



SMC Ranking
 ★★☆☆☆ (2/5)

Issue Highlights

Industry	Hotel
Offer for sale (Shares)	24,685,000
Fresh Issue (Shares)	33,928,571
Net Offer to the Public	58,613,571
Issue Size (Rs. Cr.)	1610-1640
Price Band (Rs.)	275-280
Offer Date	29-Jan-19
Close Date	31-Jan-19
Face Value	10
Lot Size	53

Issue Composition In shares

Total Issue for Sale	58,613,571
QIB	29,306,786
NIB	8,792,036
Retail	20,514,750

About the Company

Chalet Hotels Ltd is a owner, developer and asset manager of high-end hotels in key metro cities in India. Company's hotel platform comprises five operating hotels, including a hotel with a co-located serviced residence, located in the Mumbai Metropolitan Region, Hyderabad and Bengaluru, representing 2,328 keys, as of March 31, 2018. Company's hotels are branded with globally recognized hospitality brands and are in the luxury-upper upscale and upscale hotel segments. The hotels are currently branded with global brands such as JW Marriott, Westin, Marriott, Marriott Executive Apartments, Renaissance and Four Points by Sheraton which are held by Marriott Hotels.

Competitive Strengths

High-End Branded Hotels Strategically Located in Key Metro Cities of India: Its hotel platform emphasizes strategic locations, efficient design and development, appropriate positioning in hotel segments together with branding and operational tie-ups with leading hospitality companies. The company believes that its active asset management model, the premium location of its hotels, its large room inventory and large function spaces, together with its relationship with leading international hospitality brands, enables the company to attract its target customer base including large corporate key accounts such as information technology companies, airlines, multi-national corporations, consultancy firms and banks, deliver an enhanced customer experience, encourage repeat business and drive customer loyalty.

Active Asset Management Model: The Company follows an active asset management model for its four hotels, including a hotel with a co-located serviced residence, which is operated by Marriott pursuant to hotel operation and related agreements. As part of its active asset Management model, it regularly engages with the hotel management team at each hotel in order to discuss and agree on budgeting, cost management initiatives and operational and financial targets for each of its hotel properties. Also, it reviews performance reports generated by each hotel and conducts periodic meetings with hotel operator's management teams. It also discusses and optimizes pricing strategies to maximize room yield by active monitoring of key corporate accounts and provide inputs on promotional activities. Besides, review competitor set performance and penetration across relevant micro-markets; and assist in renewing licenses and consents, as necessary.

Well Positioned to Benefit from Industry Trends: The Company believes it is well positioned to leverage Industry growth due to its in-depth understanding of the rental market and the needs and preferences of consumers. Given its presence in key metro cities, it is well placed to benefit from the potential growth opportunity because of the significant time outlay required for companies to build and establish a profitable hotel or commercial office space or mall and its early mover advantage in large, mixed use developments in specific micro-markets.

Backed by Leading Indian Real Estate Developer: The Company is backed by K. Raheja Corp group, which is a leading business group in India. Due to this, the company derives significant benefit from the confidence that consumers, lenders, commercial partners, vendors and others place in the group.

Competitive Strategy

Focus on Maximizing Performance in Existing Portfolio through Active Asset Management: The growth strategy of the company is to continue its focus on maximizing the cost efficiency of its portfolio by a disciplined approach to asset management, and a collaborative working arrangement with its hotel operators to drive strategic and tactical

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	100.00%	71.41%
QIB	0.00%	14.29%
NIB	0.00%	4.29%
Retail	0.00%	10.01%
Total	100.00%	100.00%

*Calculated on the upper price band

Objects of the Issue

- Repayment/prepayment of certain indebtedness
- General corporate purposes

Book Running Lead Manager

- JM Financial Limited
- Axis Capital Limited
- Morgan Stanley India Company Private Limited

Name of the registrar Karvy Computershare private limited

initiatives, to drive profitability.

Disciplined Development of Assets in the Current Pipeline: The Company is in the process of developing three additional hotel projects which are expected to have 588 keys and two projects representing commercial office space with built-up area (excluding car parking/utilities) of approximately 1.12 million square feet. It also intends to focus on developing new hotel-led mixed-use projects in prime locations with development sizes similar to its existing projects, and which feature a combination of hotels, retail developments and commercial office space. Its retail and commercial space under construction is expected to generate regular rental income and cushion the hospitality cash flow cyclicality. Retail and commercial space are also expected to complement the hospitality business and generate synergies within the hotel led mixed-use projects.

Expand Portfolio by way of Opportunistic and Accretive Acquisitions: The company seeks to leverage its experience and in-house capabilities to acquire operational or near complete hotel assets at an attractive price to reduce replacement cost, initiate turnaround strategies through active asset management, brand repositioning, property enhancement or cost controls and derive benefits of economies of scale. It believes that its asset ownership model allows it the flexibility to acquire a variety of existing branded hotels unlike hotel companies which operate under their own brand. Further, the company wants to evaluate inorganic growth opportunities, in keeping with its strategy to grow and develop its market share.

Maintain a Sustainable Capital Structure and Ensure Prudent Capital Allocation: The company wants to expand its portfolio of hotel properties organically or inorganically, based on industry developments and supply and demand movements across the hotel sector and in and specific locations and micro markets. It leverages its company's and K. Raheja Companies' development strength to construct and develop its hotels and thereafter actively manage properties along with a suitable hospitality brand partner. The company aims to continue to reduce its cost of indebtedness through active evaluation of refinancing and alternative capital sources.

Opportunity for reflagging hotels or renegotiating hotel operation contracts: Given the demand potential in the hospitality sector, the company believes that it may also be able to renegotiate better terms for its hotel operation contracts. It may also evaluate options of diversifying its asset portfolio to include more international brands of similar to higher positioning as its current brands, in order to reduce risk of reliance on any one hospitality company.

Risk factor

Significant portion of its revenues are derived from a few hotels: The Company owns a portfolio of five operating hotels including a hotel with a co-located serviced residence, representing 2,328 keys as of September 30, 2018, in Mumbai Metropolitan Region, Hyderabad and Bengaluru. Consequently, its revenues are derived from a few hotels and from hotels concentrated in a few geographical regions.

The business is subject to extensive government regulation: The Company is subject to a broad range of safety, health, environmental, real estate, excise and related laws and regulations in the jurisdictions in which it operates, which impose controls on its operations. Any non-compliance with, or changes in, regulations applicable to the company may adversely affect its business, results of operations and financial condition.

The business is subject to seasonal and cyclical variations: The hotel and hospitality industry in India is subject to seasonal variations. Its revenues are generally higher during the second half of each financial year as compared to first half of the financial year.

Experienced negative cash flows: The Company has experienced negative cash flows in relation to its operating activities, investing and financing activities in the last five financial years, on a consolidated basis. Any negative cash flows in the future would adversely affect its results of operations and financial condition.

Industry Outlook

India is the sixth largest economy in the world with GDP at current prices of USD 2.61 trillion and third

in terms of purchasing power parity as per 2017 estimates. India has emerged as a lead growth engine for the next five years, in terms of the rate of GDP growth. As per IMF, per capita GDP in India for 2017 is USD 1,983, up from USD 1,749 for 2016 and USD 1,639 for 2015 and is expected to grow at a CAGR of 8.7% between 2017 and 2022. Chain-affiliated hotel rooms in India have increased from 23,751 as at March 31, 2001 to about 135,232 as at March 31, 2018. Actual supply creation was delayed as the development cycle in India is generally longer, with delays caused by varied factors including project, environmental and implementation approval delays, cost overrun and funding shortfalls, delays in receipt of completion and opening related approvals, etc. Several hotels that were completed between the financial years 2012-2015 were from projects initiated between the financial years 2007-2009. Further, the business slowdown from the end of 2008, and particularly after 2010, caused several projects to be dropped. From about financial year 2013, there was a distinct slowdown in initiation of new projects while under completion projects continued to be carried to completion. The trend of slower inventory creation is expected to continue up to the financial year 2020/2021, particularly in the luxury–upper upscale and upscale segments, as there have been fewer commitments made in the last three to four years for new hotel projects. However, several new projects that have recently been initiated may complete in the financial year 2022 or more likely later.

Peer comparison

Co_Name	Operating Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
EIH	1461.88	124.67	3.15	57.21	3.58	50.44	2.00	180.40	10310.76
The Indian Hotels Company Ltd	4284.95	225.69	1.90	70.51	3.79	35.32	1.00	133.80	15912.28
Lemon tree	520.99	29.08	0.37	182.92	6.40	10.49	10.00	67.15	5319.94
**Chalet Hotels Limited	469.87	-43.67	-	-	4.05	69.14	10.00	280.00	5740.67

* Peer companies financials are based on TTM

** Financials are as on 30.09.2018

Valuation

Considering the P/BV valuation at upper price band of Rs.280 , Post issue book value and P/B of Sep quarter ended 2018 are Rs.69.14 and 4.05 multiple and Pre issue book value and P/B of Sep quarter ended 2018 are Rs. 27.32 and 10.25 respectively and at a lower price band of Rs.275 , Post issue book value and P/B of Sep quarter ended 2018 are Rs.69.14 and 3.98 multiple and Pre issue book value and P/B of Sep quarter ended 2018 are Rs. 27.32 and 10.07 respectively

Outlook

A significant portion of their revenues is derived from a few hotels and from hotels concentrated in a few geographical regions. The company aims to continue to reduce its cost of indebtedness through active evaluation of refinancing and alternative capital sources. However, company's profits are volatile and it has experienced negative cash flows in relation to its operating activities, investing and financing activities in the last five financial years.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	January 29, 2019
Bid/Offer Closing Date	January 31, 2019
Finalisation of Basis of Allotment with the Designated Stock Exchange	February 05, 2019
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	February 06, 2019
Credit of Equity Shares to depository accounts of Allottees	February 07, 2019
Commencement of trading of the Equity Shares on the Stock Exchanges	February 08, 2019

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	6 Months Ended 30-Sep-18	12 Months Ended 31-Mar-18	12 Months Ended 31-Mar-17
Total Operating Income	469.87	873.78	705.88
Total expenditure	363.09	579.37	493.71
Operating Profit	106.78	294.42	212.17
OPM%	22.73	33.69	30.06
Other Income	27.18	55.73	218.66
PBDIT	133.96	350.15	430.83
Depreciation	56.93	111.63	126.98
PBIT	77.03	238.52	303.86
Interest	139.87	211.92	217.96
PBT	-62.84	26.59	85.90
Exceptional items (E)	0.00	-5.41	-6.78
PBT after Exceptional Item	-62.84	21.19	79.12
Tax	-19.17	-9.97	-48.32
PAT	-43.67	31.16	127.44

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-18	As on 31-Mar-18	As on 31-Mar-17
Non-current assets			
Property, plant and equipment	2092.92	2121.08	2170.61
Capital work-in-progress	22.76	27.59	26.92
Investment property	671.03	673.67	642.42
Goodwill	22.61	22.61	22.61
Other intangible assets	1.24	1.85	2.98
Financial assets	0.00	0.00	0.00
(i) Investments	4.32	4.32	0.31
(ii) Loans	10.17	11.41	10.55
(iii) Others	5.01	5.00	0.00
Deferred tax assets (net)	117.49	95.23	98.18
Other non-current assets	10.57	9.19	11.10
Non-current tax assets (net)	45.80	46.30	33.90
Non-current assets	3003.92	3018.25	3019.57
Current assets			
Inventories	397.50	418.90	426.40
Financial assets	0.00	0.00	0.00
(i) Trade receivables	53.37	53.91	29.62
(ii) Cash and cash equivalents	34.09	29.52	22.83
(iii) Bank balances other than	2.08	2.15	10.34
(iv) Loans	163.34	234.93	179.35
(v) Others	28.57	20.72	3.88
Other current assets	55.96	51.66	46.00
Total current assets	734.91	811.79	718.42
Current assets	3738.82	3830.04	3737.99
Non current liabilities			
Borrowings	2,348.44	2,215.15	2,050.58
Others	11.576	15.177	11.898
Provisions	4.299	3.811	5.762
Deferred tax liabilities (net)	62.106	59.22	69.919
Other non-current liabilities	3.374	2.808	2.115
Total non current liabilities	2,429.80	2,296.17	2,140.27
Current liabilities			
Financial liabilities			
Borrowings	119.51	163.42	324.75
Trade payables	80.466	85.88	84.674
Other financial liabilities	257.25	376.16	303.81
Other current liabilities	286.06	310.18	298.46
Provisions	98.304	95.866	114.85
Total current liabilities	841.59	1031.50	1126.55
Total liabilities	3271.39	3327.67	3266.82
Asset-Liabilities	467.44	502.37	471.17
Net worth represented by:			
Share capital	171.10	171.10	152.14
Reserves	296.34	331.27	319.03
Net Worth	467.44	502.37	471.17

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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