The Indian Hotels Company Limited

IHCL Earnings Call - FY 2019/2020 - Q1 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 Q1 FY'20 earnings 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. Please go ahead, sir.

Puneet Chhatwal: A very good afternoon to everyone. Many thanks for joining this call. I'm here with Giridhar Sanjeevi, my colleague and the CFO of IHCL. We'll walk you through some macroeconomic factors where we stand in our aspirations to the execution of our strategy, the Aspirations 2022 and followed by our financial results for the Q1 of 2019.

When we really look at the industry trends, we cannot ignore the macroeconomic trends. I think it would be fair to say that there has been a continuous slowdown in the GDP growth especially in the last few quarters. And as we said on the last call since 15th March till end of May, we did witness a kind of stagnation or absolute flat levels in revenue.

However, June and July witnessed a very good pickup for us and that a good June helped to mitigate a weak April. And the month of May came at an average. So, all in all, it's not a very high growth environment that we witnessed in the last quarter. And as things stand today as we speak with you, we are not seeing a very high growth environment or a very positive environment I would say from a macroeconomic perspective, both at a global level as well as at the domestic level.

However, having said that, we still believe in the projection of India becoming a 5 plus trillion economy by 2023 which is enabled through a lot of factors which speak especially for India where a majority of our portfolio is, more than 85% of our portfolio is in India that we will continue to see a positive long-term outlook which is based on the development of infrastructure, development of tourism destinations, ease of doing business, improvement in employment and employment generation as well as we come out of the financial crisis of some of the finance sector, I think we are going to witness positive growth.

The headwinds have included some impact of elections on the occupancies. There has been a holdback in discretionary spend as I already mentioned especially in the month of April and May. The air fares had skyrocketed for some time, but they have now come down to a more stabilized level.

We were all a bit more optimistic on getting some relief from the budget on the GST level, which currently anything above EUR 100 subjects us to 28% GST. And unfortunately, there was no relief on that front. And also, we were expecting a higher demand than supply in the first quarter.

The headwinds is one story, but we also witnessed some tailwinds. And there are an increasing number of foreign tourists coming in to India despite the warning which has been issued recently by UK and Germany. There is an improvement in domestic demand especially in the leisure sector.

The middle class continues to rise. And there is a continuity in the policy. I mean if there has not been a positive change, there has also not been some kind of a negative surprise that we have got some addition of some new taxes related to tourism, related to overnights in the hotel business. And there is tremendous opportunities still for conversions which means existing assets which might want to convert to one of our brands on our brandscape.

On the aspiration to execution, we have always shared this pyramid since we launched our Aspiration 2022 strategy, that is our growth of EBITDA margin of 8% over the business cycle, that we will add 15 new projects to our pipeline every year, and we will have a balanced portfolio for that 50% portfolio based on management contracts, and 50% which would be owned or leased.

And I think in the very first year, we were able to meet or exceed even on all the parameters. And as far as Q1 is concerned, we have been able to continue on that journey. So, I would say, we have had five quarters of growth into our Aspiration 2022 journey, the way we have communicated following our Capital Market Day in February of 2018.

When it comes to our branding strategy, one of the key deviations, as you keep hearing, is we've moved from a branded house where everything was branded one or the other way around Taj brand to a house of brands. And one of the strategies of managements is to focus on each of these businesses, treat them as businesses, and have them work on their own profitability and cut the name Taj where it could destroy the value of Taj brand.

So, I think as we move forward into this journey, you will hear more and more about new brands that are added in like the AMA on the plantation trail business, a change in the perception of TajSATS as you see with the new logo, the relaunch of Chambers after 45 years, the repositioning of the Ginger brand followed by the repositioning of Vivanta, upgradation of 17 properties under Vivanta brand to the Taj brand. And, similarly, on scaling up most of our very well-known F&B brands, and F&B businesses as we continue on this journey.

When it comes to our momentum on new signings last year, we had signed 22 contracts. In the first quarter of this year, we added seven more which is a very good number for quarter one. So, we feel that our target of doing at least 15 a year is very much reachable. We will continue to work on strategic and margin-enhancing assets.

We will continue to asset-manage our portfolio, build very strong relationships with all of our stakeholders especially with our owners so that they trust us with more and more properties. And we'll continue to track this performance as we have communicated to all of you. On the shift in business mix, we are already seeing that that the management contracts from the commencement of this journey as we announced the results on 31st March 2018.

The management contracts contributed 32% of our portfolio. Today, it is up to 41%. And also, the number of assets in our holding company as a percentage has declined to 20%. Not the number of assets have declined, which is the best proof of our hedging in the field of volatility. And also, making sure that owned part of our portfolio is lesser in number versus the service part of our portfolio which will help us to drive margins.

When it comes to scaling up inventory in terms of openings because signing is one thing, but opening is other, we opened I would say all three hotels that we said a hotel a month in very key strategic destinations. We have the largest convention hotel now in Agra which is added to the Tajview in Agra that already existed which most to the SeleQtions brand.

And on top of that, we had another hotel in Goa, the Cidade de Goa and on top of Cidade de Goa within the next 12 months as we have already announced, we will be opening the Taj with the convention center. And finally, a very nice Ginger property for pilgrimage tourism in the city of Dwarka. So, I think all three are very good openings, and all three in line with the strategy on assets that are not owned by IHCL.

When it comes to our financial performance highlights on a consolidated basis for Q1, our revenue increased by 6%, touching INR 1057 crores. We checked on our data for almost ten years. And in the last ten years never ever in Q1 we have hit INR 1000 crores as revenue. Our EBITDA grew by 32%. This is the pre-change of the lease standard of the IndAS. So, it is at INR 166 crores. It's a 32% increase. Our margin expanded by over 300 basis points to 15.68%. We never ever did 12.63% or 15.68% margin before. 12.63% was the same quarter last year which was already very good and the best in the previous ten years. And now the 15.68% takes it a notch higher which has been helped by a certain monetization of assets about which we will talk a bit later. And there was a marginal decrease in our PAT. That is attributable to a one-off which we had last year in Q1 with an adjustment to a lease contract or to a management contract that we had for the hotel in Boston.

On the new accounting rules under IndAS, of course the EBITDA goes up. And as these leases have to be – because the lease payments go below the EBITDA line, and the leases have to be capitalized, the depreciation as well as the interest expense becomes higher, therefore, it has a negative impact in the short term on the PAT which over longer term is obviously a neutral position.

On the consolidated key indicators on revenue which I just now said if we were to – there is no change on the revenue, but if we do it post IndAS, then the EBITDA rises as I just explained from INR 166 crores to INR 210 crores. The 32% increase that you see in the charts is based on INR 166 crores and not on INR 210 crores as it would not be a like-for-like comparison.

On the profit before exceptional items and tax, so you see the reversal that 37 crores, which would have been our pre-IndAS profit before exceptional items reduces to INR 25 crores. And the PAT reduces from INR 14 crores to INR 6 crores, which is a minus 8% or at the level of 14 and not at the level of INR 6 crores post this new accounting and lease standard. With that, I hand over to Mr Sanjeevi to take you through the details of the financial performance.

Giridhar Sanjeevi: Thank you, Puneet. I think moving on to the financial performance, here is a very simple table which quantifies the impact of lease accounting. In a sense, what you see on this is that the operating expenses go down by INR 45 crores which is really the lease cost going down. And then the deposition interest goes up by INR 17 crores and INR 39 crores respectively, therefore impacting the profit before exceptional items and tax by around INR 11 crores and profit after tax by INR 8 crores. And so, that's the simple comparison of pre and post lease standard.

These are the detailed P&Ls. And I think what we see here is that I think two to three messages on this slide. So, number one is that the leverage has been maintained. While the revenue grew by 6%, the EBITDA grew by 32% and operating EBITDA grew by 16% indicating significant leverage driven by cost savings as well because the operating costs – the total expenditure grew by only 3% actually. The EBITDA margin grew by 3%. And operating EBITDA margin grew by 1.32%.

In terms of depreciation and amortization and finance costs, I just explained the impact of the lease standard. Exceptional items were marginal at two in relation for the current year. Provision for taxes were all okay.

In terms of share of profit and loss in associates and JVs, the negative is effectively driven by TajSATS where due to the loss of the business from Jet, I think there has been a loss there. Other than that, I think overall there's no surprises in the P&L or unusual items in the P&L that we talk about.

In terms of exceptional items, last year as you know we had a fair value of derivative contacts was about INR 50 crores negative driven by rupee depreciation. This year, it was positive by two. And Boston lease modification income which we had last year is not there this year. So, therefore the net change is about INR 6 crores or so on the exceptional items. In addition to that the gain on the sale of flats of INR 25 crores is reflected in the non-operating revenues actually.

In terms of the IHCL network revenue, both on domestic and international, I think what we see is that very clearly in a difficult quarter we are focused in terms of growing room revenue. The domestic room revenue has grown by 4.2. The international has done very well, 8.2%, driven by what do you say UK and US primarily. In fact, what we will see is that the consolidated operating margin improvement is better than the standalone operating margin improvement driven by the performance of UK and US actually.

RevPAR was negative at minus 2.5, but that is in line with what we have seen in the industry. And I think what we have seen is that while April was possibly the weakest month and I think May and June have subsequently improved. In fact, July has improved further. And we are into a positive RevPAR territory in the month of July.

F&B revenue was 1.6% and 2.3% and 1.6% in domestic. This is down again because of the banquets and MICE actually. But given the circumstances, I think this reflects the different efforts that we have taken to sort of make sure that the occupancies kind of go up and in a difficult rate environment actually. On the international side as I just said, UK and US have driven the performance in terms of room revenue and RevPAR.

On the standalone very, very quickly it is a 5% growth in top line to INR 608 crores. And EBITDA on a pre-IndAS basis went up by 24% which included the sale of flats. Therefore, EBITDA flat in terms of as compared to the previous year. On a post-IndAS basis, it was INR 146 crores. In terms of profit before exceptional items and taxes, the pre-IndAS number went up to INR 41 crores from last year's INR 21 crores. And post-IndAS dropped marginally to INR 36 crores driven by the new lease accounting.

And profit after tax last year was a negative. This year the pre-IndAS went up to INR 25 crores. And post-IndAS, the impact was small in terms of a drop to INR 22 crores. So, therefore in terms of a growth in profit after tax, it has been good driven also by the gain in the sale of flats actually. This is a very quick summary of the IndAS impact on standalone P&L. While the operating expenses went down by INR 21 crores, depreciation and interest went up by INR 26 crores reflecting a change of INR 5 crores in the profit before exceptional items and taxes.

In terms of the detail P&L what you see is that there was a revenue – growth in revenue was 1%, and operating EBITDA grew by 4%. That means from a pure operations perspective, the leverage continued in terms of control on expenditure. As you can notice that the operating expenditure growth was only 1%. Depreciation and amortization, we have just spoken. Finance costs is broadly in line. Exceptional items, essentially the sale of flats and also the Forex, there is no losses on the Forex side.

So, that is on the exceptional items. On the debt position, I think the net debt at a consolidated level grew marginally from INR 1925 crores to INR 1975 crores. The net debt to EBITDA dropped from 2.11 to 2.07 on the consolidated side. So, I would say that overall, the net debt position was stable.

What you will see in the post-IndAS basis we have a lease liability of INR 1937 crores which is nothing but the translation the conversion of the leases into the long-term lease liabilities. So, but this is something that which we have recognized.

That's it on the financial performance and we can move to Q&A. We have some questions, which have come online. And I think why don't we take questions before we get on to questions which have been sent to us in writing? Yeah.

Operator: Should I open the audio questions, sir?

Puneet Chhatwal: Yes, please.

Giridhar Sanjeevi: Yes.

Operator: Thank you. Dear participants, if you'd like to ask a question over the audio, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. A voice prompt on the phone line will indicate when your line is open.

Please state your name before posing your question. 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. We will take our first audio question. Please go ahead.

Vikas: Hi, sir. This is Vikas from HSBC. I have two questions. Number one is, you have this Aspiration target of reaching 25% EBITDA by 2022. Now with this new lease accounting, can we expect it to be higher by at least 200 to 300 basis points?

Giridhar Sanjeevi: Yeah, let me answer that Vikas. I think you've seen that the EBITDA margin has gone up by 3% because of the new lease standards. I think that 3% should remain is what we believe because that there is no reason to believe that that will be lower than that. So, you should assume that it should go up by 3%, yeah.

Vikas: So, then our aspiration would be more of 27-28% now than 25%.

Giridhar Sanjeevi: That's correct, yeah.

Vikas: Okay. And secondly sir, at the starting of the year, the expectation was more of a similar kind of growth what we have achieved in FY19 of around 10%. Now with the slowdown, should we expect it to be more like a mid to low single digits or we can still achieve high single digit growth on the back of strong second half? Thank you.

Giridhar Sanjeevi: Yeah.

Puneet Chhatwal: Yeah, Vikas. I think June and July were very good. We're just in the first few days of August. I personally believe that unless something happens that we are all unaware of in the next few months, normally we should be able to drive close to a similar level of growth as last year.

Now whether that comes through revenue growth, through cost optimization, through monetization of non-core assets, I think the – what we have communicated consistently is the job of the management is to navigate through all these headwinds using whatever we have in our tactical toolbox and keep moving forward. And that's something which we have committed to and we will continue to deliver on.

I understand that from your modeling perspective, you need to understand what numbers you should be factoring in. So, I think maybe I leave it to you to see how it is happening in the rest of the industry. But we feel that any number which is north of 7% is very realistic for us because we're in the weakest part is Q1 and Q2.

So, if we can drive around 6% top line growth on an average in Q1 and Q2, and a higher growth in Q3 and Q4, the average should definitely come up north of 7%. This is without having the visibility of what will happen in October. As I mentioned during the presentation, there are some challenges that we see on a global front as well as on the domestic front.

But we are seeing this since one year. There is the US-China trade thing is not something that started yesterday or two months ago. It's been ongoing. Similarly, a slowdown in India is not from now. It's been there since pre-Holi; we have mentioned that in the last call also. So, for us, it's more important to continue to gain market share, to optimize our cost and drive operational efficiency as well as operational excellence.

Vikas: Yeah, thanks a lot.

Operator: Dear participants, if you find your question has been answered, you may remove yourself from the queue by pressing star two. We will take our next question.

Deepika: Sir, this is Deepika from JP Morgan. Thank you for taking my questions. Sir, you mentioned about the recent slight slowdown on the demand front. Would you primarily associate this with business travel or would it be towards the leisure segment as well?

Puneet Chhatwal: I would say the leisure segment has been very resilient. So, we cannot say – and also on the business segment, Mumbai has performed very well for us whereas Delhi has not been that strong. But it's normal because in an election year, pre-elections and post-elections, the government business, just the delegations or the heads of states coming in, that reduces significantly.

So, but we have done quite well on leisure. We have done quite well on long stays. I think there has been a reduction in corporate travel. And on the transient we have done quite well. So, we have seen a slowdown on some corporate business and a little bit on the MICE which is meeting incentives, conventions, and events, and in some formal business groups also.

But generally, leisure is strong, Mumbai is strong, Kerala is still not becoming as strong as it used to be. Maldives has come back pretty strongly. But Sri Lanka is weak. So, it's a mixed bag, but what has worked very well for us definitely in Q1 is the performance in both US and UK. I think our US properties and London hotel has done quite well. And they have continued to do well especially London in July.

Deepika: Sir, coming to the US properties given the RevPAR improvement in that market, where would you think or project Pierre's loss reduction in this year?

Puneet Chhatwal: We have significantly improved on our cash profit. It's kind of more than doubled among the three hotels which is the Pierre San Francisco and London. And a similar story on PBT side, a similar story on the EBITDA side. I think they have – all three hotels continue to perform very well.

There are some headwinds that we're seeing also in the US market on the RevPAR side. But on the F&B business, the Pierre has done quite well. And also in San Francisco, our chef got the two Michelin stars, the only Indian restaurant in the western hemisphere to have two stars. So, that's also helped us in driving revenues in both the hotels.

Deepika: Sir, one last question from my side. Any updates on the GIC platform in terms of any properties that you have identified to induct over there?

Puneet Chhatwal: Yeah, we are – I think you answered yourself. We are in the process of identification of a list of seven to eight assets. And one thing is very clear is our own assets, we don't think it's the right time to monetize on them because the timing has to be right when you buy or sell any asset. And we want to do it when the fundamentals are looking much stronger than rush to do it now. And similarly, we're looking at several distressed assets. Hopefully within the next three months, we will be able to announce our at least one asset if not two.

Deepika: Thank you so much.

Operator: We will now take our next question.

Sumant: Yeah, hi sir, Sumant here from Motilal Oswal. So, my question is regarding Saint James. So, talking over the better performance in international market, so how is the performance of Saint James in terms of the business is driven by the higher volume occupancy or increase in rate also?

Puneet Chhatwal: Saint James has seen I would say combined a phenomenal quarter and a phenomenal July. I think the best July ever. And for the quarter also we have seen close to – almost close to 90% occupancy at a very high rate. Saint James and Buckingham Gate combined have done very, very well despite all the negative news on the market about UK and Brexit and all the political changes.

But I can only say I think this hotel is very well established. It was renovated. We put the money at the right time into the property. It benefited both on the rate and on the occupancy side. And we will continue to take this asset at a higher level by adding a few more services in there. This is a star performer for us. This year I think it's the best performing hotel in our system for the first four months.

Sumant: So, is it because of the inventory available this year in this quarter is higher than previous year because the room has gone for renovation. And the second is because of the ICC World Cup, the occupancy is higher, the two reasons?

Puneet Chhatwal: So, you answer it yourself also this question. It's absolutely right. We had last year rooms in renovation, but that's not the only reason. It's the quality of renovation. See, the quality of renovation has come out well. The timing to market has come out well. And if besides Wimbledon you also have the World Cup cricket when of course we are able to drive more traffic than any other hotel in London.

Sumant: Okay. And the second thing talking about US business. So, in the US business what was the key reason for the performance, is the cost optimisation or increase in rate also?

Puneet Chhatwal: I think in the US, the occupancies had reached a very high level. And it could only be driven by rate. But the US market is facing some kind of, as I just now mentioned, a little bit of headwind. So, in San Francisco, the hotel is smaller. So, it's been more resilient on a RevPAR basis. It's done better than the year before. And on the Pierre, it's more or less at the same level. The RevPAR is marginally higher, but not significantly higher than last year. But Pierre has a huge banqueting space and food and beverage business which they have been able to utilize more. So, the revenue driven in food and beverage is significantly higher at the Pierre in the first quarter.

Sumant: Okay, so F&B has driven the probability and the cost escalation also?

Puneet Chhatwal: Yeah, even in the New York scenario the F&B has more employees and they are unionized. It's not a problem for us, but for all brands all hotels in New York. And if F&B has a better utilization, then it is good for the hotel and good for the P&L.

Sumant: Okay, can you segregate the growth of US and UK in terms of the realization growth and occupancy growth? So, the profit –

Puneet Chhatwal: See, the RevPAR growth in US has been around 5% and F&B has been 13% in the first quarter. And in the UK, the RevPAR growth has been very high, around 30%. And F&B revenue is marginally lower because we're going to renovate there and we've got a place vacated where we will be putting the new Chambers, our business club. You have read about the relaunch which we'll be launching before the Wimbledon starts next year.

Sumant: So, you said the RevPAR in Saint James is 13%?

Puneet Chhatwal: 30, three zero.

Sumant: 30. So, can you segregate that how is the occupancy improvement or realization or ARR improvement in that?

Puneet Chhatwal: The occupancy as you – these numbers are a bit distorted because as you rightly said Sumant last year there were rooms were under renovation. So, occupancy went up by 20 percentage points. And the rate went up also. But it's not a right comparison today because there was less inventory available. But all in all, UK has been very positive and F&B revenue double digit growth in New York has been very positive.

Sumant: Thank you so much, sir.

Operator: We will now take our next question.

Satyam: Good evening, Puneet and Giri. This is Satyam. My first question is on the numbers itself. In the quarter the raw material costs seems to have driven a lot of the operating leverage. So, raw material cost is down 6% y-o-y though revenue at the consolidated level is up 4% y-o-y.

So, I just wanted to understand some color on what really drove this cost reduction. Is it that some of the F&B improvements that we have talked about in the past, those building blocks are actually falling in place or is there any one-off here?

Giridhar Sanjeevi: No, there are no one-offs, Satyam. Thank you for the questions. There are no one-offs in the raw material cost reduction. I think very clearly a lot of the efforts are coming through. And I think the other thing is that our banquets are lower. That also would have played a bit of a part here.

But other than that, a lot of the efforts that we're taking in terms of raw materials costs have actually come down by 4% during the quarter. In fact, cost per car has come down by 4%, and overall raw material costs as a percentage of F&B revenue standalone has come down by 1%.

So, I think – and as we have spoken earlier, Satyam, to the investors, we're doing a number of efforts in terms of whether it is the Accenture efforts or whether through our own internal efforts in terms of simplification of menus, in terms of, what you say, menu costing, there's a whole bunch of efforts which is going in. So, we are quite pleased with the raw material cost reduction that we have achieved in Q1.

Satyam: Great, that's great to hear. The second question that I had was on the supply side. So, while overall supply growth environment seems – continues to remain quite benign, I believe that in the Mumbai micro markets next year, like fiscal 21 could see quite a few hotels opening up in our space, in the luxury upscale space? So, are you worried about the coming supply in Mumbai? How do you view it?

Puneet Chhatwal: No, Satyam we – we are – actually I think it's very good that you indirectly asked this question. We are seeing a lot of growth in both the RevPAR as well as food and beverage revenue at the Lands End and at Santacruz. Santacruz is almost a RevPAR leader in the airport market. And Lands End is showing a phenomenal increase and has had excellent four months behind it. Where there is some kind of worry is about the shift in general business in several years from South Mumbai to the Worli area or the BKC area.

So, there is some change in the kind of demand. But we're working through it on the Mahal Palace. That has not much to do with the supply. That's number one. Number two, even if supply comes in, the Taj Mahal Palace tower is a monument. The

Santacruz is maybe one of the best airport hotels in the world. And Taj Lands End has views which I don't think every hotel can have in Mumbai. So, it's very well-positioned with the lawns, with the quality of the property, with the spread, so with the view of the ceiling from the Chambers on the top. I mean it's just got everything going for it. So, I am very, very – on behalf of management, I can say we're very not only relaxed but we are very upbeat about especially Lands End continuing to outperform the market, and giving everybody a run for its money. It's been continuously gaining market share.

Satyam: Great, that makes sense. The last question that I had was on – like if anything you can share on what has been the experience so far with your two brand experiments, one on the SeleQtions side. Now you have launched quite a few hotels with the SeleQtions brand. So, has it led to – how has that impacted occupancies and pricing at their properties if anything noticeable you observed? And secondly the same with the Ginger upgrade that you have done in Goa for example, what has been the experience so far?

Puneet Chhatwal: So, the Ginger upgrade has led to a 30% growth in the room rate at the Ginger in Panjim. Ginger was a well-established brand, so, it's quite positive. On SeleQtions, I think we have to wait. We've just launched it. Brands are not built in a day. You have to give us at least six months to properly launch it and have it settled. And then another six months for them to run, and then we will have a like-for-like on how they are performing, how they are doing. And more important than that is the confusion around the brand. See, at the end of the day, the backbone of our company is the Taj brand. And the change that we have done is to make the Taj brand more pure and more understandable than to have something by Taj or for Taj or Taj President or – This kind of confusion had to be taken out. So, that's been taken out. Now the second step is how do we make SeleQtions a successful business model for the hotels that are in operation, but also make it an attractive value proposition for new ones to come and join in. So, I think we're in the – we've just commenced that journey six weeks ago and we should wait at least six months because we will be able to do that wonders.

And on Ginger, we're continuing with the renovation program and we're very encouraged with the customer feedback as well as the performance that we're seeing with renovated hotel in Panjim.

Satyam: Great, all the best. Thank you.

Operator: We will take our next question.

Nihal: Hi, sir. Good evening. This is Nihal from Edelweiss. My first question was on the domestic segment. It was positive that you highlighted that the market has improved in June-July. But looking at some of the indicators, I'm not sure if other than air fares which have normalized anything else has changed. So, if you could just highlight if there are any specific cities or segments which have contributed to this improvement? And what gives you the confidence going forward?

Puneet Chhatwal: Okay, I think we answered it partially. See Delhi in Q1 was slow. It's beginning to pick up. So, it seemed very good July. The volumes came very strong. August in Delhi has started quite well. Also, the outlook for August in Delhi is good. Mumbai has been quite resilient, and performing much better than last year. Kerala remains weak. Bangalore is okay. Chennai is also, because of all the water crisis, was weak. In Goa, the market was a bit weaker. But we gained market share, so we're doing – we've had a good quarter for Goa. And I think that's the main key markets that we are in unless I have missed any major city.

Hyderabad is there which was okay because Krishna underwent renovation last year. So, that's not an easy one to compare. What we're also seeing is very positive growth in Udaipur especially with the new hotel that we opened in the Taj Aravali which is off to a very good start. Both Simla and Rishikesh are also off to a very good start for us. And now we have to make sure that Agra and Cidade de Goa which we just opened and settled down on quickly, and get well-integrated into our system, in our distribution networks.

Nihal: Sure, sir. Absolutely, thank you so much. Sir, just a second question on the GIC tie-up. So, in the Capex guidance that we are giving, are we factoring in any investment considering that we're not planning to put any property into the JV for this year?

Puneet Chhatwal: I don't know if that is correct that we are not planning to put any property on to this platform. Did we say that? No.

Giridhar Sanjeevi: I think we said depending upon the timing.

Puneet Chhatwal: Depending on the timing of the first hotel, we don't want, ideally an ICHL hotel, but we are looking at a few possibilities. And I don't think we will have some extraordinary Capex. When we do monetization, we think the one-off monetization will help us to provide our portion of equity for one or the other acquisition.

Nihal: Absolutely. And just to confirm, what is the Capex number that we are looking at for FY20 again?

Puneet Chhatwal: See, we look at anything between INR 300 crores to INR 400 crores on a system-wide. It would be fair to assume that if our revenue for example is around INR 8000 crores on a system-wide, not what we report, this includes all management contracts, 4% to 5% of that revenue is approximately the Capex number. Add to it 10% on some extraordinary thing that we are not aware of at the beginning of the year which comes in every year. Sometimes it comes because of flooding and sometimes it comes because of some other event that may happen. So, any number around INR 400 crores to INR 450 crores is realistic, but on a system-wide basis.

Nihal: Absolutely, I get that. Thank you so much.

Puneet Chhatwal: Which includes the revenue of management contracts.

Nihal: Sure, sir. Thank you so much.

Operator: We will take our next question.

Kaustabh Pawaskar: Yeah, good evening, sir. This is Kaustabh Pawaskar from Share Khan and BNP Paribas. Sir, just coming to the domestic market, you have mentioned that few of the markets are doing – or they have improved from what the levels of April-May was. And a few markets are still underperforming. So, considering this environment, can we expect room rentals to go up when the season starts, maybe at around – in the month of October when you normally take room rental increase? Can we expect to see 4% to 5% which was the guidance you gave earlier?

Puneet Chhatwal: I think we gave a RevPAR guidance. We definitely expect a healthy increase in RevPAR especially from the month of October. But most of you analysts, you always ask the same question on the guidance on rate. And the problem we have is the visibility is getting lesser and lesser in terms of when we look at how we started the year with April-May, then a sudden turnaround in June-July, August as I said is off to a good start, but we are still in a bit of a volatile situation. But normally whatever improvement you get in Q1 and Q2, 1.5 times, that improvement should be doable in Q3 and Q4. So, if the improvement is 5% in first half of the year, the second half should get you at least 7.5%. If it's 4%, then it should get you a 6% in the second half. So, I think that's the only thing we can say at this point of time.

Kaustabh Pawaskar: Right, sir.

Puneet Chhatwal: Because I think it would be prudent to look at RevPAR more than only the rate. Why? Because as a growth company, as we start to open more and more hotels, either we will start sharing with you on a like for like – and not like for like growth, but when the hotels are ramping up, they will not achieve their stabilized positioning. So, the more new hotels we add, the more diluted the RevPAR number would be.

Kaustabh Pawaskar: Exactly, because occupancy is also one of the component of the RevPAR. And the demand outlook as of now it remains uncertain. As you said that we're not getting the visibility. So, considering that, the RevPAR either the occupancies would be better. The new hotels would be contributing more or the realizations would be better. So, I guess all these three components would help you to grow by seven odd percent this year. Is it a right understanding?

Puneet Chhatwal: Correct. Correct, on the room revenue side. But on food and beverage, we expect a higher number going forward.

Kaustabh Pawaskar: Right, sir. And sir –

Puneet Chhatwal: So, in last financial year, we did 10% growth, also on food and beverage. I think that's quite a strong number. Obviously, our ambition will be to drive towards those kind of numbers. But as I said, as of now as a growing company it will become difficult because the hotels will be new. New openings take time, the occupancy when you start is lower versus when it is stabilized.

Kaustabh Pawaskar: Right, sir. Got your point, sir. Sir on the Capex you mentioned that INR 300 crores to INR 400 crores kind of a Capex you would be looking at. Will this Capex would be funded through internal accruals?

Puneet Chhatwal: Yeah, like we've done every year. I mean in the revenues, you always take as I said 4-5% of the total revenue is considered as a Capex number on an average.

Kaustabh Pawaskar: Okay. And in terms of debt reduction, can we expect something this year to happen any substantial debt reduction?

Puneet Chhatwal: Substantial, I don't know. But I'll let Mr Sanjeevi answer it. He has just unwound a swap, so why don't you say it?

Giridhar Sanjeevi: Yeah. So, what we have done is that I think that we had these two swaps, the four swaps that existed. One maturing in 2019 and one maturing in 2021. About roughly three to four weeks ago, three weeks ago or so we unwound the swaps which were due for maturity in December. We saw the rupee strong enough and the premiums not being strong, so therefore we were able to kind of unwind. And that actually allows us to book a gain as compared to the mark to market that we had taken earlier. So, therefore, that took away about INR 120 crores or so. But that is at a gross debt level.

In terms of overall net debt reduction, I think this year what we intend to do is that from cash from operations and renovations will largely be kind of square each other off. But with success in monetization, let's see how much we do in monetization. The plan is that any monetization we do, we'll use it towards debt reduction. So, I think without monetization, I think net debt will largely be at similar levels. And depending upon how much we do monetizations, the net debt could go down.

Kaustabh Pawaskar: Okay, thank you.

Operator: We will take our next question.

Speaker: Hi, Puneet, Giri, Shalin from UBS.

Giridhar Sanjeevi: Hi.

Speaker: [Inaudible] I must say just considering the challenging environment. And seasonally it's one of the weakest quarter. So, can you give me some color on the seven contracts that you have signed for this quarter?

Giridhar Sanjeevi: Sorry. Could you repeat the question, Shalin?

Speaker: Can you give me some color on the seven contracts that you have signed, seven total properties that you have signed, right. What kind of properties are they, like Ginger, Taj?

Puneet Chhatwal: It's a mixed bag. We have a Vivanta. We have a Ginger. We have a few Taj properties. But if you want me to name them, then one is obviously Agra which we signed and opened, 240 rooms. Then a very significant one for us which will also open sometime next year as it's a brownfield that's in Ahmedabad, around 300 keys as a Taj. Then we have a Vivanta in Greater Noida, which is also important for us because we were missing a property in Greater Noida. We're doing another 110 keys in Gorakhpur which is again a Vivanta. Then a Ginger conversion in Dwarka which we showed to you around 100 keys is 98 to be precise. And a new Ginger to be built in Amravati, but that will take five years to come or at least a minimum of four years. And then one more was in Jaipur, Jagatpura, and that's also a Vivanta. So, – sorry the Jaipur, Jagatpura would be under our SeleQtions complementing the Devi Ratn which will open in a few months in Jaipur which will also open under the SeleQtions brand. So, I think those are the seven contracts we signed. And the ones we opened was Cidade de Goa. Agra which was signed and opened and Dwarka which was signed and opened in the same quarter. And that is the importance of conversions because when you sign, there is not such a gap of three years or four years when building a new hotel from the time of signing to the time of opening. And that's one of our key ambitions to keep focusing on converting hotels to one of our brands going forward.

Speaker: So, let me ask you – let me [inaudible] to you on this question again. So, any kind of a property which you look for signup, is it like at what stage? Is there a timeframe? Like it should be within three or two years to be operational, something like that as you said that?

Puneet Chhatwal: I wish it was like that. But if you're doing leases, you can have a fixed date, fixed time, a fixed time of property. But what happens is that when you are into management contract growth, it becomes very difficult. As in emerging markets, it's very difficult to say when exactly a hotel will open. It can take at a minimum three years to open a new built property.

Speaker: Okay.

Puneet Chhatwal: And unless we are thinking of expediting a bit on the Ginger, because the Ginger could be constructed on a module basis or on a pre-fab basis. So, that is something we're looking into. But on the other brands, it's not that – we've not reached that level of sophistication.

Speaker: Yeah, thanks. Just one more question, and I will leave it to you if you like to answer. Considering you have seen a good reversal in June and July, can you put that – roughly number like what ballpark what kind of room rate increase or RevPAR increase or occupancy increase you have seen in June-July vis-à-vis April and May. Anything, any sense, any color?

Giridhar Sanjeevi: Sure, Shalin. I think I can answer that. In terms of, see, April clearly was our weakest month. So, I think what has happened is that in the month of July, we have actually hit a RevPAR growth of nearly 4% which is on the standalone. And the network side, we hit about 5%. Whereas if you see the same numbers for Q1, I think it was about – it was negative minus 2.5.

June in fact if you see, April was our weakest month. May improved, June turned positive both on RevPAR in standalone and network. And July really helped kind of built on it. So, hopefully this is the developing trend in terms of recovery actually.

Speaker: Sure, okay. Sure. Thank you so much and best of luck from my side. Thanks a lot.

Giridhar Sanjeevi: Thanks, Shalin.

Operator: We will take the next question.

Deepika: Sir, Deepika here again from JP Morgan. Just following up on the previous question. Did you mention that the standalone RevPAR growth was also negative 2.5 in the June quarter?

Giridhar Sanjeevi: That's right.

Deepika: Okay. And sir, if I had to look at your total pipeline of rooms right now after the addition in the June quarter, it would be north of around 6000 rooms?

Puneet Chhatwal: That's correct.

Deepika: Okay, sir. Thank you so much.

Operator: We will take the last audio question.

Puneet Chhatwal: Sorry, Deepika, I think there is a correction, I am being prompted to say it's around 4500 rooms in the pipeline because we have opened a few big properties. So, it had reached around that number that you're saying. But in the interim we have opened a few hotels. Like as I said, Simla, Rishikesh, Agra, Cidade, Dwarka. So, it's quite a number of rooms that we've opened in the last four to five months.

Speaker: Hello.

Puneet Chhatwal: Yes.

Speaker: Hello. Yeah sir, can you just provide some color on the Chambers business part like what is the current number of member base, what kind of sign-up do we charge and annual recurring fee and what kind of target member base that we are looking for on an annual basis?

Giridhar Sanjeevi: Which one you are talking?

Speaker: Chambers business.

Puneet Chhatwal: See, Chambers has been there for almost 45 years. And it has a member base of approximately 2000 members. We have an annual fee and then we have a sign-up fee. So, we will be trying to drive this business. I think we'd like to talk more about it in detail the next time as we've just relaunched the Chambers. After 45 years, we've changed the logo. We've changed the value proposition. So, let us pick it up either offline or another day as it's like only two weeks since we have launched. And we will have a better idea in a couple of months from now.

Speaker: Sure, sir.

Puneet Chhatwal: We want to maintain the exclusivity. We want to maintain the exclusivity and not open this to anyone and everyone as it's been a very exclusive and a very prestigious club. But it was time to change the value proposition and take it to the next level. And that's what we are doing.

Speaker: Sure. Sir, just some color on the sign-up fee and the annual fee?

Puneet Chhatwal: Sorry, can't hear you. Can't hear you. Could you speak up?

Speaker: Hello.

Giridhar Sanjeevi: The sign-up fee and the – sign-up and the annual fee.

Speaker: Yes.

Puneet Chhatwal: The sign-up fee is at 20 lakhs and the annual fee is three lakhs.

Giridhar Sanjeevi: Yeah.

Speaker: Okay. And sir, the second question is, what has been the reason for the increase in the net debt excluding lease liability? I presume we should have a – hello.

Puneet Chhatwal: Yeah.

Speaker: Hello. Sir, even for increase in net debt without lease liabilities because I believe we should have – before Capex, there should have been an operating cash profit of around INR 80 crores to INR 100 crores. So, fair to assume that the Capex has been higher than this amount?

Puneet Chhatwal: The Capex in this quarter has been about, what, INR 90 crores or something like that – about INR 90 crores has been the Capex. And then we have had dividend payments of around approximately INR 72 crores or so. I think that must be driving it.

Speaker: Sure, sir. And thank you, thanks a lot. And all the best.

Giridhar Sanjeevi: Thank you. I think any – I think we have hit 7:30. So, maybe we can take one last question before we close.

Operator: Sir, there is no further audio question in the queue.

Giridhar Sanjeevi: Thank you.

Puneet Chhatwal: Then I would like to close this call by thanking all of you for participating, and your questions. And we look forward to talking to you more about our Q2 results on the next occasion. Thank you very much and have a good evening.

Puneet Chhatwal: Thanks.

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