30th August 2024

SECTOR REPORT

Hotel Industry

INITIATING COVERAGE

Juniper Hotels Ltd
Chalet Hotels Ltd

AXIS SECURITIES

Structural Tailwinds Intact; Up-cycle Expected to Continue

Long-Term Drivers Intact

The total hospitality industry in India currently comprises 212,000 rooms, translating to an industry size of ~Rs 82,000 Cr. The industry is projected to experience a CAGR of 10.5% over the next three financial years. This growth is expected to generate an annual incremental demand of Rs 8,200 Cr. The demand will be primarily driven by three key factors: 1) Domestic travellers (expected to contribute 50% of the incremental growth); 2) Foreign tourist arrivals (anticipated to account for 30%); and 3) The MICE (Meetings, Incentives, Conferences, and Exhibitions) segment, likely to contribute the remaining 20%. These factors are expected to remain sustainable over the next three years and will significantly drive the sector's growth. Given the limited supply of luxury rooms in the market, this growth cycle has the potential to extend further, ensuring robust demand and expansion in the industry.

Upcycle Expected to Be a Long and Sustained One

Sector occupancy is anticipated to improve by ~500 basis points, with the Average Room Rate (ARR) expected to grow at a CAGR of 7-8% over the coming years. This growth is likely to be driven by a relatively constrained supply of rooms and an increase in Foreign Tourist Arrivals (FTAs), which remain below pre-COVID levels (10.56 Mn in 2019 vs. 9.24 Mn in FY24). The increase in FTAs is expected to positively impact ARRs. Additionally, the steady rise of the Indian middle class and their increased spending power is projected to contribute an additional Rs 5,200 Cr annually to the hospitality market.

Sector Valuations are Not Stretched with Fundamentals Improving

As fundamentals continuously improve, driven by strong FCFF generation across the Hotel Sector, the FCFF/EBITDA ratio has steadily increased. Pre-COVID, this ratio was in the range of 30% to 40%, but it has now risen to 50% to 60% due to higher revenue realizations and minimal capital expenditures in the industry. This high FCFF/EBITDA ratio is expected to improve further to ~70% over the next three years. Therefore, we believe that valuations for the Hotel Sector will remain sustainable in the future. Similar trends are observed in the sector's RoIC, which was in the high single digits pre-COVID and has now reached ~15%. With continuous improvement in ARR and minimal capital expenditures, RoIC could improve by 400 basis points over the next three years, potentially keeping Valuations (EV/EBITDA) elevated for the sector. The Hotel Sector trades at relatively low valuations, with EV/EBITDA ratios of 20.7x for FY26E and 17.2x for FY27E. We believe there is room for valuations to increase, given the improvements in RoIC and FCFF generation.

Initiating Coverage on Juniper Hotel Ltd & Chalet Hotels Ltd

We initiate coverage of Chalet Hotels Ltd. with a BUY recommendation and a target price of Rs 975/share, implying a potential upside of 20% from the CMP. Chalet Hotels has developed a distinctive and integrated approach to the hospitality industry, concentrating on the ownership, development, and management of premium hotels and commercial properties. Strategically located, its properties are near central business districts, maximizing land use by developing commercial spaces on surplus land. The company has ~870 rooms in the pipeline over the next three financial years. Upcoming offerings are strategic in high-ARR high-margin regions such as Delhi Airport zone (NCR), Airoli (Navi Mumbai), and a beachfront land parcel in South Goa. Chalet has one of the highest FCFF/EBITDA generation rates in the industry, ranging from 60%-70%, which helps maintain elevated valuations for the company.

We initiate coverage of Juniper Hotels Ltd (JHL) with a BUY recommendation and a target price of Rs 475/share, implying a potential upside of 21% from the CMP. Juniper Hotels, part of the Saraf Group in collaboration with Hyatt, benefits from a strategic partnership that strengthens its market position. Managing seven properties, the company leverages Hyatt's global reputation to attract corporate and leisure travellers. Significant revenue growth is anticipated from strategic expansion plans and enhancements to the Grand Hyatt Mumbai, positioning it as a key revenue driver. JHL is pursuing an ambitious inorganic growth strategy, aiming to expand its portfolio to over 1,000 keys in the coming years. However, for a more conservative projection, the focus is on adding ~320 additional keys to the Grand Hyatt Mumbai (GHM). JHL's FCFF/EBITDA ratio is projected to be around 0.96x. This metric indicates strong operational cash flow relative to EBITDA, reflecting efficient cash generation capabilities.

Hotel Sector: Initiating Coverage on Juniper Hotel Ltd and Chalet Hotels Ltd

	RECO.	CMP (Rs)	TP (Rs)	Upside
Juniper Hotels Ltd	BUY	394	475	21%
Chalet Hotels Ltd	BUY	810	975	20%

CMP as of 29th Aug 2024

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Hotel Sector: A Cycle with More Steam Left

> *"Over the past two decades, the hotel industry has experienced periods of growth and downturns. Recent recovery has been driven by increased demand, economic revival, and unique supply chain dynamics."*

Cross Cyclical Industry Trends

The industry has navigated through various phases of growth, recession, recovery, and pandemic-induced downturns over the past two decades. Each phase has posed unique challenges and opportunities, shaping the industry's strategies and financial health accordingly. Several distinct phases have marked the hotel industry's cyclic nature, each influencing occupancy rates, ARR, RevPAR, profitability, and cash flows.

The Indian hotel industry experienced robust growth from FY04 to FY07, with occupancy rates increasing from 64.8% to 71.4% and ARR rising from Rs 3,569 to Rs 7,071. However, the global financial crisis led to a significant drop in occupancy to 59.5% by FY10, creating financial challenges for hotel operators. After a period of stagnation, the industry began to recover, with occupancy reaching 66.1% by FY24, driven by post-pandemic demand and economic revival. Looking ahead, occupancy is expected to improve by 500 basis points, with ARR growing at a 7-8% CAGR, supported by increased Foreign Tourist Arrivals and rising middle-class spending power.

Sector Journey Over the Years

- **Initial Growth (FY04 to FY07):** A shortage in inventories, coupled with a healthy boom in the Indian economy, played a favourable role in the sector's growth. Occupancy rates steadily increased from 64.80% in FY04 to 71.40% in FY07, reflecting rising demand for accommodation services. ARR ranged from Rs 3,569 to Rs 7,071, with a CAGR of ~25.7%, and RevPAR also improved by around Rs 2,700 during this period, driven by favourable economic conditions and increased travel activity from both domestic and foreign arrivals. The hotel industry benefited from being granted "Infrastructure status" by the union government, and the reduction in tariffs on room rent led to lower financing costs, resulting in higher cash flow from operations and improved profitability.

- **The Large Dip (FY08 to FY10):** Occupancy rates plummeted to 59.50%, reflecting a decrease in consumer expenditures, rising unemployment, an excess of available rooms, and a decline in travel demand from FTAs due to the global financial crisis. This period posed significant challenges for hotel operators as they grappled with escalating debt from commitments to hotel projects, leading to diminished cash flows.

- **Phase of stagnation (FY11 to FY14):** After the recession, the sector experienced stagnation. During FY10 and FY11, occupancy levels hovered around 60%. ARR was ~Rs 6,000 during this period but began to rise in subsequent years. By FY14, improving occupancy rates were observed as the economic landscape stabilized and consumer confidence was restored. This period was marked by significant debt levels, largely due to ongoing expansion efforts.

- **Growth Phase (FY15 to FY19):** Operators started to have a focus on deleveraging during these times. Additional investments were moderated heavily amidst low profitability and debt-driven markets. Occupancies grew steadily from 59.8% in FY15 to 66.2% in FY19. At this same time, the ARRs and RevPAR grew relatively slowly.

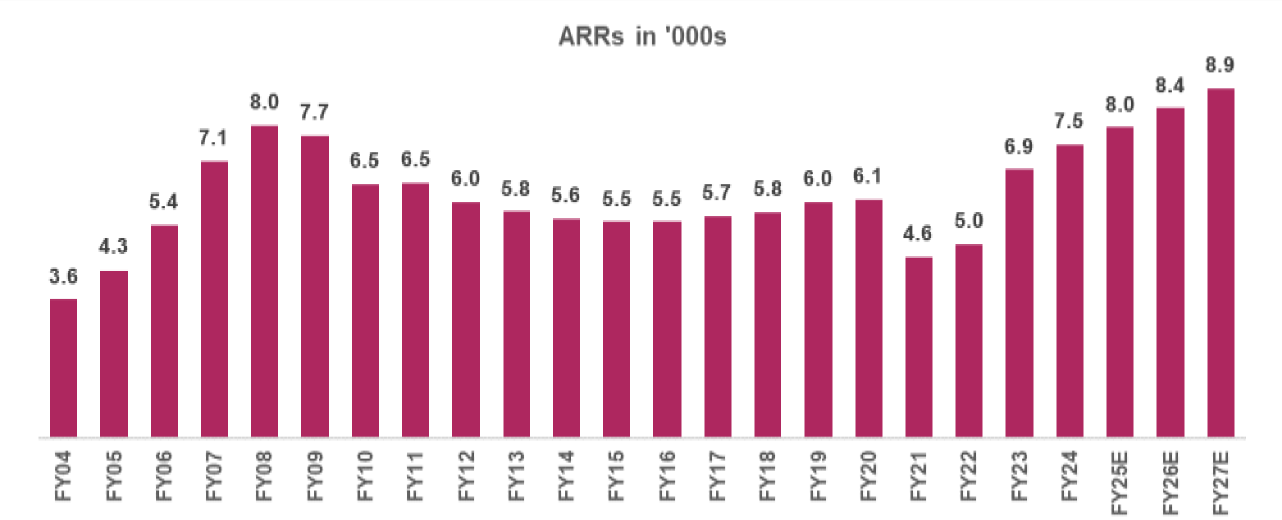
- **Impact of the COVID-19 Pandemic (FY20 onwards):** The sector encountered severe difficulties due to the COVID-19 pandemic, with 2020 experiencing a significant drop in occupancy rates to 34.50% because of international travel bans and lockdown measures. This downturn in the tourism industry caused financial strains, diminished income, and interruptions in day-to-day operations for hotels. In response, the prime establishments prioritized reducing expenses and conserving cash flow, leading to postponed capital expenditure projects.

- **Post-Pandemic Resilience (FY21 to FY24):** Despite challenges, the industry has demonstrated resilience and recovery post-pandemic. Between FY21 and FY22, occupancy rates increased by 1540 basis points, reaching 66.10%. This improvement is attributed to pent-up demand for travel, economic revival, and industry adjustments to health and safety standards. Key objectives for the sector have included reducing debt, maintaining cash flow, and increasing ARR.

- **Future expectations (FY24 to FY27E): We anticipate that sector occupancy could improve by ~500 basis points, with ARR expected to grow at a CAGR of 7-8% over the coming years. This growth will likely be driven by a relatively constrained supply of rooms and an increase in FTAs, which remain below pre-COVID levels (10.56 Mn in 2019 vs. 9.24 Mn in FY24). The rise in FTAs is expected to positively impact ARRs. Additionally, the steady growth of the Indian middle class and their increased spending power is projected to contribute an additional Rs 5,200 Cr annually to the hospitality market.**

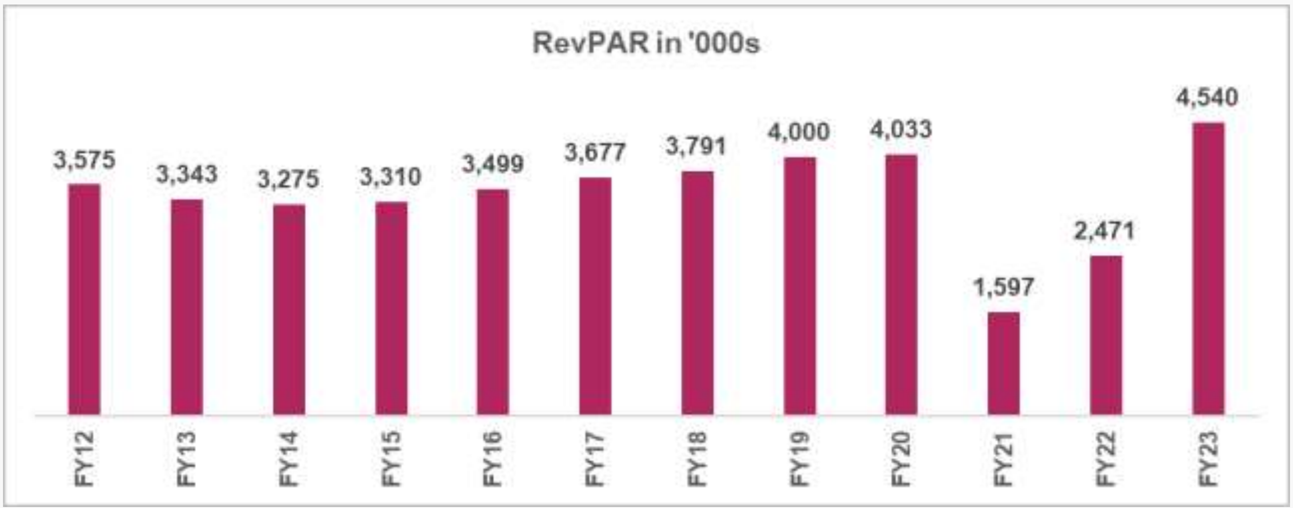
Key Sector Exhibits

Exhibit 1: ARRs peaked in FY08 at Rs 8.0K, declined post-FY09 due to the global financial crisis, and stabilized around Rs 5.3K-Rs 6.0K from FY15 to FY20. After a dip during the COVID-19 pandemic (FY21: Rs 4.4K), ARRs have since recovered, reaching Rs 7.5K in FY24.



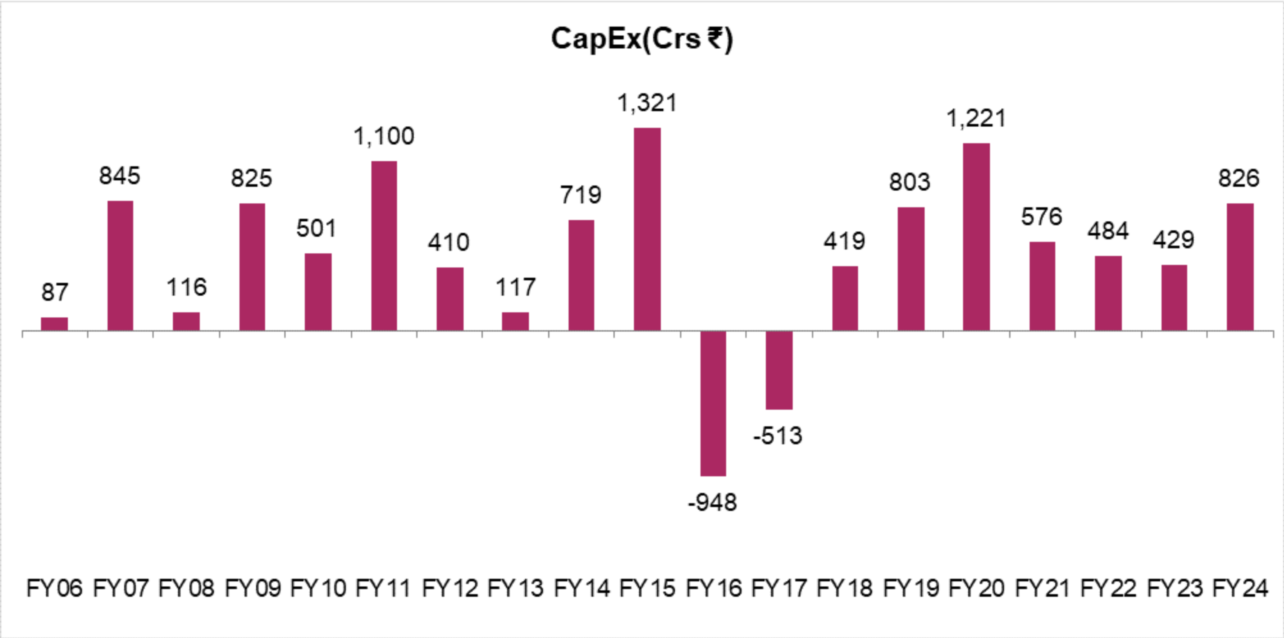
Sources: Hotelivate, Axis Securities

Exhibit 2: RevPAR has experienced fluctuations over the years, showing stability and positive growth during the recovery period until the COVID-19 pandemic caused significant disruption. Despite this, a rapid recovery followed, demonstrating resilience and the maintenance of key revenue metrics.



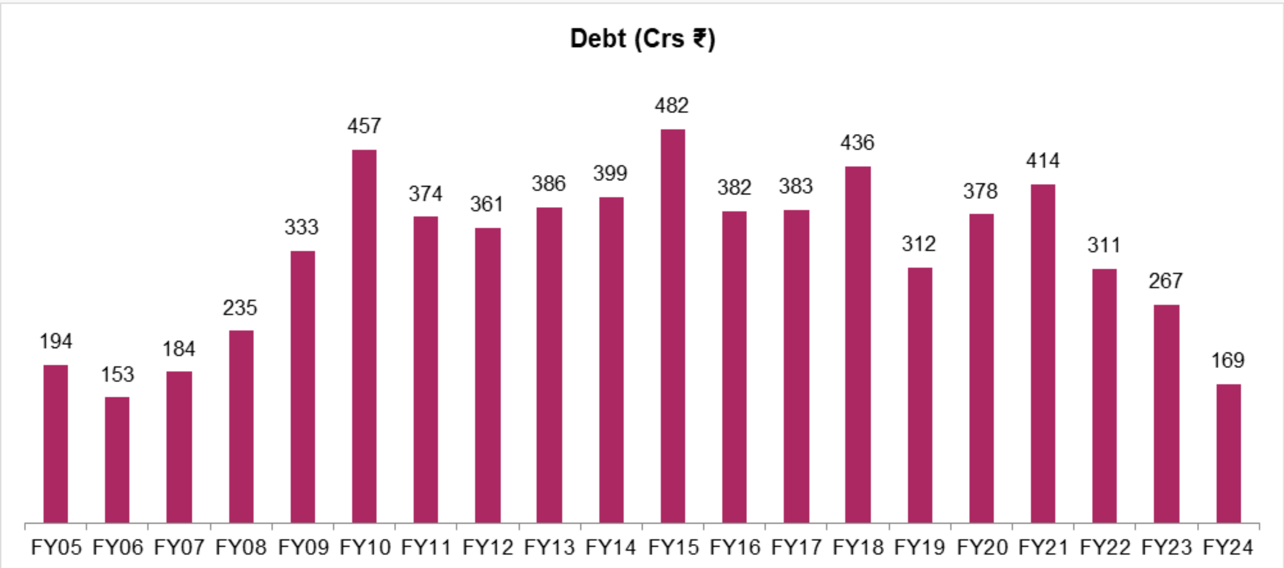
Sources: Hotelivate, Axis Securities

Exhibit 3: During FY15-19, investment in the industry declined due to high debt and low profitability, leading companies to prioritize debt reduction. This resulted in better cash flow management and a significant decrease in capital expenditures, with most cash directed towards debt repayment. However, elevated debt levels increased interest payments, prompting companies to seek additional funds and sell assets to improve their financial position.



Sources: Company, Axis Securities

Exhibit 4: The significant global recession led industries into debt due to halted economic activities and projects. Over time, improvements in cash flows and smart inventory management have facilitated expansion, reduced debts, and enhanced solvency and financial leverage. These efforts mark a shift towards financial stability, highlighting the importance of strategic management in overcoming economic challenges. The graph illustrates the collective sector debt in Cr, which has consistently decreased in recent years.



Sources: Company, Axis Securities

Key Sector Growth Drivers

"India's hospitality industry, valued at approximately Rs 82,000 Cr with 212,000 rooms, is projected to grow at a CAGR of 10.5% over the next three years. This growth will be driven by domestic travelers, foreign tourists, and the MICE segment. Limited supply of luxury rooms indicates robust demand and expansion going ahead."

Revenue Visibility Backed by Robust Demand Drivers

The total hospitality industry in India currently comprises 212,000 rooms, translating to an industry size of ~Rs 82,000 Cr. We project a CAGR of 10.5% over the next three financial years, which is expected to generate an annual incremental demand of Rs 8,200 Cr.

This demand will be driven by three key factors: domestic travellers, contributing 50% of the incremental growth; foreign tourist arrivals, accounting for 30% of the incremental growth; and the MICE (Meetings, Incentives, Conferences, and Exhibitions) segment, likely contributing the remaining 20%. These factors are expected to remain sustainable over the next three years and will significantly drive sector growth. Given the limited supply of luxury rooms in the market, this growth cycle has the potential to extend further, ensuring robust demand and expansion in the industry.

Demand Continues to Outpace Supply: Structural Tailwinds Intact

Growth in India's Travel and Hotel Sector

India's travel industry has witnessed significant expansion due to increased travel among the middle class and affluent travellers, coupled with infrastructure development. The hotel sector is experiencing high demand, but supply is struggling to keep pace. According to Hotelivate research, demand is expected to grow at a 10.8% CAGR annually, while overall supply is anticipated to rise by 8%. By 2027, the number of hotel rooms is projected to reach ~241,000, up from the current 188,000. From 2024 to 2027, an estimated 18,000 rooms per year will be added.

Supply Dynamics and Strategic Allocation

Despite strong cash flows, leading hoteliers such as IHCL, EIH, LTL, and Chalet remain cautious about supply. They plan to add around 5,000 rooms annually in the luxury and upper-luxury segments over the next three years, as these segments generate around 55% of room revenues. This cautious approach reflects the high demand and limited supply in these premium segments. The remaining 13,000 rooms per year will be allocated to mid-budget and economy accommodations, largely managed by smaller hotels and platforms. This strategic distribution aims to address the demand-supply gap, enhance occupancy rates, improve ADR, and drive robust revenue growth.

Regional Demand and Supply Trends

Demand is not limited to major cities; Tier II and III cities are also experiencing a 13% annual growth in demand, while supply growth in these regions is slower at 10%. Enhanced road connectivity and expanded railways are fueling growth from rural to urban areas, further boosting demand. The Indian hotel industry is strategically positioned to capitalize on these trends, contributing significantly to the tourism sector and overall economic growth.

Further, our analysis indicates that despite an average addition of roughly 18,000 rooms yearly, the six leading players (IHCL, EIH, Juniper, Chalet, Park Hotels, and Lemon Tree Hotels) in the listed space contribute to about 30% of the total annual room increment. This cautious and stable approach is due to the market size growing faster than the rate at which industry leaders are adding new rooms. Companies like IHCL and Lemon Tree expand using management contracts and plan a 79:21 eventual split. Firms like Chalet and Juniper adopt an asset-heavy model, taking up management contracts from businesses like Westin, Hyatt, IHCL, and Marriott.

Exhibit 5: Available room supplies vs estimated supply projections over the years with a CAGR of 8%.

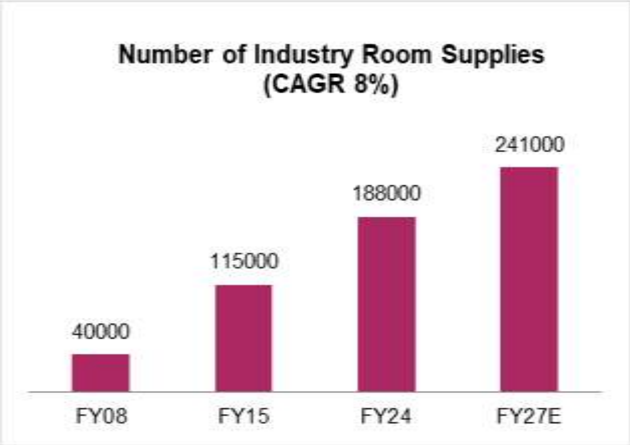
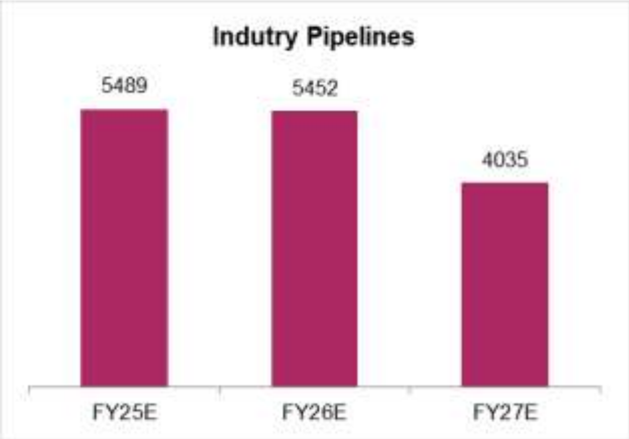


Exhibit 6: Supplies to be provided by Top hotel chains in industries with stability of 5k rooms each year in the luxury & upper luxury segment. Despite predicted market growth, the cautious approach taken to expansion positions by these companies serves better the increasing demand for premium services



Source: Company, Axis Securities Research

Leisure: Growing Intent towards A Particular Vertical

"Leisure travel has fueled the hospitality industry's rebound, emphasizing short trips and unique experiences. Despite high demand, hotel inventory remains limited to a few regions. The expanding middle class is expected to significantly boost travel spending, presenting growth opportunities in the sector."

Resurgence of Leisure Travel Post-COVID

Leisure travel has been the key driver behind the hospitality industry's resurgence following COVID-19. Short visits to drivable areas, weekend getaways, and workstations have gained popularity. Additionally, the growing demand for unique travel experiences and improved last-mile connectivity to lesser-known areas due to infrastructure upgrades are encouraging travellers to explore beyond traditional leisure hotspots like Rajasthan and Goa.

Leisure Inventory and Demand Dynamics

Despite nearly 75% of travel in India being for leisure, the country has only about one-fourth of its branded hotel inventory in leisure destinations. This is significantly lower than what is seen in popular international leisure locations like Bali and Phuket. Notably, the top six states in India account for more than 70% of the leisure inventory, indicating a concentrated supply in a few regions.

Growing Middle-Class Impact on Travel Spending

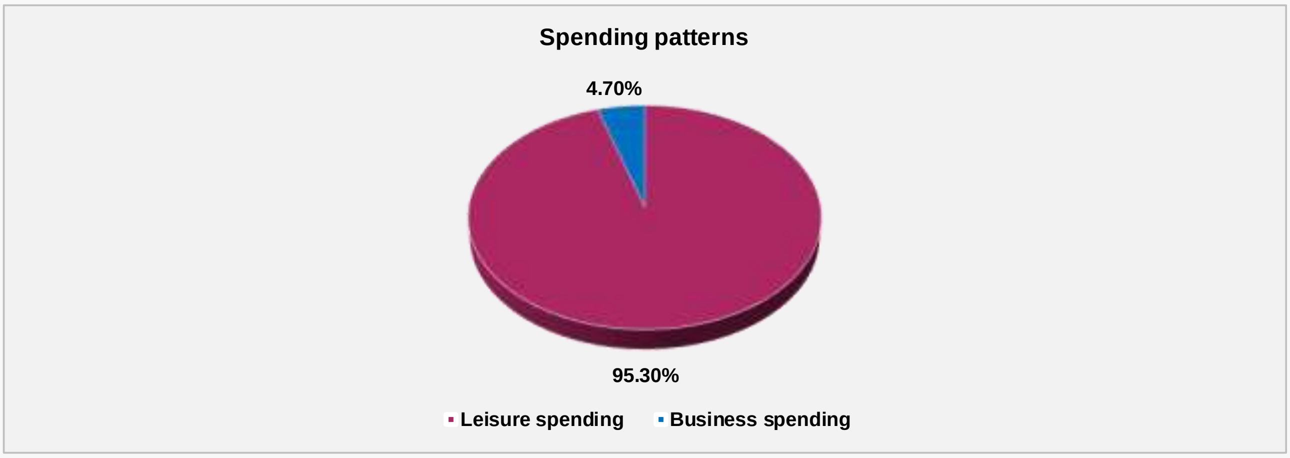
According to the Economic Intelligence Unit, India had 260 Mn households in 2020. Households are classified as middle class if their annual income exceeds $35,000, and only about 1% of families fell into this category in 2020. However, by 2030, this percentage is projected to increase to 5%, with the total number of households rising to 295 Mn. This growth translates to an increase in middle-class households from ~2.6 Mn to 14.75 Mn, driving their collective income from $91 Bn to $516.25 Bn.

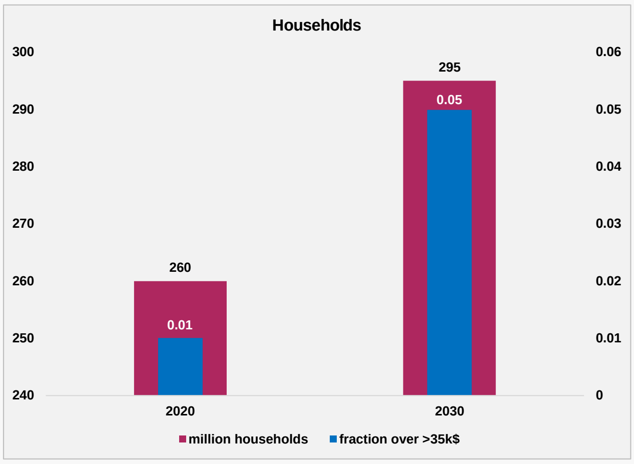
Projected Increase in Travel and Tourism Expenditure

Assuming 10% of this income is allocated towards travel, tourism, and experiences, this indicates an additional $4.25 Bn annual allocation to these activities. This represents a significant boost to the market, presenting substantial opportunities for growth in the travel and hospitality sectors as the middle-class segment continues to expand.

Exhibit 7: The intent of spending in the hospitality sector is 95.3% of the time driven by leisure. This indicates a significant upside for leisure-type offerings by brands.

Exhibit 8: Households are classified as middle class if their annual income exceeds $35,000; currently, only about 1% of families fall into this category. Projections indicate that by 2030, this percentage will increase to 5% of households, with the total number of households rising to 295 Mn.





Source: Company, Axis Securities Research

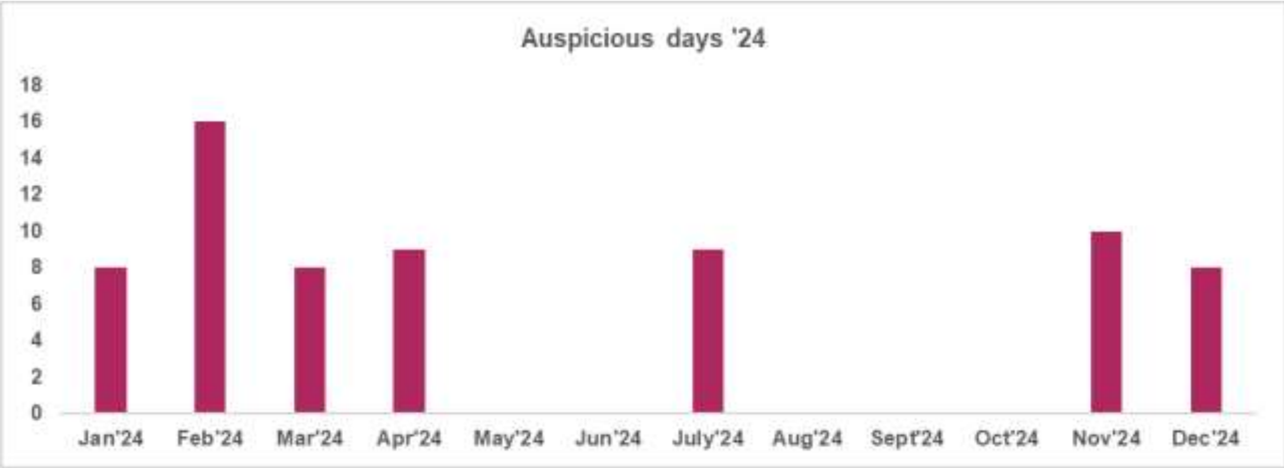
"Spiritual tourism in India is growing with government support for key sites and pilgrim spots, while big weddings drive high hotel demand, with annual bookings worth ~US$ 603 Mn."

Furthermore, considering that individuals typically spend about 15% of their travel and tourism budget on accommodations and stays, this translates into an annual increase of ~$0.6375 Bn (or roughly Rs 5,329 Cr) from domestic backpackers in the hotel market. It is therefore reasonable to expect that the hospitality sector in India will experience significant growth in the coming years due to the expanding middle class and their increasing willingness to spend on leisure activities.

Spiritual Tourism: India offers a plethora of spiritual destinations due to its diversity of religions, cultures, and languages. The government is significantly revitalizing hubs like Ayodhya, Varanasi, and Bodh Gaya, which are playing a key role in this transformation.

Weddings: With a large amount of wedding funds committed to venue rentals and accommodations, the hospitality industry experiences a significant increase in demand during peak wedding seasons. According to media sources, weddings book hotel rooms worth ~US$ 603 Mn (Rs 5,000 Cr) annually (Source: IBEF). Market dynamics are also changing, with hotels increasingly incorporating banquets into their offerings and moving away from standalone venues. Hyatt's "#PerfectlyYours," Marriott's "Shaadi by Marriott Bonvoy," and Taj's "Timeless Weddings" are prime examples of such initiatives, each designed to enhance their appeal in the wedding market. Therefore, weddings are an important driver in the leisure sector.

Exhibit 9: No. of auspicious Hindu days for a wedding in 2024. Weddings in luxury spaces generally follow these trends:



Source: Weddings Bazaar, Axis Securities

Real Estate – Reflection of purchasing power: Our analysis reveals that the housing sector is a robust indicator of purchasing power and consumer willingness to spend. Post-COVID markets demonstrate a consistently upward trajectory in the housing market, with an average growth rate of 5.64% over the past two and a half years. This growth rate reflects increasing public confidence in spending and enhanced purchasing power. Consequently, our thesis posits that the prospects for leisure stays are equally promising, indicating substantial potential for growth in both the housing and leisure sectors.

Exhibit 10: Annual Sales of Housing Units

Source: KnightFrank research

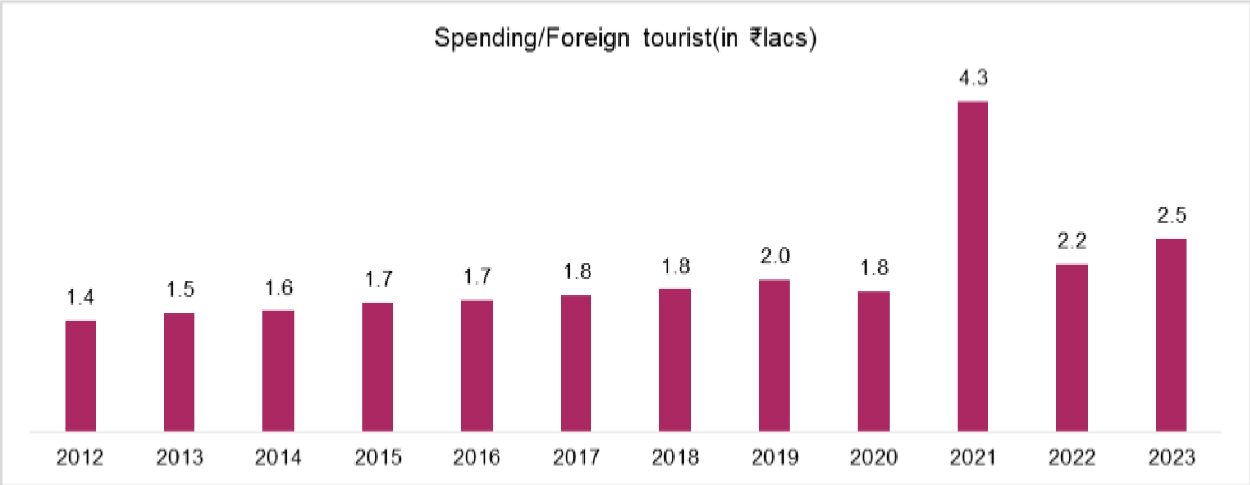
FTAs: Supporting stable ARR growth and driving consistent occupancies

Estimates suggest that FTAs may soon surpass pre-COVID levels. The strong recovery in numbers post-COVID, with arrivals increasing from 1.5 Mn in 2021 to 9.2 Mn in 2023, supports this outlook. The top 10 source countries for FTAs in India are the USA (22%), Bangladesh (20%), the UK (10%), Australia (6%), Canada (4.5%), Malaysia (1.9%), Singapore (1.9%), Germany (2%), Nepal (2.2%), and Sri Lanka (2.9%), while other countries constitute 26.3%.

The percentage share of Foreign Tourist Arrivals in India during Dec'23 among the top five ports was highest at Delhi Airport (29.92%), followed by Mumbai Airport (18.46%), Haridaspur Land Check Post (7.09%), Chennai Airport (7.02%), Bengaluru Airport (6.20%).

"FTAs greatly impact average room rates (ARRs) in the premium segment, with a 166% increase in FTAs in early 2023 leading to a surge in ARR. As FTAs and Forex earnings rise, ARRs are expected to grow steadily, benefiting such offerings."

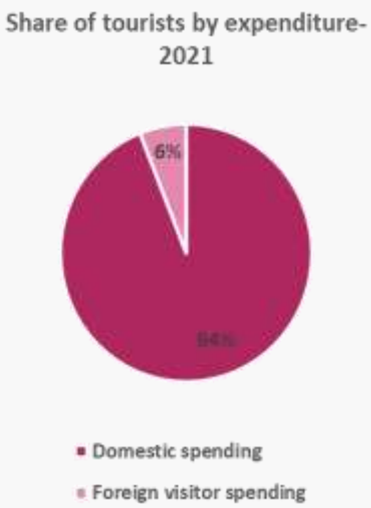
Exhibit 11: Spending by foreign tourists has steadily risen over the years. This trend, combined with the expectation that FTAs will continue to increase until FY27E, is likely to positively support the sector's growth.



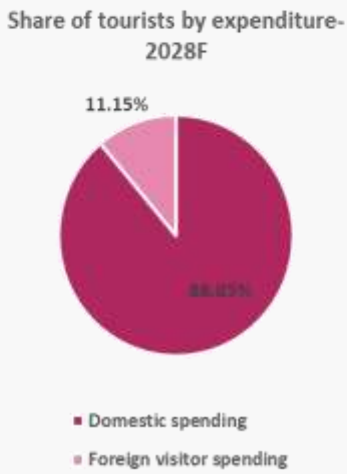
Source: Ministry of Tourism, IBEF, Axis Securities

Exhibit 12: Share of Tourist Expenditure - 2021 vs. 2028E

<u>In 2021, FTAs contributed to 6% of tourist expenditure</u>



<u>Markets expect an increase to 11.15% by the financial year 2028</u>



Source: Ministry of Tourism, IBEF, Axis Securities

Impact of Foreign Tourist Arrivals (FTAs) on ARR Variability

Foreign tourist arrivals (FTAs) significantly influence the variability of average room rates (ARRs) in the premium hotel segment. For businesses like Chalet, where foreign guests contribute 35-40% of revenues, FTAs play a crucial role in ARR governance. Foreign tourists typically have higher spending power and a preference for luxury and superior service, making them key drivers of premium room demand.

Surge in FTAs and Its Effect on ARR

India witnessed a 166% surge in foreign tourist arrivals during the first four months of 2023 compared to the same period in 2022, according to the Tourism Minister. This surge was particularly evident during the G20 summit held in Delhi, where the average daily rate (ADR) quadrupled to Rs 26,000 from an average of Rs 6,000 in 2022, as reported by RateGain Travel Technologies' Adara division.

Correlation Between FTAs and Forex Earnings

A positive correlation exists between the average ARR in a given year and the Forex earnings collected during the same period. As FTAs increase, Forex earnings tend to rise, a trend that was consistent until the COVID-19 pandemic disrupted the market. With foreign tourist arrivals projected to reach 30.5 Mn by FY28, according to the Ministry of Tourism, Forex earnings are expected to rise in the coming years. This increase in Forex earnings is likely to lead to a steady rise in ARRs, supported by factors such as streamlined visa processing, improved road and rail infrastructure, and other favourable conditions.

Outlook for ARR Growth

As these positive conditions mature, the ARRs for premium rooms are expected to experience steady growth, aligning with the anticipated increase in FTAs and the associated rise in Forex earnings. This trend is particularly relevant for listed hotel companies that rely heavily on foreign guests for a significant portion of their revenue.

Exhibit 13: Industry ARR vs FTA graph: There is potential for support in the ARR price as the FTAs increase in the coming financial years

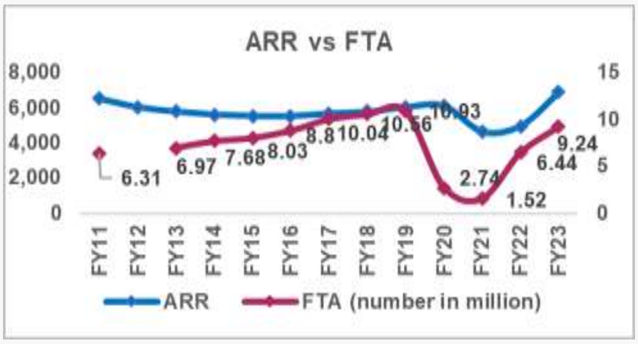
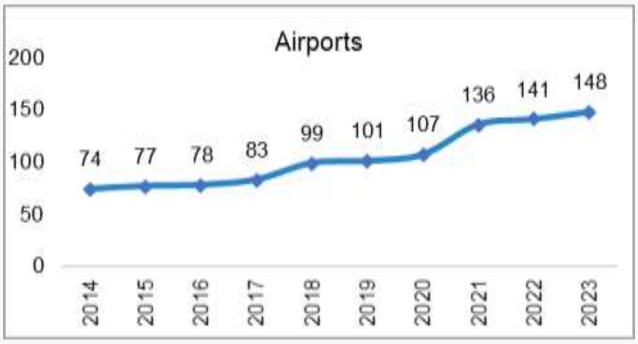


Exhibit 14: As the number of airports, and international airports increase, it's easier for both, FTAs and domestic travellers to get around and contribute to tourism and hospitality



Source: Ministry of Tourism, IBEF, Axis Securities

A positive graphic correlation appears to exist between the average ARRs of a year and the Forex earnings collected in the same year. As FTAs increased, Forex fees collected rose steadily until the COVID-19 pandemic disrupted the market. According to the Ministry of Tourism's research, foreign tourist arrivals are projected to reach 30.5 Mn by FY28E. These conditions are expected to boost annual Forex earnings, which should contribute to a positive increase in ARRs in the coming years. This trend is further supported by streamlined visa processing, improving road and rail infrastructure, and other favourable conditions, suggesting a steady increase in ARRs as these factors mature.

MICE: A Catalyst for Hospitality Growth

The MICE sector, encompassing meetings, incentives, conferences, and trade fairs, is driven by rising business travel and corporate event planning. The Indian MICE market is expected to be valued at $3.30 Bn in 2023, growing to $10.52 Bn by 2030, with an 18% CAGR (Source: Coherent Market Insights). Assuming that 10% of this revenue contributes to room revenues and F&B in the hospitality sector, it would add ~$330 Mn (Rs 2,739 Cr). This growth is anticipated to support the ARRs of major players in the hospitality sector, including IHCL, EIH, Chalet, Park, Lemon Tree, and Juniper. As the MICE market expands, this contribution is expected to increase significantly, with corporate travel and conveyance playing a crucial role in supporting the sector.

"The Indian MICE sector is projected to grow from $3.30 Bn in 2023 to $10.52 Bn by 2030. Approximately 10% of this revenue, or about $330 Mn, is expected to contribute to hospitality earnings. This growth will support higher ARRs for major brands, driven by increased corporate travel and the development of new convention centers."

Exhibit 15: MICE market size

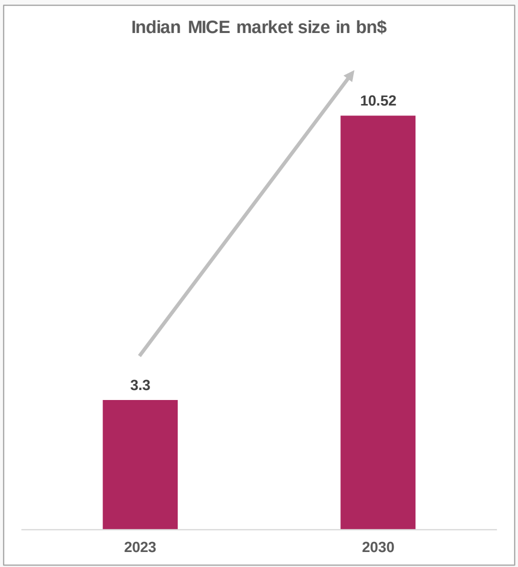
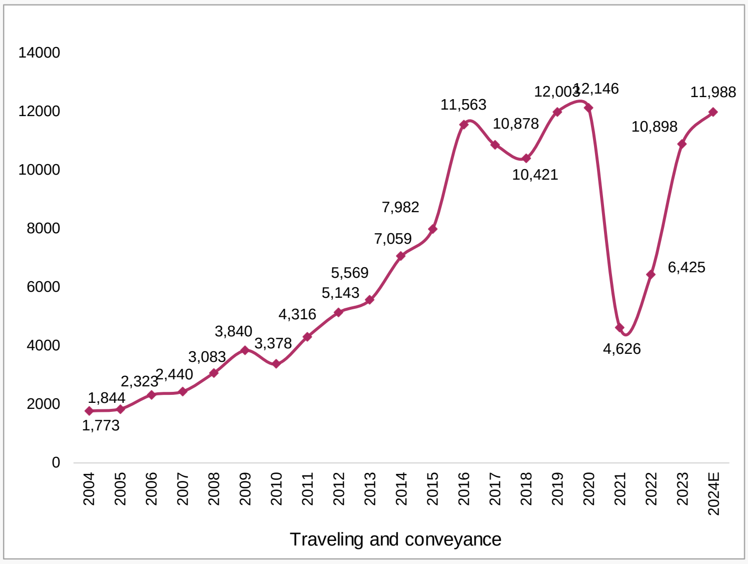


Exhibit 16: Corporate Travel & Conveyance



Source: Coherent Insights, Axis Securities

Corporate Travel Expenses and Potential Upside

Our analysis indicates that corporate travel expenses are trending positively for the hospitality sector. The graph below illustrates the total travel and conveyance expenses for 50 NIFTY companies, measured in Cr. FY24E expenses amount to Rs 1,988 Cr, which have yet to reach the pre-COVID FY19 figures of Rs 12,146 Cr. This suggests substantial potential for increased spending in this sector, which could directly impact the commercial tourism and MICE (Meetings, Incentives, Conferences, and Exhibitions) markets.

Growth of the MICE Market

India's MICE market currently holds ~2.5% of the global share, with 60% attributed to meetings, incentives, and conferences, and 22% to international MICE activities. Despite these gains, India had less than 1% of the global market share in 2019. The sector is poised for growth, supported by enhanced government funding and new convention centres such as NMACC and Yashobhoomi. Historical data supports this potential, exemplified by a fourfold increase in ADR to Rs 26,000 during the 2022 G20 summit in Delhi.

Projected Market Value and Impact

The Indian MICE market is anticipated to grow from $3.30 Bn in 2023 to $10.52 Bn by 2030, reflecting an 18% CAGR (Source: Coherent Market Insights). If 10% of this revenue contributes to room revenues and F&B in the hospitality sector, it would translate to an additional ~$330 Mn (Rs 2,739 Cr). This growth is expected to significantly support the ARRs of major hospitality players such as IHCL, EIH, Chalet, Park, Lemon Tree, and Juniper.

Upcoming MICE events

Event Name	Location	Date	Description
India Steel 2025	Mumbai	April 24-26, 2025	• International exhibition and conference on the steel industry, organized by the Ministry of Steel and FICCI.
World Education Fair	Multiple Cities	Various Dates in 2024	• Fairs in Jaipur, Chandigarh, Kolkata, and others, facilitating interactions between students and international univ
TECHSPO Delhi NCR	New Delhi	September 25-26, 2024	• Event for developers, marketers, and designers, covering various aspects of the tech industry.
Open-Source India 2024	Bengaluru	October 23-24, 2024	• An event dedicated to open-source innovation with sessions and exhibitors.
India International EV Show 2024	Chennai	September 6-8, 2024	• Focuses on electric vehicles and related technologies.
EV India Expo 2024	Greater Noida	September 18-20, 2024	• A major event showcasing electric motor vehicles.
International Auto Show (IAS)	Bengaluru	September 27-30, 2024	• Exhibition for automobiles, spare parts, and accessories.
Smart Mobility Expo	New Delhi	October 22-24, 2024	• Showcasing future mobility solutions, including electric, connected, and autonomous vehicles.
MICE Show India 2024	Mumbai	September 11-13, 2024	• Brings stakeholders from the MICE industry together to explore new business opportunities.
BLTM 2024	New Delhi	August 29-31, 2024	• The trade show focuses on business, MICE, and leisure travel.
OTM Mumbai 2025	Mumbai	January 30 - February 20, 2025	• 25 Major event-gathering travel trade buyers and professionals, including those from the MICE industry.

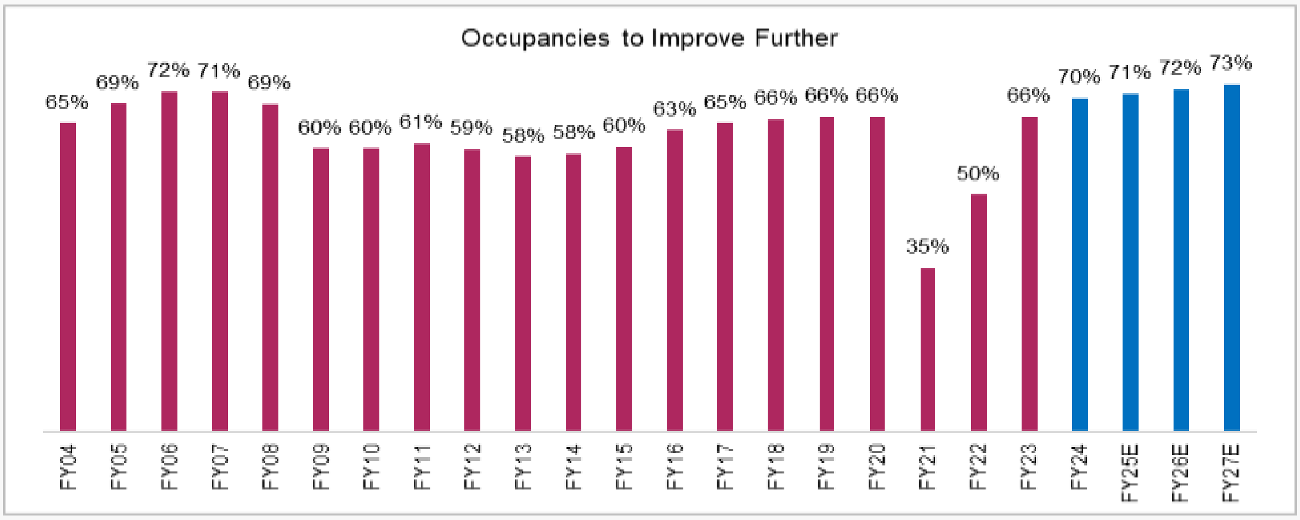
Sources: Axis Securities

Upcycle To Be A Long & Sustained One Going Ahead

We anticipate sector occupancy to improve by around 200 basis points, with ARR growing at a CAGR of 6%-7% over the coming years. This growth will likely be driven by limited room supply and an increase in FTAs, which remain below pre-COVID levels (10.56 Mn in 2019 vs. 9.24 Mn in FY24). The recovery in FTAs is expected to positively impact ARRs as demand rises. FTAs and the MICE sector are projected to generate ~Rs 2,100 Cr and Rs 2,700 Cr, respectively, in annual increments. The MICE sector shows strong potential, supported by government policies and India's growing reputation as a "global business destination." FTAs are expected to exceed 30 Mn by FY28E, according to the Ministry of Tourism. High-spending FTAs with a preference for luxury will help maintain stable ARR levels. Additionally, the rising Indian middle class, with increased spending power, is projected to contribute an additional Rs 5,200 Cr annually to the hospitality market. These combined factors are expected to create robust opportunities, boosting occupancies, increasing room rates, and driving revenue across the sector.

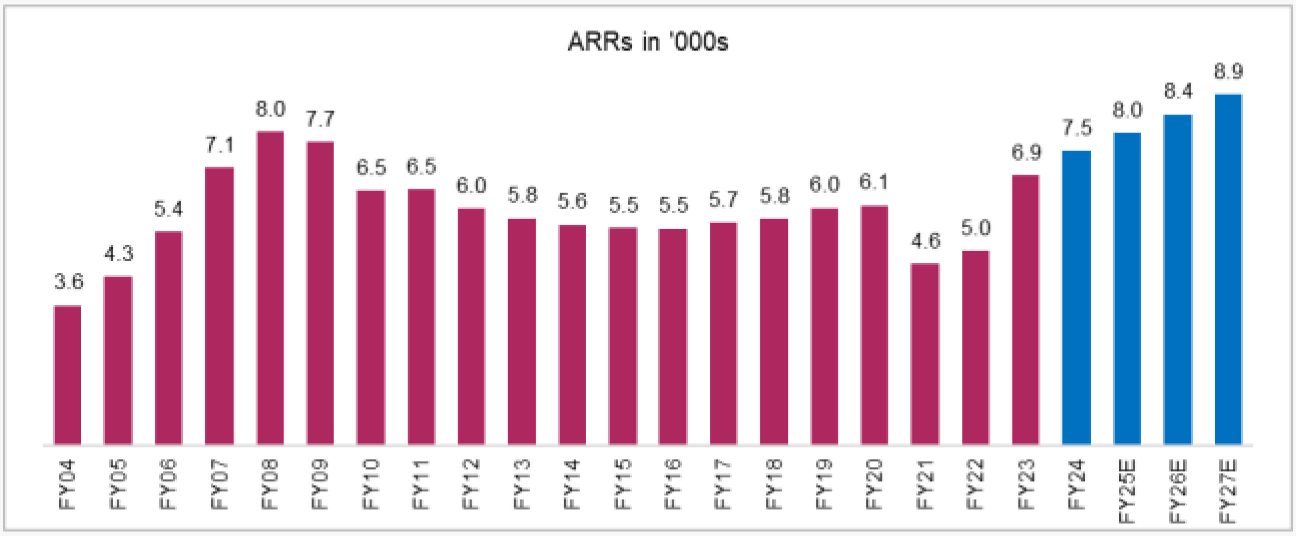
"We expect the Sector occupancy to rise by 200 basis points, with ARR growing at 6%-7% CAGR due to limited room supply and increased FTAs. The MICE sector and growing middle class willing to spend on leisure will further boost revenue, with FTAs projected to exceed 30 Mn by FY28 and contribute significantly to ARR stability and sector growth."

Exhibit 17: Occupancies surpassed pre-COVID levels by FY23, and we project a 200 basis points increase in the coming years. This growth is driven by the expanding middle class, rising corpus, and a projected tripling of FTA figures by FY28E. With limited room supply anticipated, occupancies are expected to rise, positively impacting revenue from room operations.



Sources Hotelivate, Axis Securities

Exhibit 18: ARRs peaked at Rs 8.0K in FY08, declined post-FY09 due to the global financial crisis, and stabilized between Rs 5.3K and Rs 6.0K from FY15 to FY20. After a dip during the COVID-19 pandemic, ARRs have recovered to Rs 7.5K in FY24. We estimate a steady 6-7% annual increase in ARRs, which is expected to positively impact revenues from room operations and enhance EBITDA.



Sources Hotelivate, Axis Securities

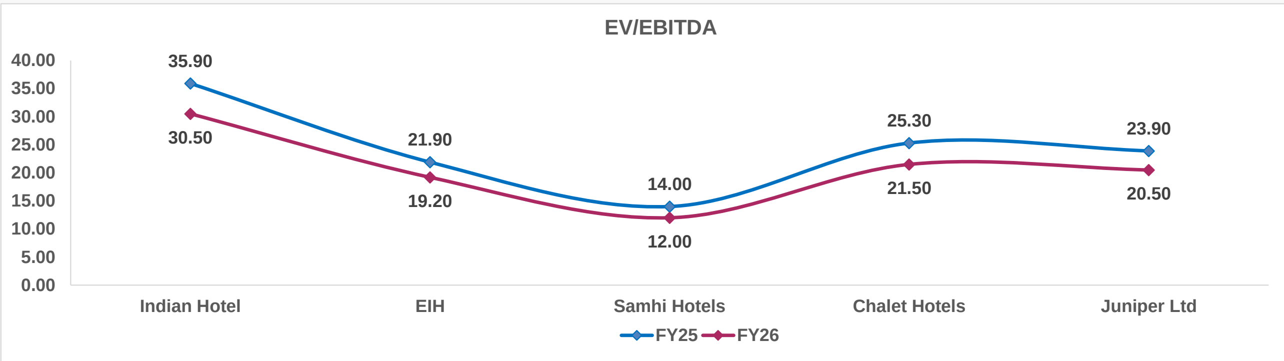
Sector Valuations NOT Stretched, Thanks to Improving Fundamentals

As fundamentals continuously improve, driven by strong FCFF generation across the Hotel Sector, the FCFF/EBITDA ratio has steadily increased. Pre-COVID, this ratio was in the range of 30% to 40%, but it has now risen to 50% to 60% due to higher revenue realizations and minimal capital expenditures in the industry. This high FCFF/EBITDA ratio is expected to further improve to ~70% over the next three years. Therefore, we believe that valuations for the Hotel Sector will remain sustainable.

Similar trends are observed in the sector's RoIC, which was in the high single digits pre-COVID and has now reached ~15%. With ongoing improvements in ARR and minimal capital expenditures, RoIC is expected to improve by 400 basis points over the next three years, which could help keep EV/EBITDA valuations elevated for the sector.

The Hotel Sector currently trades at relatively low valuations, with EV/EBITDA ratios of 20.7x for FY26E and 17.2x for FY27E. We believe there is potential for valuations to increase, given the enhancements in RoIC and FCFF generation.

Exhibit 19: The Hotel Sector trades at relatively low valuations, with EV/EBITDA ratios of 20.7x for FY26E and 17.2x for FY27E.



Sources Company, Axis Securities

Exhibit 20: The Valuations (EV/EBITDA) shall be kept elevated as the Industry RoIC shall stably increase over 400 bps

Name	CMP	MCAP		PE (x)			EV/EBITDA (x)			ROE (%)			ROIC (%)	
	Rs	Rs Cr	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
IHL	647	91,900	54.0	45.1	38.9	35.9	30.5	26.3	15.3	15.6	15.4	21.5	25.2	29.0
EIH	377	23,590	32.4	28.4	24.4	21.9	19.2	16.4	17.3	16.1	15.8	17.3	16.8	17.3
SAMHI	205	4,500	35.0	23.0	21.0	14.0	12.0	11.0	12.0	16.0	18.0	13.0	14.0	16.0
Chalet	**810**	**17,666**	**49.3**	**40.0**	**28.5**	**25.3**	**21.5**	**16.5**	**11.2**	**12.1**	**14.5**	**11.6**	**13.6**	**17.5**
Juniper	**394**	**8,767**	**44.7**	**35.3**	**25.9**	**23.9**	**20.5**	**15.8**	**6.9**	**8.0**	**9.9**	**9.2**	**10.8**	**13.0**
Average			**43.1**	**34.4**	**27.7**	**24.2**	**20.7**	**17.2**	**12.5**	**13.6**	**14.7**	**14.5**	**16.1**	**18.6**

Sources: Axis Securities

Exhibit 21: Continuous operating leverage plays led by an increase in occupancies and ARRs across the industry

Rs Cr		Revenue			EBITDA			EBITDA Margins			PAT	
Hotels	**FY25E**	**FY26E**	**FY27E**	**FY25E**	**FY26E**	**FY27E**	**FY25E**	**FY26E**	**FY27E**	**FY25E**	**FY26E**	**FY27E**
IHL	4901	5742	6590	1950	2297	2636	39.8%	40.0%	40.0%	1382	1658	1905
EIH	2715	3065	3456	1020	1144	1276	37.6%	37.3%	36.9%	741	834	961
Samhi	1187	1376	1427	444	487	564	37.4%	35.4%	39.5%	131	193	272
Chalet	**1685**	**1921**	**2380**	**775**	**893**	**1131**	**46.0%**	**46.5%**	**47.5%**	**358**	**442**	**621**
Juniper	**956**	**1034**	**1320**	**378**	**419**	**555**	**39.5%**	**40.5%**	**42.0%**	**198**	**241**	**351**

Sources: Axis Securities

Hotel Sector: Key Risks & Mitigation

Key Risks	Mitigation
Slowdown In Tourism Activity A reduction in tourism activity could lead to lower hotel occupancy rates and decreased revenue, impacting the overall financial performance of the hospitality business.	The company is addressing this risk by diversifying target markets through enhanced digital marketing efforts and developing special packages for various traveller segments to attract a broader audience.
FTA Delay Delays or reductions in foreign tourist arrivals can impact occupancy rates and revenue.	The company is increasing its focus on domestic travellers to offset declines in international arrivals. Additionally, it is collaborating with international travel agencies and tour operators to enhance and expedite foreign tourist bookings.
Slowdown in Corporate Business Activities: Sluggishness in corporate business activities can lead to decreased demand for business-related accommodations and MICE spaces.	The company offers flexible event spaces and tailored services for various types of business events and conferences. It is also targeting new sectors or industries that may still require business accommodations and services.
Moderate Growth in Average Room Rate: Slower-than-expected growth in Average Room Rate (ARR) could affect overall revenue and profitability.	The company is increasing guest satisfaction through enhanced services and amenities to encourage positive reviews and repeat business. It is also regularly assessing market trends and competitor pricing to remain competitive and adjust rates effectively.
Delay in Commissioning Projects Delays in the proposed supplies of rooms or new projects can lead to postponed revenue streams and increased costs.	The company is strengthening project management practices to ensure timely completion, including setting clear timelines and monitoring progress. It is also preparing for potential delays by implementing contingency plans, such as budget adjustments and flexible timelines.

Source: company, Axis Securities

Chalet Hotels Ltd: Robust Corporate Governance and Experienced Management Team

Management Team	Details
Sanjay Sethi *Executive Director*	Mr. Sanjay Sethi holds a diploma in Hotel Management, Certified Hotel Administrator (CHA) from American Hotel and Lodging Educational Institute & General Management Course in Business Excellence from IIM Bangalore. He has over 36 years of experience in the hospitality industry. Mr. Sethi founded Berggruen Hotels Private Limited in 2006 along with Berggruen Holdings, New York. He has briefly worked with ITC Limited as Chief Operating Officer for their Hotels Division and had a fourteen-year stint with the Taj Group of Hotels
Ravi C. Raheja *Whole-time Director*	Mr. Ravi holds a Master of Business Administration from London Business School. He is Group President at K. Raheja Corp where he has been actively involved in directing and managing the business including finance, corporate strategy and planning, growing the business from a family-run Company to one of India's largest business conglomerates, with diversification to hospitality, retail and malls. He guided the business to the build-and-hold model and has been the force behind building a well-diversified Group portfolio including commercial space under the brand names of 'Mindspace' and 'Commerzone'; and a strong residential portfolio. He has 28 years of experience across the real estate, hotel and retail industry
Neel C. Raheja *Non-Executive Director*	Mr. Neel holds a Master's Degree in Commerce from the University of Mumbai with a Management Program from Harvard Business School. He is the Group President at K. Raheja Corp Group, where he has been at the forefront of driving change and innovation. He has more than two decades of experience across the real estate, hospitality and retail industry. He also plays an active role in the Group's philanthropic initiatives through the K Raheja Corp Foundation, Sadhana Education Society and S. L. Raheja Hospital. He has also driven several green initiatives for the Group. He chairs some of the most important committees that shape key industry developments.
Hetal Gandhi *Independent Director*	Mr.Hetal is a commerce graduate from the University of Mumbai, and a Fellow Member of the Institute of Chartered Accountants of India, Delhi. Mr. Hetal Gandhi is the co-founder and Managing Director of Tano India Advisors Private Limited. He was previously associated with a diversified financial services company as Head of Financial Services and with ORIX Auto and Business Solutions Limited as Chief Executive Officer. He has over three decades of experience in the financial services industry spanning private equity, investment banking and asset financing.
Arthur DeHaast *Independent Director*	Ms. Arthur has completed her Bachelor's in Hotel Management from the University of Strathclyde. He has over 39 years of experience in the Hospitality and Real Estate sector and has led many transactional and advisory assignments.
Radhika Piramal *Independent Director*	Ms. Radhika has completed her MBA from Harvard Business School. She is the Executive Vice Chairperson of V.I.P. Industries Limited. Outside of V.I.P., she worked as a management consultant with Bain & Company in New York from 2006 - 2008. Ms. Piramal's leadership has been integral to revitalizing V.I.P. Industries' profitable growth
Joseph Conrad D'Souza *Independent Director*	Mr. Jospeh holds a Master's Degree in Business Administration from South Gujarat University with a Graduate of the Senior Executive Program from the London Business School. He had been associated with HDFC, as a member of their Executive Management & Chief Investor Relations Officer, where he was primarily involved with corporate planning and budgeting, corporate finance and investor relations. He was also the Treasurer of HDFC. He has also been a consultant in mortgage finance to multilateral institutions in Asia, Africa and Eastern Europe.

Source: company, Axis Securities

Juniper Hotels Ltd: Robust Corporate Governance and Experienced Management Team

Management Team	Details
Arun Saraf *Executive Director*	Mr. Arun Saraf is the Chairman and Managing Director of our Company. He is also one of the Promoters of the Company. He has been associated with the Company since 1998. He holds a bachelor's degree in arts with a major in business economics from the College of Letters and Science, University of California, Los Angeles, USA.
Namita Saraf *Non-Executive Director*	Mrs Namita has completed her higher secondary examination from the West Bengal Council of Higher Secondary Education. She currently serves as the head of the Saraf Foundation for Himalayan Tradition and Culture, in Kathmandu, Nepal.
David Peter *Non-Executive Director*	Mr. David holds a bachelor's degree in arts from the College of Arts and Science, Vanderbilt University and a degree in juris doctor from the College of Law, University of Iowa. He currently serves as the senior vice president and associate general counsel (transactions and asset management) at Hyatt Hotels Corporation. He was previously associated with Hyatt International (Europe Africa Middle East) LLC as vice president – legal (Europe, Africa, Middle East (EAME) & South West Asia (SWA)) and Hyatt Corporation as corporate counsel.
Elton Tze Tung Wong *Non-Executive Director*	Mr.Elton holds a bachelor's degree in accounting and financial analysis from Warwick Business School, University of Warwick, United Kingdom. He currently serves as the senior vice president – finance (Asia Pacific) at Hyatt Hotels Corporation. He was previously associated with Hyatt International – Asia Pacific Limited as vice president – finance (Asia Pacific), Hyatt International South West Asia Limited as vice president – finance, Hyatt International Hotel Management (Beijing) Co. Ltd. as area director of finance (China)/ director of finance, Hyatt of Australia Limited as area director of finance (Pacific). Further, he has also been associated with several Hyatt hotels in Asia and Australia in various positions such as resident director of finance, area director of finance, director of finance and assistant director of finance.
Pallavi Shardul Shroff *Independent Director*	Mrs. Arthur has completed her Bachelor's in law and a master's degree in management studies from the University of Bombay. She currently serves as a managing partner of Shardul Amarchand Mangaldas & Co.
Sunil Mehta *Independent Director*	Mr. Mehta holds a master's degree in science (agriculture) from Mohanlal Sukhadia University, Udaipur and a master's degree in business administration from Ramdeo Anandilal Poddar Institute of Management, Jaipur. Further, he is a certificated associate of the Indian Institute of Bankers. He currently serves as the chief executive of the Indian Banks' Association. He was previously associated with Punjab National Bank as the managing director and chief executive officer, Corporation Bank as executive director and Allahabad Bank as general manager.
Avali Srinivasan *Independent Director*	Mr. Avali holds a bachelor's degree in commerce (pass) from the University of Delhi and a bachelor's degree in general laws from the University of Mysore. Further, he is an associate of the Institute of Company Secretaries of India. He was previously associated with The Standard Batteries Limited as the company secretary and general manager (legal).

Source: company, Axis Securities

-: Company Section: -

AXIS SECURITIES

Initiating Coverage
30th August 2024

Juniper Hotels Ltd
Hotels

BUY
Target Price
475

Rolling Out the Welcome Mat: Path to Growth & Operational Excellence

We initiate coverage of Juniper Hotels Ltd (JHL) with a BUY recommendation and a target price of Rs 475/share, implying an upside potential of 21% from the CMP. As a leading player in the luxury and upscale hotel sector, Juniper Hotels, part of the Saraf Group and in collaboration with the Hyatt Group, benefits from a strategic partnership that strengthens its market position. The company manages seven properties and leverages Hyatt's global reputation to attract both business and leisure travellers. JHL's strategic expansion plans and the improvements at Grand Hyatt Mumbai are expected to significantly increase revenue and make this hotel a key revenue driver for the company. With its properties in key Indian markets and the alignment of cash flow from operations with operating income, Juniper Hotels demonstrates a robust ability to generate sustainable cash flows. This enables the company to remain a top choice for business travellers and event organizers, capitalizing on the strength of the Hyatt brand and its extensive market reach.

Investment Thesis

Strong Brand Equity amongst Business Travelers: Hyatt's diverse brand portfolio, from the prestigious Grand Hyatt to simpler options, allows Juniper Hotels to appeal to a wide range of market segments. This broad appeal is complemented by Hyatt's renowned hospitality offering and extensive MICE capabilities. These features not only enhance the guest experience but also generate significant revenue through versatile event space and customizable services. The "World of Hyatt" loyalty program is a key driver of customer loyalty and contributes to a repeat customer rate of 40% to 50%. Points-based rewards and co-branded credit card offers play a critical role in maintaining and growing Juniper Hotels' customer base through the loyalty program.

Keys Expansion and Steady Momentum: JHL is pursuing an ambitious inorganic growth strategy, aiming to expand its portfolio to over 1,000 keys in the coming years. However, for a more conservative projection, the focus is on adding approximately 320 additional keys to the Grand Hyatt Mumbai (GHM). This expansion is expected to significantly boost revenue, with projections indicating an increase of Rs 160 to 200 Cr by FY27E.In terms of overall financial performance, room revenue is anticipated to grow at a robust 18% CAGR, rising from Rs 484 Cr in FY24 to Rs 800 Cr by FY27E. This growth will be supported by an improvement in the Average Room Rate (ARR), projected to increase at an 8% CAGR from Rs 10,165 to Rs 12,913, alongside a 200 basis points increase in occupancy rates. **Food and beverage** revenue is projected to experience significant growth at a 19% CAGR. This increase will be driven by the expansion of restaurant services and the introduction of additional banqueting facilities. The addition of a new ballroom at GHM is expected to further capitalize on the emerging MICE demand, with estimated revenue from this segment anticipated to reach Rs 73 Cr by FY27E.

High FCFF/EBITDA Generation among Peers: The company is projected to generate FCFF in the range of Rs 300-Rs 400 Cr per year following a significant capital expenditure of Rs 300 Cr planned for FY27E. This investment is expected to support the company's expansion and growth strategies, particularly at the Grand Hyatt Mumbai. The company's ROCE is anticipated to improve significantly, reaching approximately 13% in FY27E, up from 7% in FY24. This improvement is largely attributed to a substantial reduction in debt, which will lower interest expenses and enhance overall profitability. In FY26E, the company's FCFF/EBITDA ratio is projected to be around 0.96x, indicating strong operational cash flow relative to EBITDA and reflecting efficient cash generation capabilities. Additionally, the company has successfully reduced its debt from Rs 2,000 Cr to Rs 900 Cr between FY23 and FY24 by utilizing proceeds from its IPO. This reduction not only decreases the company's interest burden but also enhances its financial stability.

Valuation & Recommendation: JHL presents a strong investment case, driven by impressive revenue growth projections and solid financial performance. The expected improvement in occupancies, coupled with rising ARRs, along with the company's strategic expansion at the Grand Hyatt Mumbai, is set to significantly enhance profitability. JHL's effective debt reduction, which is projected to improve its ROCE to approximately 13%, along with maintaining a high FCFF/EBITDA ratio, further underscores its financial strength. **We initiate coverage on the stock with a BUY Rating and a TP of 475/share based on a multiple of 22x EV/EBITDA for Q1FY27E. The TP implies an upside of 21% from the CMP.**

Key Financials (Consolidated)

(Rs Cr)	FY24A	FY25E	FY26E	FY27E
Net Sales	818	963	1,049	1,350
EBITDA	311	375	420	527
Net Profit	24	196	248	339
EPS (Rs.)	1.1	8.8	11.1	15.2
PER (x)	368.4	44.7	35.3	25.9
EV/EBITDA (x)	29.7	23.9	20.5	15.8
P/BV (x)	3.3	3.1	2.8	2.5
ROE (%)	0.9	6.9	8.0	9.9

Source: Company, Axis Securities

(CMP as of Aug 29, 2024)

CMP (Rs)	394
Upside /Downside (%)	21%
High/Low (Rs)	538/365
Market cap (Rs Cr)	8,770
Avg. daily vol. (6m) Shares.	1,95,860
No. of shares (Cr).	22.25

Shareholding (%)

	Mar-24	Jun-24
Promoter	77.5	77.5
FIIs	10.7	10.6
MFs / UTI	6.2	7.0
Banks / FIs	0.0	0.0
Others	5.6	4.9

Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	963	1,049	1,350
EBITDA	375	420	527
Net Profit	196	248	339
EPS (Rs.)	8.8	11.1	15.2
PER (x)	44.2	35.0	25.6
EV/EBITDA (x)	23.7	20.3	15.6
P/BV (x)	3.0	2.8	2.5
ROE (%)	6.9	8.0	9.9

(Key Growth %)

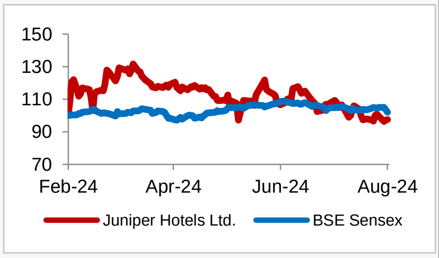
Y/E Mar	FY25E	FY26E	FY27E
Net Sales	17.7%	9.0%	28.7%
EBITDA	20.7%	11.8%	25.5%
Net Profit	724.2%	26.5%	36.6%

ESG disclosure Score**

Environmental Disclosure Score	NA
Social Disclosure Score	NA
Governance Disclosure Score	NA
Total ESG Disclosure Score	NA

Source: Bloomberg, Scale: 0.1-100
**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: Ace Equity

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Aman Goyal
Research Associate
Email: aman.goyal@axissecurities.in

Story in Charts

Exhibit 1: Significant near-term growth in keys, coupled with an expanding portfolio over the years, is expected to contribute positively to EBITDA in the coming years. This, combined with steady ARRs, will further enhance the company's financial performance.

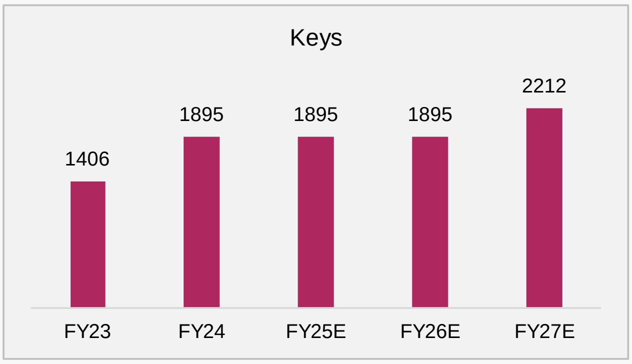
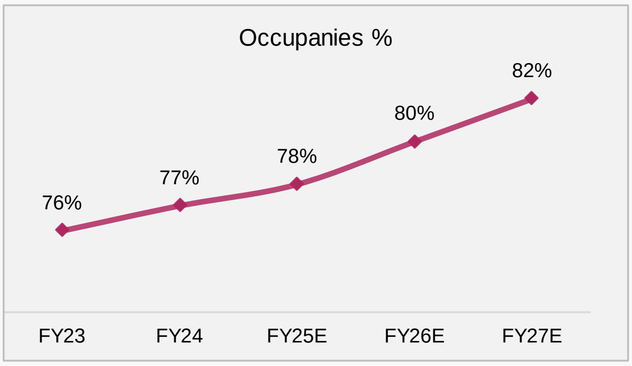


Exhibit 2: Juniper Hotels is projected to experience a steady increase in occupancy rates, rising from 75.83% in FY23 to 82.00% by FY27. This growth reflects increasing demand and improved operational efficiency.



Source: Company, Axis Securities Research

Exhibit 3: Juniper Hotels' average ARRs are expected to increase from Rs 11,460 in FY23 to Rs 14,814 by FY27, highlighting the company's growing revenue potential as demand rises. This growth is projected to follow an 8% CAGR over the coming years.

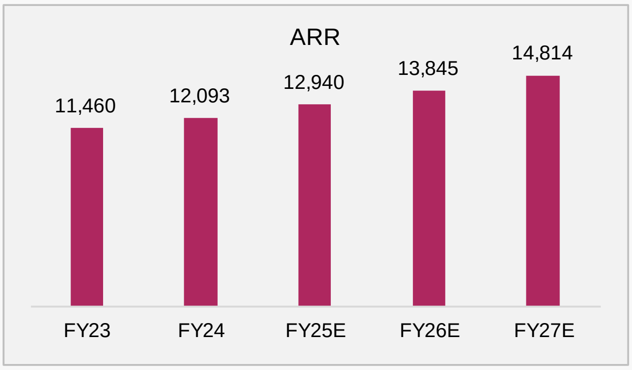
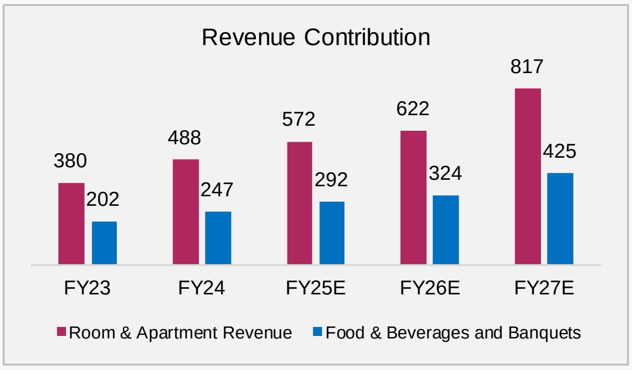


Exhibit 4: Juniper Hotels is forecasted to achieve robust revenue growth in both its room and apartment segments, as well as in food and beverage services. These anticipated increases underscore the company's strategic expansion and enhanced service capabilities.



Source: Company, Axis Securities Research

Exhibit 5: Net sales are projected to rise from Rs 667 Cr in FY23 to Rs 1,350 Cr by FY27, reflecting strong business expansion and increased market share.

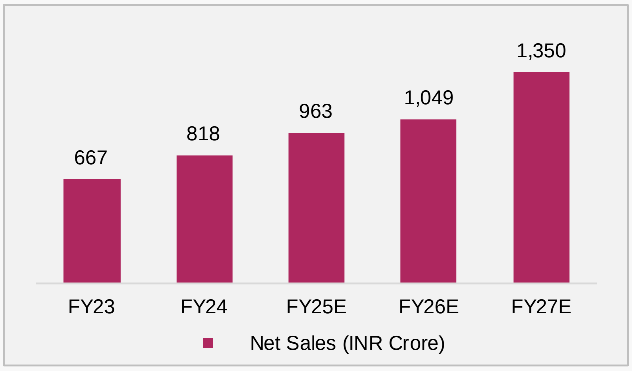
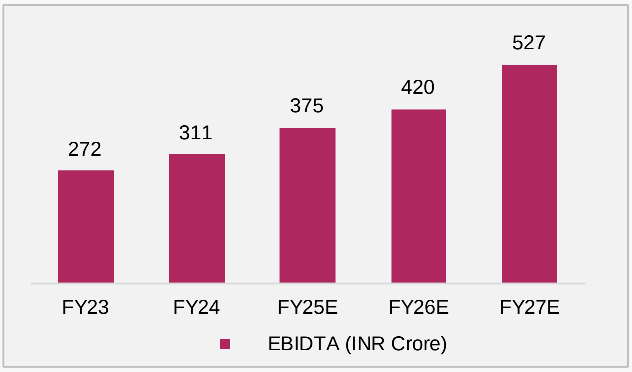


Exhibit 6: EBITDA is expected to grow steadily from Rs 272 Cr in FY23 to Rs 527 Cr by FY27, indicating improved operational efficiency and profitability.



Source: Company, Axis Securities Research

Exhibit 7: Exhibits stability and efficiency, with minor fluctuations anticipated over the forecast period, reflecting consistent operational performance.

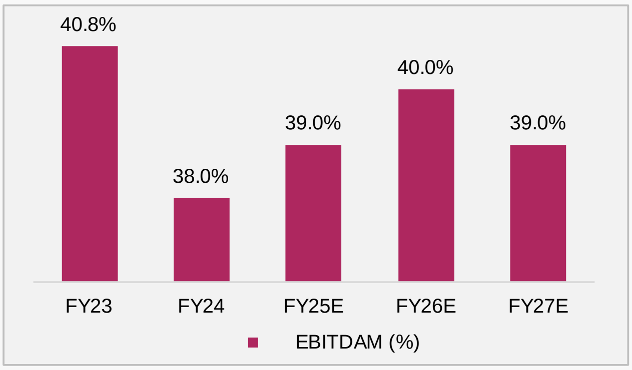
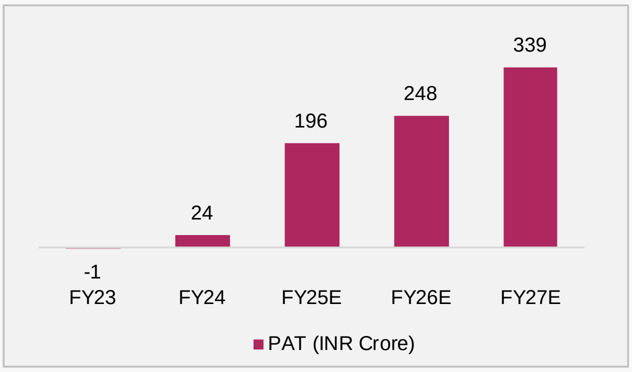


Exhibit 8: PAT is forecasted to turn positive in FY24 with Rs 24 Cr and increase significantly to Rs 339 Cr by FY27, highlighting a substantial turnaround and strong bottom-line growth.



Source: Company, Axis Securities Research

Exhibit 9: The fluctuating Capex suggests strategic investment phases, including a major spend in FY24 and a further increase in FY27. Maintenance Capex for FY26E/FY27E is as follows:

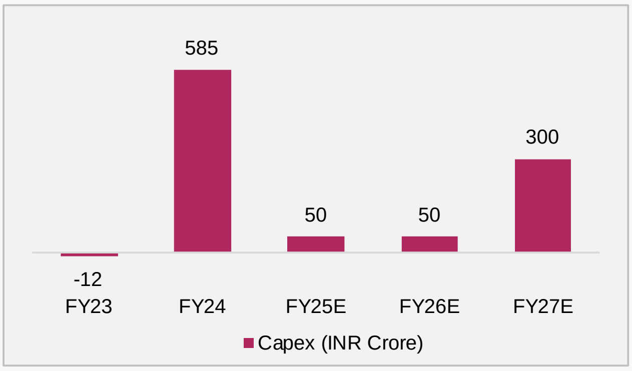
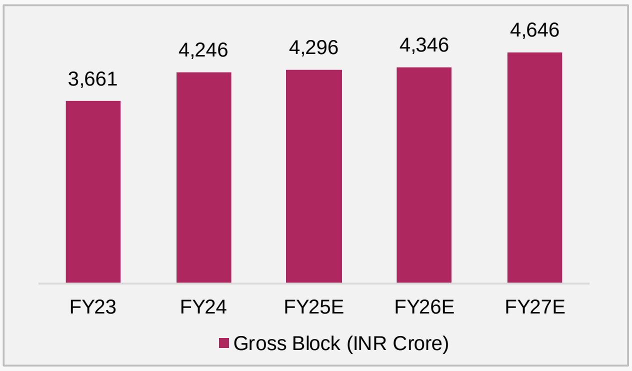


Exhibit 10: Juniper Hotels is investing significantly in its asset base, with a rising Gross Block reflecting long-term growth



Source: Company, Axis Securities Research

Exhibit 11: From FY23 to FY27, cash flow from operations shows a strong recovery and growth, increasing from Rs 322 Cr to a projected Rs 473 Cr, indicating sustained financial improvement

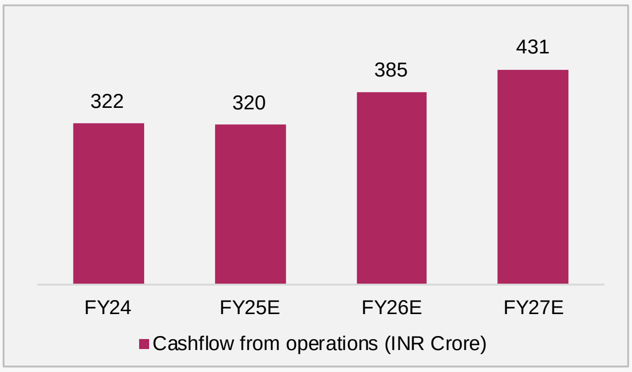
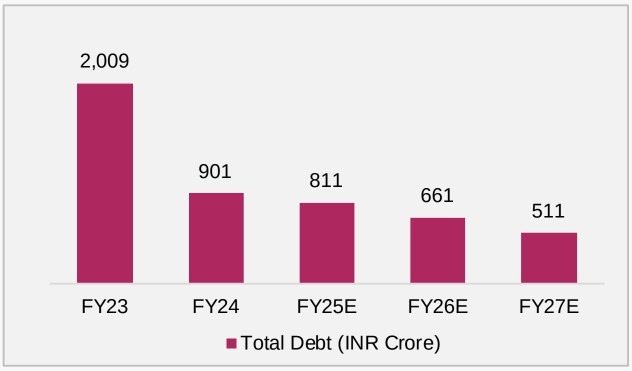


Exhibit 12: Total debt decreases significantly, dropping from Rs 2,009 Cr in FY23 to a projected Rs 511 Cr in FY27. This decline suggests a strong focus on debt reduction and improved financial stability



Source: Company, Axis Securities Research

Exhibit 13: RoE is expected to turn positive in FY24 and improve significantly, reaching 9.9% by FY27. This reflects a strong recovery and growing profitability relative to shareholders' equity

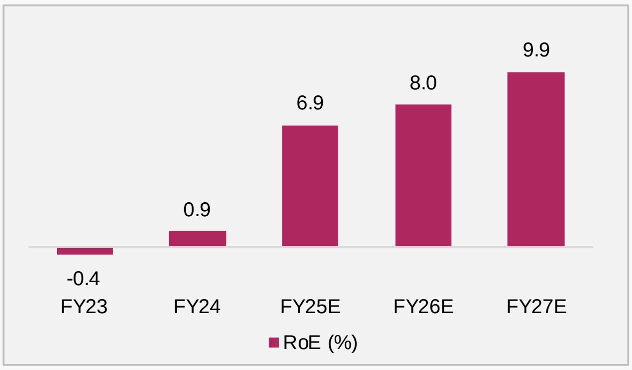
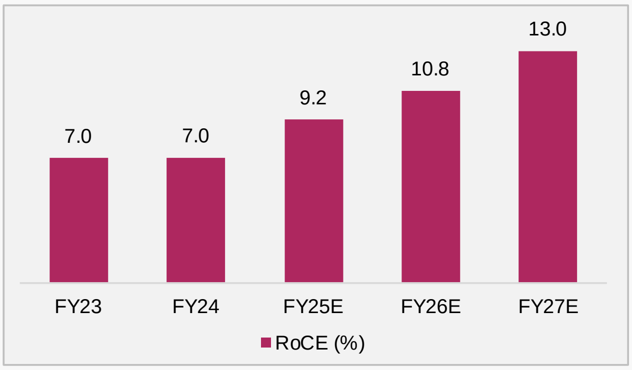


Exhibit 14: RoCE is projected to increase steadily from 7.0% in FY23 to 13.0% by FY27, indicating enhanced efficiency in generating returns from invested capital



Source: Company, Axis Securities Research

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY24A	FY25E	FY26E	FY27E
Net Sales	**818**	**963**	**1,049**	**1,350**
Growth (%)	**22.6%**	**17.7%**	**9.0%**	**28.7%**
Total Expenditure	507	587	630	824
Raw Material Consumed	63	77	84	108
Gross margins (%)	**92.3%**	**92.0%**	**92.0%**	**92.0%**
Employee Expenses	145	159	168	223
% of sales	17.7%	16.5%	16.0%	16.5%
Other Expenses	299	351	378	493
% of sales	36.5%	36.5%	36.0%	36.5%
EBIDTA	**311**	**375**	**420**	**527**
EBITDAM (%)	**38.0%**	**39.0%**	**40.0%**	**39.0%**
Depreciation	91	95	96	116
% of GB	2.1%	2.2%	2.2%	2.5%
EBIT	220	281	324	410
EBITM (%)	26.9%	29.2%	30.9%	30.4%
Interest	265	73	59	46
Other Income	9	10	11	12
Share of P/L of Associates	0	0	0	0
PBT	-37	218	276	376
Tax Rate (%)	**164.7%**	**10.0%**	**10.0%**	**10.0%**
Tax	-61	22	28	38
Reported PAT	**24**	**196**	**248**	**339**

Source: company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY24A	FY25E	FY26E	FY27E
Share Capital	223	223	223	223
Reserves & Surplus	2,433	2,629	2,877	3,216
Net Worth	2,655	2,851	3,099	3,438
Total Loan funds	901	811	661	511
Deferred Tax Liability	0	0	0	0
Long Term Provisions	8	8	8	8
Other Long Term Liability	482	501	546	666
Capital Employed	**4,274**	**4,433**	**4,600**	**4,990**
Gross Block	4,246	4,296	4,346	4,646
Less: Depreciation	1,013	1,107	1,203	1,319
Net Block	3,233	3,188	3,143	3,327
Investments	1	1	1	1
Sundry Debtors	60	71	78	100
Cash & Bank Bal	426	608	808	973
Loans & Advances	11	11	11	11
Inventory	9	11	11	15
Other Current Assets	14	17	19	24
Total Current Assets	795	413	387	419
Curr Liab & Prov	519	718	927	1,123
Net Current Assets	-276	304	540	704
Total Assets	**4,274**	**4,433**	**4,600**	**4,990**

Source: company, Axis Securities

Cash Flow (Rs Cr)

Y/E March	FY24A	FY25E	FY26E	FY27E
PBT	(37)	218	276	376
Add: Depreciation	91	95	96	116
Add: Interest	265	73	59	46
Cash flow from operations	320	385	431	539
Change in working capital	(20)	(31)	(57)	(160)
Taxes	(61)	22	28	38
Net cash from operations	401	395	460	661
Capital expenditure	(825)	(50)	(50)	(300)
Net cash from investing	(837)	(50)	(50)	(300)
Increase/Decrease in debt	(1,108)	(90)	(150)	(150)
Dividends	0	0	0	0
Proceedings from equity	79	0	0	0
Interest	(265)	(73)	(59)	(46)
Others	2,147	0	0	(0)
Net cash from financing	853	(163)	(209)	(196)
Net Inc./(Dec.) in Cash	416	182	200	165
Opening cash balance	10	426	608	808
Closing cash balance	426	608	808	973

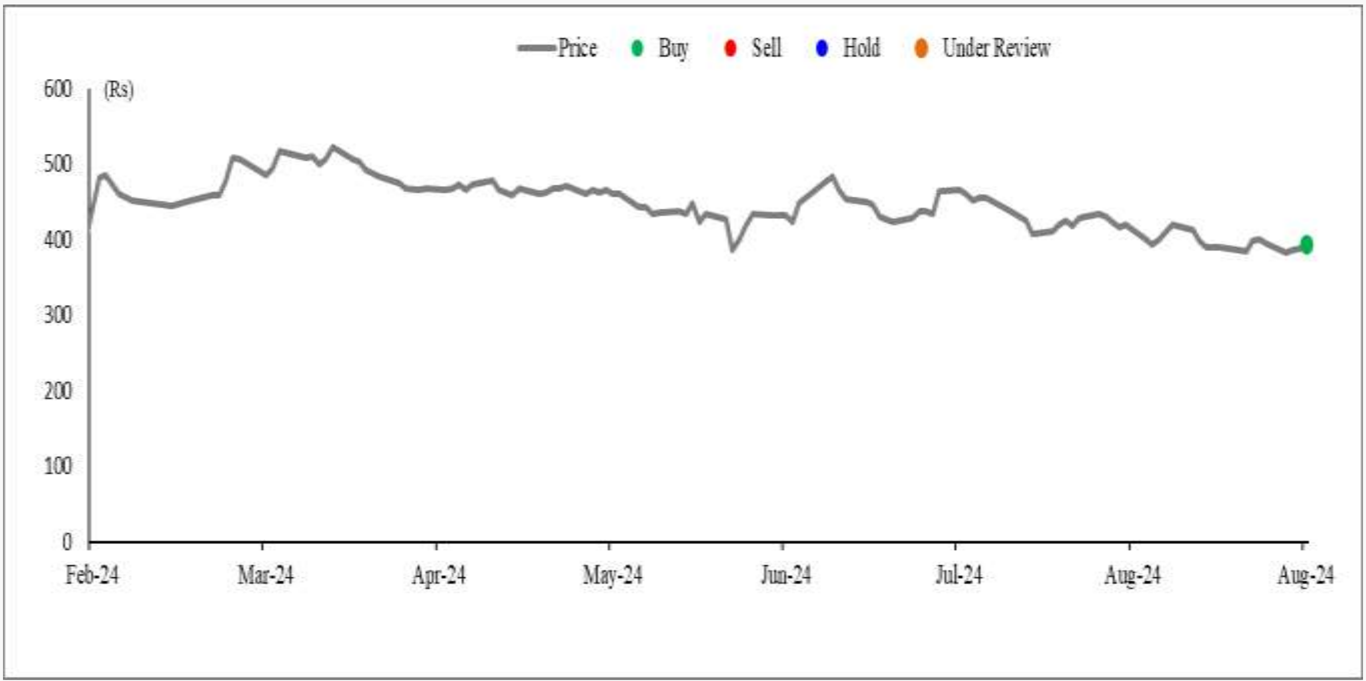
Source: company, Axis Securities

Ratio Analysis (%)

Y/E March	FY24A	FY25E	FY26E	FY27E
Sales growth	**22.6**	**17.7**	**9.0**	**28.7**
OPM	**38.0**	**39.0**	**40.0**	**39.0**
Oper. profit growth	14.4	20.7	11.8	25.5
COGS / Net sales	7.7	8.0	8.0	8.0
Overheads/Net sales	54.2	53.0	52.0	53.0
Depreciation / G. block	**2.1**	**2.2**	**2.2**	**2.5**
Effective interest rate	164.7	10.0	10.0	10.0
Net wkg. cap / Net sales	(0.7)	(0.6)	(0.6)	(0.6)
Net sales / Gr block (x)	0.2	0.2	0.2	0.3
RoCE	**7.0**	**9.2**	**10.8**	**13.0**
Debt/equity (x)	0.3	0.3	0.2	0.1
Effective tax rate	164.7	10.0	10.0	10.0
RoE	**0.9**	**6.9**	**8.0**	**9.9**
Payout ratio (Div/NP)	0.0	0.0	0.0	0.0
EPS (Rs.)	**1.1**	**8.8**	**11.1**	**15.2**
EPS Growth	(1,689.5)	724.2	26.5	36.6
CEPS (Rs.)	5.2	13.1	15.4	20.4
DPS (Rs.)	0.0	0.0	0.0	0.0

Source: company, Axis Securities

Juniper Hotels Price Chart and Recommendation History



Date	Reco	TP	Research
30-Aug-24	BUY	475	Initiating Coverage

Source: Axis Securities Research

Well-placed to Capitalize on Robust Demand

We initiate coverage of Chalet Hotels Ltd. with a BUY recommendation and a target price of Rs 975/share, implying a potential upside of 20% from the CMP. Chalet Hotels has developed a distinctive and integrated approach to the hospitality industry, focusing on the ownership, development, and management of premium hotels and commercial properties. Strategically located, the company's properties are situated near central business districts, maximizing land use by developing commercial spaces on surplus land. This strategy has created additional revenue streams and enhanced the value of its developments, positioning it as a convenient destination for both accommodation and business needs.

Investment Thesis

Strong Brand Equity Among Business Travelers: Chalet Hotels collaborates with leading international hotel brands like Marriott, leveraging global promotional strategies and loyalty programs to attract both local and international business travelers. Marriott, with its significant share of affluent clientele, enhances Chalet's appeal through its strong portfolio and expansive customer base. The "Bonvoy by Marriott" loyalty program, one of the largest in the world with over 5 Mn members, plays a crucial role in customer retention, driving repeat business. This program, offering rewards and co-branded credit cards, supports Chalet in expanding its customer base, particularly among business travelers who frequent Marriott properties globally. With strategic locations and growth potential in key Indian markets, the company is well-positioned to remain a top choice for business travelers and event organizers. Chalet's partnerships, combined with an annuity business from corporate clients sharing land parcels with prime properties, create an ideal environment for business travelers.

Leisure Expansion to Newer Horizons: The company anticipates a 30% growth in keys, with ~870 rooms in the pipeline over the next three financial years. These upcoming offerings are strategically located in high ARR, high-margin regions such as the Delhi Airport zone (NCR), Airoli (Navi Mumbai), and a beachfront land parcel in South Goa. Additionally, there will be an increase in the number of keys at existing lucrative properties like Dukes Retreat (Lonavala) and Marriott Whitefield (Bengaluru). The CAPEX for the Signus Tower 2 at Powai is set at Rs 700 Cr, while the company plans to allocate Ra 600 Cr for key expansions and the development of other land parcels, including those in Goa and Kerala.

Healthy Real Estate Cashflows; Self-sufficient to Fund further Capex: The total size of the Bangalore real estate projects is approximately Rs 900 Cr, comprising 1 Mn square feet. Out of this, the company has already invested around Rs 600 Cr and sold 0.7 Mn square feet at Rs 18,000 per square foot. In the future, the company will require Rs 300 Cr for this project, which we believe will be funded by the receivables from the real estate sales. We have derived an NPV valuation of Rs 389.78 per share.

High FCFF/EBITDA Generation among Peers: Chalet Hotels has one of the highest FCFF/EBITDA generation rates in the industry, ranging from 60%-70%, which supports its elevated valuations. The company also boasts some of the highest ARRs in the sector, making it a preferred choice for business travelers. This strong positioning provides the potential to improve its current RoIC from 10% to 17% over the next three years, marking a significant 700 bps improvement. As of Jun'24, Chalet's net debt fell to Rs 153 Cr, a 39% QoQ reduction, largely due to a recent QIP, where approximately Rs 900 Cr of the Rs 1,000 Cr raised was used to reduce debt. Management anticipates that net debt will remain at around the same level going forward. As a result, the company plans to fund its CAPEX through accrued cash rather than by raising additional debt.

Valuation & Recommendation

Chalet Hotels presents a compelling investment case, driven by impressive revenue growth projections and solid financial performance. Expected improvements in occupancies, coupled with rising ARRs and the company's strategic expansion across diverse micro-markets, are poised to significantly enhance profitability. Chalet's effective debt reduction, improving its RoIC to approximately 17%, and maintaining a high FCFF/EBITDA ratio further underscore its financial strength. **We initiate coverage on the company with a BUY rating on the stock with a target price of Rs 975/share, based on a multiple of 24x EV/EBITDA for Q1FY27E. The TP implies an upside potential of 20% from the CMP.**

Key Financials (Consolidated)

(Rs Cr)	FY24A	FY25E	FY26E	FY27E
Net Sales	1,417	1,685	1,921	2,380
EBITDA	585	775	893	1,131
Net Profit	278	358	442	621
EPS (Rs)	13.6	16.4	20.3	28.5
PER (x)	57.2	47.3	38.3	27.2
EV/EBITDA (x)	32.0	24.3	20.6	15.8
P/BV (x)	8.6	5.3	4.6	4.0
ROE (%)	15.0	11.2	12.1	14.6

Source: Company, Axis Securities

(CMP as of August 29, 2024)

CMP (Rs)	810
Upside /Downside (%)	20%
High/Low (Rs)	958/522
Market cap (Rs Cr)	18,161
Avg. daily vol. (6m) Shrs.	1,26,280
No. of shares (Cr).	21.81

Shareholding (%)

	Dec-23	Mar-24	Jun-24
Promoter	71.7	71.7	67.5
FIIs	3.1	4.2	6.8
MFs / UTI	18.4	17.8	19.3
Banks / FIs	0.0	0.0	0.0
Others	6.8	6.3	6.3

Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	1,685	1,921	2,380
EBITDA	775	893	1,131
Net Profit	358	442	620
EPS (Rs.)	16.4	20.3	28.4
PER (x)	49.3	40.0	28.5
EV/EBITDA (x)	25.3	21.5	16.5
P/BV (x)	5.5	4.8	4.1
ROE (%)	11.2	12.1	14.5

(Key Growth %)

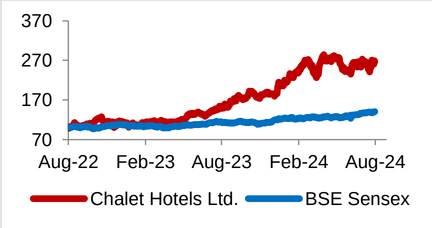
Y/E Mar	FY25E	FY26E	FY27E
Net Sales	19%	14%	24%
EBITDA	33%	15%	27%
Net Profit	29%	23%	40%

ESG disclosure Score**

Environmental Disclosure Score	NA
Social Disclosure Score	NA
Governance Disclosure Score	NA
Total ESG Disclosure Score	NA

Source: Bloomberg, Scale: 0.1-100
**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: Ace Equity, Axis Securities

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Aman Goyal
Research Associate
Email: aman.goyal@axissecurities.in

Story in Charts

Exhibit 1: Significant growth in keys near term & expanding portfolio over the years

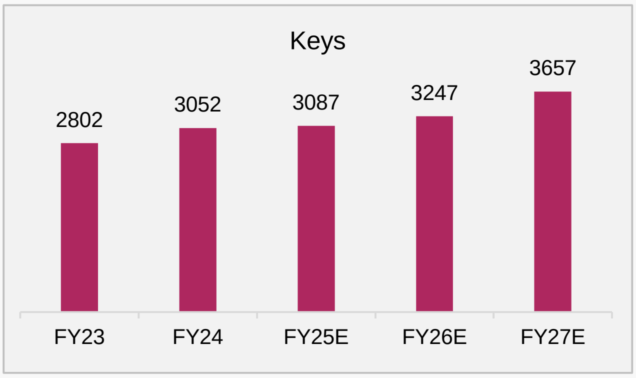
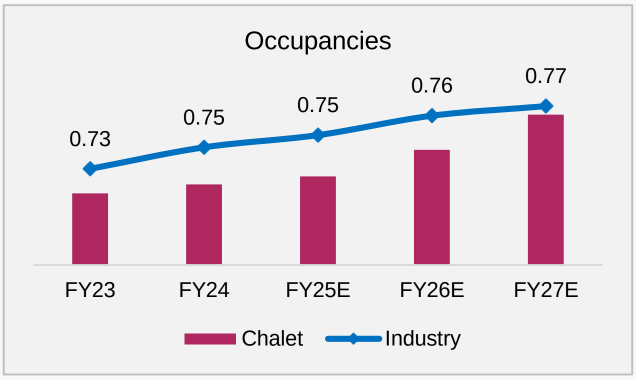


Exhibit 2: Occupancies are maintained & aligned with industry



Source: Company, Axis Securities Research

Exhibit 3: ARR moving towards Positive directional Way

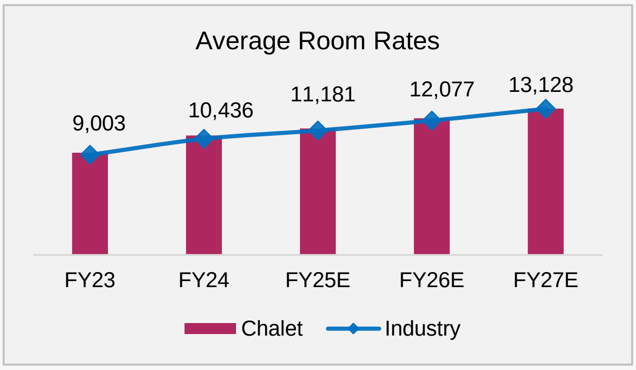
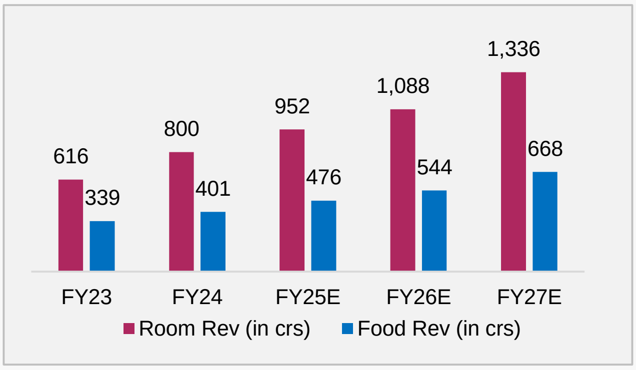


Exhibit 4: Room & Food Rev are major chunks for Revenue Contribution, As room rev increases it will drive food revenue also



Source: Company, Axis Securities Research

Exhibit 5: Net sales are projected to rise from Rs 1,128 Cr in FY23 to Rs 2,380 Cr by FY27, reflecting support from Residential business realisation

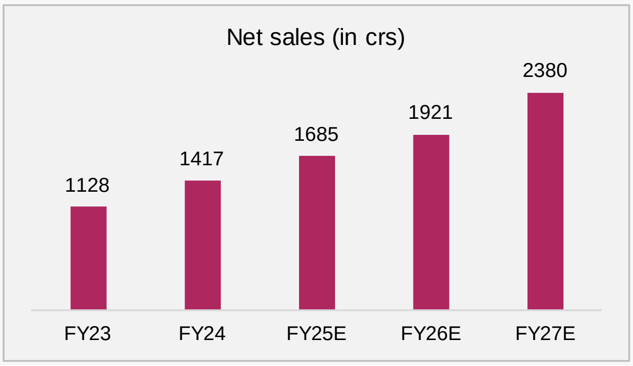
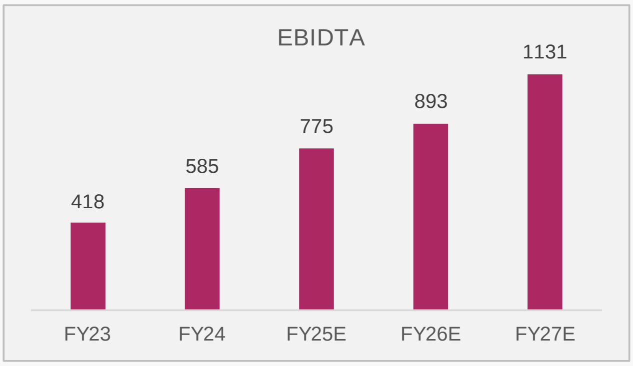


Exhibit 6: EBITDA is expected to grow steadily from Rs 418 Cr in FY23 to Rs 1,131 Cr by FY27, indicating improved operational efficiency and profitability



Source: Company, Axis Securities Research

Exhibit 7: Stability and efficiency, reflecting consistent operational performance

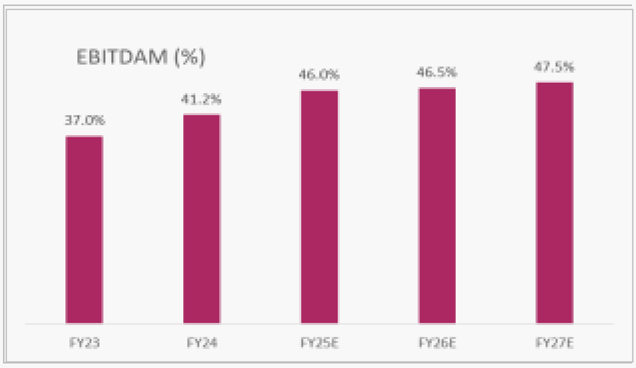
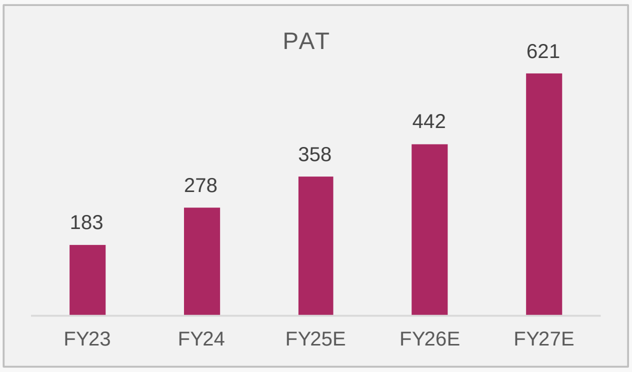


Exhibit 8: PAT stood at 278 Cr for FY24 & inclined towards Rs 600+ Cr mark by FY27E



Source: Company, Axis Securities Research

Exhibit 9: The fluctuating Capex suggests strategic investment phases, including a major spend for Residential units & New Keys and a further increase in FY27

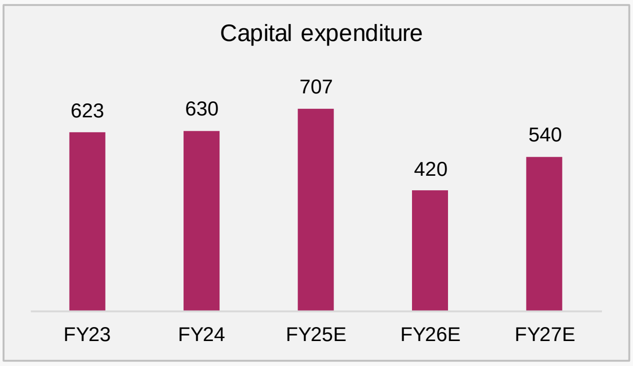
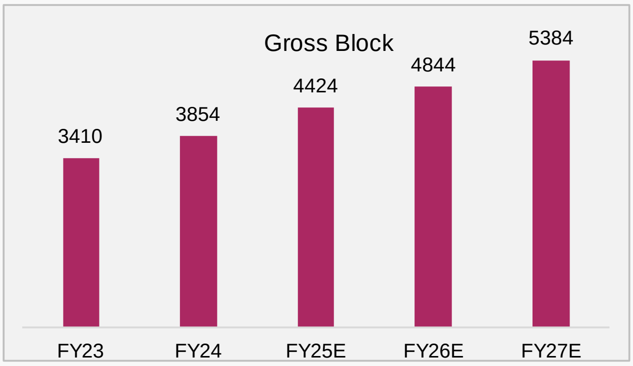


Exhibit 10: Chalet Hotels is investing significantly in its asset base. Rising Gross Block reflects long-term growth.



Source: Company, Axis Securities Research

Exhibit 11: From FY23 to FY27, cash flow from operations shows a strong recovery and growth, increasing from Rs 621 Cr to a projected Rs 1183 Cr, indicating sustained financial improvement

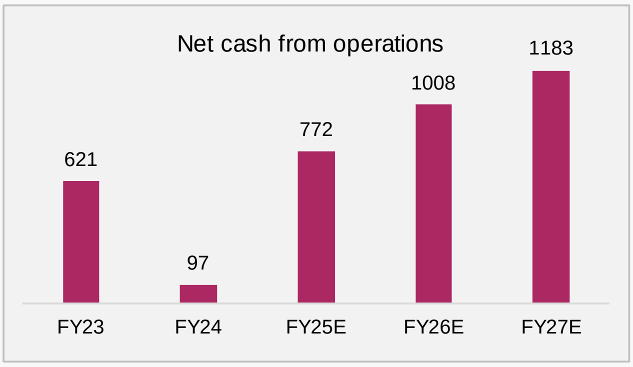
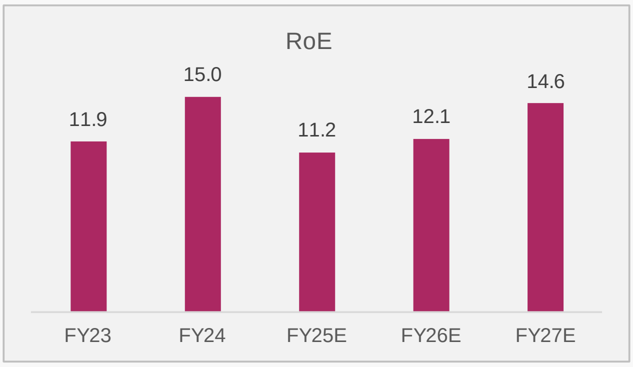


Exhibit 12: ROE has shown volatility but is expected to demonstrate positive growth overall post-FY25E.



Source: Company, Axis Securities Research

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY24A	FY25E	FY26E	FY27E
Net Sales	**1,417**	**1,685**	**1,921**	**2,380**
Growth (%)	**25.6%**	**18.9%**	**14.0%**	**23.9%**
Total Expenditure	833	910	1,028	1,250
Raw Material Consumed	106	126	144	179
Gross margins (%)	**92.6%**	**92.5%**	**92.5%**	**92.5%**
Employee Expenses	195	211	230	262
% of sales	13.7%	12.5%	12.0%	11.0%
Other Expenses	533	573	653	809
% of sales	37.6%	34.0%	34.0%	34.0%
EBIDTA	**585**	**775**	**893**	**1,131**
EBITDAM (%)	**41.2%**	**46.0%**	**46.5%**	**47.5%**
Depreciation	138	155	170	188
% of GB	3.6%	3.5%	3.5%	3.5%
EBIT	446	620	724	942
EBITM (%)	31.5%	36.8%	37.7%	39.6%
Interest	197	175	156	138
Other Income	20	20	22	24
Share of P/L of Associates	0	0	0	0
PBT	269	465	589	829
Tax Rate (%)	**23.7%**	**23.0%**	**25.0%**	**25.0%**
Tax	-9	107	147	207
Reported PAT	**278**	**358**	**442**	**621**

Source: company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY24A	FY25E	FY26E	FY27E
Share Capital	205	218	218	218
Reserves & Surplus	1,646	2,989	3,431	4,052
Net Worth	1,851	3,207	3,648	4,270
Total Loan funds	2,950	1,944	1,736	1,529
Deferred Tax Liability	-162	-162	-162	-162
Long Term Provisions	12	12	12	12
Other Long Term Liability	120	143	163	202
Capital Employed	**5,587**	**5,984**	**6,270**	**6,786**
Gross Block	3,854	4,424	4,844	5,384
Less: Depreciation	1,293	1,448	1,617	1,806
Net Block	2,561	2,976	3,227	3,578
Investments	1	1	1	1
Sundry Debtors	55	69	79	98
Cash & Bank Bal	132	14	238	536
Loans & Advances	121	118	134	167
Inventory	542	507	261	20
Other Current Assets	31	34	38	48
Total Current Assets	1,913	930	955	1,011
Curr Liab & Prov	882	743	751	869
Net Current Assets	-1,031	-188	-203	-142
Total Assets	**5,587**	**5,984**	**6,270**	**6,787**

Source: company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY24A	FY25E	FY26E	FY27E
PBT	269	465	589	829
Add: Depreciation	138	155	170	188
Add: Interest	197	175	156	138
Cash flow from operations	604	795	915	1,155
Change in working capital	516	-84	-241	-235
Taxes	-9	107	147	207
Net cash from operations	97	772	1,008	1,183
Capital expenditure	-630	-707	-420	-540
Net cash from investing	-633	-707	-420	-540
Increase/Decrease in debt	729	-1,006	-208	-207
Dividends	0	0	0	0
Proceedings from equity	0	13	-0	0
Interest	-197	-175	-156	-138
Others	13	985	0	0
Net cash from financing	546	-183	-365	-345
Net Inc./(Dec.) in Cash	10	-118	224	298
Opening cash balance	122	132	14	238
Closing cash balance	132	14	238	536

Source: company, Axis Securities

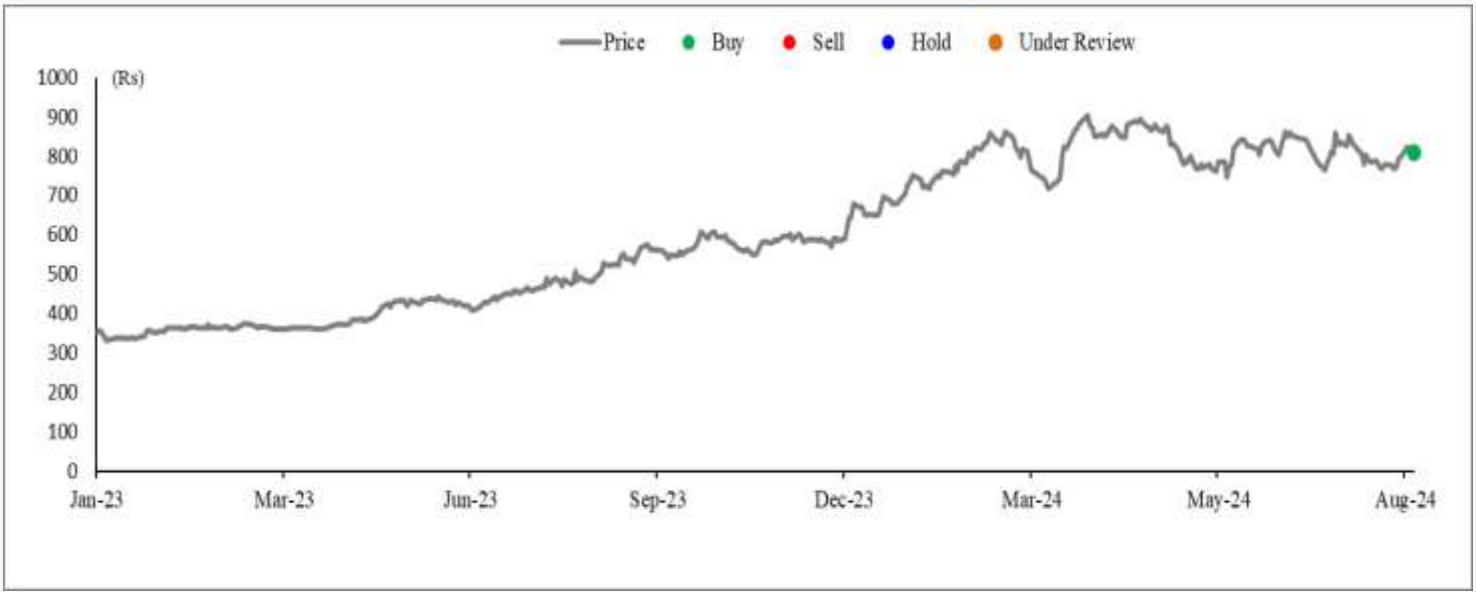
Ratio Analysis

(%)

Y/E March	FY24A	FY25E	FY26E	FY27E
Sales growth	**122.2**	**25.6**	**18.9**	**14.0**
OPM	**37.0**	**41.2**	**46.0**	**46.5**
Oper. profit growth	324.2	39.9	32.6	15.2
COGS / Net sales	12.0	7.4	7.5	7.5
Overheads/Net sales	51.0	51.3	46.5	46.0
Depreciation / G. block	**3.4**	**3.6**	**3.5**	**3.5**
Effective interest rate	23.7	23.7	23.0	25.0
Net wkg.cap / Net sales	(0.4)	0.0	(0.0)	(0.1)
Net sales / Gr block (x)	0.3	0.4	0.4	0.4
RoCE	**7.0**	**9.2**	**11.6**	**13.6**
Debt/equity (x)	1.4	1.6	0.6	0.5
Effective tax rate	23.7	23.7	23.0	25.0
RoE	**11.9**	**15.0**	**11.2**	**12.1**
Payout ratio (Div/NP)	0.0	0.0	0.0	0.0
EPS (Rs.)	**8.9**	**13.6**	**16.4**	**20.3**
EPS Growth	(344.6)	51.8	28.7	23.4
CEPS (Rs.)	14.7	20.3	23.5	28.0
DPS (Rs.)	0.0	0.0	0.0	0.0

Source: company, Axis Securities

Chalet Hotels Price Chart and Recommendation History



Date	Reco	TP	Research
30-Aug-24	BUY	975	Initiating Coverage

Source: Axis Securities Research

DISCLAIMER:

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- Distributor for Mutual Funds with AMFI

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In case of any grievances please call us at 022-40508080 or write to us helpdesk@axisdirect.in.

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