

Unrated

Issue Details	
Price Band (Rs)	275 - 280
Face Value(Rs)	10
Issue Size(Rs)	1641 Cr
Issue Type	Book Building
Minimum lot	53 Shares
Issue Opens	January 29, 2019
Issue Closes	January 31, 2019
Listing on	BSE, NSE

Indicative Timeline	On or before
Finalization of Basis of Allotment	February 5, 2019
Unblocking of Funds	February 6, 2019
Credit of shares to Demat Account	February 7, 2019
Listing on exchange	February 8, 2019

Other Detail	
Book Running Lead Managers	JM Financials Limited, Axis Capital Limited, Morgan Stanley India Private Limited
Registrar	Karvy Fintech Private Limited

Chalet Hotels Limited

Company Background

Incorporated in 1986, Chalet Hotels Limited (CHL) is part of leading property developers K. Raheja Group. CHL manages the hospitality business of the group and owns high end hotels in metros. Hotels are 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 India Private Limited and its affiliates.

Currently, CHL owns five hotels across Mumbai, Navi Mumbai, Hyderabad, and Bengaluru along with a service residence property having total 2328 keys. The company works on an asset management model and has forte in building and operating in a very cost-efficient manner.

Issue Details

IPO offers 5.86Cr shares of face value Rs.10 each amounting to Rs.1641 Cr on the upper price band of Rs.280 per share. Out of total shares, promoters will offload 2.46Cr shares through Offer for Sale and fresh issue would comprise 3.39Cr shares. For the OFS, selling shareholders include 55.50 lakh shares each by Ravi C. Raheja and Neel C. Raheja, 1.07 crore shares by the K. Raheja Corp, 8 lakh by Palm Shelter Estate, and 20 lakh by Ivory Properties & Hotels. Overall issue will dilute 29% of the total issued share capital.

Objectives of the Issue are:

- Prepayment of debts up to Rs.720Cr from the proceeds of the fresh issue.
- Remaining proceeds will be used for general corporate purposes and offer expenses.

IPO share allotment pattern

Category	Allocation	Number of Shares	Issue Size (Rs.Cr) at	
			Lower Band (Rs. 275)	Upper Band (Rs.280)
QIB	50%	2,93,06,786	806	821
Non Institutional	15%	87,92,036	242	246
Retail	35%	2,05,14,750	564	574
Total	100%	5,86,13,571	1612	1641

Source: Company RHP, ACMIIL

Outlook and Valuations

Chalet Hotels is a leading hospitality player with luxurious upscale hotels across the strategic locations being high density business districts. Moving further, they are building five new properties across Powai, Navi Mumbai, Bengaluru and Hyderabad. At the upper price band, asking price is at a P/BV of 10.24x (FY18 basis), making the issue overpriced and the company books carry heavy debts. Hence, **we are keeping the recommendation as UNRATED.**

Business Overview

Being part of K. Raheja Group, CHL has forte in designing, developing, and maintaining luxury upscale hotels. They follow an asset management model where in hotel property

Distribution Team

E: ipo@acm.co.in
D: +91 22 6132 5931

Analyst

Vrinda Aditya
E: vrinda.aditya@acm.co.in
D: +91 22 2858 3209

is owned by Chalet hotels and operated by international brands like Marriot and Sheraton. Currently, they operate five hotels across Mumbai, Hyderabad, and Bengaluru with an average occupancy of 73.82%.

CHL's operational assets include:

- JW Marriott, Mumbai Sahar with 585 keys
- Marriott Hotel, Whitefield, Bengaluru with 391 keys
- The Westin Hyderabad, Mindspace with 427 keys
- Four Points by Sheraton Navi Mumbai, Vashi with 152 keys
- Renaissance Mumbai Convention Centre Hotel with 600 Keys
- Lakeside Chalet, Mumbai- Marriott Executive Apartments with 173 Keys

Key Points

Presence across metros with Marriott

CHL have expertise in luxury five star hotels and holds property across Mumbai, Hyderabad, and Bengaluru operated by Marriott Hotels India Private Limited and its affiliates. Currently, the company has 2328 keys cumulatively of which 2176 keys are in 5 star deluxe luxury hotels and 152 keys are in 4-5 star hotels with average room occupancy of 73.82%. CHL is adding another 580 keys, which will be operational by FY22. Ongoing Projects are:

- Hyatt Regency at Airoli, Navi Mumbai with 260 keys, will be operational by September 2021
- W at Renaissance Complex, Powai with 150 keys, will be operational by September 2021
- Westin at Hyderabad with 178 keys, will open by April 2021

Commercial and Residential projects

CHL are into mixed use commercial and residential developments with ~483 thousand sq.ft of commercial space and ~384 thousand sq.ft Retail space. Besides hotel property they develop commercial units on the attached land parcels for optimum land utilization and diversified revenue generation. Commercial segment is just 10% of the total business revenue which would increase subsequently as company is expanding this segment which would add ~1.12mn sqft of property. Currently, following projects are ongoing,

- commercial project at Whitefield, Bengaluru with 109Ksq.ft leasable area and 100% occupancy.
- Inorbit Mall, Whitefield, Bengaluru with 260 Ksq.ft leasable area and 91% occupancy.
- The Orb at Sahar Mumbai with 123 Ksq.ft leasable area which would commence operations by the end of FY19
- Business Centre and Office, Sahar Mumbai at 374 K sq.ft leasable area which would be operational by the end of H1FY20.
- Renaissance Complex, Powai with total built up area of 700Ksq.ft, will open by CY2021.

Well placed to grow with industry growth

Factors like growth in per capita income, changing demographic dynamics, rising urbanization, growth in travel, and higher discretionary spending trends are expected to assist the growth of the hospitality industry in India. CHL's presence across the metro cities makes it well placed to benefit from the potential growth opportunity. Further, the availability of land with the company in proximity to existing assets for further expansion and high entry costs to develop projects in metro cities provides an advantage in relevant micro-markets.

Financials

During FY14-18, CHL's revenue has grown at a CAGR of 15.81% to Rs.9295mn in FY18 significantly due to its hospitality business. A minor 10% of the revenue is generated from its commercial and residential developments, which the management believes will surge once the projects in pipeline are operational. During FY14-18, EBITDA grew at a CAGR of 22.8% to Rs.3501mn in FY18, maintaining 38% margins. For FY18 net profits were 312mn with 3.35% margins. For H1FY19, revenue / EBITDA / PAT were Rs.4970mn / Rs.1,340mn/ (Rs.437mn) respectively. Their books has a humongous debt of Rs.25,000mn out of which 7,000mn would be prepaid from the IPO proceeds.

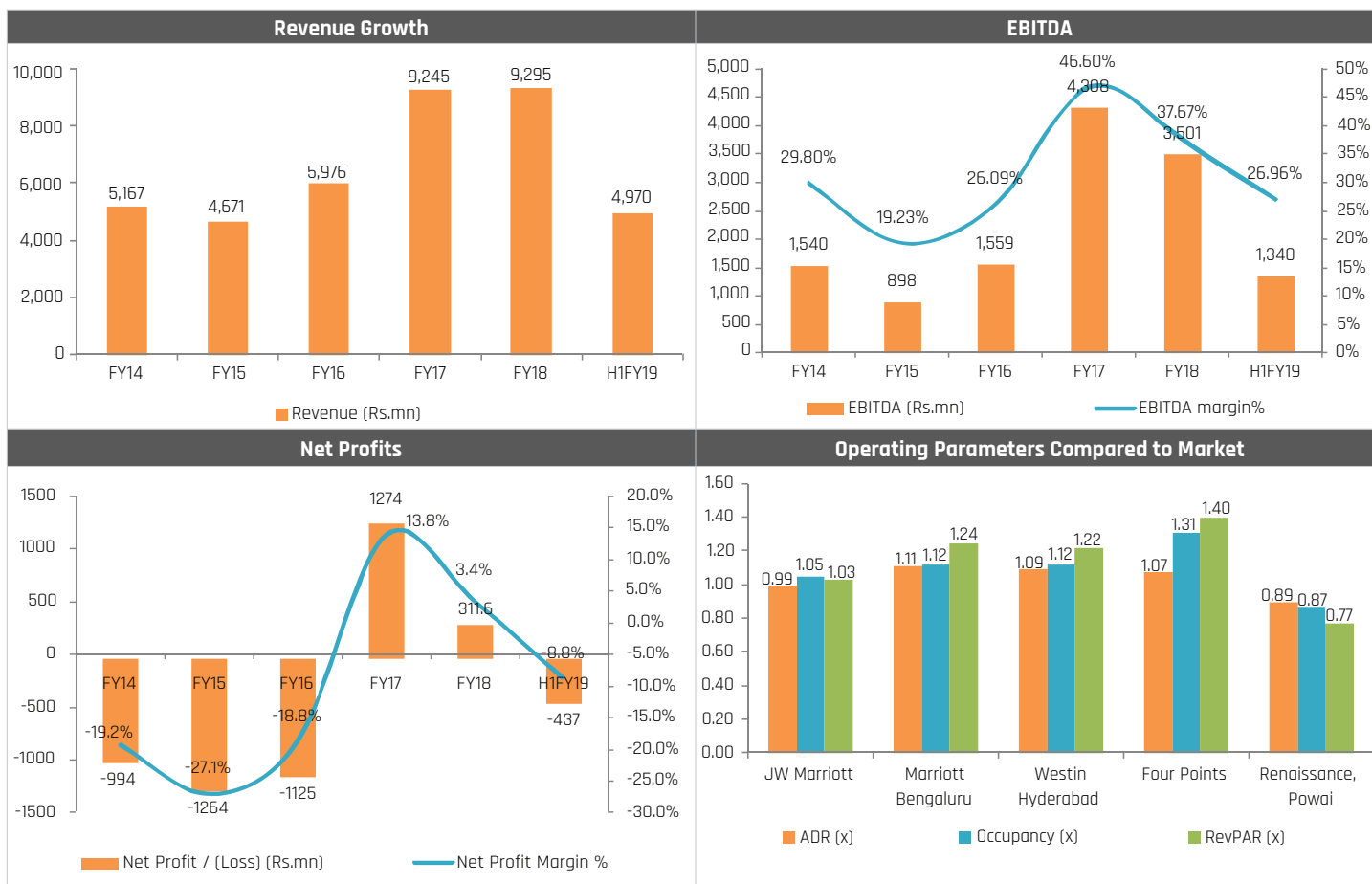
Risk Factors

- **Dependence on single brand:** CHL have tied up with Marriott only for its operations. Any modification in agreement or termination of deal with Marriott would adversely affect the business.
- **Concentrated Revenue stream:** CHL generates significant portion of revenues from its five hotels situated in selective geographies. This adds to geographical risk for the company.
- **Leverage:** The company is carrying a high debt of Rs.25000mn which gives debt equity of 5x. Any delay or non repayment of debt would impact adversely.

Peer Comparison

Name of the company	Standalone/ Consolidated	Total Revenue (Rs. mn.)	Face Value	EPS (Basic)	NAV	P/BV	RoNW(%)
Chalet Hotels Ltd	Consolidated	9295	10	1.66	1.82	10.2	6.20%
The Indian Hotels Company Ltd	Consolidated	41,653	1	41.69	0.91	3.2	2.09%
EIH Ltd	Consolidated	17,048	2	51.66	3.14	3.5	6.63%
Lemon Tree Hotels Ltd	Consolidated	493	10	15.81	0.18	4.2	1.17%

Note: Based on Consolidated Statements as at March 31, 2018.



Source: Company RHP, ACMIIL

Financials

Income statement

Particulars (Rs.mn)	FY14	FY15	FY16	FY17	FY18	H1FY19
Revenue from operations	4576	4406	5,729	7,059	8,738	4699
Other income	591	265	246	2,187	557	271.75
Total Revenues	5,167	4,671	5,976	9,245	9,295	4,970.43
Expenses						
Real estate development costs	696	350	254	208	195	317
Food and beverages consumed	409	427	604	667	766	431
Operating supplies consumed	122	306	190	218	256	118
Employee benefits expense	680	862	1,067	1,188	1,296	727
Other expenses	1720	1,828	2,302	2,655	3,281	2038
Total expenses	3627	3773	4417	4937	5,794	3,631
EBITDA	1540	898	1559	4308	3,501	1,340
EBITDA Margin %	29.80%	19.23%	26.09%	46.60%	37.67%	26.96%
Depreciation and amortisation expenses	596	618	988	1,270	1,116	569
Finance costs	1369	1606	2,159	2,180	2,119	1,399
(Loss)/profit before exceptional items and tax	-425	-1,325	-1,588	859	266	-628.42
Exceptional items	-838	-83	-72	-68	-54	0
Profit before tax	-1,264	-1,408	-1,660	791	212	-628
Tax (credit)/expense	-270	-144	-535	-483	-100	-192
Current tax	65	0	0	0	-	0
Deferred tax (credit)	-335	-144	-535	-483	-99.74	-191.73
Net Profits / (Loss)	-994	-1,264	-1125	1274	311.6	-437
PAT Margin %	-19.24%	-27.06%	-18.83%	13.78%	3.35%	-8.79%
EPS	-6.53	-8	-7.39	8	1.66	-3

Source: Company RHP, ACMIL

Balance sheet

Particulars (Rs.mn)	FY14	FY15	FY16	FY17	FY18	H1FY19
Non-current assets						
Property, plant and equipment	11,119	19,369	19,302	21,706	21,211	20,929
Capital work-in-progress	5,774	545	374	269	276	228
Investment property	1,596	3,503	4,525	6,424	6,737	6,710
Goodwill	37	37	37	226	226	226
Other intangible assets	6	41	38	30	19	12
Financial assets						
(i) Investments	115	128	474	3	43	43
(ii) Loans	156	111	117	105	114	102
(iii) Others	0	0	0	0	50	50
Deferred tax assets (net)	407	449	834	982	952	1,175
Other non-current assets	294	252	116	111	92	106
Non-current tax assets (net)	82	166	214	339	463	458
Total non current assets	19,586	24,601	26,030	30,196	30,182	30,039
Current assets						
Inventories	4,021	4,291	4,331	4,264	4,189	3,975
Financial assets						
(i) Trade receivables	157	101	181	296	539	534
(ii) Cash and cash equivalents	928	179	215	228	295	341
(iii) Bank balances	97	139	132	103	22	21
(iv) Loans	1,835	972	1,356	1,793	2,349	1,633
(v) Others	189	12	0	39	207	286
Other current assets	308	344	414	460	517	560
Total current assets	7,534	6,037	6,629	7,184	8,118	7,349
Assets classified as held for sale	4,346	3,764	2,870	0	0	0
Total Assets	31,466	34,402	35,529	37,380	38,300	37,388
Equity And Liabilities						
Equity						
Equity share capital	1,521	1,521	1,521	1,521	1,711	1,711
Other equity	5,125	4,840	3,691	3,190	3,313	2,963
Total equity	6,646	6,362	5,212	4,712	5,024	4,674
Non current liabilities						
Financial liabilities						
(i) Borrowings	14,206	15,387	19,023	20,506	22,152	23,484
(ii) Others	15	27	53	119	152	116
Provisions	37	51	56	58	38	43
Deferred tax liabilities (net)	1,018	1,202	1,079	699	592	621
Other non-current liabilities	0	0	0	21	28	34
Total non current liabilities	15,276	16,666	20,210	21,403	22,962	24,298
Current liabilities						
Financial liabilities						
(i) Borrowings	1,414	1,808	2,583	3,247	1,634	1,195
(ii) Trade payables	589	599	652	847	859	805
(a) Due to micro and small enterprises	0	0	1	2	5	6
(b) Due to other than micro and small enterprises	589	599	651	845	854	799
(iii) Other financial liabilities	2,394	4,302	2,319	3,038	3,762	2,573
Other current liabilities	3,955	3,493	3,334	2,985	3,102	2,861
Provisions	1,191	1,171	1,219	1,149	959	983
Total current liabilities	9,544	11,373	10,107	11,265	10,315	8,416
Total Equity & Liabilities	31,466	34,402	35,529	37,380	38,300	37,388

Source: Company RHP, ACMIIL

Asit C. Mehta

INVESTMENT INTERMEDIATES LTD.

Retail Research Desk:

Akhil Rathi	D: 91 22 2858 3210
Hrishikesh Yedve	D: 91 22 2858 3207
Vrinda Aditya	D: 91 22 2858 3209
Neeraj Sharma	D: 91 22 2858 3208
Rohan Gawale	D: 91 22 2858 3213
Dhiral Shah	D: 91 22 2858 3211

Email: retailresearch@acm.co.in

Research Analyst Registration Number:

INH000002483

CIN: U65990MH1993PLC075388

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