

Apeejay Surrendra Park Hotels Limited (ASPHL)

Q3 & 9M FY24 Earnings Conference Call Transcript

March 06, 2024

Moderator: Ladies and gentlemen, good day and welcome to the earnings conference call of Apeejay Surrendra Park Hotels Limited. 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 the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anoop Poojari of CDR India. Thank you and over to you Mr. Poojari.

Anoop Poojari: Thank you. Good afternoon, everyone, and thank you for joining us on Apeejay Surrendra Park Hotels Limited Q3 & 9M FY24 earnings conference call. We have with us Ms. Priya Paul – Chairman, Mr. Vijay Dewan – Managing Director, and Mr. Atul Khosla – SVP Finance & Chief Financial Officer of the Company.

We would like to begin the call with opening remarks from the management followed by an interactive question-and-answer session. Before we start, I would like to point out that some statements made in today's call may be forward-looking in nature and a disclaimer to this effect has been included in the earnings presentation shared with you earlier.

I would now like to invite Ms. Priya Paul to make her opening remarks.

Priya Paul: Thank you, Anoop. Good afternoon, everyone. On behalf of the entire management team of Apeejay Surrendra Park Hotels Limited, I would like to extend a very warm welcome to all of you to our maiden earnings conference call post our successful listing on February 12, 2024.

First and foremost, I would like to thank all our investors for the exceptionally strong response to our IPO with over 62 times oversubscription. The Company with over 55 years of legacy has started a new chapter in its journey and we're enthusiastic about the promising road ahead.

As committed, we have successfully executed our IPO objective of allocating Rs. 550 crore towards the pre-payment of loans enabling us to achieve our net cash position. Our net worth has now increased to ~Rs. 1,200 crore, and this with our strong balance sheet and cash accruals will enable us to really look at inorganic growth in the years to come.

Given that, this is our first earnings call, let me give you a brief overview of the Company and following this our Managing Director - Vijay Dewan, will run you through the key operational and financial highlights of the quarter and nine months ended December 31, 2023. It has been the best ever Q3 and the best nine months' results for us.

ASPHL is part of the Apeejay Surrendra Group, established in 1910 with a diversified presence in industries such as shipping and logistics, retail and warehousing, and hospitality. Our first hotel opened on Park Street in Kolkata in 1967, and this was the beginning of the journey till today. Over time, we developed a vision of leadership differentiation, which is what has propelled our growth and helped us to create and innovate distinctive brands across hotels, brands, hospitality and restaurants and bars across the country.

The brands that we have are in the luxury, upper midscale brand and the upper upscale brand. We have created a niche of luxury boutique hotels and we're really the pioneers of it. And that's because we used differentiation and innovation to create an exciting portfolio of hotels across the country. So, the brands are 'THE PARK', 'THE PARK Collection', 'Zone by THE PARK', 'Zone Connect', and lately we have added an economy budget brand called 'Stop by Zone'.

Our presence is over 20 cities with 30 hotels right now and 2,298 rooms. And we operate these hotels through a mixture of models. We own mostly 'THE PARK' Hotels, whereas we have leased properties and asset light properties across the other brands giving us a good mix of 'ownership', 'management' and 'lease property'. And that's the way we will continue to grow the brand over the years.

A large part of our success is the Food and Beverage segment. And because we are passionate about creating brands, we have also done that in the food and beverage space across not just Tier-1 cities but also Tier-2 and Tier-3 cities. And these bars, nightlife and clubs and spas contribute about 44% of our revenues and it's enabled us to create a lot of engagement and stickiness with customers because we create spaces that people enjoy spending time.

Another business that we run is the iconic brand 'Flurys', is something that started in 1927 on Park Street in Kolkata by a Swiss family. We now have about 75 of them across the country. This is in the bakery, confectionery cafe segment which is one of the fastest growing segments in India. We have started an expansion in Mumbai and you will see the brand in various other geographies as we go forward.

Our Company has a very strong track record of maintaining the highest occupancies in the industry. In Q3, occupancy has been 90%. This achievement can be attributed to several key factors, including a loyal customer base, implementation of advanced AI-based revenue management systems and the dedication of our dynamic sales and marketing team. Most importantly, our emphasis on creating entertainment

destinations within our business hotels even in an urban centers has proven instrumental in sustaining these rates.

Over the next five years, we aim to double our inventory from 2,298 keys to about 4,405. A significant portion of this growth will be driven by the asset-light model with an increase of about 1,300 keys in this segment through management contracts and leases and this will be across all brands from 'THE PARK', which is owned by 'THE PARK' and other geographies.

We are prioritizing the development and expansion of our existing land banks in Pune, E M Bypass Kolkata, Jaipur and leveraging our asset management strategy to efficiently utilize these low cost of land for revenue growth. We also will do our capacity expansions in Vishakhapatnam and Navi Mumbai and plans are all progressing very well in all these projects. I am confident this will help us to achieve sustainable growth and expansion in the fast-growing hospitality industry.

In conclusion, I want to highlight that over the last six decades, ASPHL has created outstanding brands, innovative hospitality service, diverse F&B offerings, develop an outstanding team. All these that set us apart in the industry. Today, we are enthusiastic about the opportunities arising from the positive macroeconomic trends and changing market dynamics. Moving forward, I am confident that we will capitalize on our strengths to create sustainable growth for all our stakeholders.

With this, I would like to hand over to Mr. Vijay Dewan, who will take us through the operational & financial highlights for the Q3 and nine months FY24. Thank you.

Vijay Dewan:

Thank you, Ms. Paul. A warm welcome to all of you on our first earnings conference call after our successful listing.

The consolidated net income for us stood at Rs.164 crore in Q3, showcasing our best ever quarterly performance with a remarkable 15% year-on-year revenue growth. EBITDA during Q3 increased 15% year-on-year at Rs. 61 crore with the best ever EBITDA margin at 37%. The EBITDA margin has significantly increased from 31% in Q1 to now, 37% in Q3. Profit after tax for us stood at Rs. 27 crore at 17% of the topline, which is a 46% improvement year-on-year.

In terms of the details of our performance, Occupancy during the period was at 90% which is the highest in the country and 'THE PARK' brand enjoys a 25% premium across all segments in terms of occupancy in the country. ARR has increased by 14% and it stood at 7,286. RevPAR also increased by 14% and stood at Rs. 6,562. Overall room revenue increased by 15%. F&B revenue increased by 14% to record a total revenue of Rs.164 crore and an EBITDA of Rs. 61 crore at 37%.

In terms of nine months ending, we have achieved revenues of Rs. 436 crore with an EBITDA of Rs.152 crore which is again a 14% improvement over last year and the

EBITDA margin stood at 35%. At the end of nine months, we have achieved a PAT of Rs. 50 crore, which is a 12% YoY growth and a 35% improvement over last year.

Again, we have maintained our leadership position in occupancy with occupancies at 92% at the end of the nine months. In terms of ARR has grown by 12%, RevPAR has increased by 13% and Food and Beverage revenues have increased by 11%. Total revenues have increased by 14% at Rs. 436 crore and an EBITDA of Rs.152 crore, again a 14% improvement over last year.

Q3 and Q4 are the best in the hotel industry. Seeing the trend, we expect also a very strong Q4. Going forward, the demand-supply mismatch in the industry is going to continue and in particular in the key growth markets where we are present. We also expect a strong double-digit growth in the coming year as well.

Post the IPO, we have completely paid the outstanding debt of Rs. 550 crore and today we are in a net cash positive position in the Company. Networth has increased as Ms. Paul also mentioned to ~Rs.1,200 crore providing us with opportunities for growth both on the inorganic side as well as improving our hotels on the organic side.

In terms of the growth in the number of hotels which we have, during this year we have added 282 keys during the course of the year with the opening of hotels in Gopalpur, Dimapur, Mussoorie, Indore and Udaipur. And in the coming year we plan to increase our inventory by 232 keys over FY'24 and '25.

In terms of 'Flurys', currently we have 75 outlets. And during the course of this year itself, that is in the month of March itself, we plan to open eight more outlets. Four of them are going to be in Mumbai and four of them are going to be opening in West Bengal. So, the number of units for 'Flurys' at the end of March are now going to rise from 75 units to 83 units by the end of this financial year itself. And in the months of April and May, we plan to open another eight outlets of 'Flurys', five of them are going to further opened in Mumbai, two in Siliguri and one in Darjeeling. So, the 'Flurys' growth plan is also on a very, very strong footing and we plan to increase the number of outlets of 'Flurys' from about 83 at the end of this financial year. We plan to double these outlets over the next year.

We remain committed to sustainable growth. Our green transition and for providing superior corporate governance and value for our customers. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Sagarika Chetty from Anand Rathi Shares & Stockbrokers. Please go ahead.

Sagarika Chetty: In terms of the occupancy, you have a very high occupancy compared to your peers. So, any specific reason for this higher occupancy compared to the industry average, if you can shed some light on that?

Vijay Dewan: Occupancy percentage has always been exceedingly high at Park Hotels. Of course, the reason is that obviously we have a very high percentage of loyal customers, percentage of repeat customers at THE PARK is higher than that of competitors, close to 25%. Very significant is that we run an AI-based revenue management system, which makes a key difference. Third is that we run our hotels as entertainment destination. And that leads to very high occupancy on the weekends, and it accounts for overall occupancy being higher at THE PARK Hotels. We have also delivered in terms of occupancy, the highest occupancy even during the two years of COVID in the country; in the first year of COVID we recorded an occupancy of 67% and in the second year of COVID at 79%, which was also the highest in the country. So, THE PARK brand, as I explained, enjoyed the 25% premium in terms of occupancy and it will continue to do so. This is our biggest strength in terms of the hospitality business.

Sagarika Chetty: My second question is, given your expansion plan which is coming up in the next three to four years, what growth rate are you expecting in the next few years, and would it be a mix of ARR and occupancy growth or specifically occupancy-dependent growth, if you can shed some light on that?

Vijay Dewan: The way the industry is at the moment, if you look at all the industry reports, double-digit growth is expected and it is going to be in the range of 12% to 14% whether we look at CRISIL reports or we look at hotel industry report published by HDL or Hotel Avid, the growth rate expected is going to be in the range of 12% to 14%. We have had a very strong Q3. We are also expecting a strong Q4 and going forward also the industry is really poised for strong growth.

If you look at the passenger arrivals at Indian airports, they are also at record high. The previous record was somewhere around 14 crore of domestic passenger arrivals. It's already being exceeded last year; it's reached 15 crore.

In terms of office space occupancy, that has also significantly grown, particularly in the last quarter it has shown an increase of 19%, and all this is actually going to support the growth of the hospitality industry. We have achieved a very strong quarter, and we look forward to very strong quarters going forward.

Sagarika Chetty: My last question is, if you can provide some figures regarding the capex plan for the next two to three years?

Vijay Dewan: So, in terms of our expansion plans, the way they are, we are looking at doubling up of our inventory from roughly about 2,300 keys at the moment to somewhere around 4,600 keys. Currently we have about 15 lakhs square feet of development, which is embedded in our balance sheet. We have initiated the projects, three of our projects for our expansion of this, for our development of this FSI, for three of our projects we have already appointed the designers. Many of these projects today are going ahead in terms of commissions. In terms of our large project at E M Bypass, which is in Calcutta, which is a 6 lakh square feet development, we have signed a joint venture development agreement with the Ambuja Neotia Group, and this project is divided

into two half's, 51% is going to be used for the development of the hotel and 49% is going to be used for the development of apartments and these apartments are going to be sold. So, from the 3 lakh square feet of apartments which will be sold from the proceeds, we are going to be developing this hotel. So, the hotel essentially would be free of cost. So, what is happening in terms of this development that, one is the agreement has been signed and it has got registered. The second most important thing is that we have begun the process of the selection of the designers, and we hope to go to the Calcutta Municipal Corporation for the permissions over the next quarter or so, and we hope to break ground during this financial year itself for this project. For our other project that is at Pune, the design work is already complete, the designers were appointed earlier. We are in the last stage of the permissions and very soon this project will also have ground-breaking soon enough. And similar is in terms of our development at Visakhapatnam and Navi Mumbai. So, out of these 15 lakh square feet of development which will happen, initiation has already happened in terms of the 11 lakh square feet of development.

Moderator: The next question is from the line of Sumit Kumar from JM Financial Institutional Securities. Please go ahead.

Sumit Kumar: My first question would be on the upcoming hotels, particularly the ones in Digha, Patiala and Chettinad. If you could guide us on what would be the expected commissioning dates for these three hotels? And the second question would be what is the contribution of 'Flurys' for the third quarter and nine months, if you could give us the details?

Vijay Dewan: So, in terms of firstly, Digha, this hotel is a 65-room hotel. We are at the last stages in terms of commissions, and we are expecting this hotel to open within this month. So, any time during the course of this month, this hotel is expected to open. Teams are already in position; the general manager has been appointed and all the department heads and the entire team is in place. So, this hotel is expected to open anytime soon. Work is going on in terms of both Patiala, as well as Chettinad project. Again, the teams are getting constituted, the general manager for both the properties, they have been appointed and we expect these hotels to open anytime in the first quarter of the next financial year.

In terms of your question on 'Flurys', 'Flurys' continues to perform very significantly in terms of the results. The 'Flurys' division at the end of nine months has the revenue of Rs. 35 crore, which is a 27% improvement over the previous year, and it has recorded an EBITDA of Rs. 6.62 crore on a total revenue of Rs. 35 crore, which is 19% of the topline, a 33% improvement over the previous year. Now, the 'Flurys', the way it is, it continues to outperform the market; its growth of 27% is very-very significant and more significant is that the EBITDA margin of 19%, it is the highest and the best in terms of the peers.

Moderator: The next question is from the line of Nikhil Agrawal from VT Capital. Please go ahead.

- Nikhil Agrawal:** Coming back to your previous question like we did a rough calculation on margins on 'Monginis' and it came to about (+30%), but our margins in 'Flurys' coming to about is 11% to 12%. So, just wanted to understand, like why is this margin differential coming up to?
- Vijay Dewan:** 'Flurys' margin is at 19%, which is the best-in-class in the industry. I don't know from where you're picking up the 12% margin. 'Flurys' as I just mentioned has produced a stellar performance alongside the hotel performance.
- Priya Paul:** I think 'Monginis' is not in the bakery, cafe kind of a restaurant segment that we are in. So, I don't know. That's the difference.
- Nikhil Agrawal:** Are we expecting the margin of 18% to continue?
- Vijay Dewan:** Yes, we expect these margins to continue. There's no question that these margins will not continue. In fact, they have improved on a quarter-to-quarter basis.
- Nikhil Agrawal:** And in FY22, we had margins of about 25% in 'Flurys' and in '23 it fell down to 17%, 18%. So, what led to the margin increase in FY22?
- Vijay Dewan:** See, the bulk of the business again, firstly like hospitality business, the business how it works is that the best quarters are Q3 and Q4. And in terms of the 'Flurys' business also, the festive season starts somewhere in October and again the Q3 and Q4 are very strong quarters. So, this margin is currently close to 19%, is expected to further improve in Q4. And yes, it may not reach the 25% mark, because there have been new openings in Mumbai, a lot of openings are taking place in Mumbai and the operations there have produced a very strong performance. But they are still to be fully performing in terms of the EBITDA margins. But as they stabilize, for the outlets which will stabilize, margin will be in this range of 22% to 25%.
- Nikhil Agrawal:** In our hotels business, what percentage of your rooms are sold to International tourists currently?
- Vijay Dewan:** Sorry?
- Nikhil Agrawal:** What percentage of your rooms are broadly sold to International tourists or International corporate?
- Vijay Dewan:** So, THE PARK has a very strong Indian brand, this is a very big brand strength that we are powerful and strong Indian brand, and we also have very high percentage of domestic market. So, yes, the International tourists' percentage has improved. Currently it is at 9%, but 91% of our business at the moment is domestic and domestic market continues to be strong and we are very strong beneficiaries of this.
- Nikhil Agrawal:** You said 9% International tourists. What was it pre-COVID?

- Vijay Dewan:** Pre-COVID, this number was 20%.
- Nikhil Agrawal:** Are we seeing any improvement going forward or are we going to rely on the domestic market completely?
- Vijay Dewan:** As far as International traffic is concerned, as per latest report published by Department of Tourism, it's 90% back and is expected to be in the range of 100% to a 110% in the coming year. This year, in the calendar year, India has recorded 9.2 million foreign tourist arrivals, to the best being at 10.6 million and India is expecting that this number of 10.6 will be achieved and will be exceeded in the next financial year and we will also see an increase close to the pre-pandemic levels. But our market is a strong domestic market and the domestic market is strong and continues to be strong for us as well as for the country.
- Nikhil Agrawal:** And what about the retail and corporate mix, if you could highlight on that as well?
- Priya Paul:** So, Park has a very strong mix of both leisure as well as corporate travel. Currently, 42% of our business is coming from corporate and 42% of the business is also coming from leisure. But within this leisure, we have a new segment which is the bleisure segment. So, actual leisure is 17% and bleisure is 25%, which is a combination of business and leisure. 7% is airline and the balance is FIT travel. So, more and more travelers today, more and more companies are encouraging people to travel both for business and leisure. So, we are tracking this segment. So, bleisure segment for us has already hit 25% and it will continue to grow.
- Nikhil Agrawal:** Sir, its bleisure that you said?
- Vijay Dewan:** Yes.
- Nikhil Agrawal:** Lastly, do you have expansion plans for your other restaurants like 'Someplace Else' and other like small restaurants in Calcutta that we have in THE PARK Hotel, any expansion plans for that?
- Vijay Dewan:** So, 'Someplace Else', currently of course is in Calcutta and then we have also opened at the Jio World Drive in Mumbai and currently we are looking at the other opportunities and as those opportunities are finalized, we would be informing all of you.
- Moderator:** The next question is from the line of Santosh Sinha from Emkay Global. Please go ahead.
- Santosh Sinha:** My question is regarding margins. So, what we see is that in Q3 FY24, the margin was somewhere around 37% and last year also if we look at Q3, it was 37%. So, despite around 13% year-on-year increase in revenue, we have not seen the operational benefit passing through to EBITDA margins as such. So operating leverage benefit has

not flowing through to EBITDA margin. So, what has led to that? And is there any guidance for margin as such by the Company?

Vijay Dewan: So, improving efficiencies continues to be a key focus area of the management and it will be part of our strategy going forward as well. 37% is a very strong EBITDA margin. Here, there has been an increase in cost of about 2% in terms of payroll expenses if you were to see the details of the result. And this 2% increase in payroll takes the payroll expenses from 18% to 20%. And this is largely on account of ESOPs. We have the ESOP cost of about Rs. 1.8 crore, has led to this increase largely. And secondly, we have also come out of the COVID period. So, there's been an increase in terms of salaries and wages. So, overall, as a result of this, the payroll expenses are at 20%, but they still continue to be the best-in-class, if we were to compare it with the industry peers, they continue to be the best. Despite the fact that we have provided for ESOP expenses, we are among the few companies in the country who have provided for ESOPs in this space of hospitality, and we are very confident that as a result of ESOPs, our teams are going to be further motivated and further committed and this will lead to better results. The rest of the increase, there has been an increase of 14% in terms of topline and that has translated back into the EBITDA of 14%. That, I expect this to further improve in the quarters going forward.

Atul Khosla: By 100-200 basis points, we expect margins to keep on improving going forward.

Santosh Sinha: My next question is regarding the financial cost actually. That was Rs. 179 million in this quarter. So, I think that Company has now repaid the debt. We will see that declining it from the next quarter?

Atul Khosla: So, we have repaid the debt. From next quarter, there won't be any financial cost from the Q1 FY25 and from March month also. We will not have financial cost, the debt cost will go down to zero.

Moderator: The next question is from the line of Pranav Shrimal from PINC Wealth Advisory. Please go ahead.

Pranav Shrimal: I had a couple of questions. One, if I could get to know the distribution segment wise, that is how much does upper-upscale bring, how much does the upscale bring and how much do the economy hotels bring?

Vijay Dewan: Could you repeat your question? I didn't get it clearly.

Pranav Shrimal: So, we have three divisions of our hotels. One is Luxury and Upscale, Upper Midscale and Economy. So, I wanted to know the revenue contribution on the topline?

Vijay Dewan: So, at the moment, the mix is like this; so, 90% of our business is coming through our own hotels and all our own hotels are largely operating in the upper-upscale segment 90% of the business is coming from that, and 7% of our business is coming from

'Flurys' and roughly about 3% of the business is coming from the managed properties, which are largely in this upper midscale segment.

Pranav Shrimal: What would our developmental cost be per key?

Atul Khosla: Can you repeat the question?

Pranav Shrimal: Cost per key in just THE Park?

Vijay Dewan: So, depending upon the market, but by and large our development is going to be in the range of about Rs. 1 crore per key in this upper upscale segment. So, we manage our cost again better than our competitors. We do not overspend, and we are able to create great products in this range of about Rs. 1 crore per key.

Moderator: The next question is from the line of Pradyumna Choudhary from JM Financial. Please go ahead.

P. Choudhary: On the revenue side, I was just trying to understand, right now 90% of the revenue comes from owned or leased hotels where almost 50% is from room revenue side, the remaining comes from managed hotel which is very small 2% and lease is another 8%, 9%. So, I do understand the growth triggers are there in the managed hotels revenue and the 'Flurys', but these are very small. So, the big revenue driver going forward will still have to be like if the needle needs to be moved, it needs to come from the owned and lease hotel portfolio. So, what really is our strategy on this front going forward, like mainly would it be ARR and RevPAR driven, or do we plan on adding more owned and lease properties as well?

Vijay Dewan: So, as we said, we are going to be adding three lease properties. So, those are getting added in the next financial year starting with 65 rooms of the property Digha. So, a total of 116 rooms are coming in, in terms of the lease properties and this will make a significant difference to the growth next year, plus 232 overall, about another 116 keys also are getting added on the managed side of the property and plus we are going to take at least 10% of our current inventory, the upgradation and renovations. So, then those combined ARR as a result of that, the new rooms is going to significantly improve our ARR's further and the market continues to have this huge demand-supply mismatch. So, we expect a very, very strong ARR growth being present in the central business, district growth is also going to come on the side of the addition of the lease properties the entire revenue will be booked to our total revenues. And then of course we see a very strong growth on the F&B side of the business, not only in 'Flurys' but with the opening of new food and beverage outlets, upgraded food and beverage outlets. So, we are expecting a very strong Q4 and also expecting a double-digit growth in the next financial year as well.

P. Choudhary: And like you spoke about 155 rooms coming on the lease property side in FY25 itself and beyond FY25, what is our pipeline for room addition look like on the leased or owned property side because see it will be there itself, right?

- Vijay Dewan:** One very important thing which Ms. Paul also mentioned, and I also mentioned that our balance sheet today is firstly very, very strong. So, it will provide us that opportunity, it will give us that strength to look at various opportunities on the lease side as well as on the buy side. So, we would be looking at further properties on lease going forward and also look at other properties in terms of our expansion going forward. Lease will be a very strong focus in the coming year. There is no question about that. And of course, 'Flurys' will continue to grow; we had 75 outlets, now going up to 83. We definitely plan to double these outlets as well and have a significant amount of revenue also coming through the expansion of 'Flurys'. And yes, lease properties will continue to be a focus area, additional lease properties we mean, continue to be a key focus area going forward.
- P. Choudhary:** And we are open to taking already built properties as well, is it?
- Vijay Dewan:** Yes, the balance sheet is strong and if it offers a good opportunities come, we are definitely open to it.
- Moderator:** The next question is from the line of Saurabh Jain from HDFC Life Insurance Company Limited. Please go ahead.
- Saurabh Jain:** I have two questions. First, what is the ESOP cost for this quarter? I see an increase quarter-on-quarter. So, how should we factor the ESOP cost going ahead?
- Atul Khosla:** See, the ESOP cost in YTD 9M is Rs. 1.83 crore, out of which Rs. 1.23 crore is for the Q3 and the next Q4 also will be about Rs. 1.25 crore. And forward from next year it will be around Rs. 4 crore, because it's a full year cost.
- Saurabh Jain:** So, next whole year, what would be the cost?
- Atul Khosla:** Around Rs. 3.75 crore to Rs. 4 crore because next year the cost of April to August will also be there, this year because ESOP vested from us, so that cost is not there. Around Rs. 3.75 crore you subtract.
- Saurabh Jain:** Second question is on Slide #26. So, if we see the numbers of Q3 FY23 and Q3 FY24, it looks like the management fees has dropped year-on-year. So, just would like to know the comments, why is that?
- Atul Khosla:** In terms of percentage, year-to-date the management fees is on a higher side for the nine months, but it's on the path towards going to year end, but in Q3 there was a slight dip in the management fee, but it is Rs. 9 crore versus Rs. 6 crore same time last year nine months to nine months, and year-end we do expect to go, again, Q4 will be a stronger one in management fees.
- Saurabh Jain:** Any particular reason for the drop in Q3 basically from a year-on-year perspective?

- Atul Khosla:** The drop is I think just some other accounting thing. So, it's nothing to drop in, when you work out the incentive fee at times some ownership gets booked in the Q4 because the incentive fee comes in every quarter. So, that time gets booked in the Q4. So, that's what happened.
- Saurabh Jain:** Slight confusion between Slide #26 and Slide #10 where you said the nine months revenue, 44% F&B. This is excluding the 'Flurys' or this is including 'Flurys' as well?
- Atul Khosla:** Slide #10, it includes "Flurys".
- Saurabh Jain:** Slide #10 you have put in a footnote that this excludes the revenue from 'Flurys'. So, just 44% number of total revenue. So, 'Flurys' is not included in both the numerator and denominator for this.
- Atul Khosla:** No-no, this is including both FY23, FY24. It includes 'Flurys'.
- Saurabh Jain:** Sorry, I didn't get that.
- Atul Khosla:** 'Flurys' is included as a part of F&B income percentage to total revenue.
- Saurabh Jain:** So, we should ignore the footnote then?
- Atul Khosla:** That is the DRHP note, it is part of the DRHP thing here, but it is included in this.
- Moderator:** The next question is from the line of Jaiveer Shekhawat from Ambit Capital. Please go ahead.
- Jaiveer Shekhawat:** My first question is, I am trying to understand your pricing power here. So, if I were to compare your average room rates, let's say pre-COVID and FY19 to where they are currently, I think these have increased by about 20-odd percentage. And if I were to compare that with the other listed players, these have increased by 40 to 50 percentage. And your occupancies might have increased by around two to three percentage points. One, is this a conscious strategy to keep your prices lower versus your competition, so that you can continue to attract your loyal customer base? And second, is there any other thought process behind not really taking that steep price increase or do you still believe that you can possibly catch up on that in the coming two years? Your thoughts there.
- Vijay Dewan:** So, first thing, which we need to understand that THE PARK is operating in the upper-upscale segment. And in this segment, it is not the luxury segment, and it is also not the upper mid-scale segment. In this segment, which is in the upper-upscale segment we are occupancy leaders, we are RevPAR leaders, and we are leaders in ARR as well. So, as per the industry report, THE PARK continues to lead on all these 28 of the 30 data points. So, that will continue to be our strategy. Secondly, we are present in the key growth markets, and within these key growth markets, we are strategically located in the central business district. We strongly feel that in the central business district in

all these key growth markets, there is virtually no supply coming in or there is very limited supply which is going to come in. And this is going to significantly help going forward our ARR to go up further and further up. Those supply is coming in, in a very limited way in the cities but in the micro markets, in the central business district, there is virtually very, very limited supply, a very high ARR growth going forward. So, we are the market leaders, and we will continue to be in this upper-upscale segment market leaders on all three parameters of occupancy, RevPAR and ARR. Also, it's very important that the RevPAR actually is the crucial or the key indicator of a hotel's performance. Hotels, which have high RevPAR also have very high profitability. Yes, there is improvement required in efficiencies. We are already at 37% EBITDA for Q3, and we are further looking at it and we expect a strong Q4 as well.

Jaiveer Shekhawat: I think my follow-up would be in terms of understanding how much of a pricing power you still have, because I do listen to what you have stated in terms of your RevPAR leadership across the markets, let's say looking forward because there is possibly only little room for your occupancies to grow further given the dynamics of running a hotel. I just want to understand, I mean the ability of yours to really price at a much significant or in an aggressive way versus your competition or do you think it's likely to be in line with the overall industry-led areas?

Vijay Dewan: I expect this to be better than the industry in the quarters going forward because as I explained, there is virtually no supply coming in, in the central business district. Secondly, we have begun the process of upgrading our properties, you can say, the renovating of our properties. So, with the upgradation and renovations, the blended ARR which will come, if I was to renovate then which we are going to do the 10% of the inventory, so the pricing increase is also going to happen in the upgraded and renovated rooms and there is a significant headroom for blended ARR to be much higher than the ARR for the property itself. So, 10% of say 20 or 40 rooms are getting renovated in a particular property, so the ARR on those renovated rooms is going to be much higher and this process of renovating and upgrading our rooms will continue over the next three to four years resulting in increase in ARR further. The market looks strong, and it will continue to be strong. We are at the beginning of the start of the upcycle in the hospitality industry. It has sort of just started and the best is still to come.

Jaiveer Shekhawat: Lastly, could you call out any of those specific markets that have performed very well across your entire portfolio and then which ones are lagging?

Vijay Dewan: So, if we were to look at the key performance, our hotel in Calcutta, the Park Calcutta continues to outperform the market. It has achieved for the nine months ending 100% occupancy and with that 100% occupancy it has recorded ARR for Q3 of 8,612. Our second-best performing hotel would be THE PARK, New Delhi, which has recorded an occupancy of 93%, which is also very, very strong. More significantly, the ARR for Q3 for Delhi has been Rs. 9,693 and the RevPAR for Delhi is 9,058 and Delhi being a very strong market these ARR are continuously growing further up. And in terms of the occupancy for our hotels, they continue to be strong. As I said, Delhi 93%, Chennai

also did 93%, but then Kolkata was 100%, Hyderabad is at 88%, Bangalore 87%, and Navi Mumbai at 93%. Now, compared to the market, all hotels are doing really, really well. But if you were to look at high performance, Calcutta 100%, lowest would-be Bangalore at 87% but it is also showing a lot of promise.

Moderator: The next follow up question is from the line of Sagarika Chetty from Anand Rathi Shares and Stockbrokers. Please go ahead.

Sagarika Chetty: So, you have specified that the 'Flurys' outlets will increase to 83 and then we are planning to double it. Can we specify a specific timeline for the doubling of outlets across the country?

Vijay Dewan: Currently, 'Flurys' is present in West Bengal. It has 66 outlets, and it has eight outlets in Maharashtra between Navi Mumbai and Mumbai. We are looking at as I mentioned, a lot of 'Flurys' outlets are about to open now itself; eight outlets are going to open within the month of March itself, two are opening at the Mumbai airport, and then there are two opening at the Bhubaneswar airport, and the balance for our opening in West Bengal. And in the months of April and May, another eight units are opening. Five of them are going to be opened in Mumbai and then two in Siliguri, and one in Darjeeling. And the expansion of 'Flurys' is a continuous process. We plan to capture over the next year as many efforts as possible in terms of our expansion plan. We also plan in the next financial year to further consolidate our position in West Bengal and Maharashtra and very soon we are ready with our kitchen, with our factory for expansion into Hyderabad. It has sort of just got ready and very soon you will see 'Flurys' in Hyderabad as well. We are also looking at expanding in the city of Delhi in the coming financial year. So, in these cities and the consolidation in Bengal and Maharashtra, we should be having the doubling of the inventory. But 'Flurys' on the whole over a five-year period has a pan-India plan to be present in all the metro cities. And at the end of five years, we expect the number of 'Flurys' outlets to grow to about 350 or so.

Sagarika Chetty: Another question here, you mentioned 10% of the property would be upgraded or renovated. Can you shed more light on the same exactly what is the plan?

Atul Khosla: We have planned for renovation of about Rs. 40 crore per annum and 10% of the things will be existing property taking into renovation and which will lead to about more than double-digit increase in the blended ARR of that percentage of the inventory which is taken into renovation. And the renovation plan is already in place. So, we will be taking like, for example in one property we will take, in Delhi we will take two floors and about 28-30 rooms, and which will take the ARR from about 10,000 to about 11,500 for that part of the inventory which is taken. In that way we have a renovation plan.

Sagarika Chetty: I understand the point, but I am just not getting exactly the specifics of the renovation plan. I understand you gave me an example but is there any specific property that is

going to go under renovation in the near time period or a specific plan profile regarding this?

Atul Khosla: It has already been chalked out, of course, in terms of how we will take properties into one-by-one property and most of the rooms would be taken into renovation and hotel industry generally as we take in the first half of the year and as they come back from the project the actions would be taken. So, plans are already chalked out. Of course, by the time of the next quarter, we will share with you.

Moderator: The next follow-up question is from the line of Nikhil Agrawal from VT Capital. Please go ahead.

Nikhil Agrawal: I just wanted to ask like the Apeejay Surrendra House in Calcutta if that is under this listed entity?

Priya Paul: The building Apeejay House?

Nikhil Agrawal: Yes.

Priya Paul: No, that's not.

Nikhil Agrawal: And what are the rental costs for 'Flurys' outlets like for FY23 and nine months FY24 what were the rental costs?

Atul Khosla: Yes, these rental costs are about 10% to 12% of the total rental. So rental cost of about Rs. 2 crore in FY YTD this year versus Rs. 1.5 crore YTD nine months last year.

Nikhil Agrawal: Rs. 2 crore in FY23?

Atul Khosla: I am saying nine months versus nine months.

Moderator: As there are no questions from the participants, I would now like to hand the conference over to the management for closing comments.

Priya Paul: Thank you, everybody for your very active participation and questions on our maiden earnings call. If you need any further clarifications, we'd be happy to answer your questions; you can reach out to us or to CDR India and look forward to further rounds and learning more from you. Thank you so much.

Moderator: On behalf of Apeejay Surrendra Park Hotels Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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