

Sales Note

Chalet Hotel Ltd.

CMP: Rs. 819 | TARGET PRICE: Rs. 1,002 (22%)

Company Profile

Chalet Hotels Limited is a Part of the K Raheja Corp group, is an owner, developer, asset manager and operator of high-end hotels and a hotel led mixed-use developer in key metro cities in India such as Mumbai Metropolitan Region, Hyderabad, Bengaluru, and Pune. The Company's hotel platform comprises several operating hotels including a hotel with a co-located serviced residence, located in the key Indian cities of Mumbai, Hyderabad and Bengaluru. All the hotels are branded with globally recognized brands, such as, JW Marriott, Westin, Marriott, Marriott Executive Apartments, Renaissance and Four Points by Sheraton, which are held by Marriott Hotels India Private Limited and its affiliates. All the hotel assets are located in high density business districts of their respective metro cities with high barriers-to-entry close to airports, major business centers or commercial districts and other convenient locations. The Company has also developed commercial and retail spaces at close proximity to its hotels. The portfolio comprises nine fully operational hotels with 2,894 keys, across mainstream and luxury segments, and commercial and retail spaces, representing 1.2 mn sqft. in close proximity to the hospitality assets. The company has proposed development pipeline of 870 keys and 3 commercial and retail space with combined build up area of 2 mn sqft.

Investment Rationale

Strong development pipeline across its hostility and annuity portfolio will drive the growth: Chalet plans to 870 additional keys in its existing assets, of which 400 will be added by FY25(130 keys in Marriott Hotel and 70 keys in Dukes retreat), 390 key by F26 in Taj at Delhi and 280 key in Hayatt by FY27. This will expand its total room inventory to 3,764 from the current 2,894 rooms, which is 30% room addition by FY27. This is expected to yield high EBITDA margins and increase the top line. We estimate EBITDA to grow at 20% CAGR over FY26 and margins to remain stable at 40%. It also plan to expand its annuity portfolio by 2.7x from 1.2 msf to 3.2 msf by FY27. Ciguns Whitefield Bangalore tower 2 (0.8 msf) and cignus Powai tower (0.8 msf) will be commercialized by CY24. This will increase the stable cash flow in the business and offset the cyclicity risk in the hotel business. To support the expansion plan company has declared INR 800 Cr capex outlay for the next 15 months and a significant portion of the capex will be funded through internal accrual.

Strong hotel portfolio with high-end brands in key cities: Chalet owns, develops, and manages hotels in key metro cities in India and caters to luxury, Upper scale, and upscale hotel segments. The company has 9 operational hotels with 2,890 operational keys, located in Mumbai, Hyderabad, Pune, Bengaluru, and Lonavala. Chalet has partnered with well-known global hotel players like JW Marriott and The Accor to operate their properties under brands like JW Marriott, The Westin, Marriot Hotel, and Four Point. Chalet's 85% portfolio consists of 5-star/Deluxe categories while the remaining comes under 4 to 5 -star category, which is an upscale segment. The company has developed its hotel in strategic locations like proximity to business or corporate hubs and airports, which is an entry barrier for chalet. We believe Chalet's strong position in high end brand hotel portfolio with strategic location within key cities makes it well position to capitalize on the feature earning growth.

Company Detail

Industry	Hotel
BSE Code	542399
NSE Code	CHALET
Bloomberg Code	CHALET.IN
Market Cap (INR Cr)	₹ 16,615 Cr
Promoter Holding (%)	71.69%
52wk Hi/Lo	892 / 354
Avg. 20 Daily Volume (NSE)	2,98,637

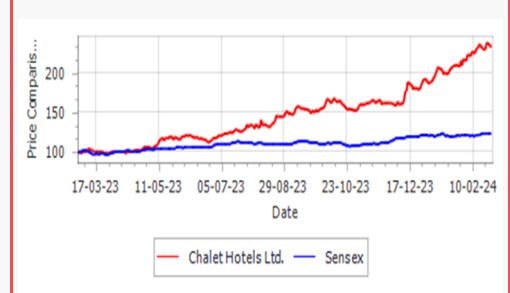
Shareholding Pattern (%)

Category	Sep-2023	Dec-2023
Promoter	71.69	71.69
Public	3.98	4.50

Public Holding More than 1% (Dec-24)

Name	% of Shares
SBI Consumption Opp Fund	5.90%
Nippon India Trustee Fund	3.69%
HDFC Mutal Fund	3.22%
ICICI Prudential Fund	2.18%
Sundaram Mutual Fund	1.67%
ABSL Trustee Pvt Fund	1.13%

Share Price Performance



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Chalet Hotel Ltd. (CHALET)

Date: 04 March, 2024

Demand Supply imbalance, limited supply in luxury segment and in Tire 1 cities placed chalet in a Sweet spot: According to industry data, the supply of rooms is expected to grow at a 5 to 6% CAGR, while demand is projected to increase at a 10% CAGR over FY23 to FY27. This supply-demand imbalance is anticipated to lead to a rise in Average Room Rate (ARR). Chalet's ADR has grown by 50% CAGR within two years, reaching Rs. 9,196, which is higher than pre-COVID levels. In terms of room supply in cities, Tier II/III cities are expected to witness a 70% share of incremental room additions. Due to robust growth in leisure travel across the country, supply growth will be spread across various locations instead of being concentrated in a few key markets. Additionally, multiple hotel chains are entering the Upper, Mid-Scale, and budget segments in Tier II/III cities. As a result, the luxury segment is expected to experience the least supply growth of 7% from FY23 to FY27, compared to the mid and upper markets, which are expected to grow by 25%. Tier I cities are also expected to see limited supply growth due to high real estate prices acting as entry barriers for hotels in these cities. We believe Chalet remains in a favorable position as 85% of its hotel portfolio caters to the luxury and Upper Scale segments with a presence in Tier I cities. We expect Chalet's ARR to grow at a double-digit rate from FY23 to FY27 due to the low supply of rooms in the luxury and upper-scale segments and in Tier I cities. While, demand is expected to remain healthy, driven by favorable leisure travel, corporate events, business travel, foreign travel, and wedding events in the coming years.

Strategic mix of real estate and Annuity segment with hotel business to support profitably: Chalet strategically operate retail and commercial office spaces adjacent to its hotels, maximizing land parcel utilization and ensuring a consistent rental income stream. This approach will mitigate the cyclical nature of the hospitality segment. We believe the company's decision to develop retail and commercial assets as a prudent measure, providing a stable revenue stream in contrast to the cyclical nature of the hospitality industry. Additionally, this segment boasts better operating margins, contributing to overall margin expansion at the consolidated level. The management expects the commercial segments to contribute 25%-30% to EBITDA in the next three-to-four years.

Valuation and Recommendation

- Stock is trading at forward EV/EBITDA multiple of 23.4(x)FY26E.
- We estimate a CAGR of 22% growth in revenue over FY23 - FY26 period.
- EBITDA of Rs 833 Cr is estimated for FY26E. We Applied a EV/EBITDA (x) multiple of 22(x) and arrive at a Enterprise value of Rs. 20,651 Cr.
- A 22% upside is visible as per valuations.
- We recommend "BUY" on 'Chalet Hotel Ltd' with a target price of Rs. 1,002/share.

Exhibit 1: We Forecast 22% Revenue CAGR over FY2023 to FY26.

Particular	Unit	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Keys	No.	2,554	2,554	2,554	2,726	2,894	3,090	3,480
Room Nights	No.	9,32,210	9,32,210	9,32,210	9,94,990	10,56,310	11,27,850	12,70,200
ARR	Rs/day	8,482	4,040	4,576	9,196	10,300	11,226	11,900
Occupancy Rate	%	71%	30%	51%	72%	73%	74%	74%
RevPAR	Rs/day	6,022	1,214	2,354	6,607	7,519	8,308	8,806
Revenue From Hotel	INR in Cr	561	113	219	657	794	937	1,119
Food&Beverages		280	68	157	339	407	468	538
Other Revenue		74	20	34	74	81	85	90
Total Operating Revenue		981	286	508	1,128	1,429	1,708	2,031
Revenue Lease rent	INR in Cr	100	83	102	100	147	218	285

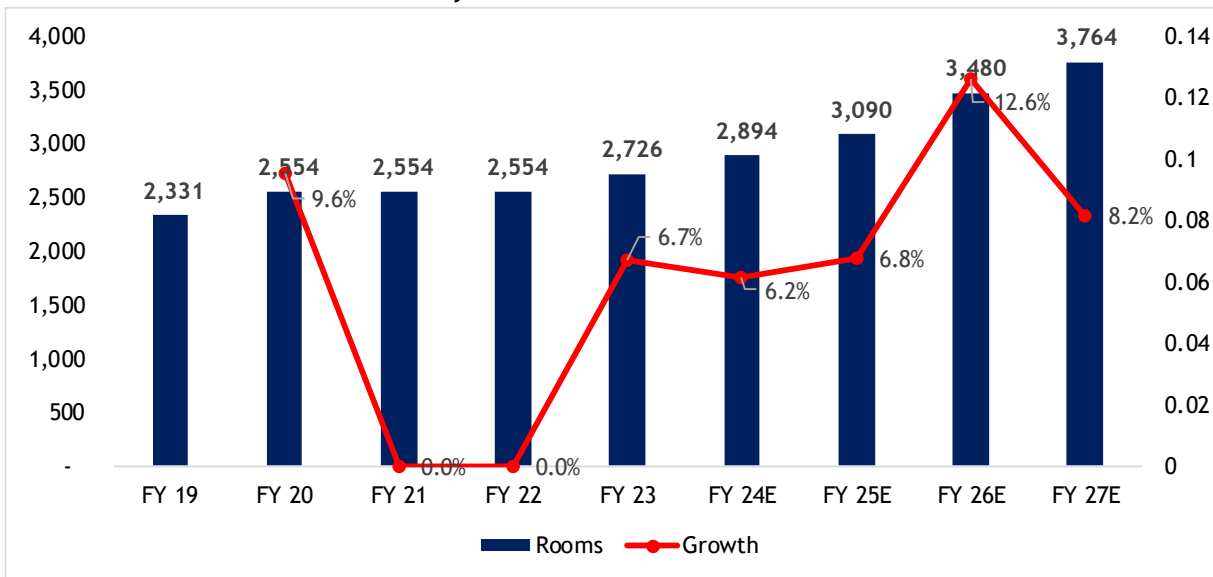
Source: Company data, GEPL Capital Research

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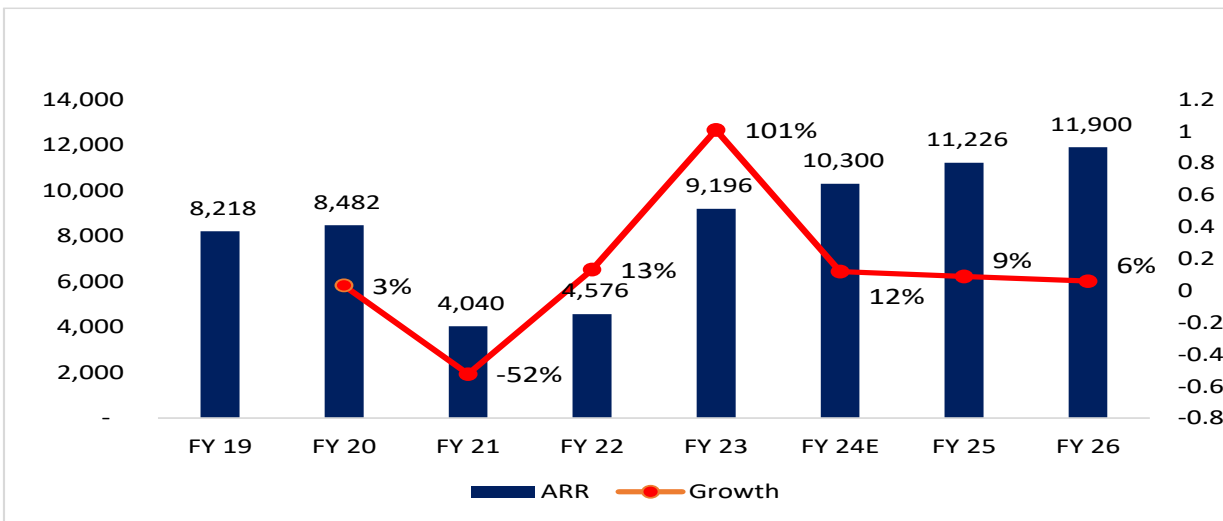
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Exhibit 2: 30% rooms to be added by FY2023-FY27E



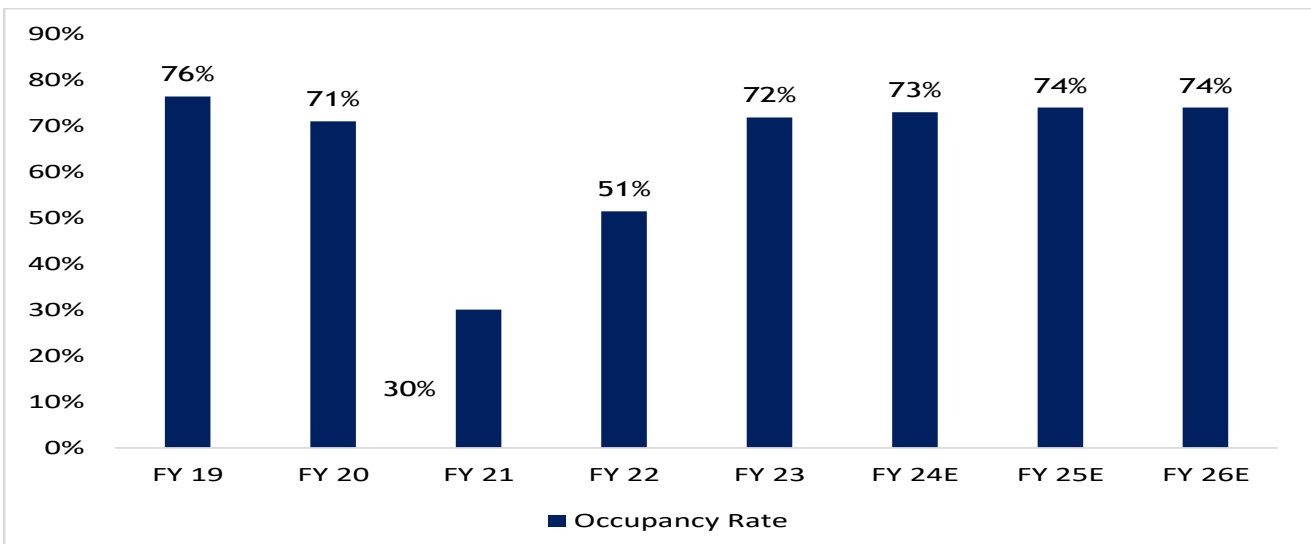
Source: Company data, GEPL Capital Research

Exhibit 3: ARR expected to grow at 10% CAGR over FY23 to FY27



Source: Company data, GEPL Capital Research

Exhibit 4: Occupancy Rate to remain stable over FY23 to FY27



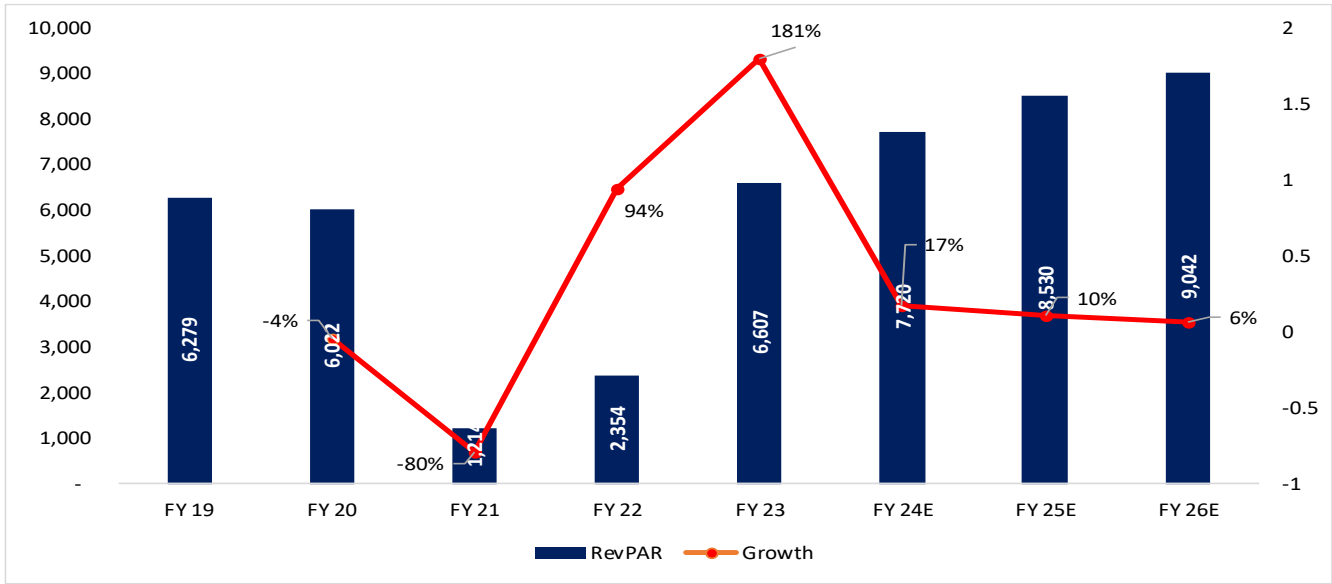
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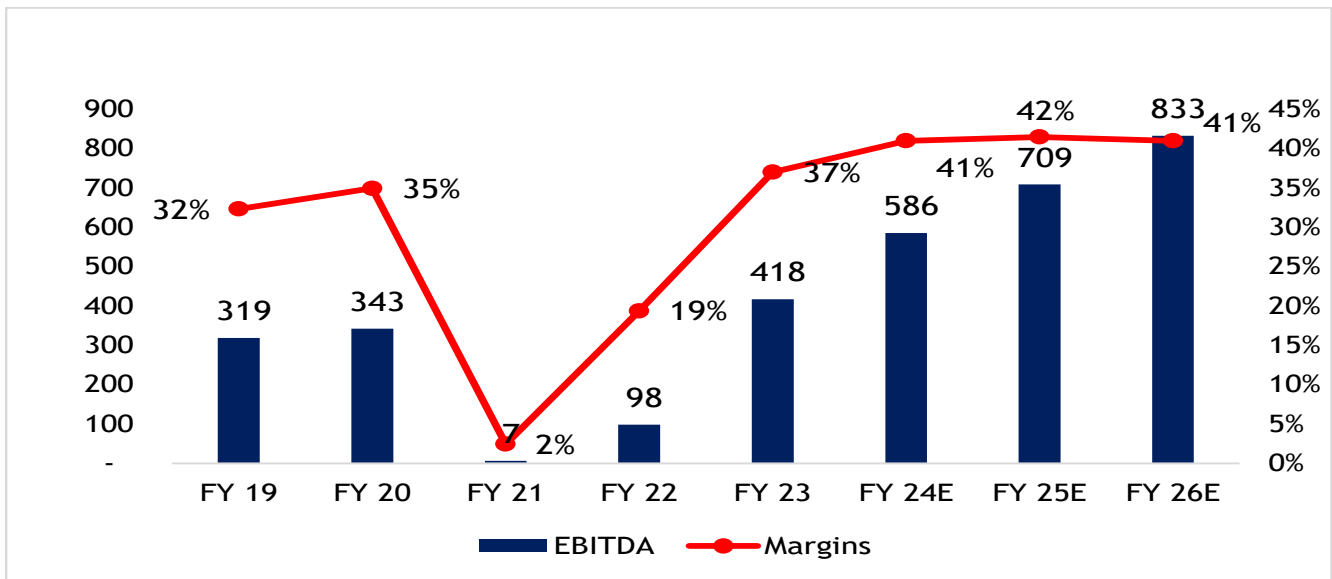
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Exhibit 5: RevPAR to be remain stable over FY23 to 27E



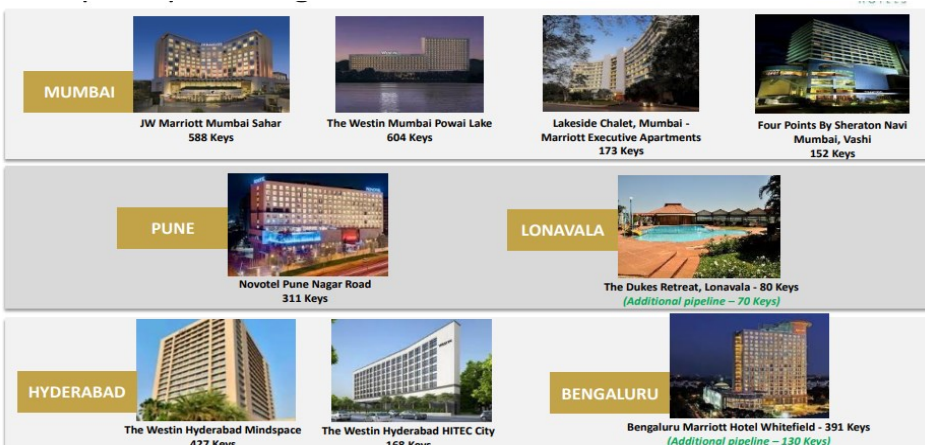
Source: Company data, GEPL Capital Research

Exhibit 6: We expect EBITDA to grow at 26% CAGR over FY23 to FY26E



Source: Company data, GEPL Capital Research

Exhibit 7: Chalet Hotel Portfolio



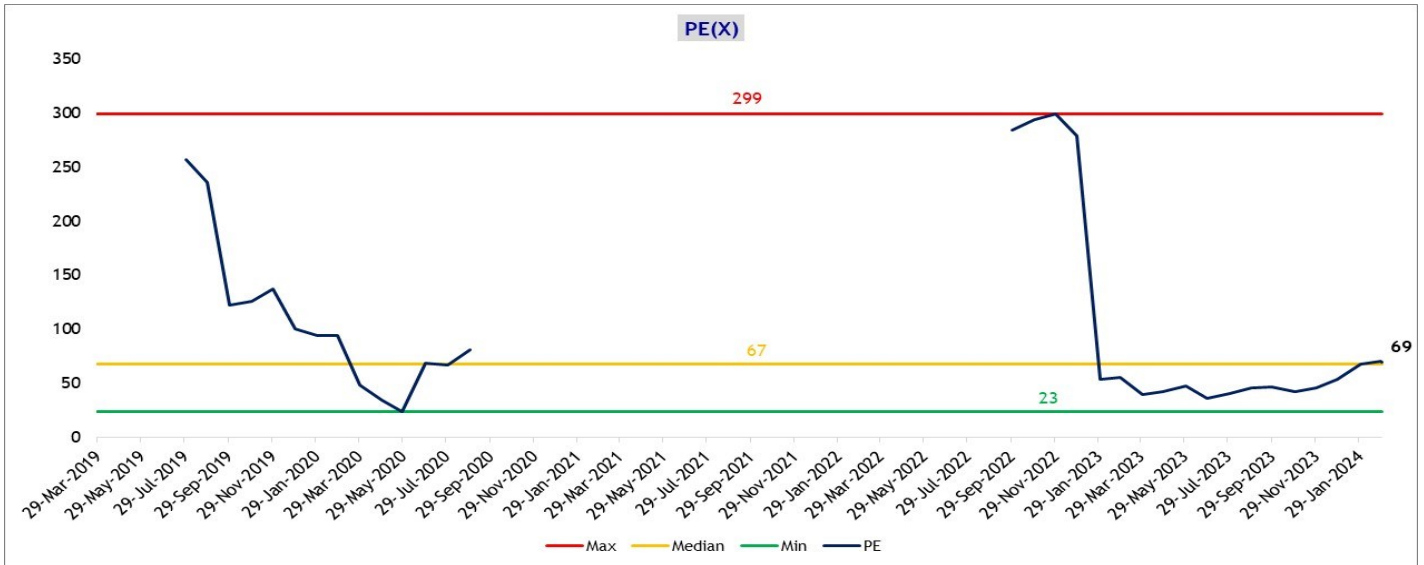
Source: Company data, GEPL Capital Research

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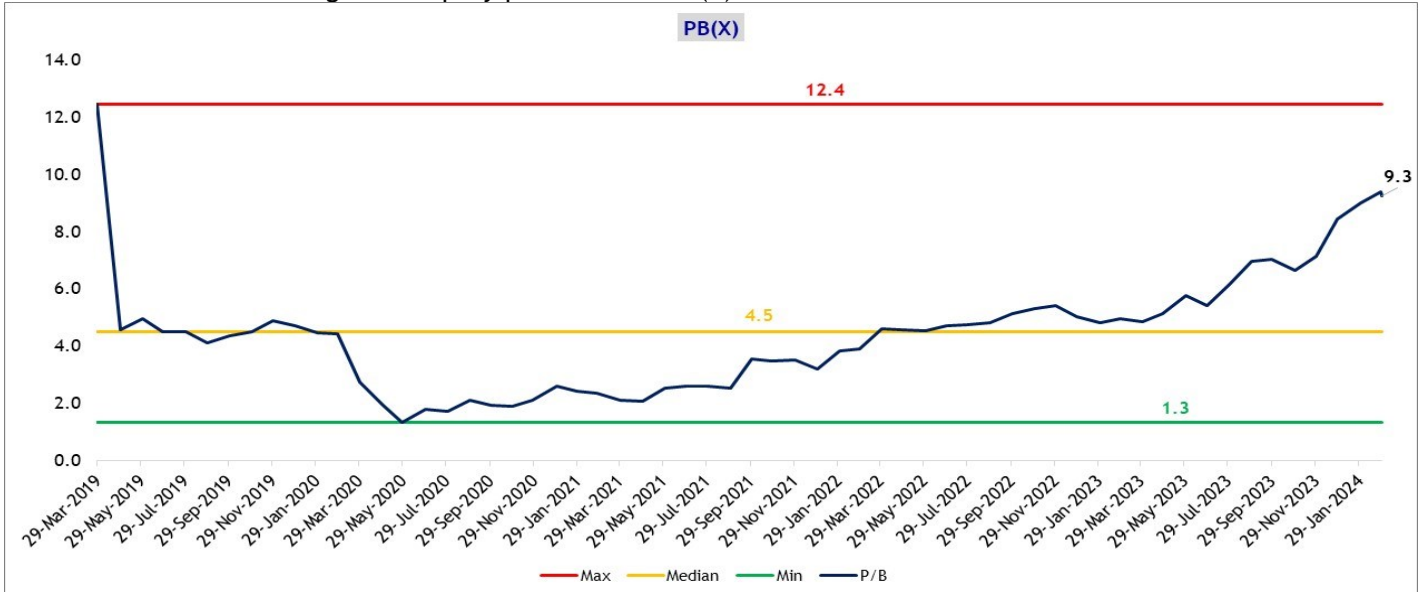
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Exhibit 8: PE is trading at a Median level.



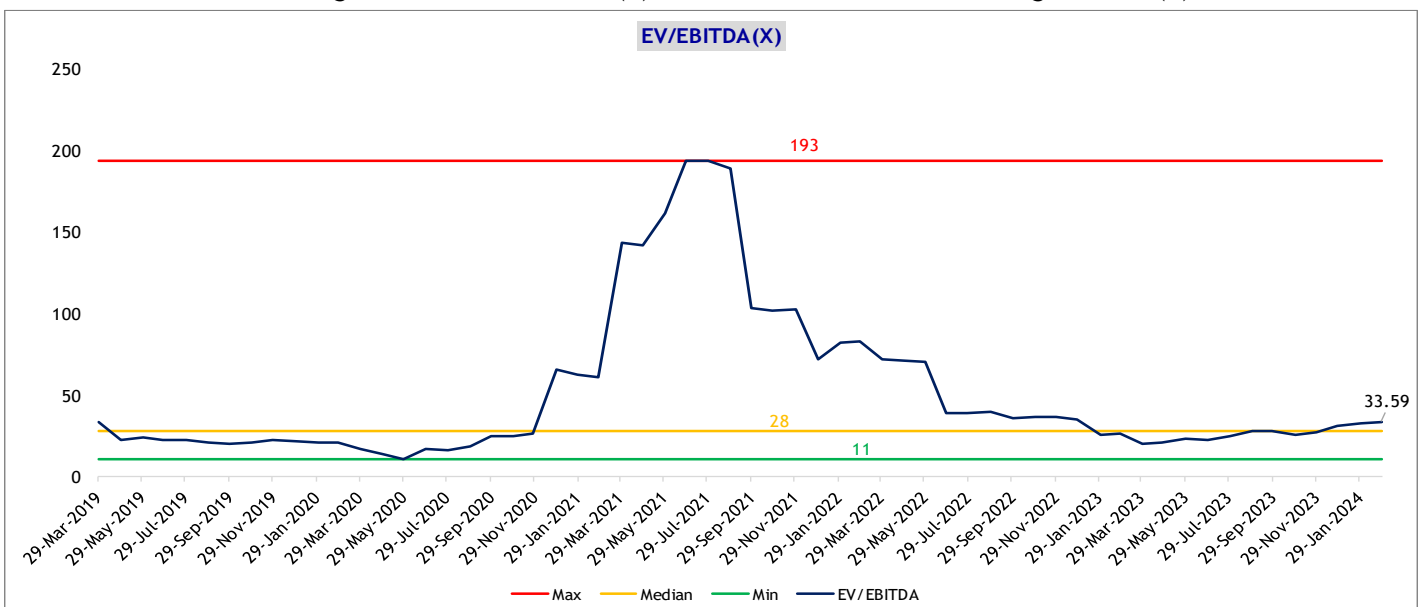
Source: GEPL Capital Research

Exhibit 9: Chalet is trading at an equity premium of 9.3(x)



Source: GEPL Capital Research

Exhibit 10: Chalet is trading at EV/EBITDA of 33.5(x) and has corrected from the high of 193 (x)



Source: GEPL Capital Research

Chalet Hotel Ltd. (CHALET)



Date: 04 March, 2024

Exhibit 11: Profit and Loss Statement

Particular (₹ in Cr)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	981	286	508	1,128	1,429	1,708	2,031
COGS	299	146	200	316	386	478	569
Gross Profit	682	139	308	813	1,043	1,230	1,463
Gross Profit Margins %	69%	49%	61%	72%	73%	72%	72%
Operating Expenses	339	132	209	395	457	521	630
EBITDA	342.90	7.06	98.48	417.73	586	709	833
EBITDAM %	35%	2%	19%	37%	41%	42%	41%
Other Income	28	22	22	85	85	85	85
Depreciation	113	117	118	117	139	167	197
EBIT	257	-88	2	385	531	626	720
Interest	146	152	144	154	195	230	269
Exceptional Income / Expenses	-4	-4	-4	42			
EBT	107	-245	-147	273	336	396	451
Tax	1	-109	-72	90	84.0	99.0	112.7
PAT	106	-135	-75	183	252	297	338
PATM %	11%	-47%	-15%	16%	18%	17%	17%

Source: GEPL Capital Research

Exhibit 12: Balance Sheet

Particular (₹ in Cr)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Asset							
Non Current Asset							
Gross PP&E (Including CWIP)	3,258	3,112	3,168	3,410	3,774	4,641	5,486
Accumated Deperction	953	1,027	1,111	1,204	1,343	1,510	1,708
Net PP&E	2,305	2,085	2,057	2,206	2,431	3,131	3,778
Non Current Asset	5	4	6	7	7	7	7
Other non-curret assets	873	1,129	1,450	1,771	1,114	1,019	921
Total non current assets	3,270	3,254	3,546	4,082	3,551	4,157	4,706
Trade Recivable	42	31	44	59	45	54	65
Inventories	392	391	393	413	491	587	698
Cash and Cash equivalent	128	46	100	122	158	167	308
Other Current Asset	94	84	103	101	143	171	203
Total Current asset	656	552	640	694	838	980	1,274
Total Assets	3,925	3,806	4,186	4,776	4,389	5,136	5,980
Equity and Liabilities							
Share Capital	205	205	205	205	205	205	205
Reserves	1,347	1,208	1,134	1,327	1,579	1,876	2,214
Shareholder Fund	1,552	1,413	1,339	1,532	1,784	2,081	2,419
Long Term-Debt	1,664	1,757	2,143	2,208	2,215	2,415	2,637
Lease Liabilities	33	30	89	96	96	96	96
Other non-current borrowing	-55	-158	-226	-136	10	9	12
Non-Current Liabilities	1,642	1,628	2,006	2,167	2,320	2,519	2,744
Short Term Debt	40	84	5	13	20	220	442
Trade Payable	106	83	87	150	123	145	172
Other Current liabilities	584	598	749	915	143	171	203
Current Liabilities	731	765	841	1,078	285	536	817
Total Equity and Liabilities	3,925	3,806	4,186	4,776	4,389	5,136	5,980

Source: GEPL Capital Research

Exhibit 13: Cash Flow Statement

Particular (₹ in Cr)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
PBT	101	-248	-153	273	336	396	451
Non Operating & EO Item	-3.8	1.1	-5.7	-67.3	-56	-67	-80
Interest Expense	146	152	144	154	195	230	269
Depreciation	113	117	118	117	139	167	197
Working Capital Change	-78	-9	-45	-4	-37	-127	-148
Tax Paid	-26	47	4	3	84	99	113
Operating Cash Flow (A)	252	60	62	477	661	698	802
Capex	-96	-48	-42	-175	-364	-867	-845
Free Cash Flow	156	12	21	302	297	-169	-44
Others	-298	-2	-355	-418	6.7	7.9	9.0
Investing Cash Flow (B)	-394	-50	-396	-592	-357	-859	-836
Interest Expense	(135)	(142)	(130)	(138)	(195)	(230)	(269)
Dividend	-	-	-	-	-	-	-
Others	268	108	541	264	14	400	444
Financing Cash Flow C	133	(34)	411	126	(181)	170	175
Closing Cash Balance	-30	-54	23	35	158	167	308

Source: GEPL Capital Research



Notes

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for stock and our recommendation.

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Analyst Certification

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