

Transcript

Conference Call of Royal Orchid Hotels Limited

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Presentation Session

Moderator:

Good evening ladies and gentlemen. I am Edwin, moderator for this conference. Welcome to the conference call of Royal Orchid Hotels Limited hosted by Tata Securities. At this moment, all participants are in listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone key pad. Please note this conference is recorded. I would now like to hand over the conference to Ms. Pooja Rao of Tata Securities. Please go ahead, ma'am.

Pooja Rao:

Thank you Edwin and good afternoon everybody. On behalf of Tata Securities, let me welcome you all to the earnings call of Royal Orchid Hotels Limited for the second quarter ended 30th September 2011. Today, we have with us Mr. Keshav Baljee, President, Mr. Amit Jaiswal, General Manager-Accounts and Mr. Chandrashekhar, Company Secretary of Royal Orchid Hotels. Now, without taking any more of your time, I would like to hand over the floor to Mr. Keshav Baljee for his opening remarks. Over to you, sir.

Keshav Baljee:

Thank you Pooja. Good afternoon everybody and thank you for joining us on this conference call. I just want to walk you through our results really quickly. Then I will talk about the new hotels that we have launched this quarter as well as the ones that we have signed. And then we will just wrap up with a quick general outlook on how our hotels are looking for the next few quarters as well as how the industry is going. Well, as you now probably know, we have earned revenues on a consolidated basis of 34.32 crores this quarter ended September 2010. This is as against 26.47 crores which we earned last year in the corresponding quarter. This is an increase of about 30%. Our PAT on a consolidated basis is 2.03 crores as against 1.03 crores last year. We have also had an increase of depreciation this quarter of about 52 lakhs. In terms of, on a half yearly basis, our revenues for FY11 is 65.63 crores as opposed to 52.36 crores last year, that's a 25% increase on a half yearly basis. Our EBITDA is 7.28 crores

this quarter, for this half year as opposed to 2.82 crores for FY10. So, that's a significant increase. In terms of PAT, we are about 3.03 crores as opposed to 1.19 crores last year on a half yearly basis. The debt on the books currently stands at about 183 crores. And in terms of on a group wide basis, currently we are looking at RevPAR of around, for the last quarter of about 2564 as opposed to 2486 the previous quarter, sorry, 2213 the previous year, this corresponding quarter. So, that is a substantial increase of about approximately Rs.300, so it's about 12% to 15% in that range. So, that is in terms of some of the basic numbers. I am sure you will have more specific question, so we will answer those in the Q&A.

In terms of hotels, we are proud to have launched the Royal Orchid Central Kireeti, which is basically a five star hotel in Central Karnataka next to the UNESCO World Heritage Site of Hampi. This is a 135 room hotel, which we have taken on a revenue share basis. And the company's investment in the same has been of the order of approximately 2½ crores. And we are quite happy with the way the hotel has turned out. We do hope that you will check it out on our website. We expect business to come for this hotel from the wide variety of expats who come to Karnataka as well as Goa. They tend to come to Hampi, to visit this site. And until now, there was no good accommodation in that area, so that will change now with the launch of the Royal Orchid. We also expect, there is lot of steel plants coming up in that area in the Bellary District, in the cities of Hospet and Bellary and also Koppal. And these three regions will attract a lot of investment. In fact, about almost close to 100,000 crores have been committed to these areas in the Global Investor Meet held in Karnataka recently. Companies like ArcelorMittal, POSCO, Brahmani Steel and the likes have each committed upwards of 25,000 crores. Not to mention JSW Steel and the other local players who are already existing, who have committed additional 40,000 to 50,000 crores? So, substantial capacity is coming up there for steel as well as, so there will be a lot of travel there for the project related work and we hope to capitalize on that, since we are the only good accommodation in that entire district.

Okay, we also in terms of upcoming hotels in this financial year, I'll talk about that, we are on course to launch our 233 rooms five star hotel Royal Orchid in Hyderabad, which is going to launch in Q4 of this year. Also, in Q4 this year is our 140 room Royal Orchid in Jaipur, which will launch actually in about mid of January. We also have a 108 room hotel on management contract coming up in Shimoga in Karnataka and that is also under the Royal

Orchid Central banner. And that will also launch maybe Q3 it may make, but it might spill into Q4 of this year. We also have a 65 room resort under management contract coming up in Mussoorie. Again, we anticipate it to open in between Q3 and Q4 this year.

In terms of what we have signed, the new signings in this quarter, we have signed an 81 room hotel under the Royal Orchid Central banner in Baroda. So, that is our second hotel in Gujarat. We also are in talks with leading developers for other cities in Gujarat as well and we hope to shortly announce something there. In terms of the North, we are starting to make some headway. We have just signed on lease cum revenue share basis a 250 room hotel in Greater Noida. And as you know, there is not much accommodation in Greater Noida, unlike places like Gurgaon or Delhi where there is a lot of stiff competition due to a lot of hotels opening up. In Greater Noida, at this point of time at least there is nothing really there. So, we do hope that this hotel will be well received. That will of course, these two hotels will of course come up in the next financial year, but they will, they are in advanced stages as well. They have both the civil structures completed for both hotels and we are actually getting the interior works done, so we expect them to open in Q1 or if there are some untoward delays, by Q2 latest for FY12. Also in FY12 we have our 260 room hotel in Powai in Mumbai, for which we have been working the last three to six months trying to get the, there was a power transmission line over our project, which we have got the approval to realign, which will increase our viability of the hotel. So, we are now up to 260 rooms as well as large banqueting and restaurant facilities. So, this is a 74% owned SPV. And we anticipate it will open by Q4 of FY12. That's a substantial project in Mumbai city that will open in the next financial year. Of course, we also have our Tanzania and Shimla hotels, which are, we are in design phases for those, so we expect them to open in FY13. Altogether, if you combine everything I've just spoken about, we have approximately 1500 keys under development, under various phases of development, about 550 rooms or so will open this year, the rest being over the next two years. We have about 1240 keys right now operational, which is including our Hospet hotel, which we just shortly launched. So, that's fourteen hotels across the country at currently. In terms of our new hotels and what we have planned, I think I've just run you through some of that.

Let me just talk to you about our general outlook now. We obviously in various cities are facing, that is especially in Pune there is a lot of supply coming in now. In the last

quarter we have had the Hyatt also open up in Pune. So, as a result of that there will be some short term supply issues, because the people come up with the introductory rate. However, we are finding that the Pune market is quite resilient, because it has not only the IT sector, but also automotive and also our property has been very well received and has been the market leader in fact and still is the market leader in this segment for the last three years. So, as a result it is doing quite well and occupancy is still, the ARR's have come down, but the occupancy is very, very good still. In terms of Bangalore, we are quite well positioned, but we don't find too much of supply coming in. In the next one year, we have only two hotels which will directly compete with our flagship hotel opening up as opposed to the eight or ten that we had thought couple of years ago. So, I think the market is quite mature and it will absorb some of the supplies. Of course, there is a lot of over supply in certain suburban packets of Bangalore, which are, where we are not present. For instance, in Electronic City there are a lot of hotels coming up. In Whitefield we have a management contract, so our impact would be very minimal, but there are lots of hotels coming up at Whitefield. But, the vast majority of hotels are not coming in Bangalore city proper, where we are, we have our hotels. And therefore we expect that we should not be hit in Bangalore. So, that is a positive surprise. In terms of other cities we are, Jaipur remains as competitive as ever. So we don't find any major change in our segment, because whatever hotels were supposed to come up in our segment has come up. Now there are only a few five star hotels coming up, including our own. And we think that the market will be relatively stable for the next few years. We don't anticipate massive increases in the ARR, nor do we anticipate a significant slide. In Hyderabad, where we are opening our hotel, we actually have found that Lanco and Emaar MGF have more or less cancelled their hotels, so the supply situation in Hyderabad is significantly better than what we thought a year ago. So, when we open, we should have only the Ista Hotel and the Novotel, the Westin Hotel and the Oberoi and the Lemon Tree hotels to compete with that would be our primary competitive set. The Oberoi, the Lemon Tree have not yet opened yet and the other two are operational.

So, from that standpoint I think we can probably close the introductory comments here. Just to sum up, in terms of supply, things are looking a lot better than we imagined a year ago. In terms of demand I think everybody knows that in the US as well as Europe etc. they are all starting to recover. So, and India is really booming. So, most of our hotels anyways cater to domestic travelers, corporate

travelers. And these are already bounced back in a big way. So, we think that it's not as bullish as it was in 2007. But, it's definitely a lot better than it was in 2008 and 2009. And we anticipate that with these supplies that we have coming up, we are on course to double our size by next year in terms of all parameters. And that's a very healthy sign for us. Also as a company we are going to be owning assets which will also give us, shareholders some comfort, because earlier, couple of years ago we did not own too many hotels. But, by the end of this financial year, we will have significant amount of owned hotels, which also gives some strength to our balance sheet and will give credibility to us as we seek to expand across the country as the leading hospitality player.

So, with that Pooja I would like to open it out for questions.

Question and Answer Session

Moderator:

Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

Ladies and gentlemen, please press * and 1 for your questions.

Our first question comes from, Mr. Vipin Botadkar from Maveric.

Vipin Botadkar:

Yeah, hello.

Keshav Baljee:

Yes, Vipin.

Vipin Botadkar:

Very good afternoon and it seems that you are doing pretty, pretty well. Can you just go through your revenue per available rooms and average room rents for this quarter or for past eight months, six months?

Keshav Baljee:

I think we will go city wise. City wise, Amit.

Amit Jaiswal:

Vipin, in Bangalore revenue per...

Keshav Baljee:

We will just give you the RevPAR.

Vipin Botadkar:

Yeah, yeah right, no problem.

Amit Jaiswal:

Okay, RevPAR in Bangalore we are doing around Rs.3000. And in Pune also we are doing a RevPAR of

around Rs.3000. Mysore we are doing RevPAR of around Rs.2400. Jaipur we have slightly lesser RevPAR, because in Jaipur it is an offseason and the season starts post October. In Jaipur, we are doing a RevPAR of around Rs.1600. In Ahmedabad, we are doing a RevPAR of around 1800.

Vipin Botadkar:

Sorry, sorry, in Ahmedabad?

Amit Jaiswal:

1800.

Vipin Botadkar:

1800, I am really sorry, thank you.

Amit Jaiswal:

And in Mumbai, we are doing a RevPAR of around Rs.2000.

Vipin Botadkar:

Okay, thank you very much.

Moderator:

Thank you sir. Request the participants to press * and 1 for your questions.

Dear participants, please press * and 1 for your questions.

Next question comes from Mr. Deepak Malhotra from Silver Streak AMC.

Deepak Malhotra:

Hello. Good afternoon. I was just focusing first on the quarterly results, I was just trying to understand in terms of your business model, if we see since 2007 when you have taken over the land in Tanzania which you planned, as you mentioned sometime to complete the project by FY13. I think there seems to be a rush basically to grow, wherein you are present in primarily all the segments from Tier I to Tier III cities. So, what is really the business model that you are really trying to focus here on, if you could just kindly comment on that? Because, I am slightly confused, where exactly are we targeting here.

Keshav Baljee:

See, there is no real confusion as such. We are primarily if you notice, what we are expanding into with the exception of Tanzania, what we are expanding into and what we are currently doing is basically entering into all key business and leisure destinations of the country. So, we have got fourteen hotels today and we are likely to hit about 25 or so. And we are basically developing ourselves as a management company. And the idea is that, in the long term, we will basically be full fledged hotel Management Company. And at some point in the future, maybe ten, ten years or so in the future we have to probably look at separation of ownership of hotels from the management of hotel at some point. But, in terms of strategy we are very

clearly focused on the Indian market, we are focused on the business market. We also have a few leisure hotels now which we primarily drive through our existing corporate relationships. But, this is very much India's story being played here; it's the domestic consumption story. We have a huge SMB market that we also tap in various hotels. And all our properties have one common thread, which is affordable luxury, basically good accommodation at reasonable prices and full service, which is something I think that has obviously kept us unique as compared to our peers.

Deepak Malhotra:

Okay, if you were to break this further into, for me just to understand it even better. a) How many hotels you would like to put under the business category? How many under leisure? How many in Tier I, II, III cities? And then finally, what kind of occupancy and ARR are you targeting there? Is it possible for you to give?

Keshav Baljee:

That's far too many questions to answer in one concall. If you want me to break up into Tier I, Tier II, Tier III business, and then I give you ARR and occupancy of all hotels, that's a little bit, maybe you want to ask that question offline, we can probably take that offline. But, broadly the bottom line is that I see as an analyst you want to understand and put a theory behind how we are growing. But I will tell you; one thing is that, ultimately for us obviously, our goal, our ambition is to hit every city with a population of above one million, in the country of about thirty plus cities such as that. We like to be in every city with, in the country that has a population of above one million in the next few years. We have various brands. We have a five star brand which is hotel Royal Orchid, which cannot go to all the cities. We have a Royal Orchid Central brand, which is a three and four star brand, which can. So, that's the brand which typically gets extended to both Tier I, Tier II and Tier III cities. We also do extended stay accommodation where the location demands it, which is called the Royal Orchid Suites banner. So, that's really the strategy in terms of how we are growing. Of course, we have various business models. Some are owned, some are leased and some are management contracts. And the idea that we have to grow, grow the brand and grow it profitably. And therefore we are looking at only expansion where we are able to grow, a) on a semi-asset like basis, because otherwise we would only be able to develop one hotel, rather than the fourteen that we have done.

Amit Jaiswal:

Deepak, I'll just expand your question. See, presently out of our fourteen hotels, four are leisure destination hotels

and balance ten are all business hotels. And out of this fourteen, four are owned, seven are leased and three are management contract. And with upcoming hotels, we have three owned hotels which are coming up in Hyderabad, Jaipur and Powai. And these three will be owned hotel. And we have four management contracts which are coming up in Hyderabad, Shimoga, Mussoorie and Baroda, out of this one Mussoorie is going to be a leisure destination hotel. And presently we are present in seven cities, that is Bangalore, Pune, Mysore, Jaipur, Goa, Ahmadabad and Mumbai. And we will add up to this new two-three cities we will be adding up, with our new hotels coming up, that is Shimoga, Mussoorie and Baroda.

Keshav Baljee:

And one thing I just want to add is that, we do follow something called a cluster strategy, which is basically that, allows us to have more than one brand in each city and that allows us to share resources and save on cost. For instance, in Bangalore we have five hotels in various parts of the city and so we know, for instance we have a central bakery, just to give you one example for all our hotels, that allows us to keep cost low, not buy equipments five times and be more profitable as a result.

Deepak Malhotra:

Okay, I think I agree. This is cost in which geography I would like to discuss in more detail with you offline. But, just to pick up, now since you are one such operator who is operating virtually across the entire segments of the industry. What is your outlook going forward in terms of occupancy, ARR and EBITDA margins?

Keshav Baljee:

So, let me just clarify one thing. We don't operate across the entire segments. See, one is we don't operate budget hotels, like Ginger etc. we don't operate those kind of hotels. We are full services hotels. All our hotels are what you call the business hotels, in the sense that they are all basically between four and five star hotels essentially. But, we are not doing super luxury as well, which is five star deluxe, so we don't compete with Oberoi, we don't compete with Leela, we don't compete with Ritz-Carlton or whatever it is or ITC, ITC is flagship hotels, because those are what you call five star deluxe or seven star or as we call it nowadays. So, we are very much in the mid segment. So, that's one thing. That is the segment in which we are competing and all our hotels, everything that we have planned and everything that we currently operate is in that mid segment. So, that is one clarification. What is the second question you asked?

Amit Jaiswal:

EBITDA, regarding the EBITDA, Deepak I would like to tell you, see our EBITDA margin had fallen down in the last

financial year, now it is growing up. And in the current financial year, we are sitting at an EBITDA of around 26%. And going forward maybe we will closing at around 35% and to go forward around 40% is our target of the EBITDA.

Deepak Malhotra:

Okay. One more follow up question, this also I think I will discuss more in detail offline. But one more final question, there is also plan to raise about 150 crores, so how generally is the status on that and your CAPEX plan, because since your business model is a mix of ownership, leasing and management contracts, what is really the status on that?

Keshav Baljee:

See, we are passed basically what you call an enabling resolution with the board, to raise 150 crores. So, that doesn't mean that we actually will end up raising 150 crores, we may raise up to 150 crores. Now, we have taken an enabling resolution, just so that we have the flexibility that should we get some get good acquisition opportunities or something, we don't have to go back to the board for that. So, we are positioning ourselves in such a way that we are able to do that. Now, of course we are evaluating various funding sources at present. However, the basic idea that we want to wait and watch and be cautious and raise money when we get a good valuation or raise money when we feel that we get a good price, whether it is debt or equity. So, at this point the projects that we have on the way are fully funded, so there is no urgent requirement as such. So, but anyways when it comes to further expansion, further acquisitions etc. then we will be looking at raising money for those projects as and when those projects come to the stage where they require further funding. So, that's really where we are in terms of the fund raising process. I think we probably have more information for you in the next few quarters as the numbers start to get better. Also, as the numbers start to get better, in the last two-three years we had the situation where obviously the operations were really suffering, but we were also in a heavy investment mode, that is why the fund, we were lot hungrier for funds in the last two years. But, now as the existing hotels start to perform better and as the projects start converting into operating hotels, obviously we will have a lot more cash flows coming in, which will then obviously decrease our requirements for funding going forward. That's basically the idea.

Deepak Malhotra:

Just to finally cap it up in that, what is your now ongoing CAPEX you have, if you can give me a figure for that?

Keshav Baljee: We have an additional about 200 crores or so to spend in the next, I would say, until the end of FY12, we will be spending approximately 200 crores.

Deepak Malhotra: Okay. And is that fully tied up?

Keshav Baljee: Well, about most of it is tied up. Like I said, almost 160 odd crores or so of that is tied up. And the rest of it is going to come through internal accruals anyways, because we are making more than that much in the next one year anyways, 1-1½ years we can easily make that much.

Deepak Malhotra: So, sorry to come in here again, then why basically the board, to pass an enabling resolution for raising 150 crores?

Keshav Baljee: It's an enabling resolution, which means that suppose I get an acquisition opportunity which are there, right now there are lot of hotels which are in distress, so if I have an acquisition opportunity, where I can get a good nice hotel which is either up and running or almost running in a very good city, strategic city that is good for the brand, good for the business and good for long term prospects, then we will raise the funds and acquire that property, if we get something like that. So, we are just passing an enabling resolution. And I think that has to go through the AGM as a whole process, so we want to keep that ready and in case if we want to do something, then we will do it when we get the right opportunity.

Deepak Malhotra: Okay, fine. Thank you.

Keshav Baljee: Thanks.

Moderator: Thank you sir. Next question comes from Mr. Sachin Kasera from Lucky Securities.

Sachin Kasera: Yeah, my question is on the CAPEX figure which you mentioned of 200 crores, hello?

Keshav Baljee: Yes, yes go ahead.

Sachin Kasera: This 200 crores is including what we have already done in the first half or that is between say, October 2010 to March 2011?

Keshav Baljee: No, this is for the next, this is from now onwards. From now onwards we have about 200 crores or so to spend.

- Sachin Kasera:** Okay. And what is the mix that we are looking in terms of how much we are looking to fund is from debt and how much will be either equity or internal accruals sir?
- Keshav Baljee:** Approximately 60-40 debt-equity, but to be honest with you, it may end up being 50-50 also, depending in how we are, how our accruals are in the next, I would say eighteen months or so.
- Sachin Kasera:** Would the 50-50 be a function of the accruals and not too necessarily to do with anything in terms of equity dilution per se?
- Keshav Baljee:** No, not necessarily. Look, I am not ruling out an equity dilution in the next eighteen months.
- Sachin Kasera:** No, the idea is to understand that dilution if and when it happens is primarily going to be, as you mentioned, for some target acquisition or with that some point of time even for this 200 crores CAPEX could we look in terms of...
- Keshav Baljee:** No, not for, this 200 crores is made for additional growth. See, we are looking at dilution for additional growth, either for additional growth, that's one point. Or, at some point in the future if I feel that if I am getting a good equity valuation and the cost of debt is going too high, then at some point I may decide to raise some equity and either partially pay back some debt or use that for acquisitions or little bit of both. But, these are the only two reasons where we move, why we may go for an equity dilution.
- Sachin Kasera:** Even if we go by the number that you mentioned of 60-40, we are talking of almost 80 crores of internal accruals. And the first six months I think the cash profit I think was around 13-14 crores if I am right.
- Amit Jaiswal:** See Sachin, what has happened is that our next, see all our current ongoing projects are all tied up. And we are putting our equity, now balance will come out of debt. The only project which we have to still tie up is Mumbai, wherein we have put in our equity, now the debt is there and we are looking at that.
- Keshav Baljee:** So the equity, that's my point, so the equity that we have already put it, whether it is Mumbai or whether it is Tanzania also, the equity that we have already put in there, that also counts towards the 80 crores of equity.
- Sachin Kasera:** So, from our understanding in perspective, this increment 200 crores of CAPEX that is there in the next eighteen

months and assuming you were to go by the 60-40 ratio that you have mentioned sir, so 80 crores of internal accruals or slash equity, how much is the incremental requirement in the next eighteen months, because over and above what you have already put in?

Keshav Baljee:

No, in terms of incremental requirements, I think it's about, they do two real incremental requirements, because as I mentioned to you, we have already put in some funds. For Mumbai we have put in almost 26 crores, we have put in almost 9 crores in Tanzania, so the other projects that we are talking about...

Amit Jaiswal:

All our requirements for Mumbai project is around 90 crores, balance requirement is there to do the project. There only we are looking at the thing is that, something will come out of the internal accruals or something out of the equity and the balance out of debt. So, it all depends that 60-40 figure what has been told, it all depends how we perform and Mumbai project it is almost one and a half years still to go.

Sachin Kasera:

Surely we can understand that, I am just trying from a perspective of arithmetic. Assuming we were to have 60-40, maybe the ratio could change. How much is the, let me put for this 200 crores of CAPEX, how much of equity has already been put in by Royal Orchid till date?

Amit Jaiswal:

This 200 crores what we are telling, this is excluding the equity.

Sachin Kasera:

Okay. Actually sir, I am little confused in terms of that.

Keshav Baljee:

We will do one thing, we will revert to you offline on the numbers and we will go through this in detail, the 200 crores of breakup etc.

Sachin Kasera:

Okay, okay, not an issue.

Keshav Baljee:

We will have that number in front, we will get you the exact numbers and we will work it out offline.

Sachin Kasera:

Surely. And secondly, this EBITDA margins, I think you gave certain guidance; I missed that number, could you?

Keshav Baljee:

We said that currently they are around 26%. Our target is to hit 40%. But we are confident as the, see what happens is margin expansion occurred when the ARR goes up. So, the ARR is going up in certain, for two reasons the ARR will go up, I will tell you. One, is because we are opening more premium hotels. So, that anyway will have more,

have higher EBITDA, that Hyderabad and Jaipur are five star hotels where EBITDAs are significantly higher than the smaller hotels. We are also opening larger hotels. We are opening 560 odd rooms over five hotels, so the average per room is over 120 or so now. So, those kinds of hotels have much higher EBITDA than smaller hotels, which are sub eighty rooms. Also, then there, the management fees are also starting to increase, where the management is extremely profitable, where our costs actually are directly allocable cost to management fees are negligible. So, therefore all these things put together, we are hoping that we should start to hit 40% in the next year onwards, not this year, but next year onwards perhaps.

Sachin Kasera:

And sir, that would be you are mentioning on a standalone basis or on a consolidated basis?

Keshav Baljee:

We are looking at it on a consolidated basis.

Sachin Kasera:

Consolidated basis. And sir, could you throw some more light on this management contract, what is the type of growth we are seeing there and any type of figure that we could look in terms of whether absolute or is a percentage of revenues?

Keshav Baljee:

To be honest, on terms of percentage of revenues for the next two years it is going to be negligible anyways. It is just a new business, but the growth is going to be substantial there. And what happens is that, over the next course of, the next spurt of growth FY13 onwards, we are looking at adding more hotels by management than any other model. So, the basic idea is, at that point it starts to get substantial. Once we start having ten plus hotels on management contract, it starts to be substantial in terms of its PAT impact, rather than revenue impact, because basically it just flows straight down to the bottom line with the exception of tax. So, very, very minor overheads that we need to add. So, only once you have ten plus hotels I think it makes sense for us to start to break it out. At this point, it is not a substantial amount, it is in the order of few crores per annum on terms of revenue, but that is nothing compared to our 125 crores or so of revenue which we had last year and we are on course to do substantially more this year. So, as I said, FY12, this year we already added like Mussoorie is being added 50 rooms serviced apartments and Hyderabad is being added, Baroda 81 rooms is being added. So, these will start to significantly increase, the revenues. And we are also talking to about, at any given point of time, we are typically talking to seven-eight parties and we are hopeful of closing at least a few in the next quarters as well. Our idea is that in the next two-

three years we start to hit those ten plus hotels in terms of management fees, then it starts to make a substantial difference in PAT. It would probably be about 15%-20% of our PAT by then.

Sachin Kasera:

Okay. And sir, if you see the numbers announced, that is the consolidated versus standalone, the standalone are slightly better than consolidated. So, when do we expect the subsidiaries to start breaking even and start contributing positively sir?

Amit Jaiswal:

See, what has happened is that we have added lot of subsidiaries very recently. One was, Ahmadabad has been added recently, just six months we have started the operations in Ahmadabad. And similarly, there are other subsidiaries, what has happened wherein we have put in the money and those hotels are coming up. So, maybe in a couple of years, you will find that the consolidated profit will be very substantial.

Keshav Baljee:

Basically we have put in, yeah; we are basically using the subsidiaries as investment vehicles. And therefore, see there are two parts to this company and I must clarify that. And your point is a very, very good point. Because, one part of this company is a hotel operations company, where all that matters is the PAT and the bottom line. The other part of the company is the hotel development company, which we have got into about three-four years ago, where we also will be developing and owning hotels. So, that is also another part of it. So, that's why PAT if you look at it is low in comparison, because we are also paying down debt etc. interest cost are there and all that. Bottom line is that, this money that will go into all this is essentially increasing the asset base of the company. That's also a second thing. At the end of the day, when you look at the IRR for certain projects, we are looking at both the cash flows that comes through from operations as well as the appreciation that we will get in the asset value, because of the fact that we are going to enjoy an asset perpetuity once we have paid down the debt. So, it's a little bit of both. So, we do have to look at it holistically as well. But, your point is well taken that the subsidiaries are; some of them are at this point loss making. But then they, now Ahmadabad 36:42 it is going to start bringing up profits from now onwards. Then Jaipur ones, when Jaipur hotel opens, which is our Jaipur subsidiary, we will also start to make our profits going forward. So, that's how, once the hotel of course launches in towards the middle or end of Jan, so that will also start to make the profits. So, that's really how it goes. And the reason we keep it as subsidiary, obviously is because sometimes we get in

partners etc. to take in a stake in that particular subsidiary and also to ring sense our liabilities and be more prudent from that standpoint.

Sachin Kasera:

Is there the large part of the subsidiary mainly because of Peppermint sir? Is that the large portion of the...

Amit Jaiswal:

No, no, no. No, Peppermint is, we are not operating that brand Peppermint. We had one hotel, which we have surrendered the lease in last February, this year and now we don't have that brand to run and we are not.

Sachin Kasera:

Okay, okay. And sir in terms of, on the revenue side, once these current hotels are under operation are through, what is the type of revenue that you can look, say in FY12 or FY13, sir?

Amit Jaiswal:

I will just tell you, I will just brief.

Keshav Baljee:

I will tell you, before he mentions any numbers, any indicative guidance is going to be taken with more than a pinch of salt, because there are wide variety of things that affect us, sometimes they are project delays, sometimes they are reasons that we can't control, terror attacks, sometimes there is a positive surprise as well.

Sachin Kasera:

Sure, or let me put it sir other way, in some of the good times, say between the period FY 2006, 2007, 2008, 2009, our asset turnover ratio was in the range of 1.3 times to 1.5 times. So, can we look at getting that ratio, say two-three years down the line, once things turnaround?

Keshav Baljee:

Absolutely. Absolutely. And I think the other thing is that, we are getting into these projects. Look, maybe one thing I want to tell you that, the kind of hotels that we are now developing and this is a qualitative point, but it is extremely important that the quality of hotel that we are developing in terms of number of rooms, for instance when we all went public, the hotels that we had signed outside of Bangalore where 24 rooms and 30 rooms in Mysore. Today, we are signing 250 rooms in Greater Noida. So, the kind of hotels that we are getting into are substantially different quality, substantially better size, much easier to operate, much more profitable. So, the 500 keys that are going to be added in 550-560 plus keys which are added this quarter, the quality of those keys, you see not all hotels rooms are the same, the quality of the keys that are coming up are significantly better. For instance, in Hyderabad, the hotel rooms are about approximately 400 square feet in size as opposed to the average rooms that we have today are about 300 square feet in size. So, they are substantially

better product. The location is also quite nice. So, we are doing substantially better hotels from that standpoint, so that also you have to keep in mind in terms of how things will improve in the future.

Sachin Kasera:

Surely and sir just one last question as a follow up on that, the EBITDA margins you mentioned. If you see, again go back the history, we used to sometimes clock at a 50% to 60% EBITDA margins in good year. So, are those like you know, there were abnormal times and I think 40 is more like a sustainable number?

Keshav Baljee:

Yeah, I will tell you. You are absolutely right. But, one was I think the interest income. There were two reasons. One was, the interest income was showing up at that time and just when we went public and about 112 crores of cash which we were putting in the banks while we were looking at investing it. So, the interest rates were pretty good as well, so we were getting a substantial interest income. So, that skewed the margins first of all. Second of all what happened was the ARRs in certain properties were, we must admit abnormally high. For instance, in our Bangalore hotels and our five star hotels, we were doing almost 11,000 plus, whereas today we are doing about 6½ thousand rupees. So, that whether we sell a room for 6500 or sell it for 11,000, my cost is the same. So, the margins get hit. So, that is the reason. Now, yes, 6500 can increase, we can look at about 8000 or so comfortably and that will be a very safe and a good comfortable number for a property like this. But, to get to 11,000-12,000, those are crazy days and they may not, I don't think they will come again for some time.

Sachin Kasera:

Sure, sure. And sir, you were giving certain; you just mentioned that you were looking at doing some type of revenue picture for FY12, if you could just highlight that?

Amit Jaiswal:

FY12, we will be doing a revenue of around 165 crores.

Sachin Kasera:

Sir, standalone or consolidated?

Amit Jaiswal:

I am talking consolidated. I am very prudent and very conservative about the numbers; I don't want to commit something. We will be targeting a revenue of around 190 crores, but 165-170 crores definitely we will be able to do.

Sachin Kasera:

And we are looking at achieving 40% EBITDA margin on that?

Amit Jaiswal:

Yes, exactly, exactly.

Sachin Kasera:

Okay sir. Thank you very much.

Keshav Baljee:

I think 40% not, maybe not that year, but we're 26% now, so we may increase towards 40% in that year. Maybe the year after that onwards we can start to look at, because there are still some supply constraints as I mentioned to you in Pune etc. There will be an overhang for this one year.

Sachin Kasera:

So, would 35% be more realistic target for FY12?

Amit Jaiswal:

Yes, yes.

Sachin Kasera:

Okay, thank you very much.

Moderator:

Thank you sir. I request the participants to press * and 1 for your questions.

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Pooja Rao:

This is Pooja Rao; I would like to ask you a question.

Keshav Baljee:

Yes, go ahead.

Pooja Rao:

Sir, I read in an interview that you said that you are planning to hike the ARR by about 10% to 15% across the board. I just wanted to ask if those, have you already hiked the ARR?

Keshav Baljee:

Yeah, from October 1st. See, what we are discussing now is, obviously this quarter ended September, but obviously October 1st onwards a lot of our corporate have seen that the corporate rates have gone up. And yeah, we have been able to achieve some increase in the ARR, in certain cities, obviously not in Pune. But, it will be there selectively and certain corporate have given us a rate increase. But, definitely in Bangalore we are able to achieve that, in Goa we have achieved that and in Jaipur we have achieved that. So, in Ahmadabad we have achieved that. So, and that's finally the reason why things have started to look up. In fact, October is looking quite good. And we think that this ARR increase of course should sustain itself. And hopefully we can see something similar happening next year, barring anything untoward.

Pooja Rao:

Also, sir could you divide your revenue in terms of percentage between room revenues and F&B?

Amit Jaiswal:

Yeah, I will tell you. See, presently if you really see in the quarter, that is September quarter, we have done a room

revenue of around 22 crores and F&B is around 11 crores. So, it is almost 66-33 is the ratio that we have at this point of time.

Pooja Rao:

But, is that what you expect in going forward?

Amit Jaiswal:

No, our idea is 70-30. We are looking at 70-30, because room revenue gives us more profit than F&B revenue, but presently we have had 66-33.

Pooja Rao:

Alright. And also sir, for your Hospet property, do you have any kind of expected occupancies that you can share with us?

Keshav Baljee:

Too early to tell, because honestly it's a creation of a new market that we are doing. It's basically, Hampi, for the first one year I think that property, because the good news is that like I said, we don't have any fixed rental to pay, it's a revenue share model. And we have an investment of only about 2-2½ crores in that property. That's not a very substantial investment. So, I don't think at this point we are going to have some significant guidance to give you in terms of occupancies. But, suffice to say that, of course the property is magnificent, it's really one of our best properties across the chain when you think about the quality of the facilities and the kind of grandeur it has. And it has been very well received. We do have a lot of travel agents that are promising us business. But, like I said, unless the business actually materializes, we don't really know where we are going to be. Internally of course, we are targeting somewhere in the range of 40% to 50% for this year, for the first twelve full months of operation of course. And we think we can achieve that. The ARR there we are looking at somewhere in the range of about Rs.5000. But, we think that the first year, we often have discounts etc. so it maybe in the range of 3 to 3½ thousand in the first year in that range. So, as I mentioned to you, obviously the ARR also will determine on which travel agents are performing and whether corporate are staying or not, because the corporate segment typically is slightly higher paying than the travel agent segments. So, if the corporate are able to kick in, then we are going to have a substantially higher ARR and occupancy as well.

Pooja Rao:

Alright. And sir, one last question. I just wanted to know the status of the hotels that are coming up in Tanzania and Shimla.

Keshav Baljee:

Yeah, these are in the design phases. Both properties are in the design phases. As I mentioned to you, they will be up and about FY13. And both properties have some

component of real estate in them, because they are larger properties than we need just for a hotel. So, there will be some sort of villas etc. being developed on that. And it's most likely won't be developed by us, so we are acutely in the process of, we have got some plans etc. made for both projects and we are in the process of identifying some partners to look at developing these projects in such a way that it would yield good returns as well as subsidize the cost of developing our hotels there. And of course, we did enter Tanzania in 2007, but we went a little slow on that, primarily because of couple of reasons. One is that there is a bridge being built to that area, which would substantially improve the prospects of that property from the main city of Dar es Salaam. And now the bridge has come, that took some time to build, so we wanted to hold for that. And the second thing is that, although the recession came out and we wanted to focus on projects that were already underway. So, the properties that we already have under construction, we put all our might and financial resources and time, managerial time and effort behind those and we have managed to open, obviously open Goa, we have opened Ahmadabad, we have opened Hospet now. And we are almost opening about five more properties as I mentioned to you. So, there has been quite a bit under development for sometime. So, this is the year where lot of the stuff has been in development during the recession is now starting to come up and thankfully the time is good, much better than it was a few years ago. So, we hope to see an improvement in business.

Moderator:

Thank you sir. Next is a follow up question from Mr. Deepak Malhotra from Silver Streak AMC.

Deepak Malhotra:

Hi once again. While two of my questions about how is the performance especially in October and the guidance for FY12 has been answered. Could you also guide the, what is the likely revenue you are likely to notch up in FY11 itself?

Amit Jaiswal:

Around 150 crores.

Deepak Malhotra:

Okay. And FY12 you said, 155 to 165 crores?

Amit Jaiswal:

No, no, I have told my FY12, my target is around 190 crores, since I will have my Jaipur and Hyderabad hotels coming up. But, realistically this year we are targeting around 150 crores, maybe somewhere 5%-10% here, there we can do. So similarly, that 190 we may end up doing basically around 165-170 crores.

Deepak Malhotra:

Okay, fair enough. Just one last question, I think since, I think you have again a business model running basically around three strategies. What is generally the kind of IRR or payback period you are generally looking for when you are investing?

Keshav Baljee:

See, when we do an, the IRR like I said to you has two components. One is the cash income, cash flows from the properties. And the other one is the asset appreciation you get, which is unless you sell the property it is notional. But, it is there. So, we typically are looking at an IRR of about 20% plus for anything that we do. It's significantly higher, obviously when you look at the lease, because typically in a lease, sometimes we are able to recover the money in a year and a half, sometimes it takes three years, typically that's the timeframe in which we recover the money that we lease. In an owned property, it ranges from four to about seven years depending on how premium is the property, location of the land was and how strategic the land is and how much money we spend in terms of the development cost, but yeah, typically between four to seven years. The four years will be a very good deal and seven years will be not such a good deal. Yeah, that's typically what we look at. We are obviously targeting four years, but what I am saying is that sometimes when things go bad, after you made the investment, if the whole economy collapses etc. then it may get stretched out to six-seven years. But, typically it cannot go beyond that. Of course in the management contract, there is no investment, hence there is no IRRs, it's infinite. So, you can see that, so obviously our first priority is always to sign our hotel on management and then look at the lease models and then look at the ownership models. Of course, the ownership models, we will continue to do from time to time, because we do want to develop, when you own a hotel, you are able to develop the hotel to a much better specification, you are able to design a hotel to be future proof and future ready and you are also developing an asset base which you need in India to be able to get any loans or even attract private equity or whatever it is. Eventually everyone asks for collateral, so we are in the process of developing, hopefully what in three-four years can be over 1000 crores worth of collateral that we can start to leverage for the next phase of expansion, whether it is getting debt or equity for the next phase. Because, that's really what we are looking at, that's why we are looking at building hotels, because we will have 260 rooms in Mumbai or 300, over 400 keys owned in Bangalore, 200-300 keys in Hyderabad, Ahmadabad, Goa etc. So, all these owned hotels will start to really support our balance

sheet going forward. So, that's why we are willing to take a slightly lower IRR for those kinds of properties.

Deepak Malhotra:

Only one point here, I think I am not really trying to pick up here, but just as an observation, if you talk in terms of asset appreciation, that doesn't really get captured in the share price, I would say? Not really, not really.

Keshav Baljee:

Absolutely. Absolutely. I am completely with you. However, five years down the line, suppose I want to liquidate the property, let's say I want to liquidate a property, use that money to expand further rather than dilute my share price.

Deepak Malhotra:

I appreciate, as I said that it's just an observation. And secondly I think if you look in terms of especially the payback period, again I am just picking up, if you look at your Tanzanian project, I think you have put about 9 crores there. For the five years you are not really going to generate any return on that, I am sure that must have been done since you said it's a part of the real estate overall development project there, things could have been to do with that. But, that is really something which you as a management need to consider in my point of view.

Keshav Baljee:

Yeah, I agree with you. But, in the overall scheme of things, we are looking about 600 crores invested in that, that's 9 crores. So, I think to judge our investment record on 9 crores rather than the other 591, is also little bit nitpicking. However, your point is well taken, but I don't think I could predict the Lehman would collapse or the world would turn topsy turvy and I am sure...

Deepak Malhotra:

I will take your answer for that.

Keshav Baljee:

So, that's probably why. But, keep in mind, keeping that in mind rest assured the returns on the IRR basis what we are talking about, our asset appreciation currently, even if I were to sell my Tanzania land today and walk out of it, I will make a very healthy return and that will make you smile. Let me assure you on that.

Deepak Malhotra:

Excellent, thank you.

Moderator:

Thank you sir. Next is a follow question from Mr. Sachin Kasera from Lucky Securities.

Sachin Kasera:

Sir, this is regarding the dividend payout policy. If we see before the downturn happened, our payout ratio was fairly high. Once the company is back on track in terms of profitability and the growth is back there, can we look at

good payouts in terms of dividends or what is going to be that?

Keshav Baljee:

See, I think we obviously are going to be using our capital right now to invest and complete our projects for the next one or two years. So, I think for the next two years it is obviously safe to say, we won't return to that liberal a dividend payout policy. Now whether we come back to that dividend next year or not is obviously for the board to take a final call on. So, I can't comment on that at this point. But, I think that it's safe to say that when we see that the company is requiring, our internal accruals to be used for completion of projects, which will substantially increase our revenues and our set up across, the company will go ahead and do that. So, I think, yes, we will at some point return to dividends, I don't think we are going to rule out dividend for the foreseeable future, we are definitely going to return to dividends. But, whether it is going to be Rs.6 a share it was few years ago, we are not 100% sure on that right now. But, we will obviously like to slowly kick start and restart dividends as well.

Sachin Kasera:

And sir, one question on the debt side. Going by the release, we have around 190 crores of debt on the consol balance sheet around September. What would be the figure approximately by the March 2012, when the CAPEX is over?

Keshav Baljee:

Around 250 crores at that point, around 250 crores.

Sachin Kasera:

It should be around 250 crores, okay. And are we looking at any other dilution in terms of the SPV level in any of your projects?

Keshav Baljee:

At this time, not immediately, but like we don't rule it out. See, what happens is that tomorrow if I were to get a good valuation for something and I also wipe out a lot of debt and all, in case there are very good IRR in that return, on that investment, then we would always consider it. But the bottom line is that, see for us what is important is across all our business models, we are managing all the hotels. So, that's important. So the ownership, if I own it or sell it to a third party and make a good profit on my development cost and I still get to manage that hotel, we will always consider that possibility.

Sachin Kasera:

Sir, just one question on the minority interest. It's gone up from some 27 crores to 36 crores in this, as of September. So, it's mainly because of you have done some dilution in some SPV, some subsidiary, what exactly is the reason for that?

- Amit Jaiswal:** Subsidiary.
- Keshav Baljee:** No, it is due to the portion of the income that comes from subsidiaries, right?
- Sachin Kasera:** Okay, one of the subsidiaries profits basically.
- Amit Jaiswal:** Whatever is the subsidiary, profit or loss, that gets adjusted in the minority interest?
- Sachin Kasera:** Yeah, because the number is pretty significant, it has gone up from 27 crores to 36 crores.
- Keshav Baljee:** Because we have some 50-50 JVs etc. So, we are consolidating our income from those joint ventures and then we are netting out the amount at which it doesn't accrue to us through minority interest.
- Sachin Kasera:** Okay, if we see it on a different, if we see consol versus standalone, then standalone numbers are better than consol. That's where the confusion is there.
- Keshav Baljee:** No, that's only because, as I mentioned to you earlier, we are investing heavily through subsidiaries and therefore some of the subsidiaries are showing losses at this point of time, because there investment fails. And therefore and there is going to be a situation where they start to, it's going to reverse. And next year, Hyderabad hotel anyway is on, it's located in standalone, it's not on the subsidiaries, so we will see substantial improvement there as well.
- Sachin Kasera:** Okay. And sir, how are looking at the second half of FY11? That should be better than last year second half?
- Amit Jaiswal:** Second half, yeah definitely. Better than last year.
- Sachin Kasera:** Okay sir. Thank you.
- Moderator:** Thank you sir. I request the participants to press * and 1 for your questions.
- There are no further questions. Now I hand over the floor to Ms. Pooja Rao for closing comments.
- Pooja Rao:** I would like to thank Mr. Keshav Baljee, and Mr. Chandrashekhar, providing us with a better understanding of the hotel industry and of Royal Orchid Hotels in particular. I would also like to thank all the participants for taking time out to attend this call. That's it from my side. Thank you and have a nice day.

Keshav Baljee:

Thank you.

Moderator:

Thank you madam. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant day.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.