



“The Indian Hotels Company Limited Q1 FY2023-24  
Earnings Conference Call”

**July 27, 2023**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Indian Hotels Company Limited Earnings Conference Call for Q1 FY2023-24.

On the call we have with us 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. There will be an opportunity for you to ask questions after the management commentary. Should you need assistance during this conference, please signal an operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Puneet Chhatwal. Thank you, and over to you, sir.

**Puneet Chhatwal:** Good evening, everyone and thank you for joining our global conference call for Q1 '23-24.

To begin with, we are extremely delighted to inform you that Taj has once again been recognized as India's strongest brand across all sectors for the third time by Brand Finance in last four years. This achievement is a testament to our commitment to excellence, customer centricity and innovation. We are grateful to all our patrons and our colleagues who have made this possible. Also, Rambagh Palace, Jaipur has been rated by TripAdvisor as the world's number one hotel in the 2023 Travelers Choice Awards. On this call, I would like to just present to us seven key takeaways from the quarter that has gone by.

So, let me start with the macro on the India story being the number one. As you all must have read IMF has recently raised India's growth forecast from 5.9% to 6.1% citing robust growth, driven by domestic investment, India's per capita GDP is expected to more than double in the next 10 years, leading to a surge in disposable income driving higher discretionary spends, which will directly benefit the travel and tourism sector. The government's focus on developing infrastructure and destinations and mission mode is yet another key positive for our industry. With more than 80 new airports expected in the next five years connectivity and thus tourism is bound to significantly improve. Hospitality up cycle continues with hotel demand growth continuing to outpace supply. And we believe that this is a trend that is going to stay with us at least for a few more years. Indian Hotels with industry leading growth, profitability, balance sheet strength and brand scape is well positioned to benefit from the macro and industry tailwinds.

On the number two takeaway, Indian Hotels delivers best ever Q1, we are very pleased to share that our record performance has continued in Q1, making this the fifth consecutive quarter our best ever performance for IHCL. Our consolidated revenue grew 17% year-on-year to 1516 crores, we always report as a listed company our consolidated we don't report like other global majors' system wide or what you call enterprise revenue if we had to say that then the growth would be North of 20%. EBITDA growth 13% year-on-year to Rs.459 crore, yielding EBITDA



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margin of 30.3%. More importantly, our PAT grew by 31% to 222 crores, we delivered robust performance across all our brands, and demonstrated RevPAR growth year-on-year across our brands in the 15% to 16% range.

The third key takeaway for us is our portfolio growth. Our growth momentum continued during the quarter. In Q1 23-24 we signed 11 new hotels and opened five new hotels. Of the 11 hotels signed almost seven are conversions or brownfields so that you can expect these to open within a period of a maximum of 24 months. Our endeavor to maintain the space as well as the guidance that we have given, opening +20 hotels in this financial year 23-24 stays as communicated in the past during our capital market day. We continue to envelope India and are present in (+125) locations across 31 states and union territories. Our diverse brand scape enables us to be present in every geography, in every segment and at every price point, thus giving us greater degrees of freedom, as well as resilience.

The fourth point that I want to take up one of the favorites of my colleague, Giridhar Sanjeevi, CFO, is the diversification of top line with our new brands and businesses, as well as our asset light growth, we are embarked on a journey of diversification of top line. Our asset light businesses have doubled in top line from pre-COVID times and we remain focused on scaling up the new brands, Taj SATS, has been a great success story for us. The company has recorded its best ever Q1 performance, with revenues of 205 crores and industry leading EBITDA margin of close to 25% which comes on the back of 10 percentage point margin expansion over the last year. With 59% market share Taj SATS continues to lead the Indian airline catering segment which we also call hospitality in the skies. Our Qmin or amā brands have established a stronger customer connect and continue to scale up and as communicated on various occasions in the past this year, we are going to put a lot of emphasis in scaling up these businesses and we expect that trend to continue over the next year also.

Ginger's Enterprise revenue crossed 100 crores in Q1 this is also the first time and the Lean Luxe journey of Ginger is yielding results. With a proven and profitable business model Ginger is very well geared to scale up at a fast pace. And we maintain our guidance of opening the flagship Ginger in Santacruz in this calendar year, so the expectation is anywhere between 1st October to 1st of November depending on how long the rains and the monsoon period lasts. And we are very much looking forward to opening this property for our portfolio.

Number five is our investment in our brands, assets and capabilities. In line with our objective of long-term value creation for all stakeholders as I just now said, we continue to invest in our brands, assets and capabilities. To aid the Lean Luxe journey of Ginger we are investing in the renovation of seven hotels, which will take the Lean Luxe portfolio to 70% from the total portfolio by the end of this financial year. We have launched J Wellness Circle, which used to be previously called Jiva. As our holistic wellness brand and the reimagined value proposition aims to capitalize on the wellness mega trend. They have also reimagined and scaled up our food and beverage brands. Examples include House of Ming in St. James Court in London, Rigs in

Taj Mahal Hotel, New Delhi and we are also reimagining our Taj Club proposition. In addition to brand building, we continue to invest in our assets which will result in not like-for-like growth. We have multiple hotels coming back online post renovations, including Taj Mahal, New Delhi which has been fully renovated or let's say 95% renovated a part of the facade and one outlet is left and this is also happened actually in early May. So, April was not the case, we got the rooms inventory back in the month of May. And then we would have fully renovated Taj Usha Kiran Palace in Gwalior which will formally open in the second half of this year. As I already mentioned, the Ginger Hotel at Mumbai Santacruz will open also in the third quarter of this financial year and we are taking various asset management initiatives in Taj West End which will further augment not like-for-like revenues.

Our new spa in Lands End with another pool and at the roof should open within the next one week. And the new chambers as a heritage block will open in Taj West End. Our food and beverage brand Loya will open its second destination also in Taj West End in the next three to four weeks. All this should further augment the not like-for-like revenues. Simultaneously we continue to build capabilities. I said brands, assets and capabilities. So, simultaneously we build capabilities to drive direct to customer business. Tata Neu has now become a strong pillar when it comes to customer loyalty with total member base of 4.6 million and 3x growth in active members since the program went live in April 2022. Our direct to customer contribution stood at a healthy 70% in Q1 23-24.

With that I come to point number six or the six key takeaway that we have had to inform because of the LODR is the Pamodzi and Frankford transactions. I would like to highlight here that we have not signed or acquired either any asset or signed a contract for a lease. But under the new obligations which have come into force since 15th of July are in principle agreement with at the board level makes it mandatory on us to declare and that's a declaration we have given. We will advise as and when we would be finalizing these deals and if they at all get finalized, but yes is the preliminary step towards getting these done. Also, I would like to highlight that Pamodzi is a hotel that is managed by us for almost four decades and we know and understand the P&L and the value proposition of this hotel quite well.

Finally, Paathya our ESG Plus program recently completed one year and we have achieved significant milestone so far with our core ethos of doing business the responsible way. We are on track to deliver our 2030 ESG targets. Finally, we continue to stay focused on executing our Ahvaan 2025 strategy. Thank you so much for your attention and we now open the floor for questions.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

**Sumant Kumar:** So, in Q1 occupancy a 74.7 it seems we are in the peak season and we have seen in the past pre-pandemic 75% occupancy always comes in the Q3 and Q4. So, can you talk about the kind of

demand momentum we have in the current quarter and the coming quarter, what is the level of occupancy we can see in Q3 and Q4?

**Puneet Chhatwal:**

Sumant, good evening thank you. We are seeing very good momentum including in the month of July till date, I would not like to make what occupancy level we will reach, all I can say is in light of the demand outpacing supply, which was one of the key takeaway I mentioned. And further demand boosting factors like G20, like B20, like Miss World Beauty Contests, like World Cup Cricket, and the expectation in general of the tourism sector that the international inbound arrivals will start slowly getting closer to the pre-COVID level. It's been far behind that level. As of October, and November, we do believe that occupancy should stay stable and the rates should not only hold actually even increase further in the months that will come and as you yourself said that this kind of figures we were used to more in Q3. There is a general change in the hospitality landscape, in the thinking also of the travelers and India slowly becoming more a 365 days destination then a destination from October to March that was the traditional way of looking at it.

**Sumant Kumar:**

Okay. Now coming to other expense side, it has increased significantly and can you talk about when we compare to Q4 or maybe the previous year same quarter what are the key changes, what are the key cost component we have seen a higher increase and is this momentum is going to be there for the coming quarter also, the other expense side and also employee cost side, any other accession item also in this other expense?

**Puneet Chhatwal:**

Sumant as we said during the capital market day, when people wanted us to the questions that came were asked always on the guidance on the margin. I would like to go back to that and said the management said we rather increase the top line and have a 33% under Ahvaan 2025 of a larger top line and having increased the top line on an enterprise level as I mentioned to North of 20 because, our management fee business is rapidly scaling up. But not all of that benefit comes when we report consolidated and at the same time we are also on a consolidated basis saying a 17% increase in revenue and getting us cross 1500 crores of consolidated revenue in first quarter which never happened in the history already last year was the highest and this year is even beaten that by 17%. I think we are in a very good space and with all the factors that I mentioned before, unless there is a black swan event anything that is beyond the reasonable control of the sector of Indian Hotels, we don't see any reason why this buoyancy should change.

**Moderator:**

Thank you. We have the next question from the line of Prateek Kumar from Jefferies. Please go ahead.

**Prateek Kumar:**

Question was so, occupancies during this quarter both had domestic enterprise level as well as standalone level as we see and like largely stable and very strong. But the pricing for the reasons of seasonality probably has slipped by 20% to 25%, but while we understand the seasonality is both in occupancy and pricing, but normally this is because the occupancies have remained stable why should the pricing drop by such a sharp number on a Q-on-Q basis?

**Puneet Chhatwal:** You're looking sequential and not comparing the same quarter last year. Because if you were to compare the same quarter last year, there is a double-digit growth in the average room rate. And the stronger brands in our portfolio have up to 15%, 16% so room revenue has definitely increased, the total room revenue has increased by 15% to 16%. And it's largely driven by the average room rate. But if you compare Q4 with Q1 that's, or Q3 with Q1 that will not work because the pricing power is the highest in Q3, second highest in Q4 and third highest in Q1. Although this year, it is quite possible that Q2 would also be very buoyant because of these one-off events which start peaking in the month of middle of August going into September. So, we should not compare Q3 or Q4 with the Q1 and Q2, we should only compare Q1 with Q1 of last year. So, if I look at the Taj brand, the average rate increase versus Q1 of last year is 10%. The average rate increase in SeleQtions and Vivanta combined is 17%. And the RevPAR increase in all these three major brands is for all four is 15%, 16%. So, 15% for Taj, 16% for SeleQtions and Vivanta and 15% for Ginger.

**Prateek Kumar:** Right, I understand sir. But my question was like, it's been used by industry to induce demand, is that the case because the demand is otherwise remaining stable why should the, again.

**Puneet Chhatwal:** Prateek, the change is what kind of business you are getting, the different quality of business that comes in the month of November and December, it is much higher paying, whether it's because of Christmas, or it is because of New Year, or it is because of some special weddings. Now, because that's the time you have those especially on the Hindu calendar the dates for the weddings, that's a very different level of business, whether it's for us or it's for buying jewelry, or it's for other disposable income or consumption, I would call it in general is a very different level. And this year, some of those dates have been missing in the first quarter.

**Prateek Kumar:** All right, that makes sense. And just a follow up question on, like you added for like higher than double digit. Sir I was asking, in the analyst day we talked about a double-digit kind of RevPAR growth for FY24 maybe a low double digit would we maintain that in terms of expectation for FY24?

**Giridhar Sanjeevi:** I think so, because if you see what we've always guided, is that in the month of, as we guided in the capital market day, the RevPAR increase in this quarter has been about 11% and if you see what happens in Q2, we have the G20 starting in September so we expect you to also to show good performance, and thereafter we have the G20, the World Cup and all of those coming through. And historically, we've always seen between Q2 to Q3, there's been about a 30% increase in terms of how the RevPAR moves. So, I don't see a reason why the rates should not go up. And so, it is totally possible that the RevPAR growth will be a double-digit growth actually.

**Puneet Chhatwal:** Also important for us Prateek, is we are a high growth company today when hotels open, then you don't achieve the same amount of RevPAR as you have with stabilized properties. So, we have opened five hotels now, last year we opened 13, we expect to open 20 so as a high growth

company it will dilute a bit. So, you have to look at it as a like-for-like and a not like-for-like growth. So, maybe we will also as of next time start giving, we have it on the presentation you can see on the like-for-like it is 12%. So, which proves which is Slide #54 on the presentation. So, you can take figures from there, which is higher than the reported RevPAR growth so this is proof of what I just now said.

**Prateek Kumar:**

Right. And my last question on your other cost as percentage of revenue in your presentation you have highlighted two third of increases is variable and mentioned few items like license fees, storage and supplies and number as a percentage has gone from 26.9 to 28.5 on an year-on-year basis. So, anything here, just to understand this better so percentage increase why is this inflation particularly been here?

**Puneet Chhatwal:**

Some is inflation, but some is again in line with guidance with our capital market day, we are doing more marketing activities especially with new businesses, both on the personnel side, we have created a new team for new businesses and we will be aggressively marketing these businesses going forward we have started with that already now. And it's the right thing to do that's what we said in capital market day that we have to look at these businesses in three years from now, five years from now. And maybe 10 years from now what is the potential and as you have all seen yourself look at the journey of Ginger where it was and where it is now. And where it is going with the opening of just let's say just one Santacruz is going to change a lot. So, continuous investment in these new business is important and then we set Qminization of Ginger, which means every Ginger will slowly get an all-day dining, and we are already at a score of 20. All day dining, which is called Qmin, so that these brands complement each other. And a lot of those costs, whether we renovate or we do is not all capital expense, it's also other expenses, repairs and maintenance expense, whether you are painting a wall, you cannot capitalize the paint. So, there are such examples where we think it's the right thing to do, and it's the right time to do so that we are very well positioned from a hardware, software's and people ware perspective to take these brands, scale up these brands to the next level.

**Moderator:**

Thank you. The next question is from the line of Achal Kumar from HSBC. Please go ahead.

**Achal Kumar:**

My first question is about the industry supply growth of 6.7%, as we discussed in the capital market day, I am not sure if it is possible for you to sort of break it into the greenfield, brownfield and the conversion. Also, also not too sure if you can please break it into the further category wise like what was the growth in super luxury category, luxury category, extra. That is year first question please.

**Puneet Chhatwal:**

So, we'll have to call some industry consulting specialist, because they track the industry wide data, we can only give you from our own perspective on how our pipeline looks like for example as I just said in my opening remarks that out of the 11 contracts signed in the first quarter seven would definitely open within the next two years. And then I can tell you under which brands they would open, but it's very difficult, we don't track the entire sector. All I can say to you is

what I've heard from some of these big consulting groups specialists specializing in hospitality is 50% of the pipeline is not in the top 10 hotel cities for India's or top 10 metros of India which are important for the hotel sector, a lot of this supply is coming from Tier-2 and Tier-3 cities. And if you have the number, this statement was made today to me by Mr. Thakar of Haworth, please feel free to contact him. And I've taken his permission to use his name. So, you can call him and he is compiling this data. But there are others also, other consulting groups, they will give you similar story, there is another one who came out with a monthly newsletter on what's happening. So, they come out every month on it, but we as Indian Hotels will not keep track of the entire hotel supply in India.

**Achal Kumar:**

Sure, that's fine. That's really fair. My other question was, what kind of not sure if you can disclose sort of the kind of contribution from G20 meetings in this quarter and have you got some kind of advance bookings or at least the discussion with the ICC regarding the booking for the World Cup yet. Any thoughts, any color on that please?

**Puneet Chhatwal:**

ICC, I would not say anything, because there's a lot of things going on. In the newspaper people writing, I don't know whatever they are writing. What I will say is that, what is very good for the country, what is very good for our sector, and what is very good for Indian Hotels is that we are having these two major events happening and they are definitely boosting demand whether in Q1 or Q2, this is not just the G20 there is also a B20 then there was a tourism summit in Q1 in Goa of the B20, so there is a lot of activity which is happening and not restricted to just the big G20 under that there are many other things that are taking place and it is driving demand, and it is driving the positioning of India from a tourism perspective and all these pictures are showed in the rest of the world. So, these events should help in marketing India as a destination on a longer term and not just this year.

**Achal Kumar:**

Right, fair enough. In terms of Taj SATS, you are at 59% market share, clearly you are a market leader there do you have any targets going forward, how far can you go, your EBITDA margin 24.5% so do you think with that kind of market share, do you think that's a kind of gap now or you can grow further and if yes, what is the best industry, what are the best margins in the air catering industry?

**Puneet Chhatwal:**

See in airline catering business this is very high margin, this is maybe the highest I've seen in my career. The reason we are sharing this information is to show that Taj SATS alone in Q1 performance is doing what possibly traditionally, we would have done, in a month of a quarter on EBITDA basis, so as the entire IHCL if you go back 10 years into history. So, from that perspective it is nice to see that not just a Taj brand, but also a Ginger or a Taj SATS, everyone is contributing towards the journey which we commenced in 2018, where we said we will grow our margins by 800 basis points to 25 and then we went to Ahvaan to 33 how each of these businesses is contributing. So, it's the operating leverage in our iconic traditional assets, and the fee based business and our share of profitability in businesses like Taj SATS. The combination of the whole is creating the sustainable profitable growth that we have guided all of you on.



- Giridhar Sanjeevi:** Right. So, you mean you think that this is sustainable and it would grow further?
- Puneet Chhatwal:** Yes, absolutely.
- Giridhar Sanjeevi:** If I just build on it Achal, see if you look at the SATS business, what are the drivers of profitability so number one is, if you get more international customers in the airlines that's the driver of profitability that's number one. Number two is that, places like Taj SATS which is lot of startup businesses in places like Goa. And these startup businesses have been slow because of the pandemic and now they are coming back. This is the second one, third is there are synergies that we are trying to develop between SATS and the Taj our hotels in terms of supply of basics, is the third one. The fourth is the entire non-airline business which is getting developed actually. And the fifth I would say is that the concept is changing internationally in terms of central kitchens which kind of go to sort of supply cooked food like a biryani as an example to the different kitchens, which has just been reprocessed before supply chain. So, these are all things which are anyway happening in industry, and also of course the entire areas of synergies with Air India and Vistara and all of those coming in, to be honest actually. And so there is a number of trends, which look very positive for the airline sector actually, for the air catering.
- Puneet Chhatwal:** Add to it, non-aviation catering, a lot of institutional catering is an opportunity.
- Achal Kumar:** Right. Fair enough. Next question is about Slide #14. So, that attracted me quite, it looks very interesting what exactly, what message are you giving on Slide #14, for example ARR are up sharply in your Taj and SeleQtions brand and occupancy level also up while the growth was slightly lower in Ginger. Does that indicate that ARR occupancy levels were low Q1 last year and hence the sharp increase in this or do you think there has been a shift in the passengers, in the customer space choice and they are ready to pay higher for even?
- Puneet Chhatwal:** I will give you, I understood your question Achal sorry to interrupt you. But, when we had this quarters last year, every quarter people said it's pent up demand. The message we are giving is, if that was pent up demand is still is a little bit pent up because it's still going up. And we always said that the best is yet to come, we're still in the luxury sector. I was talking to someone yesterday, our iconic assets, average rates are maybe 10% to 20% of rates in Paris or London, or New York or Boston. You can go online and verify it. So, we provide better service, we have better quality assets we may never have 1:1, we may never get to 100% of those rates, but we should have the ability to charge 30%, 40%, 50% and we're not even at 10%, 20%. So, that is the, the messaging here is that there is still a way up and Ginger is a bit tweak because I just know mentioned that we are converting almost 70% of our portfolio we will get into Leak Luxe. So, when rooms are out of order, it has an impact on both occupancy as well as the rate. But as and when they keep finishing, we will keep seeing this growth, although there is still a strong growth on RevPAR.

- Achal Kumar:** Alright. My final question is about Ginger. How do you compare your Ginger brand alone versus Lemon Tree Hotels? Do you think you can reach Lemon Tree; your Ginger can reach Lemon Tree. So, how do you compare yourself with Lemon Tree?
- Puneet Chhatwal:** It depends, Lemon Tree is positioned a bit higher than Ginger. And it's not appropriate for me to talk about another listed company on our call, all I can say is that Ginger growth is going to be something which you should all watch and see. And, last year was a good proof of it. And going forward we are very excited with the opening of Ginger Santacruz which should revolutionize this kind of positioning of the brand from budget or cheap, how it started at Rs.999 to a smart property or a Lean Luxury kind of a property and very kind of a happening place with the Qmin all day dining. So, that's the journey we commenced on embarked on. We are almost hopeful by end of this year to get 70% into it in our total portfolio. And hopefully by the end of next year 100% and then let's see what the results show.
- Giridhar Sanjeevi:** And it's a perfect brand Achal in terms of the overall growth in the economy and the consumption, because the mass travel, Ginger will benefit from the mass travel. And so we are quite excited on Ginger actually.
- Moderator:** Thank you. The next question is from the line of Aishwarya Agrawal from Nippon India Mutual Fund. Please go ahead.
- Aishwarya Agrawal:** Just want to understand the challenges associated with the ramp up in the managed room. So, we are going to add up more than 1000 rooms every year, even more than that. So, where do you see the challenges, is it an easy thing and about the profitability on a per room basis and how that profitability can be improved?
- Giridhar Sanjeevi:** No, as far as the managed property growth is concerned they will continue to happen. And as we have said, we've already signed about 11 contracts in this quarter and open five hotels. So, we will be planning to open about 20 hotels. So, we don't see a challenge in terms of signing new contracts. I would sort of say that do not look at it in terms of managed fee for room. Because it's coming across different brands, you need to look at we have given details brand wise split in terms of how the rooms are opening. So, management fee per room is probably not the way to look at it because it's not in a single brand. If this is something if you want more details, we can talk offline in terms of talking about it.
- Puneet Chhatwal:** At a higher level we can say versus a couple of years ago our management fee income total is going up by 2.5x. It used to be around 215 crores and even in Q1 FY20 the management fee was 47 crores and in Q1 FY24 it's gone to 98 which is more than double, that's something which we are very pleased about and as we said Q1 and Q2 are not the strongest quarters as Q3 and Q4. So, if you look at it that way, it should increase by 2.5x versus two, three years ago.

**Aishwarya Agrawal:** So, in this context, what potential it stops us to ramp up even faster, these kind of rooms where you have the strong cash flows and no capital investments?

**Puneet Chhatwal:** Well, nothing stops us if we would have gone faster but there was a lockdown and there were construction stops and there was bad weather in Delhi with mandatory stops were there and then obviously people who are investing may not have been only hotel investors, they may have had other businesses which were impacted. So, there is some delay, but we are giving a guidance of 20 hotels a year in opening, it's more than like 1.6 Hotels a month. So, we have to also see the company never did more than one hotel a year or maximum two in its history till five years ago. So, that's almost a 10x increase.

**Moderator:** Thank you. The next question is from the line of Shalin from UBS. Please go ahead.

**Shalin:** So, buying hotel in Zambia and taking another one on lease in Germany, are we thinking about expanding internationally, what's the thought process?

**Puneet Chhatwal:** Yes, so Shalin in the Q1, we signed two management contracts in Dhaka one for Taj and one for Vivanta. Vivanta is only for Indian subcontinent. So, very much in line with our strategy. Having strong presence with Taj brand in Indian subcontinent has been a part of our strategy. Pamodzi is just like we acquired at that time 100% shareholding in Cape Town which we were managing, which is turned very beneficial to us and we have paid down the debt and it was a US dollar debt. And we were having mark to market issues. So, now it has become profitable, we feel a similar opportunity exists with Pamodzi where we also have a management contract, we don't have a shareholding. And these are in principle approval, we know the property inside out every wall, every bathroom every this thing because as I said, almost four decades, we have been running that property, we are very well established with that. And it's always a question at what terms you agreed to things and we have in principle agreement to explore that. And we are in the process of doing so on. On Frankfurt, we always guided yourself and everybody else that we are not going to do single asset acquisitions worth \$50, \$100 million elsewhere in the world. That is not a part of our strategy and we want to stay true to that. The institutional capital available in Europe comes at a very different yield, at 5%, 6%, 7% maximum, and it makes no sense to use your own capital, especially if you're debt free. And that's why we would enter into a lease. If, as I said, in principle approval actually leads us that far to actually signing an agreement. So, we have taken in principle approval, it's an ideal fit, the asset with our portfolio and it's time that we added a hotel in UK or another part of Europe, and somewhere in Southeast Asia, because you cannot be one of the strongest hotel brand in the world or India's strongest brand and miss some of these markets where, almost everyone flies through for a connection to US. So, you have Air India flying daily and you have Vistara flying three, four times a week. So, there is a lot of opportunity out there. Then a very strong Indian business presence, growing presence of Indian businesses in Germany unlike in the past.

**Giridhar Sanjeevi:** And the other thing to note Shalin is that a hotel like in Frankfurt is just about 135 rooms. It's not a 500-room property, it's in a location where Vistara and Air India fly in any case, and Indian Embassy, TCS, Europe offices, it's all there. So, you have a situation where base occupancies will come from all of these factors. And it's a legacy kind of a property perfect for a Taj kind of a brand actually. So, it's not going, it's not something and it's not an acquisition, it's a lease. So, hence, it's kind of well thought through in terms of very low level of investment, and good size of property being manageable with good base occupancy. So, that's the way to look at it actually.

**Shalin:** No, I completely agree. And I actually do believe that you need to have a network of hotel properties, if you really want customers to come back and use it, that's what actually the Marriott does. That's the right efficiency and the network game they play. But that means that you will need to look at more such opportunities in your applied, because that will kind of brand recall, not just for the Indians, but even for the foreigners as well. You won't be able to stop just at Frankfurt, but you would like to think about maybe something in Switzerland.

**Puneet Chhatwal:** Absolutely the Indian thing we said for the base business, you have to have some form of base business. And there is enough of that available in Frankfurt or like you said yourself in Switzerland, but it will be one step at a time. This is not now that this quarter we announced Frankfurt, next quarter of Switzerland, that's another quarter three is something else, that will not be the case, we are taking this step of entering into detailed negotiations after a very long time for an asset and we said once we have our home front, our domestic front, absolutely firing on all cylinders then we will take selective contracts as opportunity arises. But our focus was, is and will remain pan India definitely in the short term.

**Shalin:** Right. On question Giri, on the cost side. So, we could see some of the cost going up in form of employees, as well as some of the other expenses. How should we think about it, it's largely we have reached the base or there is a component of discretionary angle to it because we are kind of putting it for other new businesses which may kind of taper off after some time, or you think that's going to be a sustainable cost base for next maybe two, three years at least?

**Giridhar Sanjeevi:** So, as you saw two, three points here. So, number one is that from a manpower perspective, yes, there has been an increase in manpower but if you look at it, between this quarter and last year first quarter, last year first quarter the ramp up has not completely happened, because we were recovering from COVID norms. So, to that extent, there is a base adjustment which has happened between last year, first quarter and this year quarter. But manpower increase also includes for instance, some of the wage settlements which have come in. But if you look at some of the subsequent slides, where we have given staff to room ratios, the staff to room ratios is still below the pre-pandemic level, which means the focus on productivity continuous actually, that is point number one. On the other cost, where we have said some two thirds of the increase is largely variable costs, which is true, a license fee and NDMC goes up with the rise in revenue as an example. So, most of it is actually rising in line with the business actually, and some of the discretionary spend, that we will do, some expenses will have to invest ahead, and some

expenses we will have to pay as you go. So, some of these will be there, but nothing sort of will skew the numbers significantly. It'll all be managed in a way where the overall cost increases are kind of under control. So, that is the way you look at it. There's nothing which is going to be unusual to sort of throw things out of gear actually, nothing at all. And very important thing Shalin, productivity is a very important thing. Take corporate overheads as an example. The same network now, kind of the same corporate overhead level, are now managing a very big network as compared to say, four, five years ago actually. So, productivity focus is very clearly there.

- Shalin:** Understood, fair point. Last bit any color on July, August, adding to you if you want to give?
- Puneet Chhatwal:** Its not a question of July, August, basically it is that the outlook remain strong, as I said in my comments, which was the comment number one, both India story with the growth in GDP corrected upwards as well as the hospitality up cycle continuing with the demand growth, this should work well. And domestic consumption global events, as you have said in the press release and revival of international arrivals should further boost demand growth in principle because that is what it should do. So, don't see any reason why it should not keep remain strong or keep getting stronger than to be the other way around.
- Moderator:** Thank you. We have the next question from the line of Nihal Mahesh Jham from Nuvama. Please go ahead.
- Nihal Mahesh Jham:** Sir my first question was, on this international operation process clarify this a lease agreement and not a management contract. And just in terms of, say future opportunity that you get, which of the two would be the preferred option to expand?
- Giridhar Sanjeevi:** Also depends on the geography Nihal, for instance in places like Dubai, Bangladesh we prefer to take management contracts. In Europe, as Puneet explained there is an institutional ownership of what do you say the real estate, and their leasing works better, because as an institutional holder, which could be a pension fund, they don't like to have people on their rolls actually unlikely, supposing we have a management contract in India, the people, everything in the rolls of the owner. In this case, in Europe with institutional ownership, the lease is a better option. And so that's the way, so it really depends on geography circumstances.
- Puneet Chhatwal:** And cost of capital is very different for these funds. And also, for us, if it works out well in management contract, we're only consolidating management fee. And this way, we get the benefit also of the top line, all we have to do is create a design and manage it so efficiently that we are also profitable.
- Nihal Mahesh Jham:** Absolutely. Just looking at some of the historical example, even the P&L volatility is something that is maybe a little more than what it is to even domestic operation so from that perspective you still believe lease is a better option?

- Puneet Chhatwal:** Yes, and no, it depends which countries you talk about. Historical examples may be of countries where volatility levels are very high, we have to see countries which are constantly low inflation, low interest rate, there the volatility levels are not that dramatic. It might have happened like once in 50 years because of a Russia Ukraine war for some time. But generally speaking, this is not, these are not countries where you have huge ups and downs.
- Nihal Mahesh Jham:** Okay, sure. The second question was you mentioned about the.
- Puneet Chhatwal:** Sorry, and if they have high volatility there would not be a lease, lease markets are the ones which have low volatility.
- Nihal Mahesh Jham:** That is helpful. Mr. Chhatwal, the second question was you mentioned about the events that are lined up specific interested in just understanding about the World Cup, why I'm asking that is that this time, it obviously comes in part of our peak season. So, is it something that is beneficial if we lock up a lot of the rooms, assuming a lot of traveling teams come in there, or how to look at this event, because not certain of how it will play out, because unlike the last time it was the offseason, this time it's coming in the peak season for us.
- Puneet Chhatwal:** Should help the rates generally speaking, it should help both rates and occupancies not only the players have to stay all the people who will travel to watch certain preferred matches, and a lot of that is being written about already in the press. It should normally assist, it's not a derailleur it's an enabler.
- Giridhar Sanjeevi:** We all need businesses from different segments. So, all good, all of this is good actually.
- Nihal Mahesh Jham:** So, the contracted rooms wouldn't be at any kind of rate, which was in a way at a significant discount at?
- Puneet Chhatwal:** No, Nihal we don't do these kinds of things. Why would it be at a significantly discounted rate? Why you asked this, I'm just trying to understand so, I can give you a more qualified and a correct or accurate answer.
- Nihal Mahesh Jham:** Absolutely, where I was coming from was the fact that I believe there are certain associations that you would have had signed contract, if rooms are let out say to player but there will be a certain discount to what the rates are in the peak season irrespective of the season. So, that is where I was coming from, that say given we are the largest brand and if say most of the stay happens during the event in most of our properties, it is just that it may take away a lot of the lucrative rules which will be available at that time of the year.
- Giridhar Sanjeevi:** No, Nihal, What's happening in Ahmedabad newspaper reports in terms of the Indo Pak match, rooms are going at one lakh actually. So, which means you don't look at it when the demand in

general for a match people are traveling actually. So, hence I don't think these will be great overall will not be negative at all. It'll be very positive actually.

**Moderator:** Thank you. The next question is from the line of Karan Khanna from Ambit Capital. Please go ahead.

**Karan Khanna:** Sir firstly earlier this week, the parent company of one of the nearest peers announced their plans to demerge the hotel business. In light of this development, and with increased focus by the management team of this entity. How should one think about the competition increasing in the management contract business and as a result, how should we think about take rates for the management contract business is it safe to assume that rates will see some compression?

**Giridhar Sanjeevi:** No Karan, if you remember that management contract business is a 20-year relationship. When we talk about these long-term relationships, people don't enter into a relationship with a brand. Because somebody is offering a 1% cheaper kind of take rate, actually. So, remember that, so we don't anticipate any take rate related challenges at all that's number one. And number two, if you look at the way management contract growth is happening, we have 125 cities in towns. And so there is growth all over actually, it is not a winner take all market which kind of leads to great compression that you talk about actually, there is enough opportunity for all players to do that. We have been leading of course in terms of our agility and the way we are dealing with owners. And we expect to continue leading with the 35% market share in terms of what we have so that will continue.

**Karan Khanna:** Sure, thanks for the clarification Giri. Second, talking about your international business. Where United overseas continues to lag while St. James London has seen a significant improvement. So, what are your expectations from these two businesses in terms of growth and margins. And as a follow up Marriott has given RevPAR growth guidance around 6% to 11% for CY23, would you expect the same for your international portfolios as well?

**Giridhar Sanjeevi:** If you look at international portfolio, now two, there things, London obviously has done extremely well, and London historically has done well. And it will continue to do well, especially with the product changes, and renovations. So, we continue to do all that. So, places like London will do very well. As far as the US is concerned. We are currently in two markets, which is New York and San Francisco, San Francisco as a city has kind of struggled, as you know from public reports, in terms of what's happening there. And therefore, our property is at this point of time being impacted because of this, but it's one of those key cities in the US. So, we do expect that the bottoming out has probably taken place, and therefore that should improve in any case that's a smallish property, historically it's been about \$25 million in terms of top line. Now, if you look at New York, New York is a very good market. We have seen rate increases anyway happen there. And we continue to, it's a lease and so overall the US market should do well, both from a domestic tourism perspective in US banquet is very strong in our property and the international tourists also going, international business and tourists going to peer also benefits and the Indian

diaspora also going to the US, they stay with us. So, longer term we are quite happy in terms of longer-term recovery, actually.

**Karan Khanna:** Sure. So, last two questions from my side on the FTA recovery, in your FY23 annual report, you spoke about FTA reaching 80% to 95% of pre-COVID levels in CY23. In that context the feedback that we are receiving is that the FTA recovery has been sluggish in June and July. So, what are the month-on-month trends you're seeing in terms of the actual bookings by international travelers and the travel agents?

**Giridhar Sanjeevi:** If you look at the overall mix of international travelers in India, it is still under 20% actually, so that is what is currently happening at least from our hotels perspective. But the longer-term trends are still very medium and long term trends are very positive, because let's be very clear that the number of international passengers FTAs in India are about 10 million or something like that which is nothing. In fact, there was a recent CBRE report, which said that by 2030 it will more than double and by 2040 more than double from that level actually, and with all the focus in terms of the number of airports, the tourism infrastructure, government own thrust on tourism, having all of these very positively actually, the numbers as I said are abysmally low, 10 million is absolutely nothing actually. So, FTA thing should come back and second half should see that actually.

**Karan Khanna:** Sure. And finally, if you talk about Slide #54, where you highlighted that Goa and Rajasthan are among cities or other states which have seen the lowest ADR growth Y-o-Y, are these indications of any softness that you are seeing in the ledger demand because that's also a feedback basically?

**Giridhar Sanjeevi:** No, See we have always indicated, when people have asked us in terms of growth in ARR's, we've always indicated that the scope for increase in business ARR's is much higher. Leisure, it will go up, but less than proportionately, and that is what we are seeing actually. But also bear in mind, the other fact, you should look at it like Rajasthan will not benefit from the FTA who are coming in the second half, and FTA should improve that's number one. And number two, places like Goa are also becoming 365 day destinations actually. So, there are some fundamental differences in terms of how these markets are panning out. So, what we see a softness in ARR's is pretty much in line with our expectations actually.

**Moderator:** Thank you. We have the next question from the line of Nikhil Agarwal from VT Capital. Please go ahead.

**Nikhil Agarwal:** Sir my question was regarding the G20 and the Cricket World Cup again, like any ballpark numbers for the full year, what kind of revenue it would generate any percentage of the top line?



**Giridhar Sanjeevi:** That's not the way to look at it, the way to look at it is that G20, is a platform where there is business, which comes in during the conference periods. And there's business which follows actually. So, that's the way to look at it.

**Nikhil Agarwal:** Okay. Sir, till now what has been, the response has been really good I believe it's been generating quite a good portion of the revenue right?

**Puneet Chhatwal:** As Giri said, we cannot look at it just like that it creates extraordinary demand, then in normal circumstances, that means the occupancies rise when the occupancies rise, your ability to charge increases, does not necessarily have to be every event although we have been doing the majority of the events for G20 and we will be doing so going forward for B20 also. But even if we were not doing an event for some reason, because we were sold out and we didn't have hall availability and the business went elsewhere. That creates high occupancy in another property, that means the other competitors or the other peers in the similar market will have the ability to sell the rooms that they have to other people who need the rooms at the same time, or who need the hall at the same time. And that sort creates in general buoyancy through such events, or it's a cricket or whatever else is happening, we did last year this event, the Christian Dior collection launch at the Gateway of India. And the way the Taj Mahal Palace got showcased with all that coverage of that event across the globe, you cannot just calculate only on the value of that event. Of course, after event party was with us, most of the models and the entire team was staying with us. But also it helped our other hotel, which is the President in Mumbai. And it also had other hotels, which are not ours from other companies, because we were sorted out. So, these events whether they are happening with us or with any of our competitors, or peers or who so ever it is generally create very high level of occupancy and the high level of occupancy then starts driving the rates, and everybody tends to benefit from it.

**Giridhar Sanjeevi:** And one of the comment I'll make is that you saw yesterday the Prime Minister inaugurating the Pragati Maidan, so with Pragati Maidan coming the Reliance Jio Convention Center in BKC, India is now getting some really world class, large convention capacity, which will help in terms of driving demand. And as we have always said, if you've got 2000 additional rooms on top of your regular city demand, you don't have the hotels in terms of absorbing capacity actually, those factors also play a big role in terms of driving the change.

**Nikhil Agarwal:** Got your point sir. And sir just one more question like I wanted to know what is the average room rate difference between the normal Ginger hotels and the renovated Lean Luxe Ginger hotels and the Ginger hotel of the Santacruz that is coming up?

**Puneet Chhatwal:** It is around 30%. The renovated and the Lean Luxe is 30% higher than the old Ginger that you know off.

**Nikhil Agarwal:** Okay.



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**Puneet Chhatwal:** In certain markets like you said, Mumbai it could even be 40%. But that's a one off because Mumbai is very, very strong as a market in terms of occupancy and also that property will be absolute flagship.

**Nikhil Agarwal:** Any roundabout ARR number for that?

**Giridhar Sanjeevi:** You look at the IBIS Santacruz is possibly an indicator. Any last questions or we just.

**Puneet Chhatwal:** We have overshot the time.

**Moderator:** We have no further questions; you may go ahead with any closing comments.

**Puneet Chhatwal:** Thank you very much, everyone for joining. Thank you for your support and patience and also the questions that you've been asked, and we look forward to sharing information with you at the end of next quarter.

**Giridhar Sanjeevi:** And in between, of course post this call if you have any further questions don't hesitate to reach out to our Investor Relations Team we'll be more than happy to clarify anything else that you want. Thank you.

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