The Indian Hotels Company Limited

IHCL Earnings Call - FY 2018/2019 Results

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Management :

Mr. Puneet Chhatwal, Managing Director & CEO

Mr. Giridhar Sanjeevi, Executive Vice President & CFO

Operator: Good day and welcome to the Indian Hotels Company Limited FY2018/2019 results conference call being hosted by Mr Puneet Chhatwal, MD and CEO, IHCL and Mr Giridhar Sanjeevi, EVP and CFO, IHCL. As a reminder, all participant lines will be in 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 and then zero on your touch-tone phone. Please note that this conference is being recorded. At this time, I would like to turn the conference over to Mr Puneet Chhatwal, MD and CEO, IHCL. Please go ahead, sir.

Puneet Chhatwal: Good afternoon ladies and gentlemen and welcome to the announcement and the call on the full-year 2018/2019 results. Let me begin first with certain highs and lows for the year and the industry trend. For the Indian hospitality, the demand growth has been outpacing the supply. There has been a sustained REVPAR growth and an average rate growth of 2.9% and an occupancy growth of 80 basis points. However, on the low side, the year saw the outbreak of Nipah virus, Kerala and Karnataka floods, a depreciation in the rupee and a turmoil in the airline industry.

Most of the markets performed very well, with the exception of a couple of markets where I would say growth came from a very high average of the last ten years, so there was a marginal decline but the maximum decline was only in Kochi and all other markets really did quite well, especially for our portfolio also.

In terms of the key highlights for our performance for the fourth quarter, our revenue grew by 10%; our EBITDA grew by 21% to INR322 crores, our EBITDA margin went north of 25%, an increase of 230 basis points and an increase in profit after tax of 52%, or INR115 crores.

When we look at the full year, it's even a stronger performance, with a 10% growth in top line to almost INR4,600 crores and EBITDA of 25% increase to an absolute amount of INR913 crores, an EBITDA margin of almost 20%, an increase in 229 basis points and a profit after tax of INR287 crores. This is the highest profit after tax that we have posted in the last 11 years.

When it comes to our pipeline, we were able to manage our pipeline as we have given the guidance based on Aspiration 2022 by signing 22 new contracts amongst all our brands in the full financial year and added another four signings, which you must have read about, a few of them have been announced, in the month of April. Some of these signings are iconic assets, both within India as well as in international markets like Dubai or London Heathrow. More importantly, we have given the guidance of having a balanced portfolio in which we would have 50% fee-based business contracts and 50% leased or owned and today, as the portfolio stands, after this financial we have been able to increase our management contracts from 32% to 40% of the portfolio. So there is a clear shift in the business model as we go forward.

The year also saw five new openings and 500-plus keys and we have given the guidance already in different media forums that we will be opening a hotel per month in this financial year and we started the year with the opening of Cidade de Goa in Goa; we finished last year with the opening of Shimla and Rishikesh, which you see on this slide and the ones in May and June we're going to announce and for the remainder of the year also but we are very confident to open 12 hotels in this financial year.

In terms of some of our important assets, where we had been struggling and everyone was reading in the newspapers, we were able to secure a 33-year term for the Mansingh in Delhi. We were able to relaunch the Connemara in Chennai and we were able to also extend our contract with Lake Palace in Udaipur, the most-photographed hotel in the world.

With that, I hand over to my colleague, Giridhar Sanjeevi, to take you through some more details on the financials.

Giridhar Sanjeevi: Thank you Puneet. This is Giri here – I think what we have seen is that, as a result of focus on execution, on the Aspiration 2022, quarter on quarter we have seen revenues go up 10%, EBITDA go up by 25% on a quarter-on-quarter basis, PAT go up and EBITDA margins go up. So we are – so this is a consistent performance that we hope to sustain.

In terms of the network revenue performance, what we have seen is, on the domestic side, a room revenue growth of 6.9%, a REVPAR of 6% and an F&B revenue growth of 9.7%, which is essentially a strong performance and above what the overall industry has achieved. On the international side, we did room revenue of 9.4%, REVPAR grew by 9.3% and F&B grew by 9.8%, once again demonstrating a strong performance.

Turning to the consolidated Q4 indicators, our revenue grew by 10%, for INR1,282 crores and EBITDA grew by 21% to INR322 crores, with a margin expansion of 2.3%.

On the – continuing, our profit before exceptional items and taxes grew by 48% to INR189 crores and profit after tax by 52% to INR115 crores. For the full year ended March 2019, our total revenue grew to slightly under INR4,600 crores, with a 10% growth and EBITDA grew by 25%, with a margin expansion of 2.09%. Profit before exceptional items and taxes grew to INR395 crores, which represents 144% growth and profit after tax to INR287 crores, which represents 184% growth over last year's INR101 crores.

Just while – just on the details, I will just highlight the key items. Our expenditure controls remained consistent, where our expenditure growth was about 7%, as against a revenue growth of 10%, giving us a boost in terms of the leverage in terms of the EBITDA. Our finance cost, we had a substantial saving, with a total annual cost of INR190 crores, as against INR269 crores in the previous year. All this resulted in a profit after tax of INR287 crores.

Coming to standalone, the Q4 standalone was INR875 crores, with a 9% uplift and EBITDA uplift of 19% and a margin expansion of 3.3% and profit before exceptional items and taxes of INR243 crores, which is 27% growth and PAT of INR165 crores, which is 152% growth. For the full year ended, the standalone had a 9%, with a top line of INR2,871 crores, EBITDA of INR820 crores, up 20%, margin expansion of 2.6% and profit after tax of INR264 crores, which represents a growth of 78%. One point to note is that, after a long time, the consolidated PAT of INR287 crores is higher than the standalone PAT of INR264 crores, which is a good thing because it's showing that the rest of the network is beginning to contribute positively.

The same – similar patterns on the standalone as well, where the expenditure control was even better, at 3% growth to 5% growth for the full year, while the revenue grew by 9%, which gave us the EBITDA uplift and the EBITDA margin for the full year was 28.56% for the standalone, which represents a strong number. Interest costs went down, profit after taxes were INR264 crores, as just explained.

In terms of debt, we did not do any incremental borrowing on standalone. It's remained constant at INR1,784 crores. We continued to have liquidity – a good liquidity position of INR282 crores and net debt to equity was 0.33 in the standalone and weighted average cost of debt at 8.2% and net debt to EBITDA of 1.83.

Similarly, in consolidated, our net debt to equity was 0.44; weighted average cost of debt was 7.2 and net debt to EBITDA was 2.11%, which represents a 0.47% reduction from the opening debt – net debt to EBITDA of 2.58. This is an area that we continue to focus on.

These are the key highlights in brief on the financials and we will be happy to take questions.

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

Once again, dear participants, if you'd like to ask a question through audio I would request that you please press star one on your telephone keypads.

Alright, we will take the first question.

Satyam Thakur: Hi, can you hear me?

Puneet Chhatwal: Yes.

Satyam Thakur: Good evening everyone, this is Satyam from Morgan Stanley. I had a couple of questions, one on the cost control targets that you had outlined at the CIO event last year, where you had mentioned around 400 bps of margin improvement is what you expect by fiscal 2023. And we know that in fiscal 2019 you have had good cost control, that you already kind of began with. So you know, if you can share any sense of how much of that 400 bps cost control target is already done in fiscal 2019 itself and how much more is there to go on that?

And the second question I had was on the management contract side. We have had good, healthy, run rate of new signings that you have done in fiscal 2019 and further in April as well on the new management contract side but we have – based on announcement that we hear from global peers as well, it – clearly it seems that there is a lot of aggression on getting management contracts from other players as well. So have you see any increased aggression in bidding for management contracts from your peers as well and as a result are you seeing lower fees become the norm or something like that? Any outcome of that that you are seeing in your new contracts that you have signed last year.

That's all, thank you.

Puneet Chhatwal: Okay, Satyam, the first one – I would go the reverse order on the management contracts. I think, obviously, when the competition increases there would be certain pressure but last year we did not witness much. However, going forward I think there could be some pressure coming on the fees by 5–10%. But you know the fees is, what, 6–10% of the top line. So that is not a big number. Important is to get those plain vanilla management contracts so we can have a change in our business model. And it is also very difficult to benchmark in a heterogeneous country like India, as certain mega-markets you could do with a lesser percentage of fees, as the average rate in markets like Mumbai and Delhi and Bangalore is far higher than the secondary, tertiary markets. So I think going forward what we will do is, in the next quarter, when we announce the results, or the following quarters, we might start doing some of the analysis by brand and by geography. So I think it's very important: it's which brand and what geography because a smaller fee on Ginger is very small versus a smaller fee on a Taj brand in Mumbai or in Delhi. So I think that factor we will put in, going forward.

The second one is on the cost side. We did say that our 800-basis-point margin expansion will come, 300–400 basis points, from the cost. I think we have a long way to go on the cost side, we have just started, because the cost – we are not into a cost-cutting game. It's more like driving efficiencies and finding new ways of conducting business, so that itself would drive the efficiency. So I think we would have kind of started maturing on the cost side of the business in another 14–16 months, as some of that requires remodelling of the spaces; it requires remodelling of the kitchens, the whole journey from receiving to storage to a production to a service supply thing. So I think all that is a very significant part of that cost journey.

Giridhar Sanjeevi: I think if I may just add to what Puneet has said, I think if I sort of look at the numbers, our raw material cost in standalone actually did grow by 1% and the payroll cost remains flat and fuel, power and light also remained flat. So I think on all these three elements we were able to maintain the cost. Our [inaudible] were broadly at a flat level, in fact we were able to save some, even to a top-line [inaudible]. So we continue to keep a tight focus in terms of cost action.

Satyam Thakur: Thanks for that and then just like one follow-up on that. Essentially the reason for the question being sparked is that this year we have already had almost like 150 bps of consolidated EBITDA margin expansion on a YOY basis and so then to go to your target of 25% margin by fiscal 2023, the incremental run rate required is low. So that's why I'm just trying to understand whether a lot of cost control has already happened this year and going ahead, are we going to see lesser benefit from cost control or would you not agree with that?

Puneet Chhatwal: I think, Satyam, if you are wanting to ask us if we want to give a higher guidance on margin expansion then we need to wait, as we have said last year the same. Q1 and Q2 in any fiscal year is not the time to give the guidance because the majority of our business is in the Indian subcontinent and what determines the performance here on absolute terms and margin terms is mainly Q3 and Q4. We remain confident that we'll be in line with whatever we have communicated and if there was an improvement possible, we'll give that guidance as we come towards September, October.

Satyam Thakur: Okay, thanks a lot Puneet. Thanks Giri.

Operator: We'll take the next audio question.

Vikas Ahuja: Yeah, hi, this is Vikas from HSBC. Can you hear me?

Puneet Chhatwal: Yes. We can hear you, Vikas.

Vikas Ahuja: So – sure – so, thanks for the opportunity and congratulations on closing FY 2019 at a double-digit growth rate. My first question is we have been able to achieve this kind of growth after seven years. So how confident we are that we can maintain this kind of growth going forward? And also, on this 10% growth, how much of this was contributed by the new rooms additions? So I'm looking for like-to-like growth, how much – what that number was. That's my first question.

Puneet Chhatwal: Yeah. I don't think there was a big impact because of the new additions. As I mentioned, two of the five hotels – or three of the five hotels opened in Q4. All three are on management contracts, so we are not even six months in operation. There is a kind of a soft-opening phase. That's the Vivanta in Kathmandu, the Taj in Theog in Shimla, which is not in a seasonal period and the Taj in Rishikesh which has been in operation for less than six weeks, so I think that's three of the five. And then there was one in Katra which is undergoing serious renovations. So mainly you can think that the 10% for the growth for the year is more or less like for like. I think the growth story becomes interesting as of this year, where I said we will be opening a hotel every month. And as we go forward, as I said, we will do by brand and by geography. We will also start giving a kind of comparison on like-for-like and total. Because it will have some impact on our occupancies and rates: the more hotels we open, new, the more there is a stabilising phase. They might dilute our REVPAR or occupancy, which is very normal for a growth company. And so that would be very important; we will start giving you guidance as of next quarter on that.

Vikas Ahuja: Sure, sure. And secondly, sir, how is your direct booking shaping up? Just if you can give us a trend in the past few quarters? I mean, are we being able to build on direct bookings because we have talked about the digital channel in the past? So, yeah.

Puneet Chhatwal: We saw a lot of traction and improvement in our direct booking, especially during our winter campaign through our advertising and the total almost reached through our reservation centre worldwide and our own rep side to almost 22% and that's quite a healthy number, I mean there is a good growth on that number and maybe, Giri, you wanted to add something.

Giridhar Sanjeevi: No, I think 22% on the reservation network and reps side, it is a good number and the HRO, which is the hotel reservation office, is 48% of the business in any case. So therefore we continue to make progress on our web strategy there and also through our loyalty programmes.

Vikas Ahuja: Okay.

Puneet Chhatwal: But that number, in corresponding to the growth in the portfolio, will not show much change. I think for us it is important to keep promoting our own website, to keep promoting a direct relationship with our customers. However, that's the state of the industry. I mean it's not that – it's that others have their share too and I – certainly for us, I would say it is a big help outside of our domestic markets, so that our reach in places like New York, London, Cape Town, Dubai, many other places, is much higher when we have third-party business channel possibilities to add to the revenue or to sell more room nights.

Vikas Ahuja: Sure, sure. Thank you. I just have one last question.

Puneet Chhatwal: Sorry, I just got an advice from a colleague. There is one number – if you want to know, overall website revenue has increased by approximately 11% for us in 2018/2019 compared to 2017/2018.

Vikas Ahuja: 11%. Sure, thank you. And sir, one last question, I mean this quarter the employee cost increased by 13% and going forward I mean what are the margin levers left for the – for achieving our aspirational target? I mean that's my final question, thanks a lot and best of luck.

Puneet Chhatwal: The payroll cost sometimes increases in a certain quarter because certain of our properties have a wage settlement. It does not happen – like on – we don't average it out for the year so I would not like to look at it on a quarter-by-quarter basis. I think it's good to look at it as a percentage of revenue for the year and certain rate settlements cost more, certain cost less. On our standalone there is – it's just flat, there is a 0% increase in the labour cost and we don't see that trend changing going forward, despite increase in wages. Just – as we said before, we'll keep looking for new ways of business models, leveraging technology, etc., to remain efficient and relevant.

Vikas Ahuja: Sure, thank you.

Operator: We will take the next audio question.

Sriram Rajaram: Yeah, Sriram from Sundaram Mutual. So, what was the ARR for the standalone entity and the room revenue for the year for the standalone piece, if you can give the number?

Giridhar Sanjeevi: Yeah, for the standalone full year is what you're asking, Sriram?

Sriram Rajaram: Yes, sir.

Giridhar Sanjeevi: Yeah, the ARR for the full year was about INR11,000.

Sriram Rajaram: And the room revenue, absolute number, full year, for the standalone entity?

Giridhar Sanjeevi: The room revenue full-year number is about INR1,165, approximately.

Sriram Rajaram: Okay. And sir, the corporate negotiations, how did it go? If you could elaborate on what was the ADR increase that you had – were able to take on those fronts and how do we see the ADR shaping up, forward and the coming quarter? Do we see some kind of disruption on account of the slow down on aviation traffic, or something?

Giridhar Sanjeevi: Yeah, just – I'll take – so the corporate business for us is only about 14% or so and in terms of negotiations, we have about 4–5% increase in rates, so I think – which is consistent with our expectation in terms of – what do you say – rate cycles. And in terms of aviation disruption, I think we do believe that capacities have been built up. Of course costs have gone up but the first quarter is a little difficult to predict because of elections and all that. But nevertheless, let us see. I think it should settle down as well.

Sriram Rajaram: Okay, thanks sir. I will join the queue. Thank you.

Operator: We will take the next audio question.

Speaker: Yeah, congrats on a good set of numbers, this is [Inaudible] BNP Paribas. What was the increase in the occupancy rate for FY 2019 and quarter four?

Giridhar Sanjeevi: Yes, the occupancy overall was about 68% or so, which grew by a little under 1% for the full year.

Speaker: For the full year and what for the quarter?

Giridhar Sanjeevi: For the quarter I think we saw a very good rate increase of nearly 7% or so. The occupancy took a little bit of a dip in Q4, about 2%.

Speaker: Okay and what could be the reason for this, then, for quarter four?

Giridhar Sanjeevi: What could be the reason for the same? I think – I mean I can't pin it down to specific factors but definitely I think there is –

Puneet Chhatwal: There was – one thing is – for what we experienced was in the month of March, after 15th or 16th March until the end of March there was a significant slow down in pre and post-Holi. That's the only thing we have seen, where there was a slow-down. There was a similar slow-down in October because Diwali was this year a bit later and so was that with Holi being a bit later. But then December came out very strong and so did January come out very strong, so March did see a dip on that. And because March has 31 days, it becomes even more relevant because February has only 28. It does have an impact if you lose 15–16 days in March.

Speaker: Alright.

Puneet Chhatwal: And I think also in the month of March, if I'm not wrong, there were four or five weekends. I mean not four. I think there were five weekends. It started – let me just confirm that to you in a second. Yeah, the month of March started on a Friday and it ended on a Sunday, so there were five weekends in that month.

Speaker: In your presentation you mentioned that there is still a gap between the demand and the supply and for 2020 do you expect that gap to sustain, which will help you to see another good year in terms of better REVPAR?

Giridhar Sanjeevi: I think so. I think the supply/demand gap is more structural, actually, because you do see the new demand, new supply, especially on the luxury side, taking much longer to come. As far as demand is concerned, we are actually very positive on demand because of all the international passengers coming in, as well as the domestic passenger traffic. We see that demand is likely to kind of surprise and supply constraints are going to still remain. So I don't think it is a one-year event. It is – the supply/demand gap is likely to be over the next medium-term at least, 4–5 years.

Speaker: Alright, sir. So just to ask a second question on the same terms, then the ARR growth for this year, it was 2.9% as per the presentation what sir gave, so should we expect that ARR growth improved for the second half, considering the second half was the key period for the hotel industry in India? So should we expect next season to be good in terms of ARR?

Giridhar Sanjeevi: I think what we have said is the 2.9% in the presentation is mostly overall industry. I think we have always guided to a REVPAR of about 6% plus, so therefore I think we should continue to maintain that 6% kind of REVPAR, though there may be variations. For example, Q1 may be a little different but now there is – I think 6% is a fair REVPAR to go after.

Speaker: Okay and one last, if I can ask, sir: international profit has built well for you this year, we have seen 10% growth in the revenues, so can you throw some light how the performance would be in FY 2020 and what was the key highlight for FY 2019 in terms of performance?

Giridhar Sanjeevi: I think, on the international properties, all the properties did very well. In fact, I think we continue to focus on US, The Pierre and the Campton, as well as St James' Court. I think all of them have done very well in terms of business performance.

Puneet Chhatwal: Yeah, I think despite all the news on Brexit, we are very well-positioned in London to take benefit. San Francisco is doing very well for us. We have been able to improve significantly the performance in The Pierre. Dubai has stabilised at a low level; you know it's been under distress. So, generally speaking, we think the international – and it started also very well, the international properties in the month of April have, till date, done quite good numbers on the top line. For us, we would be happy if this trend continues but I don't think anybody today can judge with a certain amount of confidence what is going to happen in London, what is going to happen with Brexit, what else will happen. So I think I can only say what – as figures stand today, everything is looking good and we feel we are very blessed to be present in the two largest lodging markets of the world, namely both London and New York.

Sriram Rajaram: Right, sir. Okay, thank you sir, I will get back in the queue. Thank you.

Operator: We will take the next audio question.

Giridhar Sanjeevi: I think while we wait for the next audio question, there are a couple of questions which have come on Slide Assist. Let me take them up one by one. I think question number one comes from Salil Garga. He says, 'What are the plans for capacity addition in FY 2020?'

As we have clarified, we will – we have signed a number of management contracts and we expect to kind of – what do you say – open a hotel every month. So if – based on that plan, I think in 2019/2020 we should open approximately, about, 1,800 rooms in the current year, actually.

Puneet Chhatwal: I think assuming 1,800–2,000 rooms in operation this year would be what we can provide guidance for.

Giridhar Sanjeevi: Correct. The second question, which is then on Slide Assist: 'How do you classify the rooms between owned and under contract? And what is the number historically and what has been the trend?"

I think the management rooms are around 4,900 out of the 17,823 rooms and owned in IHCL is about 4,350 rooms and in the group we own about 8,500 rooms.

I think these are the two questions that I have on Slide Assist. I don't have any other questions on Slide Assist.

Shaleen: Yeah, hi, this is Shaleen from UBS.

Giridhar Sanjeevi: Yes, Shaleen.

Shaleen: I hope I'm – yeah. So, again, if I heard it right, you said 7% ARR increase for this quarter?

Giridhar Sanjeevi: Yeah, we had a 7% ARR increase for this quarter, a fourth quarter, standalone.

Shaleen: Standalone. Standalone. Any sense on consol?

Giridhar Sanjeevi: Any sense on consol is a little hard. I think you would rather look at it in terms of the network actually, where I think it is – because consol – what happens, Shaleen, is that it gets consolidated differently, like [inaudible] hotels would come under one line as – I think I would sort of look at it from a domestic perspective. The room revenue did grow by around 8% on a network basis and ARR did grow by more than 6%, actually.

Shaleen: Got you. That's very impressive, actually. So the corresponding number, if I go back in my notes for last quarter, was 4.6% and this year we're talking about – this quarter we're talking about 7% and that's the reason we've seen a significant jump in your EBITDA margin for this quarter in the standalone.

Giridhar Sanjeevi: Yeah.

Shaleen: So, a bit of a deflection, your EBITDA margin has improved significantly from last quarter in the standalone but not so significantly in the consolidated and that's the reason for this. Great, so that's – I want to understand, so pretty much in the right direction. Most of my questions have been answered. One question: I want to understand, if I look at your PAT, you're doing a consol level around INR280 crores, a depreciation, we are doing roughly INR330 crores – so INR600 crores of cash flow without considering the working capital [inaudible] run rate and our debt has also increased marginally. I mean, when do you think that you will start reducing the debt because I don't see much of the CAPEX also happening over here.

Giridhar Sanjeevi: Yeah, I mean I think we continue to be very strongly focused on debt, Shaleen. I think, as we saw, the consolidated debt EBITDA was about 2.11 and the debt to equity was about 0.44. I think what we are now seeing is that the cash from operations will be good in terms of meeting all our requirements, actually and that's because we continue to focus on whatever we can do on asset monetisations as well.

Shaleen: Sure.

Giridhar Sanjeevi: So while we are getting some repayments of debt [inaudible] coming up in the current year, while we are planning to refinance, I think you will probably see us go forward with some monetisations also. We could bring it down. Our target is to bring down the debt-to-EBITDA and debt-to-equity further in the current year.

Shaleen: Sure. So what's the CAPEX plan for this year and the coming year, FY 2020?

Puneet Chhatwal: The CAPEX plan always stays the same, for which we've given the guidance, one is system-wide and one is the revenue that is reported. So, basically, anything which is 4–5% of system-wide revenue, or revenue system-wide would be about

INR8,000 crores. Then you can assume INR350–400 crores as the total CAPEX expenditure. If you want to take only of the reported revenue, which is, this year, INR4,600 crores, then it will be around INR250 crores. So that's a very standard amount that we have. I think we would be operating within that level. That's a standard, accepted guidance globally for the hospitality industry.

Shaleen: Sure. Sure, Puneet. Just – and the last bit, of the 12 hotels which you are talking about, all will be management contracts or is there any of that is a part of the group, or IHCL?

Puneet Chhatwal: There is one which, if all goes well and opens in time, is The Connaught, in Connaught Place in Delhi. We are hoping to open it by end of January or early February, so it would have been open for 6–7 weeks for this financial year.

Shaleen: Sure. Sure. That's it from my side, thank you so much and best of luck.

Puneet Chhatwal: Thank you sir.

Operator: We will take the next audio question.

Speaker: Yeah, hi, [Inaudible], as well. So for FY 2019 –

Giridhar Sanjeevi: Hi.

Speaker: Yeah, hi. So for FY 2019, subsidiary, with the consol minus the standalone, was around INR100 crores versus around INR42 crores previous year. So could you please discuss the key subsidiary performance, how the key subsidiaries, like US, UK and other domestic subsidiary, like PIEM for the year and for FY 2019?

Giridhar Sanjeevi: Sure. I think – fundamentally, I think one of the things we are focused on is to make sure that not just in the hotels but also all the other companies do well. So if I look around the patch, I mean I think PIEM Hotels has definitely done better. I mean in fact their performance top-line went up by around 16%. I think those you will see in the subsidiary balance sheets coming through. Roots Corporation also improved in terms of top-line and as a business, a small company [inaudible] company, that also went up significantly. The US top line went up by, actually, 17%. St James Court Hotel also went up by nearly 19% or so. Taj SATS went up by around 8%, so I think across the patch you will see that all the hotels have kind of – all the entities have performed positively, so that's what we will see: overall improvement through the line.

Speaker: So when you talk about the 17% growth in US business, so is there any improvement in operating performance?

Giridhar Sanjeevi: Yes, there is – there is actually, there is clearly a significant –

Speaker: Could you please quantify the EBITDA for the respective subsidiaries, like the US, UK and PIEM?

Giridhar Sanjeevi: Yes, of course, yeah. In fact, if I just look at The Pierre, Campton and St James Court, I think the swing in performance is nearly about – what do you say – $6 million or so, in terms of the swing, so that's what – there was a very, very strong swing in operating performance.

Speaker: So $6 million you are saying, the swing in the EBITDA?

Giridhar Sanjeevi: The swing in the EBITDA, yes, it is more than $6 million. In fact, it's about nearly $7 million, actually.

Puneet Chhatwal: These are the three hotels that are driving the international performance and are very relevant in our margin expansion story, as well as our absolute improvement in EBITDA.

Speaker: So what is the EBITDA loss for the US business in FY 2019?

Giridhar Sanjeevi: Yeah, the EBITDA loss is just under $9 million.

Giridhar Sanjeevi: Plus – it's only The Pierre and Campton

Puneet Chhatwal: I think, if you add the profit in one and offset it against the loss of the other, we are talking about a positive of $4.5 million for these three hotels together, The Pierre, Campton Place and St James Court. It's around $4.5 million positive.

Speaker: Okay. And what was the PIEM EBITDA?

Giridhar Sanjeevi: I think we can take that offline. I'm not sure if we can give individual EBITDA for every property. We have confidentiality clauses with certain owners and corp and we don't want to be in that breach.

Speaker: Okay.

Giridhar Sanjeevi: This hotel is owned by a corp and we are a tenant.

Speaker: Okay. So, talking about the Q4 performance of subsidiaries, I think it is flat: the EBITDA was INR10 crores and at the same level as the previous year. So what was the key reason why we have not seen an improvement in the case of subsidiaries like PIEM and US and UK, or the losses in the US have increased in Q4?

Giridhar Sanjeevi: I think maybe it's got something to do with the change in currency.

Speaker: Okay.

Giridhar Sanjeevi: Otherwise, if you actually look at the amount and put that 10% depreciation in the currency, it would be the same.

Speaker: Okay.

Giridhar Sanjeevi: But also this we can get back to you by tomorrow.

Speaker: Okay and talking about the four Indian hotels, we'll have – what will be the impact on the Ind AS 116 on our return to Equity on the new accounting policy?

Giridhar Sanjeevi: So on Ind AS we are kind of evaluating if we would have a separate conversation around the impact of Ind AS. Clearly speaking, under the standard, all the leases are now being classified as financial leases and therefore, directionally, what will happen is that the lease rentals will go between the EBITDA line and therefore the EBITDA percentages will improve. Having said that, the depreciation and interest would come through and therefore this will have an impact on the PBT. On the balance sheet side, there will be a capitalisation of those leases, especially where there are fixed leases, actually. So this is something that we are still in the process of evaluating and we will kind of talk separately on that.

Speaker: Okay. And sir, in the Q4/FY 2019 you talked about the dip in occupancy by 2%. So what was the occupancy in Q4/FY 2019 for a standalone business?

Giridhar Sanjeevi: The occupancy was about – last year was about 75.8% or something like that –

Puneet Chhatwal: 76% and 74%.

Giridhar Sanjeevi: 76% and 74%, yeah, that's correct.

Speaker: 76%, so this quarter will be 74%?

Giridhar Sanjeevi: Correct.

Speaker: Okay. And you said that the 2% decline in occupancy and that the standalone business has a growth of, say – an ARR growth of 9% in this quarter.

Giridhar Sanjeevi: No, no, no, I said about 7% or so in this quarter.

Speaker: 7% growth in ARR?

Giridhar Sanjeevi: Yes.

Speaker: For the standalone?

Giridhar Sanjeevi: Yes.

Speaker: Okay, okay, thank you so much.

Operator: We'll take the next audio question.

Bharat Sheth: Hi, this is Bharat Sheth from Quest. Congratulations on a good set of numbers. Puneet, at this we are talking of adding around 1,800–2,000 rooms in FY 2020 so can you give some colour, which brand will be more, I mean and how the portfolio mix will change and which geography? If you can throw better colour?

Puneet Chhatwal: Yeah, more – almost all the hotels will be domestic and almost you can say 900 rooms will be added under the Taj brand and another 500 under SeleQtions.

Bharat Sheth: Okay, great.

Puneet Chhatwal: And we are hoping a minimum of 500 rooms also with Ginger.

Bharat Sheth: Okay and what – when do we expect – I mean [inaudible] to come up, I mean what is the status at this level?

Puneet Chhatwal: Sorry, I couldn't understand the question.

Bharat Sheth: I mean we're working on opening a new – I mean the – in Santa Cruz airport –

Puneet Chhatwal: Yes, yes.

Bharat Sheth: So what is the status of that?

Puneet Chhatwal: So we are progressing and we are in the final negotiation with the general contractor for the terms of the construction of the property and we are awaiting the final planning. The preliminary planning approval has been granted and then now we're going for the final planning. It will take at least 2.5 years to open but it will be a real flagship property, with 375-plus rooms.

Bharat Sheth: Okay and any colour, I mean how do we look at, I mean, ARR for FY 2020, I mean overall for domestic and international business? What –

Giridhar Sanjeevi: I think you should look at the guidance. What we are talking about is that 6% REVPAR is probably a fair guidance assumption.

Bharat Sheth: Okay. And you said that pre-Holi and post-Holi, I mean, we see some dip in occupancy in the Indian market, domestic, so how was the April, I mean?

Giridhar Sanjeevi: How was April?

Puneet Chhatwal: I think April and May, both months are significantly impacted by the elections. So, for example, we do not get government delegations visiting heads of state. I think all that will start coming as of June. So there is – also last time – I'm told by my colleagues when there were elections last time we saw similar trends. In April we have not seen a dip versus last year. We are more or less flat in terms of revenue. May and June we will see what happens. June outlook looks very good. So it's only we have to see – and April was okay; we have to see how May will perform.

Bharat Sheth: Okay, thanks and wish you all the success.

Puneet Chhatwal: Thank you.

Bharat Sheth: That's all.

Giridhar Sanjeevi: What I will do is that – there are a couple of questions which have come on the Slide Assist. So let me take one. It's that – 'What is the reason for the increase in other income?' I think other income includes the sale of apartments, about INR14 crores or so, so that is kind of included in other income. Then the other thing is – second question is: 'Throw some light on domestic subsidiaries.' That is something that we have answered in some of the earlier questions.

'What is the growth in foreign guests in India, with respect to foreign tourist growth in India?' I think –

Puneet Chhatwal: It's hard to answer that without consulting our SGR –

Giridhar Sanjeevi: Correct.

Puneet Chhatwal: – because we don't keep – we get that data historically; I don't think they've come out with that data for the last financial year.

Giridhar Sanjeevi: Yeah. There is a question on what is the management contract revenue for FY 2019 and what is the total pipeline of management contracts from Vivanta. I think the management contract revenue was about INR157 crores or so, which is the base and reimbursements are about INR66 crores, in all beyond about INR222 crores on management contracts, including fees, actually. And that pipeline of management contracts, as we mentioned, we have – we expect to open one hotel a month and most of these are management contracts.

And the other question which has come is, 'What are the initiatives taken to increase food and beverage revenue across properties and what are the expectations for FY 2020?' I think our F&B growth continues to be strong double-digit growth. This is driven by both restaurant income, as well as the banquet income. They continue to be very strong, so we will continue our efforts in terms of driving growth.

I have one more question. JV and associate performance we spoke about. Guidance on 2020 EBITDA margin expansion; I think it's in line with the aspiration. Sale and leaseback on Ginger properties: not as yet and that is something that is a work in progress.

I think we have another five minutes or so for a last couple of questions, perhaps.

Operator: Alright. Audio participants, if you find that your question has been answered, you may remove yourself from the queue by pressing star two. Okay, we'll take the next question, please go ahead.

Speaker: Hello. Hello.

Puneet Chhatwal: Yes, we can hear you.

Speaker: Yeah, thanks for the opportunity. So can you just outline – there is an item, as such, 'held for sale' in the balance sheet, so what is INR84 crores?

Giridhar Sanjeevi: This is basically residential apartments and these are being held for sale, nothing else, actually.

Puneet Chhatwal: Which is [inaudible].

Speaker: Okay and this is – sorry, INR8 crores and okay, this will be more – and these are residential apartments?

Giridhar Sanjeevi: This is where employees stay. We have always said that we are selling our residential apartments where the employees are staying. We have sold about two in the last quarter and we have sold one in the current quarter and this is something that we will kind of monetise as we go forward.

Speaker: Okay and secondly, sir, if you can just provide some guidance on tax rate? Well, it has been trending downwards but if you could just provide some colour on tax rate, either at a consol level or at a standalone box level?

Giridhar Sanjeevi: I think standalone has more relevance to look at it because I think 39% is the standalone tax rate. I think standalone will probably head up a little bit next year because what happens in standalone is that because we take the – we take an impairment of US losses in standalone and this year the losses provided were lower and those losses do not get a tax reduction. We got a benefit where the tax rate went down from actually 48% to 37%. We expect the standalone tax rate to probably head up to 40% or so. I think that's probably a number that you should assume. I don't – I mean that is – we don't get a tax break on that. We have been working on that.

Speaker: Okay. And so I'm just trying to understand why is it higher than the – in the corporate tax rate. Is it – especially in the standalone.

Speaker: Because that percentage is the normal tax rate and [inaudible] losses give [inaudible].

Giridhar Sanjeevi: Yeah, basically – I think basically that's what happens. I think the 35% is the basic tax rate. Because we don't get a tax break for US losses, so that takes it up, actually.

Speaker: I am talking about that standalone level, only on the standalone books level. 47% is the guidance for standalone, right?

Giridhar Sanjeevi: Yeah, yeah, because you know standalone – what happens is that to the extent that the cash losses in the US we fund from here, earlier when cash losses were funded from India, we used to add it to the investment account. We've stopped that practice about four or three years ago. And therefore what we do is that, to the extent there are cash losses, we – in fact we charge it off as a standalone payment. Because it's a US loss which is charged in a standalone payment, we don't get a tax break for that. That is the reason why.

Speaker: Okay, so no issues.

Puneet Chhatwal: Yeah, a clear investment through the – our international subsidiaries.

Speaker: Sure. And just last question, basically, this quarter's subsidiaries, this performance has been slightly weaker because there has been losses in the subsidiaries versus the first three quarters where we saw a healthy performance. Anything specific over there?

Giridhar Sanjeevi: No, nothing very specific to be honest, actually. I think no, we didn't see anything specific in terms of budgetary performance.

Speaker: Okay, fine, so there's no issues and that's it from our side, thank you.

Giridhar Sanjeevi: [Inaudible] the losses but we don't see the losses anyway, so...

Puneet Chhatwal: Very good, thank you.

Giridhar Sanjeevi: I think if there are no other questions, I think I would like to close the call and if there are any follow-up questions, don't hesitate to reach out to us and we'll be more than happy to sort of clarify that top line. Thank you very much for your participation.

Puneet Chhatwal: Thank you everyone. Thank you for joining the call and we look forward to speaking to you in the next quarter.

Speaker: Thank you.

Giridhar Sanjeevi: Thank you.

Operator: This concludes today's conference call. Thanks for your participation ladies and gentlemen, you may now disconnect your lines. Thank you.