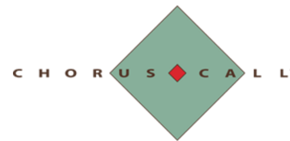
"The Indian Hotels Company Limited Q4 and FY '23-'24 Conference Call"

April 24, 2024



MANAGEMENT: **MR. PUNEET CHHATWAL -- MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER -- IHCL**
MR. GIRIDHAR SANJEEVI -- EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER -- IHCL
ANKUR DALWANI -- CHIEF FINANCIAL OFFICER (DESIGNATE) -- IHCL

Moderator: Ladies and gentlemen, good day, and welcome to The Indian Hotels Company Limited Earnings Conference Call for the quarter and financial year ended 31st March 2024. On the call, we have with us today, Mr. Puneet Chhatwal, Managing Director and CEO, IHCL; Mr. Giridhar Sanjeevi, EVP and CFO, IHCL; and Mr. Ankur Dalwani, CFO designate.

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 star then zero 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 Q4 and FY '23-'24. Today, we would like to focus on 10 key messages summarizing our performance journey over the last financial year and expectations for the future. Firstly, achieving Ahvaan targets or achieving key Ahvaan targets ahead of time. We embarked on a journey in 2022, wherein we set specific targets under Ahvaan 2025 strategy. We are pleased to share that we have already achieved our key objectives well ahead of time.

We aimed at achieving EBITDA margin of 33%, and we have delivered EBITDA margin of 33.7% in last financial year. We promised a portfolio of 300 hotels and as of 31st March, we have achieved a portfolio of 310 hotels, including 90 in pipeline. Our third objective of achieving zero net debt level had been achieved long back and in fact, we have now surplus cash reserve of over INR2,200 crores. Furthermore, we have promised a balanced portfolio and now we have achieved a 60/40 mix of capital light versus capital heavy assets and to summarize on the first point, we promised and we have delivered on all fronts.

Number two, best ever Q4 and full year financial performance. We are very pleased to share that our record performance has continued in Q4, making this the eighth consecutive quarter of best-ever performance for IHCL. Our consolidated revenue grew 17% year-on-year to INR6,952 crores. EBITDA grew 20% year-on-year to INR2,340 crores. Yielding EBITDA margin expansion of 100 basis points to 33.7%.

More importantly, our bottom line grew by 26% to INR1,259 crores. On a stand-alone basis, we continue to deliver stellar results with revenues growing 20% year-on-year to INR4,590 crores and EBITDA margin expanding by 200 basis points to 41.3%. Some of you would recall, pre-COVID our consolidated revenue was lower than what we had as standalone revenue in the last financial year.

That brings me to point number 3. We delivered many-fold increase in return ratios. We have delivered superior returns, both in terms of return on equity, and return on capital employed in the last 6 years. For that, since we began our journey with Aspiration 2022 strategy, since '17-'18 for that matter, our ROE has increased 7x to 14% and ROCE has increased 3x to 15% in FY '23-'24. Moreover, IHCL's EPS has increased 11x from INR0.8 in FY 2017-'18 to INR8.9 in FY '23-'24.

Fourth, market leadership. IHCL continues to outperform the industry on RevPAR with a premium of 65% over the competition on pan-India basis. with presence across various price points, our hotels command healthy premiums over the industry in all key markets. We have around 100 hotels in the top 7 cities with diversified presence across customer segments and price points. We are well positioned to capture the surging spiritual demand with presence in 50-plus villages or spiritual destinations.

Number five, our portfolio growth. We continue to demonstrate industry-leading growth with 53 hotels and 34 hotels opened during FY '23-'24. This is the highest in any single year done by anyone. More importantly, with 218 hotels operational and 92 in pipeline, we crossed the milestone of 300-plus hotels portfolio.

IHCL entered into a strategic alliance with the Ambuja Neotia Group's Tree of Life Resorts offering our sales and distribution network with portfolio of 14 resorts across the country. Just for the sake of clarity, when I said this is the highest done by anyone, it is based on organic growth, and it is based on the pan-India figures and not the global figures.

Number six, unique mix of capital heavy and capital light. Our current operational portfolio has a balanced mix of 60% capital light and 40% capital heavy assets. The capital-heavy portfolio drives operating leverage and has demonstrated strong growth on the top line, but more importantly, at the EBITDA level on the back of effective asset management and strategic addition of new hotels.

On the other hand, capital-light portfolio provides resilience. Our capital-light business is comprising mainly top management fees and new and reimagined businesses currently contribute roughly 14% and to consolidated revenue and in the near future, contribution from this high-margin portfolio is expected to increase to 20% of consolidated revenue. which, in turn, will drive margin expansion for the overall business.

Number seven, new brands and reimagined businesses. IHCL's new businesses vertical comprising of Ginger, Qmin, amã Stays & Trails, The Chambers and the reimagined TajSATS, reported a revenue of INR1,600 crores. At a growth of 35% over the previous year, new businesses grew at double the pace of core IHCL enterprise, which grew at 17%. New businesses now account for 12% share of IHCL enterprise revenue, showcasing an expansion about -- of about 150 basis points from the previous year.

Now I come to TajSATS. TajSATS clocked a revenue of INR900 crores at 40% growth over the previous year with a market share of almost 60%, maintaining an industry-leading EBITDA margin of 25.5%. Ginger reported a brand revenue of INR486 crores, growing 34% over the previous year, aided by the flagship Ginger Mumbai Airport Hotel, contributing over INR25 crores in the first full 4 months of operations. amã Stays & Trails achieved a portfolio milestone of 200 homestays, bunglows with 103 added in the last financial year. So Qmin brand also achieved a milestone of crossing INR100 crores in its GMV or brand revenues in FY '23-'24.

Finally, IHCL will also introduce a new brand, as we announced on the last call. This is our reimagined version of Gateway, a full-service hotel offering in its new avatar in the upscale segment. This will be a similar story like the Ginger, which was reimagined in the years 2018 and 2019. The Gateway brand rollout will commence with 15 hotels and will scale to 100 by 2030.

Number eight, strengthening competitive advantages. We remain committed to investing in our assets and building our capabilities for the future, thus strengthening our competitive advantages. IHCL in FY '22-'23 commenced a five-year capital deployment plan of over INR3,500 crores towards asset upgradation and select new strategic investments. This includes strengthening of our digital capabilities with new brand websites, implementation of new ERP system and data lake for advanced analytics with AI and ML capabilities. Some of these launches, especially on the new brand sites, you will start seeing from the first week of May onwards. That means in 8 days from now.

Number nine, Paathya, our industry-leading ESG+ program. We have achieved significant milestones this year on our ESG+ program, and IHCL now uses 37% energy from renewable sources and has installed 343 EV charging stations across 142 locations in India. Continuing our journey of eliminating single-use plastic IHCL has installed 40 bottling plants and achieved 48% recycling of the water that is used. IHCL also partners and operates 32 skill centers today across 15 states in India.

Finally, maybe the most interesting for all of you, what can we expect going forward? And rightly, it's the number 10 on the list. We feel that the hospitality industry up cycle is expected to be a long and sustained one. Of course, every now and then, there will be some headwinds and some drops. But eventually, nothing better than COVID can give the proof of the resilience of this sector. So accordingly, also experts like Horwath HTL have predicted that demand will grow at a rate of over 10% annually for the next 3 to 4 years. while the supply will continue to lack demand. Most of the future supply is expected to come outside of the key markets for non-tier 1 cities.

We are very much, as IHCL in sync with what Horwath has been guiding. Within the IHCL context, we expect to deliver consistent double-digit top line growth, therefore, with sustained margins and continued portfolio growth with a target to open 25 hotels in FY '25. We had guided 20 for last fiscal. If we include Tree of Life, it's 34. If we exclude that, it's 20 hotels open as we had guided, and we are very much confident of opening a minimum of 25 hotels, and that's the guidance we are providing.

Our new business will continue to grow also over 30% in the next fiscal, which last year was at 35%. As the base gets larger, the guidance, you can expect will be in the range of 30 now and going forward, maybe at 25%. Our focus also remains on evolving our brand scape and strengthening our competitive advantage with extremely prudent capital allocation and strategic opportunities. However, we are very well positioned with the cash position that we have with

the 0 net debt that we have to take advantage of any strategic opportunities that might come our way.

Our new dividend policy has been approved by the Board, and we have proposed to declare a dividend at a payout ratio of 20% of consolidated PAT for that INR1.75 per equity share at 175%. This is subject to shareholders' approval, as we all know. Thank you so much for your attention, and we now open the floor for questions.

Moderator: Our first question is from the line of Binay Singh from Morgan Stanley.

Binay Singh: One clarification and one question. Just on clarification, on Slide 51, when we talk about 4% ARR growth, this I assume is including Ginger Mumbai Airport, right, so which is why the number looks lower than what it was 2 quarters prior.

Puneet Chhatwal: One second, Binay, we are looking at it. So occupancy is that ARR -- yes, it includes Ginger Mumbai Airport. ARR growth for Standalone Q4 like for like is 8% and Revpar growth is 15%

Binay Singh: Yes, because that would have to extend diluted room rate growth.

And secondly, just Slide 47. If you look at the Taj business, here too, we are breaking it into business, leisure and palaces. Could you, a, give us a little bit of a revenue breakdown also on these 3 segments? And question being stood at, where do you think you see more scope for occupancy improvement or room rate improvement among these, where do you see a pushback? And quite there's incremental opportunity to expand occupancy or room rate looks limited? So that's the second question.

Puneet Chhatwal: Binay, our -- there is a nominal increase that you expect every year, but very important for us and our portfolio is our not like-for-like growth. And with the company growing at the speed at which we are growing, also the new openings dilute that percentage is that you see.

See, it's not just the Ginger Mumbai Airport in stand-alone. But if you take the overall picture, then even if it says like-for-like, for example, it takes 3 years normally for a hotel to stabilize unless it's opened in extraordinary circumstances.

So established property, let's say, like Taj Lands End and Taj Mahal Palace in Colaba will have a different kind of increase versus, let's say, we have opened Taj Trees in Mumbai. There is a ramp-up period. So with this high growth in one way, we are doing it because you all like to see these percentages. But maybe we need to show it differently going forward, saying -- what is it for hotels that have been in operation for a minimum period of 3 years? And how does that percentage growth look and how does the new one look?

So the new one helps you that when the headwinds come, they're all adding because most of that is on capital light. But it comes at a disadvantage that it dilutes the figures because technically, we include all hotels, which have been in operation for a minimum period of 1 year.

Binay Singh: Yes. No, thanks for that info. I think your point is very relevant, especially when you look at the pipeline ahead also, we will see a lot more management contracts coming in. So to an extent, I think this slide, in particular, will look a little diluted. But last question, any commentary on the near-term trends. Like how are you looking at demand in this quarter April, May quarter. I understand sequentially, it is weaker more on Y-o-Y basis, how do you see?

Puneet Chhatwal: What we are saying is what we believe and we think the top double-digit growth is what we feel is going to happen now. If in one quarter is in 9% and then the next one is 11%, still the average would be 10%. So I'm not saying it's 10%. It could be 11% and 13% or -- so I think anything which is north of 10% on an average for the year, we feel is a realistic number going forward because, again, that base has become larger.

To keep doing 18%, 20%, 22% growth is is possibly very aspirational and ambitious. It's not impossible, but it's aspirational and ambitious. So anything which is north of 10% gives us a very good platform on all metrics that we -- that I mentioned while giving those 10 important points.

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

Achal Kumar: So first of all, Puneet, just wanted to understand about MICE business. So I mean, do you think the MICE business has normalized and back to pre-COVID levels? Or you think there have been a few structural changes, i.e., bigger conferences, fat marriages. I mean, and -- which are significantly positive. And do you see a sustainability there? So if you could please give us a bit of a color in terms of MICE business, especially in the pre-COVID versus now?

Puneet Chhatwal: So in our estimation, the share of revenue for our MICE room business is 17%. But I think India is going through a structural change. We have not even reached 5% of the possible MICE business by just the addition of Yashobhoomi in Dwarka and Bharat Mandapam in Pragati Maidan and the convention center in Kolkata and the one which is ahead and are getting more close to doing well is Jio in Mumbai, right?

So I think taking the MICE out of the hotel business because when you have events where 2,000, 3,000 or more people could come in, in one single hall, that kind of infrastructure never existed. So this is opening a big new opportunity. In terms of weddings, that is maybe a specialty on the Indian subcontinent and is going to stay a very important element of the culture and of the culture of celebration or as a culture of social gathering. And we are seeing no change when it comes to weddings. There is nobody worried about going into a hall because there was COVID. I think all that fear has gone, people are back and meetings are happening in a normal way.

But what we have not yet seen is global events coming to India. We recently hosted in the month of February, the global conference of Coke, as an example, or -- 8, 9 months ago, I don't remember the exact month. We had the launch of the new Dior collection at Gateway of India. So you will start seeing -- or India will start seeing and witnessing more and more of these events.

And hopefully as the largest hospitality ecosystem. We continue to benefit from it, and it's not a one-off like a G20 but also a G20 has created the infrastructure, which will benefit hospitality sector going forward. And, Achal, may be one simple answer here is -- not only is one back to what it used to be, it has improved. And when it comes to new facilities, we are not even at 5% to 10% of possible utilization.

Achal Kumar: Right. Fair enough, it was very clear. Other thing I wanted to understand, you just spoke about the Gateway hotels, and you mentioned that you will have 15 hotels and probably end up by 100 hotels by 2030, if I understood correctly. So what is the logic, I mean, why you want to have additional -- another brand? And where -- how you think you want to position it within your existing Taj, Taj SeleQtions and Vivanta and all. So where exactly you see this Gateway hotels to be placed? And what is the logic? I mean, what kind of benefits do you see? What synergy do you see? I mean...

Puneet Chhatwal: Excellent. Very good question, Achal, I'm glad you asked it. See, Taj -- we have worked a lot on the last 5 years in upgrading and investing in Taj. And rightfully, it got acclaimed as India's strongest brand across all sectors by Brand Finance and also world's strongest hotel brands for -- in the last 3 years. And this year, the verdict is going to come in June. Now Taj is and was always a luxury positioning, some where it got diluted for whatever reason 20 years ago, when we added -- by Taj and Vivanta and the Gateway hotel had become Taj Gateway.

So when we started the journey of Aspiration 2022, we put the Gateway brand in the drawer, and we always communicated and guided we will bring it out, a, when we have the critical mass in the brands; b,when we have clarity on the brand scape and how an evolution in India could take place; c, when we feel now is the moment and that's what we feel is now because your Tier 2, Tier 3 cities cannot afford a Taj as the cost to build a Taj and your ability to charge are not in sync.

So if you look at the press release that we have given and the destinations that we have given, doing a Taj Hotel, there would be a challenge. At the same time, we reimagined Vivanta 5 years ago, and we said Vivanta is what it was supposed to be, though we want something which is very chic, very boutique-ish, and that is not a brand that will fit into, let's say, every possible location like a Karnal or a Barnala or etcetera. So these are the Tier 2, Tier 3 cities, which are coming up very strongly.

And that's the ethos and the style of the brand is done in such a way, including its uniforms that it could not fit in, in such destinations, plus we have limited Vivanta with banqueting spaces. We don't want to have too much wedding and all that kind of business because either you're a mass brand or you're a chic brand, you cannot be both.

Now selection is very easy. It's a collection of names. Names that are a brand in themselves in their relevant marketplace. For example, the President in Mumbai is a part of seleQtion. The Connaught in Delhi is a part of seleQtions. The Ambassador in Delhi is a part of seleQtion. The

Blue Diamond in Pune, the Savoy in Ooty. These are all names which are very well established over several decades, if not essentially.

So I think this was a gap that we had, but we had not reached 100 Taj hotels and we were not close to 100 Ginger. Now that we have crossed in the portfolio, 110 Taj-branded properties and Ginger in the next few months should get close to 100, it's already at 90, is the time to launch this brand, which will be upscale, full service and a gateway to that city. It will be a very regional brand, which will have all the important characteristics of that city. So Gateway in Nasik will represent in its art work, in its style, in its arrival experience in Nasik. A Bekal in Kerala will represent Kerala.

So I think this way, we go out and become a very good in a traditional world, we would say a very nice 4-star full-service brand. And in the modern world, we would say it's an upscale full-service brand. And we are also launching it because we are very confident of getting quickly to a critical mass of 50 hotels in operation and a portfolio of 100 very soon, and we start with 15.

We already start with double digit. We're not starting with something we build one hotel at a time and it takes another 20 years to get to the 20, 30, 40 50. And that's why we have given the list in the press release of the names of the properties as well as the quarter of their opening. I hope this clarifies some bit the rest whenever you visit us in our office, we can show you on a chart.

Achal Kumar: That's very interesting. Very, very interesting. I think that's a great idea. Thank you so much for giving the clarity. My final question, if I may, please. If you could please share a bit of a plan in terms of your capex, which you mentioned that INR35 billion and you always spend INR10 billion to INR11 billion, so which means you're going to spend additional INR25 billion in the next 3 years, especially on the digital and IT spend.

And are you -- I mean, are you collaborating with the broad Tata Group especially in terms of airlines and they have Air India and all so I have been thinking about this. Recently, I could see very surprisingly Indigo quietly launched a link on the website, where you can book the hotel. So do you have that kind of plan wherein you are collaborating with Air India and they can sell the holiday business wherein they can get the link. So I mean, I just want to understand your close collaboration with Tata Group and your plans on the digital IT spend, how do you see the benefits from that?

Puneet Chhatwal: We are a Tata Group company, and we always look at synergy possibilities with all group companies and not just airlines, but you're right because somehow airlines, hotels, flight catering, all this go together. So that part is there, but I think there was a lot of work to be done on Air India. They are getting close to a lot of initiatives that they have taken. And during the course of this financial year, we will try to align ourselves on strategic funds. But maybe you should be asking this question again in a couple of quarters.

But that does not mean we don't collaborate today. We do collaborate. We went out and built The Maharaja Suite at Taj Mansingh. We do whatever we can, meals for them, we are doing

almost all meals for Vistara whatever stations we are except for Hyderabad. So there is a lot of that collaboration that is already happening. It's not that, that is not there.

And I think if Air India was to join the loyalty platform of Tata Neu, that would be another new game changer completely for us. So sometimes it's not direct, it could come through other companies. And at some point, I'm sure they will also join like other companies have. As they tend to benefit, Tata Neu will benefit and indirectly, group companies like us will benefit. So I remain extremely optimistic, not cautiously, but extremely optimistic about the synergies driven also under the leadership of our group channel.

Moderator: Our next question is from the line of Shaleen Kumar from UBS.

Shaleen Kumar: Congratulate on a good set of numbers and a good closing to the year. Just continuing with the Achal's question…

Puneet Chhatwal: Shaleen, there is a lot of disturbance.

Moderator: Mr. Kumar, if you are using the speaker mode, may we request to use the handset mode to ask the question, please. Mr. Kumar, we are not able to hear you. As the line of the current participant is not clear. Mr. Kumar, if you can hear me, you can rejoin the queue.

Shaleen Kumar: Am I audible?

Moderator: Yes, Mr. Kumar, if you can use the speaker -- if you can use the handset mode to ask the question.

Shaleen Kumar: Am I audible? Sorry, I don't know what's happening.

Moderator: Yes, sir. Please go ahead.

Shaleen Kumar: So I just repeat my question. So I was saying -- I think you guys are still conservative when it comes to your capex guidance, INR3,500 crores of capex in next 5 years, but you guys can be generating like INR8,000 to INR9,000 crores of free cash during that period, right? So do you think you can be a little aggressive on that front?

Giridhar Sanjeevi: Shaleen, I think the guidance of INR3,500 crores over 5 years, out of which -- we said the program started 2 years back. So effectively, it's about INR2,500 crores for the next 3 years. And if you look at the PY capex numbers, we've done about INR637 crores. So essentially, you're going to build on that. And I think in the last quarter, we did mention some numbers about where we think we'll do next year.

We think this is what we can do if -- business-as-usual of course, if there is an opportunity which come up, which Mr. Chhatwal referred to earlier, on an inorganic front then, of course, that becomes another area of sort of where capex can get deployed.

But as you see things today, INR2500 crores of incremental capex over the next 3 years is something which we think should be possible for us to spend. And there is all 3 main areas,

which is basically renovation, which has been an ongoing thing we do, the new build and also on the IT side, which is actually a very big focus for the company for this year.

Puneet Chhatwal: This and next -- next 18 months.

Shaleen Kumar: So effectively, we are saying that this is the visibility right now. It could obviously evolve, right? Because definitely, we will have cash to deploy?

Giridhar Sanjeevi: Absolutely. That's right.

Shaleen Kumar: Right. Second thing, I just want to understand on the current performance. I mean I saw a jump of other expenses, right. And I think it is possible to quantify or give some suggestion on that because then our actual EBITDA should be more than what it has been reported.

Giridhar Sanjeevi: So Shaleen, there are one-off items which we have actually mentioned in the note on the other costs. If you see our cost structure, all the costs are actually are below as a percentage of revenue, as you compare with previous year. The cost, it has gone up with other costs. And there are 2 elements to this. There is one-off items. And if we were to correct it for that, then the gap between the previous and this year actually is negligible. And secondly, these costs are in the nature of onetime and which are kind of incurred this year. And we don't expect them to be repeated next year.

Secondly, a large portion of the increase is linked to revenues coming from licensed hotels, where license fees have been higher. And the license fees is part of other costs because of which the percentage is looking higher. So this is a mix effect, which would actually correct in the next year.

Ankur Dalwani: So, just to clarify, Ankur over here. So that, you're saying that my other expense -- other operating expense would have been similar to previous year had this one-off not been there?

Giridhar Sanjeevi: Yes. If one-off was not there -- the one-off was there in both the years, it's in previous year as well as this year, we were to correct it for the one-off. The number would be closer to 29% as opposed to 29.2% or 28.4%, which you're seeing right now.

Moderator: The next question is from the line of Anuj from Investec.

Anuj: Congratulations on a good set of numbers. So 3 questions. Firstly, on your new and realizing business, especially TajSATS and Ginger which has clocked in almost 2x of growth versus a stand-alone entity. So what has been the growth driver and are the sustainable going ahead? Also, any new segment that TajSATS have scaled up its reach, which actually has led to set of a robust growth and what will be your outlook for this entity going ahead?

Secondly, any impact of ongoing elections, which we are witnessing across tier 1, 2 or 3 cities across ARR and occupancy? And lastly, we have already surpassed our Ahvaan target a year ahead. So what margin portfolio addition or portfolio mix do we see or expect for next year, sir?

Giridhar Sanjeevi: Giri here. So I think see, as far as the first question on Ginger and TajSATS are concerned, I think there are a number of drivers. As far as Ginger is concerned, Ginger Mumbai Airport is obviously a big driver.

The second thing is that we were upgrading properties from the old model to the new Lean Luxe model that has clearly driven. And third, from an F&B perspective, we have kind of graduated from the earlier format into Qmin actually, which has also helped in terms of growth. I think these factors will continue to grow in our capital-light lease models on Ginger actually. So, we are very excited in terms of the opportunity to grow. That is number 1.

As far as TajSATS is concerned, once again, a number of drivers, very, very clearly, the real -- the growth in the number of airports, the growth in the airline passengers, the kind of mix, which is happening and the way we are charging our customers between meals as well as handling charges. So I think there are a number of factors once again.

And productivity, most importantly, productivity, places like Delhi, as an example, there have been significant productivity improvements which kind of ensure that they're able to be more meals given the same space actually. And TajSATS will continue to have that momentum completely actually.

As far as this year is concerned, I think Puneet has outlined in terms of the factors for this year. Very clearly, I think there will be some temporary impacts in terms of elections and all that. But otherwise, I think we do not see given the long-term fundamentals in terms of demand drivers, in terms of supply levels. I think we are clearly standing by the double-digit revenue growth.

And I certainly think that, see I think a lot of what has been happening is -- in the industry, is momentum with a strategy. I think from our perspective, I think we have a solid strategy, a solid execution. And we have a number of factors coming into play, the diversification in terms of top line, the 125-city presence, which gives us a lot of network effects, as an example, the productivity and cost. The -- all of these are going to come together in terms of driving up performance actually. And I forgot the first question.

Anuj Upadhyay: Sorry, it was on the Ahvaan target which we have already surpassed a year ahead. So going ahead in terms of our portfolio mix, because in the last call or we actually had targets to have 65-35 kind of a ratio between asset light and asset heavy, while you're at 60-40. So going ahead what would be our target in terms of this proportional mix? And also, any target on the -- or outlook on the margin pressure would be helpful?

Puneet Chhatwal: See, we -- as far as the growth is concerned, see, we will continue to grow. I know there's a chart where clearly, we are talking in terms of the capital light and capital heavy. I think including pipeline, if you see the capital heavy is 28% actually. And capital light continues to be 72%. So that is going to be the driving force, unless some new opportunities like inorganic and other things come into play, our new greenfield kind of opportunities actually, so that's the guidance.

And as far as margin is concerned, we have been very clear that the in -- margin for us is an outcome rather than a target actually. We had to give a target 5 years ago because we were at 17%. And therefore, it is important to give a target and deliver actually.

Having achieved the 33%, I think we should -- it is more an outcome. Keep as a result of the actions that we take with the leverage on the -- what do you say, operating leverage. If the margins go up, there will be an outcome actually rather than a target. So I think that's the way to kind of look at it.

Anuj Upadhyay: And just you Gateway product, again these are on the asset-light model?

Puneet Chhatwal: Yes. At the moment, the 15 that we have highlighted, they are all on asset light.

Moderator: The next question is from the line of Bharat Sheth from Quest Investment.

Bharat Sheth: Congratulations, Puneet and team. Sir my question is on -- first on this IT spend. So if they have to really look at ROI or so is it for creating more business or also including cost savings. So if you can give a little more color and how do we see its payback time?

Giridhar Sanjeevi: So IT spend, as you see, what we've outlined, there are 2, 3 big areas. Basically, the ERP software, which is really the heart of the financial software. We're upgrading it to a much -- the most modern software, which is for S/4HANA RISE, and we expect it to actually give us a lot of productivity gains, once it is fully rolled out across the portfolio.

And these could be things like implementing a shared service and getting cost savings as we scale up. Finally we're also doing a PMS upgrade, which is basically moving on a very modern -- upgrading from current PMS which we have on to a -- on cloud PMS. Again, this will go hand-in-hand with the ERP upgrade. And I think the benefit of this you will see over the next 2, 3, 4 years because this is not something which is -- you see the benefit immediately because it's a thing about productivity and savings, which will throw into the P&L over a period of time.

And I think as an organization, we've been leaders, and therefore, for us to maintain leadership is important that we are ahead of the curve and spend on IT and productivity investments. And that is why this has been called out this year, particularly.

Bharat Sheth: One question for Puneet. Puneet, primarily our Q2 is a very soft history. But since last year, we have seen that Q2 is a little better, I mean, over Y-o-Y or maybe a much better and decline is not to which was earlier. So how do we see the trend, I mean, a quarterly trend? And what is really playing out that all the quarter may come? I mean maybe not equal, but a decline over previous quarter is changing in the seasonality?

Puneet Chhatwal: See, there are 3, 4 things. Number one is India is now not anymore talking October to March destination. It's becoming a 12-month destination. Number 2 factor is that companies including us, we don't wait until October to start making money. We start thinking about profitability.

Historically, 20 years ago, 25, 30 years ago, it was like this that will wait till September, October, November. So that has changed completely. I think it's true for the entire sector.

Number 3 changes, new destinations are coming up. So there was not so much airports, roads, trains, infrastructure, all the spending that is making all these destinations in India accessible. So it's -- doesn't matter. There are -- if it is hot, you can go to the hills. If it is cold, you can go to the south, you can go to Goa. So India has 7,500 kilometer of coastline. It has 500-plus beaches. It has a mountain range, which is massive. It has a spiritual destinations with almost 3 million plus possibilities of people to go and visit on spirituality. So a lot of that is changing with the affluent India, which is getting the flavor of becoming the fifth largest economy.

And if it is going to become third, so all these factors are taking short breaks, spending discretionary spend on leisure will drive the change of hospitality from a discretionary sector to a consumer sector. That's what it is in very simple terms. And that is what is going to change your Q1, Q2. Q3 will remain strong with Diwali and all the wedding season and Q4 also will always be the first and second strongest quarters.

And events like IPL also help. I have to say that these events -- India becoming a sports destination, whether you have World Cup Hockey happening for women or you have Kabaddi the championship or an IPL or all these things are helping.

And at the same time, the supply is not coming at that speed at the way it came earlier. So of course, hotels will get built, but we have a few years definitely where the demand/supply imbalance is going to stay. So all in all, this is really what is helping us from an infrastructure point of view, but also our own growth, we are adding so many hotels per month.

Now going forward, we are saying we will do more than 2 hotels a month. And if those 2 hotels are coming, majorities coming in capital light, it just keeps adding -- the flow-through becomes higher. Something we have been saying for now 5, 6 years in a row.

Bharat Sheth: Effectively, does it mean that it will improve our RevPAR for annualized -- on annualized basis from whatever was the history?

Puneet Chhatwal: Normally, it should. But as I said, at the moment, there is nothing that suggests the contrary. And based on the Horwath HTL report, as I said in the opening remarks, the demand is supposed to grow at 10.6%, which historically grew at 6.4%. So I think that should help.

Moderator: The next question is from the line of Karan Khanna from Ambit Capital.

Karan Khanna: I've got 3 questions. Firstly, if I look at Slide 17 of your presentation, and Puneet if you could talk more about the supply narrative because I was going through an article and effectively, if you look at the top 5 international hotel sales and their growth aspirations for next 3 to 5 years, we're looking at close to 400, 450 hotels that are getting added, effectively 50,000 to 60,000 keys that are being added by these hotel chains. So in that context, how should we think of this narrative about supply remaining constrained, over 3 to 5?

Puneet Chhatwal: I would recommend very strongly to get some of these announcements made from the last 3, 4, 5 years and then compare it to reality. It's not -- it has not yet happened, right?

We have had this question since 2018 in different hospitality forums that I participate in. And in other calls, this is one of the ways of -- international way of marketing and getting the thing. Maybe it happens, but up till now, it has not. So it's very easy to go back and check.

And I think a few days ago, there was an article in, I think, Mint, which gave the number of hotels in operation of the top players and the number of hotels in pipeline. I think that's what one has to do. And in the pipeline also, you have to keep adding because 100% of the pipeline never gets built, no matter where in the world.

So you have to look at, depending on the quality of the pipeline, a 70% to 80% number is a very strong number because something happens. Somewhere, some protest come, somewhere some PIL comes, somewhere some developer/promoter runs out of money or ends up in some other issues. So things happen in the marketplace or a flooding happens or what, a cyclone comes, things just change.

And I would say this is what we have been reading is thanks to a recent investment conference that happened where a lot of people came and they made these statements because India is a happening place. Everybody wants to have a share of that growth and the possibility to participate in that growth so that nobody gets left behind, and it's good competition to get, but I think the number of hotels we have in pipeline, we are way ahead of anyone.

And these are signed legal binding contracts that we announced. This pipeline is not projects which are under negotiation. We have another 90 under negotiation. So that is not what we thought of the number of projects you have in negotiation at that time, then the ones you actually conclude, you are very lucky if you conclude 20% to 25%.

Giridhar Sanjeevi: And the other thing, Karan, is that you should also look at the micro market set. Ultimately, hotels are a micro-market business. And if you look at our hotels in our micro market, there's effectively no new supply coming. I think that's number 1. And number 2, in all the key markets, we dominate in terms of the number of hotels as well as the price points actually. And therefore, our ability to cater to different customer segment is also very hard. So looking at supply alone as a stand-alone way of looking at it is not right. We have to integrate it with all the other factors actually.

Karan Khanna: My second question, given the significant surge in airfares, especially post-COVID almost 40%, 50% versus pre-COVID. How should one think about the ability for hospitality change to continue driving ARR growth, given the ADR is also up 30%, 40% versus pre-COVID. And as a follow-up, at what point do you think international destination perhaps become more attractive or more lucrative in the context of rising airfares and hotel rates?

Puneet Chhatwal: I think if you look at our own portfolio, if you see the slide we put out by brand or ARR and occupancy. You will see that if you look at the Taj business hotel. That segment is a INR13,700

average ARR for Q4. And if you look at over the full year, similar numbers. So I think that we believe that there's still room to grow. And ARR is a function of demand/supply at the end of the day. And like Giri said, not only supply across the country, but what's the supply upcoming micro markets.

And if you look at the last 4 years or 5 years ARR increase, a lot of it is also because there have been high inflation in economy, which has also led to ARRs being -- that inflation being passed on to the customer. And that ability to pass on inflationary increase is there till the time we have a good balance of demand supply. And I think that's something which we see confident will remain in the foreseeable future.

So I think -- if you think about it more conceptually, I think there is ability to increase ARR is still there. And of course, it'll vary from hotel to hotel. It is not going to be uniform across the market. And it will vary from -- also from segment to segment and which whether it's leisure or which brand we are talking about. So I think that's point one.

Secondly, I think if you look at last year's data, there's been step outbound travel from India, which has actually exceeded the pre-COVID level. In spite of that, we've had -- we continue to sort of grow and see RevPAR go up over the last 12 months.

So I think this shows that while destinations outside India are attractive for some people. There is still enough demand in the country and whether that's business demand or leisure demand, which is kind of catering to our hotels.

And a couple of things which are hidden or which are some potential upside there, we still are not back to our foreign inbound tourists, right? We are still I mean, the statistics is about 85% of what was pre-COVID, but that also includes the push we got from G20. If you were to adjust it for down -- that you're probably down to 70%, 75% of the pre-COVID level. .

So there is -- and that should actually pick up. I think if you look at, again various forecasts of that, this year itself there should be pick up and then over the next few years, we expect that to actually get to almost 27 million, 28 million tourists coming to India. And that is a big push from a -- big factor, which has helped us in sort of fill in some of our leisure properties. It's always doing well, but can obviously do better.

So I think those are the other factors you should just think about and think about ARR growth because it's not about this one quarter or the full year, but I think it's a long-term trajectory.

Giridhar Sanjeevi: Just building on what Ankur said, see we have always said that from a business ARR perspective we have enough scope because really speaking, if you travel abroad, you see for the same kind of rooms and kind of quality, I think our pricing is much lower. So I think with the growth in business, I think the potential to increase business ARR is definitely there.

On the leisure side, it represents the long-term opportunity in terms of growth. See the domestic revenue that Ankur pointed out, is very real actually, which means that people are taking more

trips, they're taking shorter trips, and many times when people take these holidays, they're not thinking of a destination. They have teams in and they want to go to some place actually, whether driving to destinations or what.

And when you look at these 2, 3 day trips, especially what happens is that people have a wallet in mind saying that I will spend about a lakh for this trip as an example. Then it doesn't matter, Karan, in terms of whether the ARR is INR10,000 or INR12,000 actually, as long as the wallet is maintained actually.

Hence, I think -- and remember one thing, the ARR is really all about the part of the business, 47% of our business is room revenue. There's everything else in terms of F&B, in terms of the asset light businesses, the banqueting, the chambers and a whole bunch of other things actually.

And then I think don't look at it narrowly in terms of just ARRs and RevPARs. I think there are multiple factors. And this is where I think the diversified network, the size of the network, is going to matter. If you are a 2-hotel chain, then I think some of these factors, what you asked are very real actually.

But when you're 125 cities operating with 200 hotels, actually, I think there's a whole bunch of network effects actually. I think these are all -- one of those factors but eventually, there are a number of, what do you say, factors which complement and supplement actually. And then you need to look at it much more holistically.

Karan Khanna: And then Giri, lastly, if you think of your strategy to reintroduce the Gateway brand, do you recon given the sort of INR3,500 crores gross cash on the balance sheet and the kind of free cash flow that you projected to generate perhaps thinking about acquiring a hotel chain, operating in Tier 2 and Tier 3 cities would have a better strategy? Or you think that building a brand or reimagining Gateway is the right way to go forward?

Giridhar Sanjeevi: I think we have just begun with 15 hotels and Gateway as we have announced. In organic opportunities is something that we'll always be looking at for the right price and value.

Puneet Chhatwal: One thing does not exclude the other. So the evolution of our brand scape is ongoing. What was only known as Taj Group, see how it has evolved and we will continue to evaluate as and when opportunities arise.

Now we have launched Gateway, but I think you're saying it's acquiring Tier 2, Tier 3 cities brand, there are not many. And there are not many available for sale. So if there is one, then when it's on the market, then you can be sure that we will be a candidate, which will go for it.

Giridhar Sanjeevi: The other thing, Karan, that I think with our size now, I think to some extent, we can start talking ourselves as a consumer business actually, which means that -- and the reason I'm saying that, Karan, is that ultimately, India is a heterogeneous country with different requirements, the Tree of Life caters to a certain segment, Gateway caters to a certain segment, which we are hitherto not able to service.

And then I think what we are doing actually is expanding the pipe, and that's the only way to look at it. And when -- we have a slide also in the presentation about not just about the number of hotels, not just towards serving different customers but also different price points. That also matters because the beauty of the price point thing is that it is not margin dilutive. If you go to Ginger, the ARRs may be lower, but it is margin accretive actually. So I think you need to look at all of these factors. I think almost -- it's almost becoming like a consumer business at this point in time.

Moderator: The last question is from the line of Prashant Biyani from Elara Securities.

Prashant Biyani: Sir, between business and leisure, where do you see more scope of improvement in occupancy?

Ankur Dalwani: I mean if you see the structural trend and you pointed out the demand side that the long-term growth driver is there for both, but leisure should outstrip the business side, if you look at that slide, which basically kind of gives you a sort of a clue as to where the long-term demand is going to be from -- either from leisure or business segment. I think if you look at our own hotels, you can see that there is occupancy for various cuts. So there is room for improvement, I guess, in both, but leisure probably can do a little bit better in terms of occupancy in the long term.

Giridhar Sanjeevi: No, I agree. I think if you look at leisure, I think if you go in the month of June, as an example, or late -- earlier June month, we have no months actually that no domestic consumers are going. And many of these destinations are obviously all around year destinations actually.

So leisure does -- and also look at our mix of business. Today, 75% of business is still in the business segment and 25% in leisure. Therefore, I would imagine that with the long-term opportunity and our presence in different leisure destinations that we have the widest presence in the leisure destinations actually. I think therefore, the opportunity in leisure structurally is much better.

Prashant Biyani: Right. And sir, in the next 3 to 5 years, which of your hotels can become as big as the big 5 machines on Slide 32.

Puneet Chhatwal: Many. So I think we are opening many big machines. If you look at the development with Bangalore International Airport, which is not own, it's a management contract, but we have combo development of the Vivanta and Ginger totaling 750 rooms.

We are doing almost 300 rooms in Ekta Nagar, which is owned. We are doing a big one in Cochin Airport. We are doing just now signed and announced a Ginger Mopa Airport in Goa, 300 rooms. So we are doing big boxes. We are very much looking forward to as nobody asked this question today. So I will mention it as is the last one to the redevelopment of Sea Rock, which could be at least 2 of these big boxes on Slide 32, alone. So these kind of boxes, they take time. And that's why Sea Rock will take a bit of time, but it will happen.

Ankur Dalwani: And maybe some of our existing hotels, which are concurrently loss making, potentially have an opportunity to come into this big box. And basically, which is currently not on the slide but could come on the slide, yes, we are able to turn on some of those hotels.

Prashant Biyani: Right. I mean, sir, just extending this -- all of these are basically in large cities and owned buyers. So except for Sea Rock, are we looking at adding any new large hotel owned buyers at a city location in the Taj or -- yes, mainly the Taj brand?

Puneet Chhatwal: We are working on it. Maybe we have an answer in the next quarter or so. We are working on a very large opportunity in leisure segment and actually not one, we are working on 2. And let's see which one as a company owned. So where we have the land already for almost 30 years with us. There are some planning issues just like the Sea Rock, we have 2 such large projects. and we have to just do the building. So it's not acquisition of land and so it will be like a Ginger Mumbai Airport, where we had the land. So it's a part of our asset management initiatives. So let's see where it gets to. We are putting in a lot of effort there and hopefully, at least 1 of those 2, if not both, works out in the next quarter.

Moderator: Thank you.

Puneet Chhatwal: Thank you. I'd like to thank everyone who joined the call today. Should we have more questions or other people who didn't have a chance, please feel free to reach out to Giridhar Sanjeevi, Ankur Dalwani, or myself. In the next day, we'll be happy to take any questions that you might have. Thank you for joining in, and thank you for listening and for all your support, and have a wonderful evening.

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.