We are expecting another (+100) rooms to come into operation in the next four to six weeks. Rajasthan is very strong. We are not going for any and every kind of business especially in our palaces. Yes, you can get a lot of wedding business, at short term. Our strategy is to be most iconic and the most iconic thing we are trying to manage it in a very good way and the rates are very robust, the performance is very good and Jaipur is at its best ever. Udaipur has also shown a lot of resilience and the rest will follow Suman. It's not something to be worried about in the short term. Both Rajasthan and Delhi will be very strong for us.

Sumant Kumar: Can we say US and UK, we are focusing more on pricing and not on occupancy?

Puneet Chhatwal: Yes, I think that is not just us. If you look at the global trend the rates in the US have gone up significantly and UK has its own challenges. Some months become very strong, like when we had the sad news about the Queen. Those 3-4 weeks were very strong and then the recent political turbulence make it a little weak. But, all in all, London is very strong especially for us. We are investing in London further and we are taking our iconic House of Ming from Taj Man Singh to London and it will open there also by April. We opened Chambers there, we opened a new all day dining there. Now we're also opening the Chinese. It's already under construction.

Sumant Kumar: Can you talk about the cost trajectory particularly for the employee cost and other expenses for the coming quarters?

Puneet Chhatwal: If you look at our results in detail, you'll see on the employee and employee benefits, we are very much at the same level as we were before. That is mainly because of the efficiency that we have drawn in through our change in business model. I think the fixed cost pre-pandemic in Quarter 2 were at 276 and a variable on the employee side at 89 totaling 365 and in Q2 2023 it's at 372 with fixed going down to 243 and an increase in variable to 129. So, I think if you look at the total is 376 versus 365 pre-pandemic. That is very much in line with the increase in business, because our revenue levels are much higher than before in the size of the portfolio also.

Sumant Kumar: No, we are maintaining almost similar level of sale but our cost has increased. Is it related to the employee or some expenses for the upcoming business also for the future?

Puneet Chhatwal: Sumant, every year in the second quarter we have increments and bonuses that are paid. There is a change in Q2 which you don't see in Q3-Q4, it stabilizes. Again, the next change that you will see a little uptick you will see in the Q2 of next year because that's how it is done post the AGM and the board meetings that we have at that time of the year.

Giridhar Sanjeevi: If I may just add Sumant, I think the point that the focus is on productivity. You have seen a total revenue growth of 22% and the overall cost growth has been much lesser at 11% for the quarter and 8% for the year and that is giving us the leverage. Productivity continues to be strong if you look at the cost per top line percentages as you have seen. That's the way to look at these costs actually.

Moderator: **Thank you.** The next question is from the line of Achal Kumar from HSBC.

Achal Kumar: Hi, Good Morning gentleman. Thank you for taking my questions. Great set of numbers and well done about the presentation about the pack. I see there's a lot of new wonderful information in the pack. So that's fabulous. Coming back on the questions. So, first of all on this HVS Anarock forecast which talked about 8% to 10% increase in ADRs , well we don't know what assumptions have gone into that but what are your thoughts on that? How much international inbound recovery they are incorporating in that? Do you think this number is probably underrated or undervalued or underplayed? Do you think it could be higher in case there is a strong recovery inbound international tourism and where are we on that? Second about the collaboration with the Tata Group, so have you started deepening your collaboration with the group and what kind of benefits do you see there? You've given (+1000) crores number from loyalty program. How much of it you will dedicate to Tata Neu? And finally, the G20 summit, I think this is a big event and I guess preparation must have been started. I'm not sure if you can convert some of your thoughts from qualitative to become more quantitative. Do you have something in mind, some calculation some numbers on that? That'd be great. Thank you so much.

Puneet Chhatwal: Achal thank you. Very good questions. One I would not like to speak on behalf of HVS Anarock. It just was given as a reference what they have put into guidance. We said what they have said is what we are witnessing and the growth is mainly driven through rate. I can only repeat that as absolutely the case on the domestic front, which is almost more than 85% of our portfolio. Number two, we have a lot of new openings coming in. Despite the openings when we put the consolidated, you'll see that the rate is still showing an upward tick. Number three, the demand in both leisure and cooperate remains strong. The sector has shown its resilience and it shows that we are in the beginning of a kind of a very strong Q3 from whatever we have seen in the last six weeks. This is what I said and I have repeated that. What HVS has factored in I think you can check with them directly. The second question you had was on Tata Neu and loyalty led revenue. Our loyalty led revenue is around 1,000 crores, of which, what qualifies under that program where you earn and burn, earnings of points is around 675 crores, of which another 5% of that number is directly attributable to app which is the Tata Neu app. So really the loyalty program has got a significant boost. We have had a 50% increase in our loyalty members. This is only the 7 months because it was launched on the 7th of April. We are very excited because this whole cost of technology, innovation bringing so many groups together getting to such a large loyalty potential has been made possible for us through the group's synergies and we are very well positioned to take advantage of it. We will see more in this quarter. Because at the end of November, Ginger was not linked to the app, as there we needed to do some technology upgrades. So, when Ginger get links together with Big Basket, 1MG all these kinds of businesses, the Trent is coming online then it will be in that kind of segment to benefit further. Finally on the G20, I like the way you question, how we can turn the qualitative into quantitative. We can give also more guidance offline or a little later because as we speak a lot is being finalized. This is not in the hands of the hotel sector. It has a lot to do with all the different collaborations happening at the different bureaucratic levels through other positions that we have in CII or Hotel Association of India. We do get, to know a lot. But all I can say is Taj and other hotel groups are strongly collaborating with the government. We have done a lot on the rates and the rooms and certain bookings. Whether it is with Sherpa's office, the G20 Sherpa's office or it's Ministry of Commerce or it is our Invest India. A lot of these things are happening as we speak and there'll be more and more clarity latest by the end of this month. Then we can turn it into quantitative. Then we will give you what approximately, actually we will not need to do it. The government itself will be publishing how many events will happen and how many destinations, what are those destinations. It will not all be Delhi or Mumbai centric. From whatever I know and I've heard is there will be more than 50 destinations which will be covered across India and with our (+100) presence in (+100) destinations at IHCL is present I think we are well positioned to get our fair share of that business.

Achal Kumar: Thank you very much Mr. Puneet. Sorry, If I may take liberty to ask one more question. That's last I promise. Do you have any update on Sea Rock Hotels and the use of that 4,000 crores investment platform with GIC lying unused at the moment?

Puneet Chhatwal: Giri would you like to take that

Giridhar Sanjeevi: I think the Sea Rock, discussions continue, Achal. I think from what we understand the government is trying to prioritize the building of iconic kind of projects in Bombay and we have clearly been working with designers to get some preliminary thinking in terms of what we want to do. I think from an MCZMA perspective hopefully things are getting clearer. There is progress but we need of course files to move and kind of get all the other clearances. Overall, I would say that given the discussions with the government things look much more positive at this point of time. It's probably a few months more where we'll get better clarity on this resolution, that is number one. As far as the GIC platform is concerned yes, I think we keep looking out for what do you say acquisition opportunities for sure. I think with the running away what do you say the ending of the moratoriums and all that and we continuously see evaluating but we don't have any deal to report at this point of time actually. No deal to report.

Achal Kumar: Thank you, wonderful and wish you great luck

Moderator: Thank you. The next question is from the line of Deepika Mundra from JP Morgan.

Deepika Mundra: Hi Sir, Good Morning, If you can just talk a little bit on the occupancy front, you're already seeing peak level type of occupancies as compared to we have in the past. So from here on would RevPar be more, is there a scope for occupancies to go up further or it's all going to be rates?

Puneet Chhatwal: Deepika, that's a tradeoff, we have to look at it. It depends what is the source of occupancy. If it's a wedding business then you also are doing food and beverage, same thing on events and meetings. On FITs or Transient customers, you always try to get a higher rate and try to get them directly to you instead of coming via-via-via. But I personally see that what we have witnessed in the last 6 months that the rates will continue to increase. They have increased globally and I see no reason why they will not increase in India with the constraints and supplies, independent of peaking of the occupancy.

Deepika Mundra: Okay, but if you had to put, is there a cap to occupancy level given weekday versus weekend demand and the type of demand profile that we have in India which is slightly more on the corporate side? Is this the best occupancy that you think is doable?

Puneet Chhatwal: No, the best is always 100%, even more than 100. If you're in the airport location you could even sometimes sell the room twice. We are far away from that as a sector. We are only seeing 70. So the best is when it's 100 on 100 with the best possible rate. But we are still away from it. Very strong markets with very strong demands have demonstrated the ability to go 85%- 90% occupancies at the peak level. London, Paris, New York, the three largest lodging markets of the world and for us let's say Mumbai in the month when we had IPL April and May was very strong occupancy. Goa, Rajasthan in December, so you cannot cap and we will not go beyond 75%-80%-85%. You have to sell every room because when you go to a hotel school you are taught a room not sold today cannot be sold tomorrow.

Deepika Mundra: Right, Sir, on the manpower numbers, we've been a steady slight climb up in terms of number of employees per room. Obviously, that is probably to do with the demand pick up as well. Over here again would we continue to see a rising trend in line with how occupancy is improving or do you think you're at fairly steady state right now?

Puneet Chhatwal: We are at a fairly steady state but if the demand continues to grow, we will have to have more people that we need. Our strategy has always been to be the most iconic. We don't want to cut corners especially on our palaces business, on our very iconic assets. There is a certain level of service that has to be maintained and that's how business has been done, especially with Taj is what Taj is because of that consistency for almost 120 years in business. With Ginger of course it's always been a very lean model. That's why we call it Lean Lux, with Vivanta also it is very much a given. We know how many employees exactly it will have. But with the Safaris, with the palaces, with the business hotels that Taj brand has and the locations it has, that number will keep evolving.

Deepika Mundra: Understood Sir. Thank you so much

Moderator: Thank You. The next question is from the line of Shaleen from UBS.

Shaleen: Hi Puneet, Hi Giri. Congratulations on good set of numbers and great operating numbers. So, bunch of questions from my side. If I recollect, I think this is the time when you get into negotiations with the corporates on the rate, so any color on what kind of ARR increase we can see on the corporate side?

Giridhar Sanjeevi: No, I think the corporate negotiations have gone well. In fact, I think what we have tried to do on the corporate side this time is to sort of make sure that the rate increases are there. I think the rate increases are more than 10% in terms of corporate rate increases. Number two, is that we are also very careful in terms of preferential rates which are given through this season. I think that has changed in terms of making sure that there are a certain number of rooms which come at the negotiated rate but above it, it is all linked to bar so that is the way we have been doing it and many of these smaller corporates they have now, many of them are more coming through the transient route as opposed to the negotiated route. I would say given the overall momentum and the level of business, the all corporate negotiations the rates have gone much higher. And overall number, remember Shaleen that for us the corporate business in general across the patch is not more than 15% historically as well. It is not the biggest part of our revenue lines.

Shaleen: Absolutely Giri, but generally that tend to be the lowest on the ARR increase so if that is more than 10%, I assume that every other segment is higher than that?

Giridhar Sanjeevi: Yes, that is true.

Puneet Chhatwal: Also, Shaleen what is driving or has driven our rates on corporate and others is the upgradation of our assets. You would recall that unfortunately the pandemic came but pre-pandemic already we had upgraded 17 of our assets back to Taj. Whether it was Lucknow or it was the two hotels in Goa or Fisherman's Cove in Chennai; a lot of our properties were upgraded and thankfully so in time because the resort business benefited during the pandemic and we continue to do so. As I said in the presentation, we had just opened the Italian in Aguada. We are opening a new pool in Holiday Village; we are opening 30 new rooms in Holiday Village after refurbishment. We are coming up with two new food & beverage concepts in Holiday Village which was underutilized space or not utilized at all, let me put it this way, it's not replacing something. That should open by the end of this month. A collaboration with Diageo called House of Nomad and another one with AB InBev called Seven Rivers like we opened in Taj MG Road. All in all, all these and that's been that part the (a) of the smart strategy where we said asset management this is how you're managing your assets that you own and continuously taking them to the higher level so that you get a larger share of the market and also, you're able to retain the business and don't lose it to the competition.

Shaleen: Right Sir. Giri you mentioned that there is a bonus being paid out in 2Q. That I assume that that's largely a 2Q phenomenon, right? That will not be in 3Q and 4Q, right?

Giridhar Sanjeevi: No, I think what was stated earlier was that the increments kick in from Q2 and therefore there is a little bump up because of the annual increments which gets kicked in, that's the only thing. As far as bonuses are concerned for the year, we typically provide it at the end of the year so that's more cash payout as opposed to what you say a P&L event. Whereas the increments are where the current P&L will go up a little bit.

Shaleen: There is nothing like a one-time bump up in Q2 in employee cost?

Giridhar Sanjeevi: No nothing, no other thing. It is just the normal increments which come in which kind of increase the Q2 number.

Shaleen: The employee cost would be at these levels unless you obviously increase the employee head count or maybe some bit of a variable pay?

Giridhar Sanjeevi: I think one thing I need to add is some of the wage settlements have happened across some hotels and so what then happens is that because during the pandemic and maybe we can speak offline in terms of some of the details there. I think some of the wage settlements which had been postponed due to the pandemic that is now come in. There may have been, there is a certain element of one-time increase which has come because of the catch up which has happened and I don't have the details as I speak Shaleen then we can speak separately on this, no problem.

Puneet Chhatwal: But Giri in principle Shaleen is right. What I have also said earlier was you get this increase uptick every year at the same time because we do increments. But then unless you increase the head count that's what Shaleen said. Unless the head count is increasing, those salaries and employee benefits stay the same unless there is a new directive from the government to increase contribution on X or Y or something but from what we know today it will stay at a similar level.

Shaleen: Great. Thank you so much. Thank you Puneet. Thank you Giri. That's it from my side. Great show. Congratulations to the team.

Moderator: Thank you. The next question is from the line of Prateek Kumar from Jefferies.

Prateek Kumar: Good morning**.** On wedding season, so how do you see this time is expected to be like big fat wedding season for the industry? So how do you see that benefiting the business in that quarter?

Puneet Chhatwal: We see the outlook very good but I would like to correct you, it's not for fat but it's for magical moments at the living legacies of Taj with everlasting memories.

Prateek Kumar: Sure. Generally, in second half of the year we typically do a net of 20% to 25% growth in revenue versus first half. From that perspective are we in line with the trend like set for FY23 as well or because first half for FY23 was much stronger so that second half or first half growth maybe slightly tapered?

Puneet Chhatwal: No, as I mentioned the first 6 weeks gave us reasons to believe that the trend continues and specially in Q3 it's very important because this being the strongest quarter. Your starting base is very high from a pre-COVID level and pre-COVID, the November was an outstanding month in 2019. Despite that we said that we can confirm that we are seeing an uptick, a strong double-digit uptick.

Prateek Kumar: **Sure.** Lastly on other expense so that has also increased 5%. What has gone really on higher other expense during this quarter versus last quarter? How should we look at it going forward?

Giridhar Sanjeevi: I think Prateek these costs are fundamentally increases in sales and marketing expenditure because with the presumption of activity clearly, we have kind of spent on that but of course in a very productive way and you should look at it as increasing in line with the activities which are happening.

Puneet Chhatwal: Also, Giri the increase in license fees because of the revenue share in Delhi. As more and more renovations complete in Taj Man Singh as well as in Connaught, there is a linkage to that higher revenue share and that will be one of the consequences of the increase in revenue in these hotels.

Prateek Kumar: Is there a one-off pent-up cost which was not accounted earlier for the reason like renovations or maintenance which are come in this quarter, like some of the peers have also reported similar trend. So, is there something which we have also witnessed?

Giridhar Sanjeevi: Nothing I can think of in terms of any significant one offs, no.

Puneet Chhatwal: There was something you might remember is some VAT Amnesty we did in Mumbai properties.

Giridhar Sanjeevi: But very small.

Puneet Chhatwal: 1.5 crores it was I think but not such a big number too.

Giridhar Sanjeevi: Yes, nothing significant.

Prateek Kumar: Sure, Thank you.

Moderator: Thank you. The next question is from the line of Nihal Jham from Nuvamã.

Nihal Jham: Thank you so much, Congratulations on strong performance. Sir couple of questions from my side, first was you highlighted about the foreign tourist’s expectation of a full revival in Jan. Just from our perspective is the business on books from the foreign arrival similar to what it was pre-COVID and is that giving us an additional lever to price higher?

Puneet Chhatwal: International business on the books; is that your question?

Nihal Jham: Yes, that's my question and if that can give us a better lever to price higher in this peak season?

Puneet Chhatwal: I think the demand in the last rolling 12 months, domestic has been so strong that is where the price rise has been coming from. If international picks up the way, this morning tourism breaking news said as of Q4, goes back to the pre-pandemic level then the price hike could be higher. Otherwise, when it comes to international business, in our international properties we are almost in line as of this month to the pre-COVID level. As I said before like 92%-96%. Cape Town should see an uptick. Dubai was performing very strong (+30%) higher than pre-pandemic. Maldives has been strong, of course Sri Lanka has been weak. It is at 50% of pre-pandemic.

Nihal Jham: For our domestic properties how would that look like?

Puneet Chhatwal: For the domestic properties I think because of the constraints and supply whether it comes through international or domestic, the rates should remain robust and should keep increasing.

Giridhar Sanjeevi: The other thing you should note Nihal is that if you see our slide which is on margin expansion, I think one of the things which is just beyond rates and occupancies is the way we look at asset management. If you look at the graph which shows the waterfall between 17.7 pre-pandemic to 25.4, we have a block which says key hotels at 3.8%. These essentially represent significantly the asset management activities which we do in terms of driving greater revenues, optimal costs and therefore driving margins. So, 3.8% of the increase of 8% is coming through such strong asset management activities and we have spoken about Taj Man Singh in the past, we are doing some stuff in Taj Lands End. Hotel by hotel we are kind of working in terms of driving through. Therefore, our whole profitability profile of hotels is driven not just between occupancy and rates but also a whole bunch of asset management activities.

Nihal Jham: The second question was on our MICE business. In the rates part we have obviously seen a strong resurgence which is visible in the room revenues that we are getting. Now with this being a pre-COVID for both MICE and specifically for marriages. Is it that we are expecting that the business comes back to pre-COVID in terms of the number of weddings or conferences or is there a significant repricing in these events also which can drive a strong improvement in this line item?

Giridhar Sanjeevi: The wedding business has come back quite very strongly and the rates have gone up significantly and therefore not just in terms of number of events but also in terms of rates there is a significant increase and that is helping and even in corporate MICE you see corporates coming back in terms of number of events plus the government business as well. Now I think as we spoke not just G20 but a lot of government business in terms of ministerial travels all of that is helping in terms of driving the overall MICE business and it is helping us in the overall shape of business. Plus of course the key cities Delhi for instance government business, Bombay and some of the newer places like Goa where we have some very strong convention center facilities. All of that overall having the level of business plus our market shares as well.

Nihal Jham: Thank you. I think that answers. Wish you'll, all the best. Thank you so much.

Moderator: Thank you. The next question is from the line of Vikas Ahuja from Antique Stock Broking.

Vikas Ahuja: Hi Sir. Good Morning. Can we talk about the attrition position? Is it also at record high levels in line with what we are seeing on a positive side on the operating drivers? In terms of the wage hike is it possible to give an impact on margins? Do you think this year we may have to give one more wage hike maybe selectively to retain talent considering the overall wage inflation?

Puneet Chhatwal: Vikas, Thank you. No, there is attrition is a challenge for the sector but I think with the ethos of the group and of Taj we have treated our people very well. We are not in that kind of a vulnerable position and not sure where the second wage hike comes from. I have not heard that from any one of my colleagues in the sector so that is not relevant. Of course, there is pressure. If you are the world's strongest hotel brand with Taj and you're doing well, your employees are sought after by and your associates and key managerial positions are sought after by other groups. However, because we are a company with very strong growth, I think the opportunities for our people to grow with us are far higher than growing elsewhere. That has already helped us in employee retention. On the contrary we are spending a lot of money in building our people for the future. We're not only scaling 100-1,000 people and we have taken initiatives with CII but whether it is our top management people going for advanced management programs or middle management or senior management, we have doubled almost our expense on learning and development to actually service the need of a growing portfolio where we need if you are opening two hotels a month, we need people right? We are working on a very different set of assumptions versus the question you asked.

Vikas Ahuja: **Sure Sir. That clarifies.** There won't be any more bump ups in the wage cost. I understand.

Moderator: Thank You. The next question is from the line of Kaustubh Pawaskar from Sharekhan by BNP Paribas.

Kaustubh Pawaskar: **Good morning Sir. Thanks for giving me the opportunity.** Congrats for good set of numbers. My question is on the room demand front. As you said that supply constraint will continue to have a positive impact on the ARRs and even the demand is strong in the domestic market. But do you think inflation, sustained inflation might act as a risk going ahead to the room demand or do you expect despite the inflation the sentiments would be strong and it will continue to have positive impact on the demand?

Puneet Chhatwal: I personally feel that the inflation specially on the domestic front people are used to a certain level of inflation and this morning I saw that the US number has come in a very restrained way in inflation which should help the rest of the world also. There was a certain pent-up need for certain prices to go up and they've gone up but it is all a function which is beyond our control, is a function of oil prices, is a function of the dollar exchange rate. Now this morning the dollar also looks not as strong as it looked 2 days ago so there is a lot of things happening. Our job is to somehow manage and navigate through this which we will do but we don't see up till now any disturbances in business, in variable cost, fixed cost. You have all the data with you in terms of as an example our fixed cost as a percentage of revenue versus pre-COVID is down from 48% to 37%. Our corporate overhead as a percentage of revenue is down from 8.1% to 6.7% in second quarter. So, all in all, I do not see that kind of an impact. As my colleague Giri mentioned, we are looking more at efficiency without compromising quality and doing the right things and keep improving and innovating so that we can manage, at the same time optimize our revenues and also manage the costs both fixed and variable in a healthy fashion.

Kaustubh Pawaskar: Thanks for the detailed explanation. Sir, my second question is on the room renovation. How many rooms you are planning to renovate over the next 12 to 18 months? Because of this inflation whether there is any increase in the cost of renovation per room which we need to factor in?

Puneet Chhatwal: Typically, we have budgeted and given the guidance not the rooms renovation only as Giri mentioned all the other activities that we have; we're looking at a CAPEX of 4% to 5% of our annual revenue. That is the way this business works globally and we think we will be in line with that this year and next year also and the coming years also.

Kaustubh Pawaskar: **Okay sir.** Thanks for the opportunity. All the best for the future

Puneet Chhatwal: Thank You

Moderator: Thank you. Participants who wishes to ask question may press * and 1.The next question is from the line of Jayesh Shah from OHM Portfolio Equity Search.

Jayesh Shah: Hi, this is Jayesh Shah. Congratulation on a great start and transformation at Indian hotels. Puneet , I have a broader question that given that we are at the beginning of the hotel cycle but we have seen a huge bump up in the first year itself because of COVID or pre or pent-up demand. How do next 2 years really pan out? Is it occupancy growth, can it really go up and the rate hike? Both can be 10% extra to give something like a 20% revenue? I'm not asking for guidance but more qualitatively as to which is the bigger trigger here or is it the new initiative that you guys have which will be a meaningful delta for next year or next 2 years? That's my question.

Puneet Chhatwal: Right, So, there are a few factors which need to be considered. One is the change in consumer behavior because of the pandemic. As an example, not many people were driving themselves pre-pandemic. As they are driving now and taking off let's say this week Tuesday was a holiday of Guru Nanak's birthday and you may take a Monday off and take Friday-Saturday-Sunday-Monday and Tuesday and actually drive yourself also given that the airfares are at a peak level so this was not as obvious before. With the government spend on infrastructure improving let's say the Delhi-Agra-Lucknow corridor, the Karnataka connect to Goa, the Mumbai building on all these coastal roads and all these structures coming in; I think, that has a direct correlation with hotel demand going forward. Something which was there, it was a latent demand but was not satisfied because of whatever reason nobody ventured out the way they ventured out because of the COVID and that is not going away because people now get used to that. That has led to the evolution, strong evolution of the bleisure segment. When we say all leisure destinations are doing very well it's because a lot of business is being done from leisure destinations like this call today. I can take it from London, I can take it from New York, I can take it from Goa, I'm taking it from Mumbai from Express Towers our office but I could have been anywhere and still combine a few days; tomorrow and day after being the weekend and combine that with the weekend. I think that is one significant change which has been driving incremental demand which was not there to that extent in a pre-COVID level. Second factor you have to consider is it varies from companies to companies. Being a strong growth company that we have become, we have a lot of not like-for-like growth and that should also help us driving in terms of quality also as we are not adding assets that create losses in the first few quarters or first few years because till, they reach the stabilization; most of that is driven through management fee contracts or operating leases for the Ginger level. I think that's the second thing that one has to consider going forward. Third is how much our new businesses will be successful that and withstand the test of time. This is the Qmin and the amã. If they become large and successful businesses of course the figures that you were mentioning are achievable from a top line perspective because they're all incremental, they have not displaced any previous revenue and then you have rebranded it as something else. It's all adding to the base that we used to have.

Jayesh Shah: **Thanks. That's very useful.** An associated question, will cost also now rise faster than usual? Because earlier there was COVID; maybe you have postponed some expenditure. So, in one way while you are saying that the growth is not front ended, costing also not front ended and moves in tandem?

Puneet Chhatwal: I don't think, I think the cost or the cost of employment will rise but the efficiencies will also improve because another thing happened because of COVID is the acceleration of digitization. I think digitization helps you to reduce certain cost or become more efficient and that we will continue to see. You're seeing that already on our corporate overhead. We have added 100 hotels to our pipeline and as an absolute amount and as a percentage both the corporate overhead has gone down and we are advertising more, we are more present in social media, we have more brands, we are more this thing but the absolute amount of cost is lower despite inflation, despite increments, despite wage settlements whatever you want to call it.

Jayesh Shah: **Very, very impressive.** Lastly is there a challenge in getting new properties, acquisition?

Puneet Chhatwal: Acquisitions is a different one. That is when you want to buy. I think there is an ECLGS scheme which is Emergency Credit Line Guarantee Scheme which is still valid and may or may not get extended. We don't know that but I think that is good or healthy for the sector so that they got some breathing space but some where the capital structure is not right will not be able to manage whether it's 2% or 3% of the total supply or 5%. That whatever is relevant for us we will have a look at it.

Jayesh Shah: Sorry I also meant in the form of Greenfield. So, in terms of getting properties at the right locations that you….

Puneet Chhatwal: Not really Jay, because there is so much to do. India is also going to witness a lot of growth in Tier II-Tier III-Tier IV cities which has not yet happened. There is a life beyond Delhi- Mumbai-Bangalore on the key metros. So, you will see a lot of emergence. Look at just Northeast I mean beyond Guwahati, now the Dimapur and the Itanagar and all they will also need more supply. Similarly newer states like Jharkhand etc. they will also need more hotel supply than has during the case before. I think there is a lot of our spiritual circuit. If you want to host today an event in the first University of the World in Nalanda, where do you make people stay? I think there will be a lot of growth happening. Look at the Udaan scheme of the government with the 50 new airports that are coming or several new airports. They are in destinations which will also need hotel supply to be added. There will be a lot of activity which will happen on the supply side. So, on one hand you'll see okay there is a supply increase but that significant increase is not going to come only in the metros as used to happen in the past.

Jayesh Shah: Thank you. Thank you very much.

Giridhar Sanjeevi: Thanks Jayesh

Moderator: Thank you. We will take the last question which is from the line of Vikas Ahuja from Antique Stock Broking.

Vikas Ahuja: Thank you. Sir, just one small clarification. I understand on the attrition question obviously we being Tatas our attrition is going to be half of the industry or even lower but compared to our own history maybe 10 years, is attrition level is also at decade high level? Is it a fair assumption? That's about it.Sir. Thanks a lot.

Puneet Chhatwal: Giri would you take that

Giridhar Sanjeevi: I can do that. While attrition has gone up because of the poaching which has happened. The reality what happens with us Vikas is that the attrition is typically in the early years of the career of people. After about 7 or 8 years or 9 years there is not too much attrition for companies like IHCL because by then I think they're completely loyal to the company. While attrition has gone up, I don't think it has created a problem for us in terms of key manpower being lost. So, we're fine, we are absolutely fine. It's not a factor which should be of any major concern for us. The other thing what Puneet is talking about training that we do, we have up to the thing on training. That's a very innovative stuff we have got. In the UK as you know, all hotel companies have been struggling with attrition and one of the things we have done is to send about 10 odd-15 odd people from India to the UK. Younger people with potential, which is part of their own career development in terms of working at an international location and also cracking the problem of low manpower, shortage of manpower in UK. Some of these methods we have been using which really are quite innovative and help us to deal with problems in very different ways.

Vikas Ahuja: **Okay.** In terms of replacing those people, are we relying more on the lateral hiring or we are hiring freshers and just training them? If we are hiring fresher what is the training time or you put them at work maybe as soon as you hire them?

Giridhar Sanjeevi: We have a very comprehensive recruitment and training program which we recruit from the Hotel Management Institute. There's always an annual influx of people which happens through these programs. Lateral hiring is kind of minimal but of course with the growth in hotels, what we have seen is that we have taken lateral hires for instance in General Manager in Taj Dubai an example is a lateral hire. We have taken some of those steps in some of the key hotels but they are not significant at this point of time and where we need, we have certainly recruited that's what I would say and that also reflects for instance when we hire international people in some of these international hotels it is also to get the different kind of experience.

Vikas Ahuja: Okay. Thanks

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I would now like to hand the conference over to Mr. Giridhar Sanjeevi for closing comments.

Giridhar Sanjeevi: Thank you all for joining us early morning for this meet. As we described during the conference, the momentum in the business continues to be strong. Q1 and Q2 are historically the smaller quarters and it is heartening to see that the first Q1 and Q2 have been strong and as we are in the middle of the strongest quarter and well into the fourth quarter, we expect the momentum to continue. Thank you for your time and we will anyway be in touch with the analysts and other fund managers over different meetings over there as we go forward. Thank you so much.

Moderator: Thank you. On behalf of The Indian Hotels Company Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.