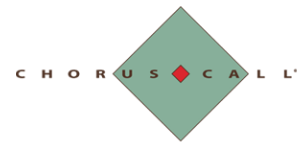
"The Indian Hotels Company Limited Quarter Ended September 30, 2024 Earnings Conference Call"

November 07, 2024



MANAGEMENT: **PUNEET CHHATWAL – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – THE INDIAN HOTELS COMPANY LIMITED**

MR. ANKUR DALWANI – EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER – THE INDIAN HOTELS COMPANY LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to The Indian Hotels Company Limited earnings conference call for the quarter ended September 30, 2024. On the call, we have with us Mr. Puneet Chhatwal, Managing Director and CEO, IHCL; and Mr. Ankur Dalwani, EVP and CFO, IHCL. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touch-down phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Puneet Chhatwal. Thank you, and over to you, Mr. Chhatwal.

Puneet Chhatwal: Good evening, everyone, and thank you for joining our global conference call for Q2 '24-25. We are pleased to inform you that we continued our record performance for the 10th consecutive quarter, on the back of continued growth momentum and key strategic initiatives, which have been yielding results.

I'll now outline the 10 key highlights of the quarter. Number one, hospitality sector continues to be in an up cycle. Driven by strong domestic demand, limited supply addition and favourable demographics, the hospitality sector continues to be in an up cycle. In Q2, demand grew 7% as against supply growing only at 2% versus Q2 of last year. This trend is expected to sustain in the mid- to long term, with rise in disposable incomes, addition of new tourist destinations and evolving traveller behaviors. Number two, robust performance in Q2 beats Q1 in seasonally weak quarter.

Ladies and gentlemen, for the first time, our enterprise revenue has crossed INR3,000 crores for the quarter and INR6,000 crores for the first half of the year. On a consolidated basis, IHCL delivered record performance in Q2, with 28% revenue growth and 270 points margin expansion as against the same period last year. Our consolidated revenue and EBITDA for the quarter, considering consolidation of TajSATS, stood at INR 1,890 crores and INR 565 crores, respectively, with an expanded EBITDA margin of 29.9%. Our reported profit after tax stood at INR555 crores, which was also bolstered by an exceptional accounting gain.

I repeat, which was bolstered by an exceptional accounting gain of INR307 crores on the consolidation of TajSATS. Excluding this exceptional item, our PAT still grew by 48% to INR247 crores. IHCL's hotel segment showcased 16% revenue growth in Q2, taking the H1 revenue growth to 11%, which, ladies and gentlemen, is very much in line with our guidance for double-digit growth, which we also expect to accelerate further in the second half of the year, to which I'll come a little later towards this presentation.

Our stand-alone performance in Q2 was also the best-ever, with 19% growth in revenue to INR1,125 crores and EBITDA margin expansion by 390 basis points to 38.6%. Stand-alone PAT grew 62% to INR254 crores, taking PAT margin to 22.6%. Number three, double-digit RevPAR growth across all brands. All our hotel brands showcased double-digit RevPAR growth on a like-for-like basis, with the iconic Taj brand delivering 13% RevPAR growth.

Taj achieved double-digit growth in average room rates. I repeat, Taj achieved double-digit growth in average room rates, highlighting the strong demand witnessed in domestic luxury travel. This strong performance helped IHCL command a RevPAR premium of 66% over the industry in the Indian market, thus maintaining the premium positioning in each of the segments we operate in. Number four, on track for yet another record year of portfolio growth. In the period of April to October 2024, we have signed 42 hotels and opened 14 hotels.

As guided earlier, we have accelerated our pace of growth, with our monthly run rate increasing to 6 hotels signed and two hotels opened till date in the current financial year. We achieved a milestone of 350 hotels portfolio, with more than 230 hotels operational and continue to expand our market share of both operational and active supply inventory. Number five, one of our key pillars of growth, which is capital-light growth, that has been a key margin driver. On the back of our capital-light growth strategy, our management fees in Q2 has touched INR100 crores for the first time.

This indicated an increase of 15% over the same period last year on the back of 11% net unit growth of managed hotel rooms. Management fee income has a high flow-through that's helping enhance the overall margin profile. Number six, new businesses shined with 47% growth in Q2. Our new businesses vertical comprising Ginger, Qmin, ama Stays & Trails; delivered a 47% growth in Q2 consolidated revenue.

This year marks the achievement of a key milestone with Ginger achieving 100 hotels portfolio, with 70 hotels operational. Ginger's consolidated revenue grew 56% year-on-year to INR 133 crores, while expanding EBITDAR margin to 42%. Qmin has now grown to 52 outlets. And in addition to being the F&B brand for Ginger Hotels, Qmin is now expanding to Westside stores in a shop-in-shop format and to airports in collaboration with TFS. ama Stays & Trails continues to scale and has a portfolio of 227 bungalows today, with 116 in operations. Number seven, completion of the consolidation of TajSATS.

In line with our strategy of simplifying the holding structure, TajSATS is fully consolidated in IHCL. And this has happened for over two months in Q2. TajSATS clocked a revenue of INR254 crores, growing 19% over the previous year, with the EBITDA margin at an industry-leading 24%. TajSATS continues to lead the market with 59% share of meals served in the skies.

Number eight, brandscape expansion continues as we have done in the past. We have relaunched our Gateway brand in a fresh new avatar. Gateway is our full-service hotel brand in the upscale segment, designed to be the gateway to each destination and equipped with quality accommodations and large banqueting facilities. Gateway will help us capture the immense growth opportunities in emerging cities, in metro cities, as well as in Tier two and Tier three locations of India.

The Gateway brand has a portfolio of 22 hotels today, and we expect to scale this brand to 100 hotels by 2030. IHCL has also entered into a contract with Claridges Hotels Private Limited to license the brands, The Claridges and Claridges collection for India and Nepal. The Claridges has a strong luxury position, with marquee present in New Delhi.

Starting April 1, 2025, IHCL will manage the Claridges New Delhi as a part of this arrangement. This gives IHCL an opportunity grow in luxury space with a differentiated offering distinct from the Taj. Further expanding our brandscape to boutique experiential stays, IHCL has entered into shareholders and a share purchase agreement to acquire 55% in Rajscape Hotels Private Limited for an investment of INR18 crores, which owns the brand Tree of Life and currently operates 17 hotels, with two in pipeline.

Number nine, our key enablers. Our Tata Neu loyalty program now has almost seven million members, with loyalty-led contribution rising to 42% of our enterprise revenue. This number of loyalty members stood at 6.5 at the end of Q2, but is rising by leaps and bounds every day.

The unwavering loyalty of our customers is visible in our increasing enterprise NPS scores, which stood at 74.9 for H1, up from 73 in the last financial year '23-'24. We continue to stay focused on achieving our stated goals under Paathya. IHCL now uses 38% energy from renewable sources and recycles 45% of water. IHCL also partners and operates 37 skill centers today across 15 states in India. And this number is rising every month. Lastly, I come to our confidence of delivering double-digit revenue growth.

Some of you were skeptical in last quarter and thought that we might change the double-digit growth guidance. But if you look at the numbers, you will see in the first half, which is the weaker half, we've already achieved 11% and hope to deliver on the double-digit promise on a much higher base going forward in Q3 and Q4. With 30% higher, wedding dates and increase in foreign tourist arrivals expected in H2, we remain confident of comfortably delivering double-digit revenue growth, even excluding the positive impact of TajSATS.

I repeat, by excluding TajSATS, we still will do definitely more than 10% top line growth, whether it's 12 or 14 or 15, that the second half month by month we can tell, but this is our belief and confidence. And this is further bolstered by the sustained momentum we have witnessed in October. Some of you will recall at the call or during the call for Q1, I had mentioned a robust July growth, which could be almost 20%, which was the case. And October figures we already have, which is behind us, and we've had a 16.5% hotel segment revenue growth.

In summary, we expect to deliver strong revenue growth with sustained margins and continued portfolio growth, with a target to open 25 hotels in this financial year, going up to 30 in the next financial year and a higher number in the years that follow, with a pipeline of almost 120 hotels. Our focus also remains on scaling our new businesses, evolving our brandscape and strengthening our competitive advantages, with prudent capital allocation and strategic opportunities. Thank you so much for your attention. We now open the floor for questions.

Moderator: Thank you very much. We'll now begin with the question-and-answer session. The first question is from the line of Binay Singh from Morgan Stanley. Please go-ahead.

Binay Singh: Hi, team Congratulations on a very good set of numbers.

Puneet Chhatwal: Thank you, Binay.

Binay Singh: I'll just start with October. As we recall last October, we...

Moderator: Binay, sorry to interrupt you. We are losing your audio. Can you speak to the handset, please?

Binay Singh: Yes. I think this should be much better. So as we look at this October, very good to hear the commentary. But as I recall, last October, we had the World Cup in the base. And in fact, even when we look at the wedding calendar, we understand it's more November and December heavy versus last year. So could you share a little bit about what is driving this October performance? So that is the first question.

The second one is on other expenses. Anything to call out over there? We've seen them typically rise in Q2, but anything else to call off, which is more specific to this Q2? And the third question is on pipeline. This time, again, we've seen that the pipeline has increased. So with that, any revision you would like to make in terms of your annual capex number or anything on that? These three questions.

Ankur Dalwani: Binay, this is Ankur. So firstly, thanks for your comments. I think on Q2, on October, you are right, we did have a World Cup in the base. So to that extent, the performance is on top of that. If we actually did not have the World Cup event, roughly, that would have contributed about INR10-odd crores to our previous year's number, INR10 crores, INR12 crores number. I don't have the exact number. So that would have added another, I would think, 1.5-odd percentage to the growth.

I think the outlook for November, December continues to be strong. And with the points you mentioned about the wedding season coming up in November, and currently, the business on books also looks to be quite reasonably strong for us. And keep in mind this is sort of a big base & we are sort of working off. But overall, I think the momentum in October should continue, as we head to November and December. So I think that was your question on outlook for this quarter. What was your question on other expenditures. Binay, if you could repeat that?

Binay Singh: So we saw other expenses rise in quarter 2, which we have seen in the past also. But any one-off you would like to call out, anything specific to Q2?

Ankur Dalwani: No, I think if you're looking at -- I mean if you're looking at along with TajSATS consolidated numbers, that would have the impact of that coming in. But if you look at a segment report, which we give the -- if you look at the presentation on slide number 26, you will see that as a percentage of revenues, this has actually come down from 27-odd percent to 26%. And that is a scale which is at work here. There is actually some saving on stores and supplies over taxes. So nothing extraordinary in this. This is in line with the business growth. And overall, the cost control and cost focus continues to be very strong at our end.

Puneet Chhatwal: And finally, you had asked a question on the pipeline. We maintain that healthy balance of capitalizing on strategic opportunities where we can use capital. Otherwise, our focus remains on capital-light growth, especially for our new businesses and younger brands.

There is no change on that. But whatever other company-owned products are there, we are funding it from our own internal cash generation. For example, next year, we will be opening two hotels in Ekta Nagar, Kevadia, which is one Vivanta, one Ginger, or the recently opened Ginger in Santacruz, Mumbai, were all from internal accruals. There is no debt.

And we will continue to do that where it makes sense, that it's a brand-enhancing opportunity. It comes at a compelling price or is with a very good partner. Then we will do that and push especially our new and reimagined businesses forward so that they become significant contributors in the times to come.

Binay Singh: Right. No, that is very helpful. Any number we should build for investments or capex into FY '25, looking at the pipeline?

Puneet Chhatwal: Binay, no change. It stays at 4% to 5% of the revenue, is typically capital expenditure. Whatever one-offs we have been doing at some point, either we will keep them or we might do a sale and manage back on a sale and leaseback and recirculate. So there are some one-offs which might increase the total capex to 7% if we don't sell. But if we sell, then it will create extraordinary gain or capital gain.

So that all depends where the markets are, what kind of yields are expected, where the interest rates are. These are -- for us, there is no debt on these projects. So we are in a good position and not forced to take any kind of decision, which is not the most prudent one for the company.

Ankur Dalwani: Yes. we've said that the capex is about INR344 crores. This is actually for H1, right? INR344 crores for H1. I think -- and we overall guided for something like INR700 crores to INR800 crores for the year. I think that is pretty much on track for this year. And I think, longer term, when we do our Capital Market Day, we'll give you more colour on that.

Moderator: Next question is from the line of Shaleen from UBS Group. Please go-ahead.

Shaleen: Hi, thanks for the opportunity and congrats on a good set of numbers. So Ankur, you just mentioned about October that there was roughly impact of around INR10 crores, INR11 crores of, I think, World Cup. Is it possible to substantiate what would be the impact of G20, I think there's not much more much for World Cup, in 2Q?

Ankur Dalwani: Yes. G20 in Q2, I think it was...

Puneet Chhatwal: G20 was last year.

Ankur Dalwani: So you're saying if we were to adjust it, so I think...

Puneet Chhatwal: Don't go back and adjust, I think it's a good base. Hotel industry is on an up cycle, as I said. And without G20, without World Cup, we are still showing a double-digit growth. Last year, the questions were -- well, this year is G20, World Cup, what will you do next year? Now this year, the question is, what if we remove it from the base?

I think important is the fundamentals of the demand and supply is in favor of the sector. The fundamentals of India becoming fifth largest economy is in favor of the sector. The fundamentals of India moving towards third largest economy is in favor of the sector.

And finally, we are benefiting from strong domestic spend on leisure and on business, with the FTA, which is the foreign tourist arrival, yet to reach the pre-COVID level. And ideally, it's pre-

COVID plus another 20% after so many years would be the right level. So we have some way to go.

And we remain fairly, not cautiously, but fairly optimistic that we are getting there on a month-by-month basis. And by the time we finish this year, we should get very close to the pre-COVID foreign tourist arrivals.

And next year, that number will be overtaken and will be ahead, which will especially benefit our hotels in strategic -- or our strategic assets, especially our palace portfolio, which is experiential for foreign tourists and obviously, for all the business events that come with it in the key metros.

Ankur Dalwani: Just one point to add to what Chhatwal just said, I mean if you look at the citywide statistics, which we put out in the presentation, it will show you that New Delhi, for example, the RevPAR has grown only by 2% That is where the base -- the G20 base has actually had an impact.

And I think that's where -- if we were to kind of normalize that, this would have also been pretty healthy and close to double digits. And from what we showed in Q2, which was a 16-odd percent growth, this could have been a higher double-digit growth, essentially high teens than mid-teens.

Shaleen: Got it, sir. Got it. All right. Sir, also possible that 16.5% number, which you have given for October, any sense what is the contribution from ARR increase here?

Ankur Dalwani: ARR increase is...

Puneet Chhatwal: If you get to 16%-plus number, then your majority has to come from ARR. Because if you really look at occupancies, if your domestic occupancy is between 75% to 80%, and in key metros like Mumbai, Delhi, where it exceeds 80, Mumbai at 83, New Delhi at 84, as we've shared, and Chennai also beyond 80; then the majority of the increase will come through rate. And more than that, the occupancy is very difficult to achieve.

Shaleen: Then that means like at least close to double digits, if not more, right?

Puneet Chhatwal: We would like to say it's definitely slightly or marginally higher double digit.

Shaleen: Okay. That's great. That's great. And obviously, there is a World Cup in the base. Now -- and you said there is a higher wedding season in November and December -- days in November, December months. So there's a possible acceleration from what you have seen in October. But my point is, how should we think about margin, then? Then your margin expansion should be stronger in the third quarter, given that it's largely driven by ARR.

Puneet Chhatwal: I would like to agree with you, but it makes me a bit -- makes me smile a little bit. When we first did, 6.5 years ago, the first Capital Market Day, when we announced Aspiration 2022, and we said we will go to 25% margin, then there was a lot of skeptical people who thought 25%.

Now -- then we guided in our 33, then people said, "No, no, no, you should do more." And now we are going maybe beyond 33, mathematically. So I think there comes a ceiling that this -- our brands, our businesses, we look at it in perpetuity for next 25, 30, 50 years.

And more important is that even if we have the margins, the ability to invest in our businesses, new businesses, so they become a significant contributor is very important. But yes, we are looking at really industry-leading margins, not only on a domestic basis, but on a global basis today.

Shaleen: Could -- if you deliver a high-teens growth driven by ARR, your margin will expand, unless there is a big investment you're doing, right? So I mean, obviously, so much...

Puneet Chhatwal: I knew, at some point, you will answer it yourself. So why should I?

Ankur Dalwani: I mean the trend of operating leverage continues. I think that's something we can feel confident.

Moderator: Next question is from the line of Prateek Kumar from Jefferies India. Please go-ahead.

Prateek Kumar: Good evening, sir and congrats for great results. First question, on management fees income, which has grown probably 15% in first half year-on-year, do you see this number going at much faster rate in next year and year after because of much faster growth in rooms, maybe 20%-plus kind of number? That is the first question.

Puneet Chhatwal: I think, in a high-growth business, you should not only look at the percentage amount, but the absolute amount because when you open so many hotels and they're in their initial startup phase and you keep adding more and more in the startup, they have not all stabilized. So I think you have to look at the balance of the percentage growth with the absolute amount.

What we used to do 6 years ago in a full year, now we are doing as a management fee income in a quarter. That's the way to look at it and not like just a percentage. But you can look at both. I'm not saying don't exclude one or only look at it from this point of view.

From our point of view, it is that this management fee income has grown 4x, and it could grow further, if there was -- at a faster rate. If there was some kind of inorganic opportunity that came up, and we had a bunch of hotels which come -- not the one which I just projected, which are already established in the market, and it's like a going concern; then the growth could be faster.

But otherwise, if you keep adding new hotels, which started like 35%, 40%, 50% occupancy and at a lower rate and take three years to stabilize, then to get that percentage level higher is very difficult.

Prateek Kumar: Sure. The question is like if you see some of the other results in other sectors, including consumer and discretionary sectors, there's some undercurrent of some kind of slowdown in consumer spending, has been observed, which is clearly not appearing like the case -- in case of hotels.

So do you see any like sort of sense of -- I mean it's clearly not seen in hotels. Why is like there is a disconnect versus like some of the other sectors like sort of reporting? Or like is this really a supply-demand mismatch, which you talked about, that is helping the hotel sector in terms of the pricing?

Ankur Dalwani: I think you said it yourself because at the end of the day, hotels is a real estate business, it's all about location. And I think the fact that supply is lagging, demand is clearly evident from data you see Q1, Q2, even in a muted quarter as Q1, supply was far behind demand.

So, I think there to sort of pass on inflation, and something beyond inflation exists in the sector. And that cycle is now not coming to an end in a hurry. So, I think that trend is also holding up. So, what you see in other consumer sectors is typically not necessarily which can be applicable to a hotel industry because it does have its own cycle. And the visibility of that remains quite good for the near term.

Puneet Chhatwal: If I may add to just what has been said is ultimately, even if there is a slowdown, stronger brands are able to absorb it better. So, we remain confident that, firstly, we don't see any slowdown in our sector because of the demand supply.

But even if there should be one, all our brands are perceived as premium and from the -- from a very reliable, and very old institution. So I think we would always have that competitive advantage over other brands. So our share -- market share would help us get through those situations.

Prateek Kumar: And then last question on your Goa region trend. It is like sort of negative numbers for past two quarters. Is this related to like high base again and tourist choosing foreign locations versus Goa, in this case, in leisure segment?

Puneet Chhatwal: No. We are investing in the low season in Goa. We have renovated Holiday Village to a great extent. We have done same in Fort Aguada. So there is a lot of investment that has gone in because Goa was, if you remember, during the last phase of COVID and coming out of COVID; the first destination and was like a cash cow.

It had a high usage, and it was time to back your winners. Goa has been a winner for us. Together with Amas, we have crossed 50 units in Goa, more than 16 hotels, our latest we've opened today under IHCL selection. So I think all in all, we are very pleased with Goa, which has -- which is a RevPAR for us north of 11,000, 12,000, maybe 14,000 for the year. So I think this is the good time period. And you will see when we announced Q3 results, you will see a different Goa.

Ankur Dalwani: Goa, as was pointed out, has a very high base when it came out of the recovery COVID first. So I think actually consolidating is good, it is consolidating at this level. And we only see that taking kind of bounce back in Q3, Q4.

Moderator: Next question is from the line of Achal Kumar from HSBC. Please go-ahead.

Achal Kumar: Yes Hi. Thanks for taking my question and congratulations on the great set of numbers. I have three questions, if I may, please. First of all, going back to the RevPAR number for the quarter, so I just want to understand, and as Puneet mentions a very interesting point that you had a higher sale at luxury hotels or high end of the hotel; so is there -- I mean so do you see a bit of a switch in the consumers' behavior like they are opting more for the higher end of the hotels? Or do you see the addition to the public in that category, that brand? And on underline basis, if you

remove that impact of the better mix, on the underline like-for-like basis, how should we look at ARR growth?

And in line with this, going forward, how do you see -- do you see any squeeze in the ARR numbers between the quarters? So quarter-to-quarter, you have different variations, right? In one quarter, you have very high ARR when you have a lot of FTAs, foreign tourist arrivals, and all. But -- so now do you see a bit of a difference -- I mean, the lower variation between the quarters in ARR? So that is my first question. Secondly...

Puneet Chhatwal: So let me just answer question by question. So there is no squeeze. There will be a further increase in rates in all our brands. And you should not underestimate, as I said earlier to Prateek from Jefferies, the power of a brand. Today, Taj brand is a portfolio of more than 100 hotels, and it is in the key destinations outside of India as well as within India.

And nobody covers like Taj does the Indian domestic front. And with all other tools that we have in place with the new loyalty program with Tata Neu to our World's Strongest Hotel Brand to India's Strongest Brand across sectors, our ability to charge is higher, our ability to attract people is higher because we provide that circuit and network.

So we not only provide the typical Delhi, Agra, Jaipur, you're also in Banaras and you're also in Rishikesh, and you're also in different kinds of locations from Kercion to Darjeeling to-- we cover Taj in a very, very strong -- or Taj covers India in a very strong way in more than 50 spiritual destinations.

So I think it's the strength of the brand, and we are still -- although we have all these brands that have come up, the majority of our portfolio or I would say, 60%-plus is still very Taj-centric. 40% would be the rest.

So within that rest, Ginger is growing very rapidly. And so on both ends, on the top of the pyramid and at a mid-market level like Ginger, which we call the Lean Luxe, both is helping us to grow in a strong way. And that is helping us expand our rate.

So if you look at Ginger, also had a growth of double digit, which was not the case before. And it is going to grow faster than what you're seeing today. So -- and Taj, obviously, leads with 13%. But every other brand, every brand that we have in our brandscape is showing a double-digit growth.

Achal Kumar: Right. Sorry, Puneet, I think that was not very clear. What I was trying to understand is that for IHCL itself, what I'm trying to understand is that if the ARR difference between the Q2 and Q3 was, say, 25% historically, is that 25% number squeezing? I mean do you think -- or is that number maintained, right?

I mean now also, we expect Q3 to be like 20% higher than Q2 or whatever. So I'm just trying to understand within the quarter for IHCL itself, do you see that the variation is narrowing? That's what I wanted to understand. Sorry, I was not clear.

Puneet Chhatwal: It's a very smart question. So you could have a point, but the -- but on the quarter-on-quarter basis, there is an increase. What has changed in the hotel landscape in the Indian subcontinent is that you also make money in Q1 and Q2. If you were to go back 10 years ago or 15 years ago, one waited for Q3 and Q4 to make money.

But now I think everybody, every brand, every company from first April starts making money. So I think that change is definitely there. So if you want to do a mathematical thing, what you just now said that is that gap narrowing between the performance of Q1, Q2 versus Q3, the answer is probably yes. But does that mean it is coming at the expense of Q3? The answer is no.

Achal Kumar: My new question was about operational efficiency. So you mentioned operational efficiencies. Just want to understand -- of course, previously, we used to look at employee per room and all. So now -- I mean, just want to understand that how much operational efficiencies we still have in the system.

Or do you think you've already reached at a very optimal level and we should not expect significant efficiencies going forward? I mean you've been talking about that you're not hiring the employees while hotels are increasing, and you're having one manager for, say, two hotels or three hotels in the area or something like that. So now, if you could give a bit of color on operational efficiencies, that would be helpful, please.

Puneet Chhatwal: So firstly, I don't know who said this. We have not said we have one manager for three hotels. We have a cluster general manager who may be looking after three, has his own property, and there may be two GMs that report into cluster. And several cluster general managers could be reporting into an area director, and several area directors would be reporting into the head of operations. So that's one. Hiring had increased, it's gone very high, as the business needed that. If the business comes back in certain markets where you are driving more than 80% occupancy, that's rooms only.

And then we talk about all the wedding conference, MICE, incentives, all this kind of business, then in order to protect your brand, you have to provide the corresponding levels of service. So I think more than hiring what we have also been very focused on is spending a lot of money at all levels of the organization in learning and development and the exposure of our people to best practices across the globe, higher education, training. So actually, we are spending more money. But because the revenues have increased so much, as a percentage, it's not showing. Again, the same thing, you have to look at the absolute numbers.

So if you look at our presentation slide 26, you will see on each of the metrics, as a percentage of total revenue, it is showing less, but the absolute amount is always higher. So as the system has grown, there is one CFO, Ankur Dalwani, and there is still one CEO, myself. So whether we were 450 hotels or for 350, that efficiency comes in for various levels and positions.

But otherwise, the number of employees in the hotel level is obviously growing as the business is growing. Sorry, it's only on the corporate overhead and also in the hotel. As the revenue increases, the percentage increases. But the absolute amount if you see on slide 26, later or after this call, you can check; all the absolute amounts are on the up.

Ankur Dalwani: This is a high operating leverage business, as you know. So effectively, you do get the benefit of that. And the point being made in corporate overhead applies to some other part of these cost structure also, particularly payroll costs and some parts of other expenditure.

Achal Kumar: Right. Fair enough. My last question is about the Tree of Life. So basically, what I wanted to understand is that these guys made a loss in a year when everybody made money. It was such a strong year, and they still made losses. I mean what is your thought on that? I mean what they ill-managed or how it is? And how quickly you can turn it around?

Ankur Dalwani: So let me clarify, what you're seeing is actually the LODR filing, which is INR one crore negative of PAT. But this was taken over by Mr. Neotia's company only last year. So it was over November, December, they really took it over. So effectively, the management and our -- being part of our network only came towards the beginning of this year.

So -- and now with the ownership also -- which will come to us after the deal closes, I think this is a completely new sort of drive on this brand and in terms of expanding the portfolio of this segment. If you look at the EBITDA number, which we put out for last year, it's about INR 4 crores. And of course, once we sort of get into the -- running the business, it can only go up from here.

Puneet Chhatwal: Of course, when we integrate it, Achal, we don't need all that structure that stand-alone Tree of Life has, right? So we will have great opportunities for the people who have been running that business. They will get larger role, responsibility. So as I said, you don't need a new managing director, you don't need a new CFO, you don't need so many others. Let the efficiencies of scale come in and big opportunities come in for all the people who are there to become a part of a larger system.

As Tata Group company, we don't go and announce like job cuts, this is not our thing. And as a high-growth company, we have so many jobs available that we are very pleased to have this brand, we are very pleased to have this as a part of our brandscape. And that somebody had put in so much of effort building this brand single-handedly over a decade that we have a lot of respect for it. And that is how it caught our attention in how we can scale it to more than 100 properties by 2030 as these are small, experiential boutique properties in all kinds of destinations, which can provide that experiential stay.

Moderator: Next question is from the line of Karan Khanna from Ambit Capital Private Limited. Please go-ahead.

Karan Khanna: Congrats on another core 2Q performance. I have three questions. Yes. Firstly, Puneet, if you can talk more about your brand licensing arrangement with The Claridges? As part of the arrangement, what sort of payout do you expect for every property under this arrangement?

And secondly, a bit more insights on the nature of agreement for managing the Delhi property? And do you also eventually see the Mussoorie and Haridwar properties falling under your management purview? And just commenting on your licensing versus buying out these brands, how would the economics be different for you?

Puneet Chhatwal: It's very much in line with our philosophy or our aspiration, ambition of being the most iconic and most profitable company from South Asia. So most iconic means you should have the most iconic assets. And nothing gets more iconic than being in Lutyens' Delhi, which is the capital of India. And Claridges is just one roundabout away or Mansingh being one roundabout away from Claridges, is as good as it gets from a location point of view.

Then from a history point of view, it's a very well-established brand, very well-established hotel. And thankfully, the owners and us, we have a working relationship over 15, 20 years now. We are very successful with them with Taj in Dubai. The Vivanta that is getting upgraded to Taj in Surajkund. And now the Claridges, and some of you would remember, we bought them out and took over 100% of Sea Rock. So it's a good existing partnership.

Now comes number third, is the management contract as of April one for Claridges, which is a normal arm's length, simple terms, for management that we have in other contracts also. We cannot -- for confidentiality reasons, we cannot give away the terms in a call like this. When we grow the brand together, those kind of details we will either be able to communicate in Capital Market Day or shortly thereafter because we need to take that to the next level.

First level was to get the Claridges under management agreement and get the rights to it. Now that we have rights to it, we'll work together with the ownership group and create the entire framework on how we are going to grow and what will be each party's obligations. And we will communicate that in the right time. But at the end of the day, the terms of the agreement we will not disclose. But all I can say is it is in line with any other professional managed agreement or a franchise agreement for the brand name that we would do.

The new thing here is this is not a name that we own today or will own tomorrow. The name -- maybe, in long term, you never know. But as things stand today, the name will continue to be with the current ownership. That means the marks and the rights will be with them. And we will be in the asset-light growth model of getting a fee for running this business. And it will be complementary to Taj and not a little bit of Taj. That's not what we're going to do. Claridges by Taj or something like this, we don't do that. It will be -- Claridges will be Claridges.

Karan Khanna: Great. Just a follow-up. You spoke about Sea Rock briefly as well. So are you seeing any update here moving forward? Because been some time since you last spoke on redevelopments of Sea Rock.

Puneet Chhatwal: CROC, sorry, I couldn't get the...

Ankur Dalwani: Is there any update on Sea Rock?

Puneet Chhatwal: Yes, Sea Rock, we are making very good progress since I last told you also. We will also give more guidance on that. But we remain fairly optimistic that over the next 100 days, we should make a lot of progress. Not a little bit of progress, a lot of progress. That, we can also communicate with all of you.

Karan Khanna: Secondly, if...

Puneet Chhatwal: There are things that are happening, which are not under our control. There is the government, you need them, you need the political will, many things are needed. We are in the code-of-conduct period. There's a lot of things. This is not -- once all that is over, we'll be able to communicate.

Karan Khanna: Great. Secondly, if we talk about the corporate travel, this continues to remain at 12% this quarter as well. So how are you seeing this evolving? And as you must be in the negotiations with these corporates, what sort of a rate growth are you witnessing in these negotiations?

Puneet Chhatwal: It's different for different markets. I mean it's not that you do one contract, and it's applicable to all markets, all brands. There is an ability to charge in certain markets, and there is a certain give and take that happens in other markets. So all in all, it's fair to assume minus the corporate contracts, in general speaking, that expectation of a double-digit growth is a fair estimate. That's in the rolling 12 months, going forward.

Karan Khanna: Sure. And then last question for you, Puneet and Ankur. You have about INR2,500 crores of net cash on the balance sheet, and you mentioned you will capitalize on strategic opportunities. Can you elaborate a bit more in terms of whether you'd be looking at, say, a chain of hotels or a strategic pricey asset at a marquee location if you were to do a greenfield acquisition? And whether you look at opportunities in India or broader or both?

Ankur Dalwani: So I think we've articulated this in the past. Essentially, the way we think about capital allocation is that firstly, of course, the money will go back into asset management and uptick of our own properties. And then there are inside greenfield assets, which are under construction.

And the three sort of assets which will potentially get into sort of construction phase, if I can say that they're right now under approval or development phase, this has got Aguada plateau in Goa, Shiroda land parcel, where also we have made good progress in Maharashtra. And potentially, Sea Rock also makes good progress. That could also see money being used up in the next -- in the near term.

Plus, that will still leave us enough cash to look at the accretive opportunities on the M&A side. And I think on the M&A side, we will be constructive. For example, what we've just done on the Tree of Life, which is to add a brand, and also sort of a wide space in our brandscape, which is experiential sort of hospitality experience which we didn't have. Like that, there are other white spaces out there, which we could potentially look at bringing it under our fold.

One thing we will probably not do is buy something just to add rooms to our portfolio. And of course, these has to be hotels which are managed by us and not by any other operator. So I think we are open to have a discussion, and there are a lot of people who keep approaching us. Our development team is quite busy on that front.

And -- but also the other thing we would like to just say that our efforts are mostly concentrated on India and not really on overseas. Our strategy for overseas is more capital-light or asset-light approach, which will be a combination of management contracts or lease contract, which is a sliver of equity goes in and not a large part of capital gains committed.

So we continue to evaluate. As and when there is something getting for to update, we'll update you guys. But I think there's enough on the plate right now on our own projects, which we want to chew and make it to the -- sort of make it out to the next level in terms of actual progress on the ground.

Moderator: Next question is from the line of Meet Jain from Motilal Oswal. Please go-ahead.

Meet Jain: Hi, sir. Thanks for the opportunity. I wanted to ask regarding our international hotels. So how has been the performance this quarter? Last quarter, we saw some dip in the ARRs and occupancies. Can you throw some light this quarter?

Ankur Dalwani: So international hotels have done well. If you see the slide we put out in the deck, it shows that the RevPAR for internationals hotels have grown by 10%. And this is really on the back of a very strong performance in the peer, which has done exceedingly well. And so that's a market which is -- hotels which has actually recovered very well for us.

UK continues to do well, in line with what it was doing earlier. So I think international as such is turning out to be a big positive for this quarter and for the first half. And I think that momentum is continuing in October as well. So we are hopeful that for the full year, we will do much better than last year.

Meet Jain: And any update on the renovations? How much capex are you spending on renovation? And what's the status on some of the hotels?

Ankur Dalwani: So we've done about INR350-odd crores of capex for the year and -- out of which, I would think, let's say, about 2/3 or let's say about INR200-plus crores would be on capex for renovating. So that's typically how we end up spending about 60% of the capex, was on renovation. And that trend should continue at least for this year.

Meet Jain: So in terms of operational rooms, how much operational rooms did we have in the current quarter overall on a stand-alone basis?

Ankur Dalwani: What is the question?

Meet Jain: Number of operational rooms this quarter.

Ankur Dalwani: We can give you all that detail. I think that we can -- if you follow with the IR team, Rupesh or Neha.

Meet Jain: I just wanted to clarify, you said had already a capex of INR350 crores, and another INR200 crores is in the pipeline. So overall, FY '25, we can assume a capex of around, let's say, INR500 crores odd?

Ankur Dalwani: No, I said INR350 crores is done, out of which INR200 crores, INR225 crores is towards innovation. For the full year, we had guided earlier a capex of roughly around INR750 crores to INR800 crores. I think we will pretty much be around that, give and take INR50 crores here and there, depending on the actual timing of money being spent and some of the money being spent on the newer projects, which are our own greenfield projects.

Moderator: Next question is from the line of Rahul Jain from PhillipCapital. Please go-ahead.

Rahul Jain: Good evening, sir. Just wanted to get a broad understanding on how the Ginger Santacruz performance has fared. And how do you see it performing in the next H2?

Puneet Chhatwal: Ginger Santacruz has been performing in an outstanding fashion. We expect, definitely, north of 85% occupancy for the year and a rate that we have guided of 6,500, with a decent amount of food and beverage and also meeting room business.

So all in all, we are very pleased for very first year of operation for it to do that. It's also a part of our presentation on slide 11 that already in the first half, it has done a revenue of INR44 crores and an EBITDA margin, 55%. So in the first half, as we say, is the weaker half, so you can extrapolate what it could be for the year.

Rahul Jain: Got it. And sir, secondly, on a broader level, when you look at emerging markets, how do you see the demand and supply mismatch in emerging markets versus your key markets? And what sort of an opportunity is there in these markets for IHCL going forward?

Ankur Dalwani: I think we gave the cut-off Tier 1, Tier 2, Tier 3 cities in one of our presentations, earlier presentations, which I think was in the April deck. But basically, a lot of the new supply is actually going to come outside the top 10 markets. And this is also going to create its own demand. Let me give an example.

Several cities have branded hotels or branded hotels chains do not exist, so there's only one hotel. But there is still hospitality service being consumed there in the sort of a local hotel which are unbranded or maybe a local brand is well known there. That is a shift which will happen when you have branded chains going to Tier 2, Tier 3 cities.

And I think that, that growth actually is going to be much higher than the growth in, let's say, the metros or -- in terms of percentage. Also in terms of size, it'll be smaller because these are very nascent markets. But in terms of percentage, those will be probably double-digit kind of growth in terms of demand.

Moderator: Next question is from the line of Anuj Upadhyay from Investec. Please go-ahead.

Anuj Upadhyay: Yes, hi. Thanks for the opportunity and congratulations on good sets of numbers. So two questions. One is what has actually driven the 25% kind of an ARR hike at your Mumbai circle? We also saw that Ginger, you especially mentioned, the Santacruz one performed significantly well, both in terms of margin as well as the ARR growth. So what actually is driving the growth in Mumbai area, especially in the lean period?

Puneet Chhatwal: Very good question. I think very important here is that one of the main drivers of all this growth is our flagship property -- is the Taj Mahal Palace & Tower. And possibly, it has that potential to grow because for whatever reason, it was -- it is now beginning to achieve what it should have always achieved. In -- and this has really been a very strong first half for the Taj Mahal Palace & Tower.

And the outlook is stronger as we expect a lot of senior dignitaries to come and stay like recently, we even at the President of Spain. Similarly, many other dignitaries are booked for this quarter also. So I think the performance is really driven by Taj Mahal Palace & Tower, followed by Taj Lands End. And the rate increase in Taj Mahal Palace & Tower is -- or RevPAR increase is almost 32%, of which the rate increase is more than 30%.

Anuj Upadhyay: And secondly, on the wedding season, so as there's 30% more auspicious day in the second half compared to what we had in the last year. So any rough figure, which you would like to contribute that wedding season could add in terms of incremental revenue for the second half of the year? Generally, a basic guideline on that each wedding contribution on the revenue. So basically, how much would that contribute, per se?

Puneet Chhatwal: No, I don't think each wedding -- we cannot look at it that micro-level approach. But weddings was, is and remains a very important part of hospitality business for Asia in general and India in particular. And we see only more spend on weddings and not less.

And we are very pleased as a sector, firstly and then also as a company because we have all these iconic locations and maybe wonderful Instagram-able moments for any kind of wedding in any kind of setting over 125 locations that we have to offer in India. So we are very pleased with that, and each wedding increases the total revenue expectation.

Anuj Upadhyay: Okay. So fair to assume that majority of the wedding dates are largely been booked across our properties?

Puneet Chhatwal: We have our fair share of bookings. And I would not say all weddings are booked with us only, we don't have so many halls. So let's put it this way that everybody is benefiting. And because we have more hotels, so we should benefit a bit more.

Moderator: Next question is from Shaleen from UBS Group. Please go-ahead.

Shaleen: Yes. Hi, thanks again for the opportunity. Just one question, a bit of a clarification on Achal's question, which is Q2 to Q3. So your Q2 growth is like 16-odd percent and very likelihood, we do better in Q3, then the step-up which we typically see from Q2 to Q3 shouldn't be materially different, right, because your Q3 is also growing very strongly year-on-year?

Ankur Dalwani: So I think we've said in October, we did ARRs of slightly above double digit. This is obviously Y-o-Y. And I think as you said, Q3 is typically stronger than Q2, and that trend will continue. I mean you also should in mind that last year's Q3 was coming from a very smaller base. So to that extent, it may not be as high as last year, but it will definitely be an uptrend from Q2.

Shaleen: Yes, substantial uptrend, right, because year-on-year growth are similar for both -- or higher effect for Q2?

Ankur Dalwani: Q-o-Q growth, that's right.

Shaleen: That's part one. Sorry, I got drop-off for like two minutes in between. Did we talk about international, how the international has done in the month of October, etc? Any color on that, U.S. specifically?

Puneet Chhatwal: The U.S. was very strong for us in New York. San Francisco remains challenging, so it's neutral, as good or as bad as last year. London is same level as last year. Cape Town continues to grow. Dubai has been strong. Maldives is soft, and Sri Lanka is soft. But I think for us, it's very important is the positive shift, especially in New York, which has been a drain for very long term.

Shaleen: Right. So New York is strong. That's pretty critical for us.

Puneet Chhatwal: New York is strong.

Shaleen: Right. Great. I'm tempted to ask one philosophical questions based on the answer you were giving to the previous participants, right, given the Taj Mahal Palace is such an iconic, again, it's a philosophical question, right? So do you think that -- have you ever contemplated of charging substantially higher for Taj Mahal Palace, something like a Ritz of Singapore or Claridges of London to that extent? I mean has there ever been a debate over that kind of thought process? Again, a philosophical question.

Puneet Chhatwal: Not yet, but thank you for planting that idea.

Moderator: Ladies and gentlemen, we'll take the last question from the line of Prateek Kumar from Jefferies India. Please go-ahead.

Prateek Kumar: Yeah. Thanks for the opportunity. Prateek again. I have just one follow-up question on new businesses. You talked about Ginger, Ama and Qmin. You talked about new scopes business for Qmin like opening airport, hotels with TFS. Can you just elaborate a bit whether the new cloud from Qmin-ization of India to new initiatives?

Also, the growth in overall businesses at 47% this quarter seems very high. Like this is -- I would imagine that's driven by across three segments. But is there general acceleration from like that 25%, 30% number, which you talked about earlier, like now this 40%-plus number?

Ankur Dalwani: So you're right that there has been acceleration from the previous numbers. And two, three reasons. One is, of course, the new openings which have happened in Ginger, which is driving amount of growth here. The Ginger Mumbai Airport, we mentioned about that contributing INR44 crores into H1. And that was not in the base to the extent we benefited.

But I think general, even on the same-store growth, there is double-digit RevPAR growth we talked about as well for Ginger. So I think the momentum for Ginger continues to be strong. We've opened a maximum number of Gingers in H1. So you've seen that data as well.

As far as Qmin's new initiatives go, those are -- I think right now, we are just very early days. We are -- this is a capital-light model for us. We really don't want to take on the obligation of putting out fixed rentals, etc. So we are doing a revenue share model, which is where we had

one good success with the Westside, and now we're expanding that partnership to other formats with Westside and outside of Westside with TFS.

So I think that's something which we will probably be able to give you more color as this model matures over the next few quarters. But in the sort of the brand recall and the brand sort of affinity for Qmin is very strong, and that is also benefiting Ginger, and Ginger is also benefiting because of that.

Moderator: Thank you very much.

Puneet Chhatwal: Thank you all for joining this call and for your questions, and thank you for your support, and we look forward to interacting with you. This time before the next quarter call, during our Capital Market Day, we will inform you and send you the invites by Monday next week. Thank you very much, and have a wonderful evening.

Ankur Dalwani: Thank you. Thank you very much.

Moderator: Thank you very much. On behalf of the Indian Hotels Company Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.