


**BUY**

Target Price

**975**

## Riding the Upcycle; Maintain Buy

**Est. Vs. Actual for Q2FY25:** Revenue – **INLINE**; EBITDA Margins – **INLINE**; PAT – **INLINE**

### Changes in Estimates post Q2FY25:

**FY25E/FY26E:** Revenue: 26.7%/46.8%; EBITDA Abs.: 11.6%/24.6%; PAT: -4.3%/-5.5%

### Recommendation Rationale:

- The hospitality business reported an 18% YoY growth, with ARR increasing to Rs 10,532 (+2.3% YoY) and occupancy reaching 74%, an improvement of 82 basis points YoY.
- The MMR and other regions reported RevPAR growth rates of 9% and 12% YoY, respectively. Rental annuity saw strong growth of 40%, driven by new leases made and signed.
- Consolidated margins stood at 39.7%, down by 39 basis points YoY due to one-time expenses such as advertising and credit rating fees. The company's Adjusted PAT was Rs 63 Cr, marking a 73% YoY increase.

### Sector Outlook: Positive

**Company Outlook & Guidance:** The hospitality industry upcycle is expected to be long and sustained. According to Horwath HTL's prediction, demand is projected to grow over 10% annually for the next 3-4 years, while supply, at 7%, will continue to lag behind demand. Foreign Tourist Arrivals (FTA) reached 92 Lc in FY24, and corporate travel expenses under MICE remain below pre-COVID levels.

**Current Valuation:** PE 29.4x for FY26E earnings

**Current TP:** Rs 975/share (Earlier TP: Rs 975/share)

### Recommendation: BUY

**Financial Performance:** Chalet Hotels reported consolidated revenue and EBITDA growth of 20% and 19% YoY, respectively, aligning with expectations. In Q2FY25, this growth was significantly supported by both domestic and international travel, as well as wedding events. Within the portfolio, Hyderabad led in occupancy improvement, while Bangalore, followed by Hyderabad, drove room rate growth.

The Hospitality business reported a growth of 18% YoY. ARR (Average Room Rate) increased to Rs 10,532 (+2.3% YoY), with occupancy reaching 74%, an improvement of 82bps YoY.

In comparison, the MMR and other regions reported RevPAR growth rates of 9% and 12% YoY, respectively. Rental Annuity reported strong growth of 40%, driven by new leases.

Consolidated margins were at 39.7%, down by 39 basis points YoY, impacted by one-time expenses such as advertising and credit rating fees. The company's Adjusted PAT stood at Rs 63 Cr, reflecting a 73% YoY increase. Management indicated that real estate realization in the top line is expected to begin from Q4FY25E onwards.

**Outlook:** The hospitality industry upcycle is anticipated to be long and sustained. According to Horwath HTL, demand is expected to grow at over 10% annually over the next 3-4 years, with supply continuing to lag. Foreign Tourist Arrivals (FTA) reached 92 Lc in FY24, while corporate travel expenses under MICE remain below pre-COVID levels. Upcoming events like the World Cup hockey and Kabaddi championships could further boost occupancies in the coming quarters. The leisure segment is already a significant driver in the hotel industry, and these factors are expected to benefit IHTL in the quarters ahead.

**Valuation:** Factoring impressive revenue growth and revenue recognition of residential units to be kicked in from Q4FY25E. we value the stock at P/E of 29.4x for FY26E to arrive at the TP of 975/share.

### Key Financials (Consolidated)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance %
Net Sales	377	4%	20%	367	2.7
EBITDA	150	7%	19%	149	0.3
EBITDA Margin	39.7%	81	-39	40.6%	0.0
Net Profit(Adjusted)	63	4%	73%	65	-2.8
EPS (Rs)	2.9	0.0	0.0	3.0	-2.8

Source: Company, Axis Securities Research

(CMP as of 25<sup>th</sup> October 2024)

CMP (Rs)	846
Upside /Downside (%)	15%
High/Low (Rs)	958/535
Market cap (Cr)	19,000
Avg. daily vol. (6m)Shrs.	1,26,280
No. of shares (Cr)	21.81

### Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoter	71.7	67.5	67.5
FII	4.2	6.8	7.0
MFs / UTI	17.8	19.3	19.4
Others	6.3	6.3	6.1

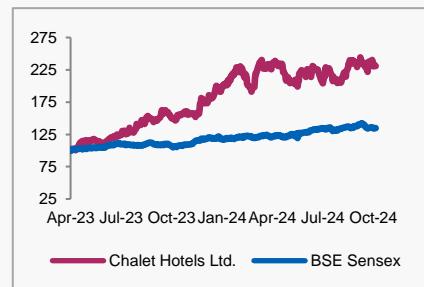
### Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	1,417	2,135	2,821
EBITDA	585	865	1,100
Net Profit	278	423	586
EPS (Rs.)	13.6	19.4	26.9
PER (x)	65.6	45.9	33.1
EV/EBITDA (x)	36.0	24.6	18.9
P/BV (x)	9.9	5.9	5.0
ROE (%)	15.0	12.9	15.2

### Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	26.7%	46.8%
EBITDA	11.6%	24.6%
PAT	-4.3%	-5.5%

### Relative performance



Source: ACE Equity

### Ankush Mahajan

*Research Analyst*

Email: ankush.mahajan@axissecurities.in

### Aman Goyal

*Research Associate*

Email: aman.goyal@axissecurities.in

### Key Risks to Our Estimates and TP

- The economic slowdown in India may impact demand for the travel industry.
- An increase in supply could impact the realizations of the company.
- Negative operating leverage is a big hurdle to sustaining EBITDA margins.
- Delay in commissioning the projects

### Change in Estimates (Rs Cr)

	New		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	2,135	2,821	1,685	1,921	26.7%	46.8%
EBITDA	865	1,100	775	883	11.6%	24.6%
PAT	423	586	442	620	-4.3%	-5.5%

Source: Company, Axis Securities Research

**Results Review**

Particulars (Rs Cr)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)
<b>Net Sales</b>	315	374	418	361	377	20%	4%
<b>Growth (YoY%)</b>	27%	29%	24%	16%	20%		
Total Expenditure	189	208	235	221	228	21%	3%
Raw Material Consumed	24	28	29	27	27		
<b>Gross Profits</b>	291	345	389	334	350		
% of sales	8%	8%	7%	7%	7%		
<b>Gross margins (%)</b>	92.4%	92.4%	93.1%	92.6%	92.8%	42	21
Employee Expenses	47	49	52	55	54		
% of sales	15%	13%	12%	15%	14%		
Other Expenses	117	131	155	139	146		
% of sales	37.3%	34.9%	37.0%	38.6%	38.8%		
<b>EBITDA</b>	126	166	183	140	150	19%	7%
<b>EBITDAM (%)</b>	40.0%	44.4%	43.7%	38.8%	39.7%	-39	81
Interest	50	48	53	32	34		
Depreciation	35	35	37	39	43		
Other Income	4	6	6	8	6		
Exceptional Items	0	0	0	0	0		
PBT	44	89	99	78	79	78%	2%
Tax	8	18	17	17	218		
Tax (%)	18%	20%	17%	22%	276%		
<b>Reported PAT</b>	36	71	82	61	-139		
<b>Adjusted PAT</b>	36	71	82	61	63	73%	4%

Source: Company, Axis Securities Research

**Segment Breakup**

Particulars (Rs Cr)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Occupancy %	73	65	76	70	74
ARR (Rs)	9,610	10,168	11,862	10,317	10,532
RevPAR (Rs)	7,033	6,638	8,990	7,181	7,756
Room Revenue	175	181	205	238	200
F & B Revenue	87	82	113	119	104
Other Revenue	21	21	25	26	21
Hospitality Revenue	282	284	343	383	326
Annuity Rental	29	30	30	35	36

Source: Company, Axis Securities Research

## Financials (consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Net Sales	1,417	2,135	2,821	2,830
Growth (%)	25.6%	50.6%	32.1%	0.3%
Total Expenditure	833	1,270	1,721	1,650
Raw Material Consumed	106	192	254	255
Gross margins (%)	92.6%	91.0%	91.0%	91.0%
Employee Expenses	195	288	381	382
% of sales	13.7%	13.5%	13.5%	13.5%
Other Expenses	533	790	1,086	1,013
% of sales	37.6%	37.0%	38.5%	35.8%
<b>EBIDTA</b>	<b>585</b>	<b>865</b>	<b>1,100</b>	<b>1,180</b>
<b>EBITDAM (%)</b>	<b>41.2%</b>	<b>40.5%</b>	<b>39.0%</b>	<b>41.7%</b>
Depreciation	138	159	174	194
% of GB	3.6%	3.6%	3.6%	3.6%
EBIT	446	705	926	986
EBITM (%)	31.5%	33.0%	32.8%	34.9%
Interest	197	175	166	157
Other Income	20	20	22	24
Share of P/L of Associates	0	0	0	0
PBT	269	550	781	853
<b>Tax Rate (%)</b>	<b>23.7%</b>	<b>23.0%</b>	<b>25.0%</b>	<b>25.0%</b>
Tax	-9	126	195	213
<b>Reported PAT</b>	<b>278</b>	<b>423</b>	<b>586</b>	<b>640</b>

Source: Company, Axis Securities Research

### Balance Sheet

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Share Capital	205	218	218	218
Reserves & Surplus	1,646	3,054	3,640	4,279
Net Worth	1,851	3,272	3,857	4,497
Total Loan funds	2,950	1,950	1,850	1,750
Deferred Tax Liability	-162	-162	-162	-162
Long Term Provisions	12	12	12	12
Other Long Term Liability	120	181	240	240
<b>Capital Employed</b>	<b>5,587</b>	<b>6,055</b>	<b>6,538</b>	<b>6,924</b>
Gross Block	3,854	4,424	4,844	5,384
Less: Depreciation	1,293	1,452	1,627	1,820
Net Block	2,561	2,972	3,217	3,563
Investments	1	1	1	1
Sundry Debtors	55	88	116	116
Cash & Bank Bal	132	119	427	658
Loans & Advances	121	149	197	198
Inventory	542	432	222	22
Other Current Assets	31	43	56	57
Total Current Assets	1,913	898	837	683
CurrLiab&Prov	882	831	1,019	1,052
Net Current Assets	-1,031	-67	182	369
<b>Total Assets</b>	<b>5,587</b>	<b>6,055</b>	<b>6,538</b>	<b>6,925</b>

Source: Company, Axis Securities Research

**Cash Flow**

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
PBT	269	550	781	853
Add: Depreciation	138	159	174	194
Add: Interest	197	175	166	157
Cash flow from operations	604	884	1,122	1,204
Change in working capital	516	-113	-68	-38
Taxes	-9	126	195	213
Net cash from operations	97	871	995	1,029
Capital expenditure	-630	-570	-420	-540
Net cash from investing	-633	-707	-420	-540
Increase/Decrease in debt	729	-1,000	-100	-100
Dividends	0	0	0	0
Proceedings from equity	0	13	-0	0
Interest	-197	-175	-166	-157
Others	13	985	0	0
Net cash from financing	546	-177	-267	-257
Net Inc./(Dec.) in Cash	10	-14	308	232
Opening cash balance	122	132	119	427
Closing cash balance	132	119	427	658

Source: Company, Axis Securities Research

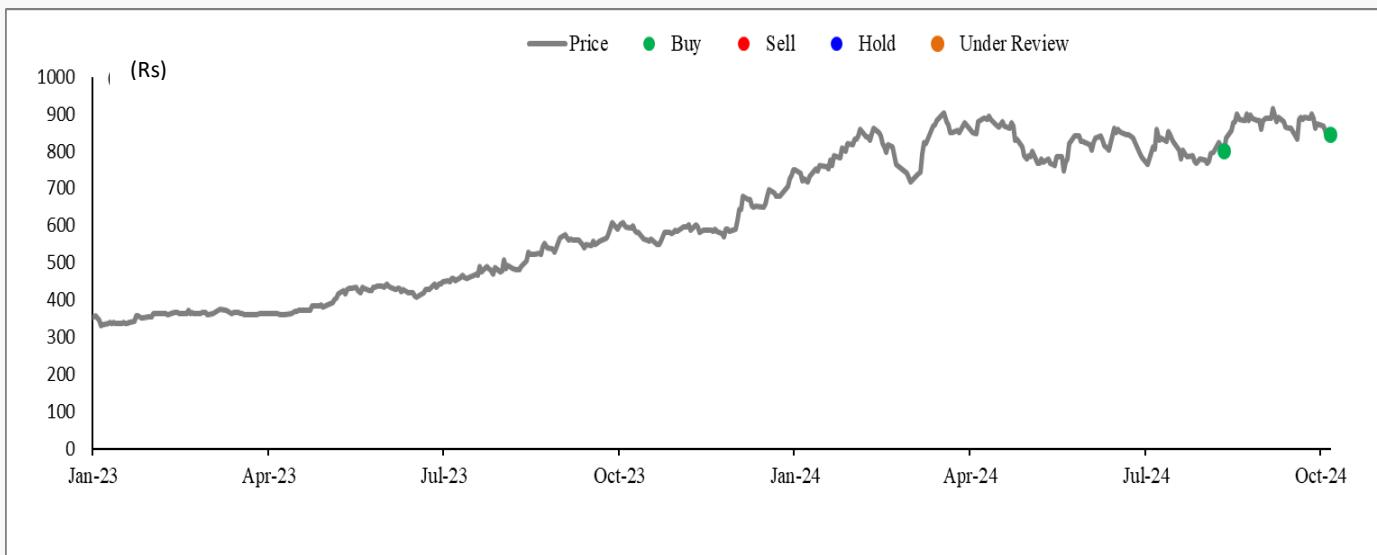
**Ratio Analysis**

(%)

Y/E March	FY24	FY25E	FY26E	FY27E
Sales growth	<b>25.6</b>	<b>50.6</b>	<b>32.1</b>	<b>0.3</b>
<b>OPM</b>	<b>41.2</b>	<b>40.5</b>	<b>39.0</b>	<b>41.7</b>
Oper. profit growth	39.9	47.9	27.2	7.3
COGS / Net sales	7.4	9.0	9.0	9.0
Overheads/Net sales	51.3	50.5	52.0	49.3
<b>Depreciation / G. block</b>	<b>3.6</b>	<b>3.6</b>	<b>3.6</b>	<b>3.6</b>
Effective interest rate	23.7	23.0	25.0	25.0
Net wkg.cap / Net sales	0.0	(0.0)	(0.0)	(0.1)
Net sales / Gr block (x)	0.4	0.5	0.6	0.5
<b>RoCE</b>	<b>9.2</b>	<b>13.9</b>	<b>18.3</b>	<b>19.0</b>
Debt/equity (x)	1.6	0.6	0.5	0.4
Effective tax rate	23.7	23.0	25.0	25.0
<b>RoE</b>	<b>15.0</b>	<b>12.9</b>	<b>15.2</b>	<b>14.2</b>
Payout ratio (Div/NP)	0.0	0.0	0.0	0.0
<b>EPS (Rs.)</b>	<b>13.6</b>	<b>19.4</b>	<b>26.9</b>	<b>29.3</b>
EPS Growth	51.8	52.1	38.4	9.2
CEPS (Rs.)	20.3	26.7	34.9	38.2
DPS (Rs.)	0.0	0.0	0.0	0.0

Source: Company, Axis Securities Research

## Chalet Hotels Price Chart and Recommendation History



Source: Axis Securities Research

Date	Reco	TP	Research
30-Aug-24	BUY	975	Initiating Coverage
28-Oct-24	BUY	975	Result Update

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Compliance Officer Details: Name – Mr. Maneesh Mathew, Tel No. – 022-68555574, Email id – [compliance.officer@axisdirect.in](mailto:compliance.officer@axisdirect.in);

Registered Office Address – Axis Securities Limited, Unit No.002, Building- A, Agastya Corporate Park, Piramal Realty, Kamani Junction, Kurla (W), Mumbai – 400070.

Administrative office address: Axis Securities Limited, Aurum Q Parc, Q2 Building, Unit No. 1001, 10th Floor, Level – 6, Plot No. 4/1 TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai, Pin Code – 400710.

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HOLD	Between 10% and -10%
SELL	Less than -10%
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UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
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Note: Returns stated in the rating scale are our internal benchmark.