“The Byke Hospitality Limited Q4 FY 2017 Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY 2017 earnings conference call of The Byke Hospitality Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vikash Agarwal, Director (Strategy & Planning). Thank you and over to you Sir!

Vikash Agarwal: Good morning everyone and a warm welcome to our earning conference call for the quarter and year ended March 2017. I have with me Stellar IR Advisor, our Investor Relation Advisor. I hope you all have received the updated investor presentation which has been uploaded on the website. We have also uploaded that on our website for your reference. We will do a brief summary of our operational and financial performance for the year and then take questions.

I am happy to share this with you that we are seeing a strong pickup in the occupancy rate across the industry for the first time after eight years especially in the domestic leisure segment. This is a good bounce back after slow down in 2007-2008. According to the HBS report for the period 2016-2017 our average occupancy level stood at over 65%.

This is on the back of overall economy growth that has led to travel picking up. These levels are expected to improve further going forward as the demand for hotel rooms is growing at a much higher rate than supply. Also with GST coming into effect, I believe it is very positive move for the overall industry as it would bring efficiency and transparency. Currently the various slab announced for the hospitality industry are complex and the industry is making representations to cover it under single slab to remove complexity though in the short-term there could be a few adjustments and hiccups but overall it is a big positive for the economy as a whole.

Byke as a brand promised good quality at affordable price. As stated earlier our focus is on domestic leisure, which is large and fast, growing segment. We continue to develop a strong marketing and distribution network, which are our key strengths. As on date we have nine properties with a total inventory of 733 rooms. In line with our strategy of rapid expansion, we recently added a new property on long-term lease in Jaipur.

The new property in Udaipur, The Byke Riddhi Inn has 52 rooms, banquet hall, conference room and a party lounge. Udaipur is a very sound tourist location and also is a prominent location for destination wedding and other such events. This property has become operational recently.

We have also added one property each in Borivali and Jaipur in the fiscal as mentioned in the previous update. This additional highlight is from demand potential in these cities and increasing acceptability of Byke brand.

Byke has become an established brand in the hospitality sector especially in the mid market segment. Off late we have taken a few critical decisions and we have consolidated our portfolio so as to maintain that brand image. We have exited two properties, the Byke Sunflower and the Byke Hidden Paradise. Since those were not consistent with the other properties. Byke Sunflower being our own property we have leased it out. This exit has also been in line with our strategy to focus on large properties and on properties having multiple source of revenue generation. As we mentioned in our press release we have also exited the Puri property due to certain unfortunate circumstances.

Let me know brief you on the financial performance for FY2017. Total revenue for FY2017 is 270 Crores as compared to 232 Crores in FY2016, a year-on-year growth of 17%. On plus lease total portfolio contributed 51% whereas chartering business contributes 49% of the total revenue. Revenue in the owned plus leased business grew by 16% driven by increase in room revenue as well as F&B and other services revenue, which includes conference hall and banquet etc. The average room rate stood at approximately 3788 in FY2017.

Our occupancy level stood at 65% in the segment. In the room chartering business the revenue grew by 17% in FY2017. We sold inventory of over 5.9 lakh room nights. The occupancy level stood at 95% in FY2017 and ARR at approximately 2314. Our EBITDA for FY2017 is 62 Crores compared to 53 Crores in corresponding quarter last year, a year-on-year growth of 18%. The EBITDA margin was 24%. The profit after tax grew from 26 Crores in FY2016 to 32 Crores in FY2017, a year-on-year growth of 22% and the PAT margin is 11.7%.

Going forward we have identified a few locations to add properties on a long-term lease basis over FY 2018-2019. All these locations are ideal for leisure tourism as well as rents thus we foresee a good opportunity to generate revenue from all cities. This is all from my side. I now open the floor for question and answers.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Kunal Thanvi from Equity Master. Please go ahead.

Kunal Thanvi: Congratulations for good set of numbers. As you said we have exited three properties during the quarter, two properties in line with our overall strategy of having big hotels with multiple revenue sources and one you said about the Puri property there was some unforeseen circumstances. Can you elaborate on that what exactly happened there?

Vikash Agarwal: Let me give you the complete prospects about all three exits. So first two which we have exited the Byke Sunflower in this particular year. This was under our portfolio till FY2017. Now as I mentioned earlier also we are focusing on franchise model. We are into leasing of property and now we are also adding franchise model into our portfolio, which can give us flexibility to expand at a rapid level without much investment into the properties. So when we start approaching those markets, so we have a very strong feedback from the partners who are working with us as of now that there is a mismatch in the portfolio. So if I am approaching someone so because of smaller property also it becomes very difficult to positioning Byke whether we are at a mid market segment brand or whether we are budget brand. If I have also to talk about myself, I cannot say clearly that we are a mid market segment brand because few of our properties are budget segment. So we always see ourselves budget as well as mid market segment there. So to create clarity on the portfolio where we see ourselves in a particular situation we are clearly a three star kind of category, mid market segment brand and there should not be any kind of discrepancy in the portfolio. So if I see these two properties those are very small in size again those are not much revenue efficient. Revenue efficient in the sense those are not making losses but the way we have properties in other locations where we have huge banquet hall, we have good set of restaurants, where we can generate revenues from marriages, social events, conferences, parties, corporates everyone these properties are not in line with that strategy. So we have decided to lease out the Byke Sunflower, which is owned by the company, so we will not see any impact on the bottomline or may be very small impact but there is some impact of the topline.

Kunal Thanvi: What kind of percentage, in terms of percentage that impact would be?

Vikash Agarwal: These all three properties will make less than 10% of the total revenue from the hotel and lease segment.

Kunal Thanvi: So it would be around 5% for the total business, right?

Vikash Agarwal: Yes. So for long-term gains we have to go with the short-term pain. So as per our strategy to create a Byke brand so we can start attracting premium and I have a very strong sense that once we have a very decent portfolio of similar kind of properties we will start getting premium also. So it may help us to get Rs.100 or Rs.200 kind of ARR growth in the next one to two years, but in line with that strategy we have taken this decision. This decision has been made last month only and we have concluded that also.

Kunal Thanvi: So tell me if my thinking is right. So we are moving towards the franchise the next leg of growth through franchise business and for the sake of that we need to have uniform brand for Byke that has been marketed and not going for the budget anymore?

Vikash Agarwal: Our focus on leasing also not diluted. We have an equal amount of focus on leasing also, but no doubt we are focusing equally not on franchise also. To create a franchise brand we have to take this decision.

Kunal Thanvi: So in our current portfolio do we have any other hotels that we think that do not match with the mid market brands?

Vikash Agarwal: Only Redwood, Matheran is there which we feel that it is again not matched with our product line. Apart from that all properties are unique in nature and I do not see any differentiation between one properties to another. So all are unique in nature.

Kunal Thanvi: So do we plan to do the same thing with Matheran property?

Vikash Agarwal: Yes.

Kunal Thanvi: In the next quarter?

Vikash Agarwal: In March FY2018. This is also already decided.

Kunal Thanvi: March FY2018 we will be doing that. So when we do this as I understand we have a long-term lease with our hotel owners.

Vikash Agarwal: Yes, we did close after three years, which gives us flexibility to exit after three years.

Kunal Thanvi: So, if I look into the holistic picture, so we had a good plan extending the number of hotels and there are leased bids, so when we are exiting these properties and we are adding properties then we will be in zero in some gain, right?

Vikash Agarwal: This will not be a situation. You will see a decent amount of addition in FY2017-2018. This is my commitment.

Kunal Thanvi: So it would surpass the hotels that we are exiting, right?

Vikash Agarwal: Yes.

Kunal Thanvi: On the Puri side?

Vikash Agarwal: Puri there these hotels we have started in April 2016. Business was growing, everything was great but some unforeseen situations happened over there from the owner side, which force us to exit from that property. Now the matter is subjudice. We have filed an FIR against the owner. We are proceeding with the court cases and all. I am total helpless to give you more prospect about this exit, but this is not a business call. This is completely unforeseen situation in that kind of scenario for us it becomes very difficult to do business. So we have exited because of that and because now the matter is subjudice I have not been able to give you much prospect about that but it is not that because we failed to generate business over there. We have generated good amount of business from there, but some kind of situation arrived in the last quarter which force us to exit from that property. This is not by will. This is by court.

Kunal Thanvi: I got your point, but the issue remains with the owner of the property. So as I understand we have a detailed process of scanning the owners before we go and have a lease of property from them so did we miss something while we were evaluating that person?

Vikash Agarwal: We had evaluated ourselves completely where we have missed out. So we have done all the parameters historically we did in all our existing acquisitions so we have not missed out anything. There is a situation which nobody is aware even in Puri people are not aware that kind of situation. So this is something which was totally hidden and when situation comes in our picture we have to take decision to exit from that property.

Kunal Thanvi: So all in all we are saying that all these three properties will have 5% impact on the total revenue and it will have no or very little impact say 1% impact on the bottomline?

Vikash Agarwal: Do not worry about the growth. We will see a very decent number of rooms growing in FY2017-2018. We are lined up with the number of acquisitions, which you are going to see one-by-one very soon.

Kunal Thanvi: On the franchise model it would be great if you can explain us what exactly we are seeing right now and how this business would do in FY2018 or may be in 2019.

Vikash Agarwal: We have recruited one team in the last quarter may be four to five months to assess the market and what kind of adoption for the Byke Brand. So one thing we have sensed very strongly from the market that now the brand acceptability is very high. We have to grow with some structure where franchise model can feel equality with the brand where we can assure a long-term relationship with the franchise owner. So we are under process. I do not see any revenue visibility in FY2017-2018. So may be we will start adding franchise hotel by third quarter or fourth quarter because we are still in process. We do not want to hurry. We want to go with the full homework. So that needs technology upgradation also from our side so every process is on and we see that from third quarter and fourth quarter onwards we will start adding franchise model to improve our portfolio. So I do not see any revenue visibility in FY2018 but we see a good visibility in FY2019 from the franchise model.

Kunal Thanvi: Do you think this business can be as big as your lease business?

Vikash Agarwal: It may be bigger than that because in lease model we have to spend amount into the property. In franchise model it is a free business. We do not need any amount to invest into the properties.

Kunal Thanvi: So the clear thought of the management would be having and getting into a business where we have less money to invest and we have good revenues also, right?

Vikash Agarwal: The clarity and thought process of the management is very clear to build the Byke as a brand to remain asset light and we would love to go asset free.

Kunal Thanvi: So what would be your key takeaway from the Puri property because these kinds of things can happen anywhere and we have so many properties?

Vikash Agarwal: The key takeaway is we have to correct ourselves against because after nine or ten acquisition you many become liberal because you have a proven successful track record with you. So this exit has given us opportunity to correct ourselves if somewhere we are missing out something, we should be more careful in the future like we have exited from Mandawa in 2015. We have learnt now we should not add properties which are at a destination which destination itself cannot generate business, so we stop adding those kind of properties into our portfolio. Now Puri is learning, so we have to go some additional make and checks while making any acquisitions, so this kind of situation should not arise in the future.

Kunal Thanvi: Thank you Vikas. I will get back in the queue if I have anymore questions.

Moderator: Thank you. We will take the next question from the line of Rahul Veera from Elara Capital. Please go ahead.

Rahul Veera: Just wanted to understand what is the impact of GST on our business now? What is the indirect tax implementation earlier and what is it going to be now?

Vikash Agarwal: The impact of GST is very positive on the business not in terms of revenue, in terms of ease of doing business. This is the biggest gain, which we have. Currently we have five six states where we have different kind of policy, different kind of F&B slab, different kind of we difference slab for banquet, we have different slab for restaurants and we have different slabs for rooms. So this 18% kind of bandwidth we are not losing anything. The plus point is now we are eligible for input credit. So we will give us some amount of room where we can reduce our rate also because net tax impact will be reducing, but the main problem is this 2500 room kind of rent is complex where we see a different kind of rate throughout the year, so it becomes very complex to comply with this kind of situation so if you are surpassing to 5000 you will be in a 28% kind of band. If you are below 5000 you are in 18% kind of band. So industry is approaching ministry now that they should do some kind of adjustment into to room rent. So they are currently with Rs.1000, less than Rs.1000 zero rate, so earlier it was zero, Rs.1000 to Rs.2500 now it is 12% and somewhat it is 9% or 10% or 12% and Rs.2500 to Rs.5000 it is 18% and Rs.5000 and above it is 28%. 28% which is fairly very high. Not affordable at all for all class of hotels. So if I give you some clarity on that if some hotel at some location where the ARR kind of Rs.4500 to Rs.4600, so there are situations in a year where they are less than 4000 and maybe more than 5000. So when they are more Rs.5000 they have to impose 28%, which is again not bearable. So industry is making representation to the government to do some kind of adjustments although the government has already clarified that they are not going to compromise with any of the industry demand, but we will see a practical approach in this room rent and we have sense that the government is going to accept our industry request and they will do some adjustment in the room rent. So it may be as per our sense it may be increased from Rs.2500 to Rs.5000 and Rs.5000 to Rs.7500 and Rs.7500 above will be 28%. If this will be a scenario then we are the happiest person to accept this GST kind of thing, but for us the biggest comfort is what you call ease of doing business, so currently we have different kind of billing system, in single bill we have to do multiple tax calculation, if we go to any restaurant you will see a different kind of tax for food and beverages, different kind of tax for food, different kind of tax for other items, so in single bill you have to calculate taxes size or may be for slab so this kind of situation always create a kind of possibility where you are into regular trade while filing and return and everything, so from that prospect we will see a very clear picture that this will give us flexibility to ease of doing using business.

Rahul Veera: Sir just I wanted to understand in terms of the lease of Byke Sunflower – lease amount that we will receive there is going to be – now the asset is going to be on our book but the lease amount will be very minimal right, so just trying to understand would this suppress our overall ROEs?

Vikash Agarwal: No it will not suppress because it is not going to make a significant impact from the income which we are generating, so revenue will not give you ROI, only income will give ROI, so we will not see any major difference into that and it is only a only 20 room property, which is again 2.5% of the total portfolio, so I do not see much impact on the bottomline side also.

Rahul Veera: Sure. Fair point Sir. I will come back in the queue Sir. Thank you.

Moderator: Thank you. We will take the next question from the line of Navin Jain from Florintree Advisors. Please go ahead.

Navin Jain: Good morning Sir. I have few questions. My first question is on your chartering business, so what is the outlook on the chartering business for the coming year, would that be the focus area for this year given the fact that, it seems that hotel business will be somewhat slower this year because we are exited few properties?

Vikash Agarwal: Slower in sense of number, so we have added few properties in last quarter also, so if you see the net revenue for the next year it will surpass the revenue, which we have in the previous year, so slowdown will – you will note witness, any slowdown kind of situation, so Byke Rivera, which we have added in October, November 2016-2017, which is yet to be contributing into the revenue. Riddhi Inn, Udaipur we have added in April 2017, which is still to be contributing into the revenue. September 2015 we have added the Byke Thane, which is still to be contributing at its optimum level into the revenue. We have added Borivali this year, which we are going to be operational after June 15, we have OC awaited from the BMC side, once we received the OC which that also start including into the revenue, so we have good set of portfolio, which yet to be contributing into the revenue, so we are not going to see any downfall in the revenue for FY2018 as well. Obviously we always focus on room chartering business equally the way we are focusing on our leasing and this hotel portfolio, so that focus, which is currently 50:50 will remain same in FY2018 also.

Navin Jain: What is the capex less for this new property that you have added in the last three to six months?

Vikash Agarwal: So I do not see any great capex left, majority capex we have done, Borivali property is completely ready, so whenever we received the OC we are fit to go in next one week.

Navin Jain: Okay, great. Sir other question is on receivables, so end of this year the receivables is about Rs.22 odd Crores just wondering in our kind of business model what would this receivable will pertain to?

Vikash Agarwal: This receivable are majorly from the chartering business, where we have agent kind of model and we received payment from agent in 30 to 35 days, which is major contribution to the receivable, so if you see receivable against revenue the numbers are more over similar, percentage are similar, which was there in FY2016 also.

Navin Jain: This agent, what is the sort of credit period usually you are saying 30, 35 days?

Vikash Agarwal: 30 days.

Navin Jain: This asset like model, this franchise model, if you throw some light, this will be similar to management contracts right?

Vikash Agarwal: Right.

Navin Jain: Essentially our revenue will be linked to the – the percentage the revenue is the order invoiced?

Vikash Agarwal: We are working on various business model into that, so we are already in discussion with many hotel properties across the locations and we are trying to see what kind of interest we can generate, which business model give us maximum flexibility in terms of revenue generation as well as long-term relationship with the hotel owner, so we are working on very few model and that is why I recently replied that, we will take at least six months more to add any property into our portfolio, so by end of third or fourth quarter we will start adding hotels, which give us revenue in FY2018-2019. And this revenue will directly contribute to the bottomline.

Navin Jain: Thanks a lot Sir.

Moderator: Thank you. We take the next question from the line of Ashutosh Garud from Reliance Wealth. Please go ahead.

Ashutosh Garud: I just wanted to understand because previously whenever we have interacted we have seen a lot of opportunity, which is being created – we were of the opinion there is lot of opportunity in the way we have done business till this point in this lease model and what has actually prompted us to actually think on a franchise model?

Vikash Agarwal: Is it not about any lease, there is any problem in the lease model as I go forward we have to add new business model into portfolio also which can give us rapid expansion, so in a property where traveler comes for them it does not matter at all who is owner of the property right for them it matters a lot who is the brand and what kind of services we are getting over there, so as you know lease model, our philosophy never was there we get debt from the market and we expand on the basic of that, we always wanted to remain into asset light model, so way forward is if you want to expand the Byke brand on a rapid note where we see a minimum risk for ourself towards a franchise model, so franchise model you can do only once you have visibility of brand, before that you cannot do, so if I say that now we are venturing into franchise model, it means now there is a visibility of brand again if 30, 40 hotels into the franchise model if I have 2000 odd kind of rooms where I see myself into the franchise model, it may not generate that great topline, but it will contribute good amount into the bottomline and more important it will create brand value for the Byke, so for new it is a leverage kind of situation where I see a good amount of business with the help of franchise model because now in that case we have a pan India presence, so if I have to expand it 30, 40 locations in next one year and one and a half years through lease model I see that is a hurdle for me, but if I have to expand with a combination of lease and franchise model, I see a great possibility over there, so to expand now we are at a situation where we see a good visibility of brands, we are cash rich, we are debt free now, we do not have any long-term debt into our books, we have only Rs.6 Crores kind of short-term debt into our books, we are generating more than Rs.50 Crores plus kind of cash flows into our company, so what to do with that, so we have to do a rapid expansion, now because we have a very strong base, so rapid expansion on the basis of franchise as well as lease model is the ideal situation which every big players are doing in the world, so if see the Hilton, if I see the Marriott, if I see all the big players, Accord Hotel and all what kind of expansion and what kind of growth they are doing through what kind of strategy, so we are similarly in line what you internationally these brands are doing.

Ashutosh Garud: If we have to understand the business model correctly earlier we actually were very happy to grow at this 18% to 22% kind of growth with whatever cash flows we are generating and we will keep leasing out these models and keep doing at a steady pace rather than a very fast pace, so that if I understand that thought process has changed?

Vikash Agarwal: So that thought process is still stays there so if I mention still I do not have any kind of aspiration to add 40, 50 hotel in a year, so that will not be a situation again if you add 40, 50 hotel in a year it become very difficult to maintain that kind of service quality, which a brand requires, so I just give you a prospect that if I have to do then this lease model will be a hurdle for us, so combination of lease as well as franchise model is the best way to growth in the future.

Ashutosh Garud: On a net basis, what would be the addition of room in FY2018?

Vikash Agarwal: So we are targeting close to 300 rooms to add in this year.

Ashutosh Garud: But that would be at the latter end of the year right?

Vikash Agarwal: Maybe you will start see some acquisition from the second quarter onwards. We are already at a very verge of close of the acquisition.

Ashutosh Garud: So on sequential basis first two quarters would see lower rooms operating for us as of now?

Vikash Agarwal: Yes if you see the net off then it will be lower, but if you see the operational room so it maybe the lower.

Ashutosh Garud: On your chartering business, would the GST actually impact negatively to your chartering business because your agents would be dealing at the last mile connection with the hotels, so would it impact negatively to their creating volumes at their end?

Vikash Agarwal: So volume will not be a problem, but the major problem is incremental in cost, so currently what happens so earlier we have 1.4%, 1.5% kind of gross tax on the chartering business, so we have 90% abatement available in the service tax, in January it has been changed from 90% to 40% and tax has been gone from 1.5% to 9%, but the good part is that input tax credit was available, so net impact was again minimal, but now GST coming in the tax is now 5% where no input credit is available, so if I see last mile agent connectivity where inventory travel from one hand to two to three hands before reaching to the consumer, so hand cost will be increased, so we are trying to sort out those kind of situations, either we will go with the gross revenue model or maybe we have a some net revenue kind of model where we see a very minimal impact on the hand cost, so we are taking advisory from the big tax firms and they will advice us because this recently came, so we are in process in getting advisory from one of the big core tax firm about what kind of tax compliance we have to require where we see a minimum impact on our business model, so we will receive in 10, 15 days what will be there opinion, on that basis we will take call how to how to go ahead about this.

Ashutosh Garud: And on the chartering business the last mile payment, which your agents would be doing – would there any cash component is there?

Vikash Agarwal: No, there is no cash component into that.

Ashutosh Garud: You would be booking in advance and you are dealing with these agents are not – nothing is based on cash basically?

Vikash Agarwal: Sorry can you clarify?

Ashutosh Garud: I am saying you are dealing hotel or the agents dealing with you?

Vikash Agarwal: In our dealing there is no cash component.

Ashutosh Garud: Okay. Thank you.

Moderator: Thank you. We take the next question from the line of Rahul Dani from Indsec Securities. Please go ahead.

Rahul Dani: Congrats on good set of numbers. Sir can you breakup your revenue F&B into events and restaurants?

Vikash Agarwal: Just a moment, give me a minute. We have Rs.61 Crores from the room revenue and Rs.70 Crores from F&B I do not have breakup between restaurant and events, but Rs.131 Crores is broke into Rs.61 Crores from room and Rs.70 from F&B.

Rahul Dani: Okay and Sir again just to come back on your leasing business, you said you are looking at about 300 rooms for FY2018 and what would be a target for FY2019 Sir?

Vikash Agarwal: We want to become more than 2000 plus kind of room inventory by 2020. FY2019 purely we are targeting some higher number for that.

Rahul Dani: Okay and the franchise model so you expect good chunk of revenue to come in by FY2019?

Vikash Agarwal: Yes.

Rahul Dani: So what kind of revenue breakup would be then be leasing, franchise and chartering Sir?

Vikash Agarwal: For franchise I cannot give you any revenue prospect as of know because till the time we are not into any kind of agreement, what kind of agreement we are making with the hotel owners, I cannot give you any prospects, but we have aspiration to add 500 plus kind of room in FY2017-2018 and 2018-2019 from the franchise business, which is our target, so what kind of revenue we will generate whether it will contribute on the topline, whether it will contribute directly on the bottomline, so still we are exploring the possibility, but it is the best way to go into the market number one, so if I see my revenue projection so for FY2017 we have done a growth of 20%, 17%, 18%, in FY2016 we have maintained a growth of 30% kind of, so we are continuously as our target grow by 20% to 30%, we want to remain into that bit and mix of on lease as well as room chartering will remain 50:50, which is still there.

Rahul Dani: Okay. Thank you Sir.

Moderator: Thank you. We take the next question from the line of Abhijay Sethia from SJC Capital. Please go ahead.

Abhijay Sethia: Hi, could you give us the chartering gross margin for FY2017?

Vikash Agarwal: It is close to 16%.

Abhijay Sethia: And the other metrics in terms of the commission given to the agent, etc., all remained more or less the same what was there in the last two years?

Vikash Agarwal: Can you repeat?

Abhijay Sethia: The commission you give to the agents?

Vikash Agarwal: 9%, which we give.

Abhijay Sethia: Yes, what is that percentage?

Vikash Agarwal: 9%.

Abhijay Sethia: 9% okay and your employee cost have shown a pretty big jump year-over-year up almost 44% in FY2017 what is the reason for that?

Vikash Agarwal: We have added good staff numbers because we have added number of inventory has been grown up very fast, so according to that we have increased our staff also. As I said we are focusing on franchise model, we are focusing on various kind of other, revenue stream coming into the business, so for that we have hired people to create team, which can give us leverage for the future prospect, so this is one reason why we have higher number of employee cost in FY2016-2017.

Abhijay Sethia: But with closure of three properties should that normalize in FY2018?

Vikash Agarwal: Sorry.

Abhijay Sethia: Since you closed three properties should that start normalizing the growth in employee cost in FY2018?

Vikash Agarwal: So these properties are very small where we do not have any huge employee cost over there, so I do not see much impact because of these three properties, I do not see very huge impact on the business, so again we have added new properties into our portfolio, so maximum task has been utilized for the new properties in compare of the – we have exited from the adjusting property and staff has been shifted to the newer properties.

Abhijay Sethia: Okay, got it and what was your lease rental cost for FY2017?

Vikash Agarwal: Rs.11 Crores.

Abhijay Sethia: Rs.11 Crores for full year?

Vikash Agarwal: Yes.

Abhijay Sethia: Thank you.

Moderator: Thank you. We will take the next question from the line of Manish Jain from SageOne Investments. Please go ahead.

Manish Jain: I just wanted to know in terms of the new properties Borivali and Jaipur what is the cost of refurbishment that we have incurred?

Vikash Agarwal: I do not have number handy with me, but normally we have to invest Rs.6 to Rs.7 lakhs average per room for property and it varies from property to property. Some property we required higher costs, some property we required lesser cost also, but average is Rs.7 to Rs.7.5 lakh but currently, I do not have data handy with me. I cannot give you the exact number how much capex we have done in these two properties.

Manish Jain: I will join back the queue.

Moderator: Thank you. We will take the next question from the line of Praveen Agarwal from Lotus Global. Please go ahead.

Praveen Agarwal: First of all congratulations on maintaining the growth in the topline and bottomline. I am noticing that in Q4 your chartering business has fallen to 46%. So is there any particular reason, because you said we are going to maintain 50:50.

Vikash Agarwal: If you see the net impact the net impact is always 50:50 at the end of the year. It varies from quarter to quarter. Some quarter it may be higher, some quarter it may be lower.

Praveen Agarwal: So this is a quarterly phenomenon actually.

Vikash Agarwal: Yes.

Praveen Agarwal: In the locations identified in your presentation you have said that there are various locations, we have identified those are all going to be on lease model or any of them are also on management partnership model?

Vikash Agarwal: These locations we have identified they are focusing only on lease model.

Praveen Agarwal: Only on lease model. This whole franchise model, which I suppose it is the same as management partnership will that give a better EBITDA than the lease model?

Vikash Agarwal: Franchise model does not have any kind of capex and nothing. No capital investment will be there. Whatever revenue you will be receiving against that you will have a very minimal kind of expenditure if incurred. So we see revenue, which we are receiving as well as EBITDA only.

Praveen Agarwal: So, in summary, to answer my question that will have a better EBITDA than your existing models?

Vikash Agarwal: Yes.

Praveen Agarwal: Have you given any guidance for the topline and bottomline and EBITDA for FY2018?

Vikash Agarwal: We are in phase of consolidation. So we have recently taken a few decisions so we have reflected that we have exited from the two properties so in the first quarter result at the time of call of first quarter result, we will share the guidance for FY2018 also.

Praveen Agarwal: Thank you so much.

Moderator: Thank you. We will take the next question from the line of Aditya Jaiswal from Stewart & Mackertich. Please go ahead.

Aditya Jaiswal: Thank you for taking my question. Sir, I just wanted to know that the presentation mentions that we have relationships with over 500 hotels across 60 cities, so I just wanted to know are these exclusive relationships because there are many hotels which are listed on the website such as MakeMyTrip, the same hotel, so I was just curious that are these exclusive relationships?

Vikash Agarwal: Let me clear it. In our chartering model, we do not have any kind of exclusivity with any of the hotel owner by doing business with us. They are free to lift their inventory online as well as all the platforms, but in our portfolio we do not have any relationship with any hotel owner who has all the room in their hotel.

Aditya Jaiswal: Why I asked because how do you make sure that they serve only vegetarian food and how do you make sure?

Vikash Agarwal: Chartering model we do not make sure that these are basically in food. So in chartering model, we do not have our brand over there. We are acting as an agent between hotel and the subagent, which are located in other cities, and this is a kind of inventory aggregation model. There we do not maintain any kind of hurdles where we do only with veg property or we do not non-veg property.

Aditya Jaiswal: So room chartering is mix of both, vegetarian and non-vegetarian?

Vikash Agarwal: Wherever we have the Byke Bank we maintain that as a pure vegetarian.

Aditya Jaiswal: But not in the room chartering?

Vikash Agarwal: In chartering we do not have any Byke bank. So OU room model is completely different. They have within the hotel; they have OU room present as a brand. In our model, we do not have any presence as Byke.

Aditya Jaiswal: Thank you Sir. One more quick question, do we have a mechanism place where we actually track how many corporate customers are coming back?

Vikash Agarwal: Yes.

Aditya Jaiswal: Because the tourists generally it is difficult to track the retention in Goa and all that but corporate clients they tend to come back to the same hotel if the service is really good?

Vikash Agarwal: After Thane coming in, we have a good set of numbers from the corporate client also. Now that number is also increasing. So because of Thane we are able to approach good set of numbers and good corporate clients, corporate clients were there in Goa also. Now we have leveraged our Jaipur property with the corporate clients. So all these three locations we have corporate client and we have a very strong relationship with them as of now. If they have any requirement they give us priority if we fall into their requirements.

Aditya Jaiswal: Thank you. If you could quickly give us the numbers like what has been the improvement for the past two years like the retention; how many clients' corporate clients are coming back.

Vikash Agarwal: So we have added and we do not have any corporate clients who have exited from us in the last few years.

Aditya Jaiswal: So it is like 100%?

Vikash Agarwal: Yes.

Aditya Jaiswal: Thank you so much. That is all from my side.

Moderator: Thank you. We take the next question from the line of Varun Ghia from Equitree Capital. Please go ahead.

Varun Ghia: I just had one question with regards to the chartering segment how many times does this inventory like buying selling happen within a year?

Vikash Agarwal: It is on a quarterly basis. So normally four times in a year.

Varun Ghia: Four times in a year. Thanks a lot.

Moderator: Thank you. We will take the next question from the line of Dhiral Shah from Asit C Mehta. Please go ahead.

Asit C Mehta: Good afternoon Sir. Sir under room chartering business what is the guidance for FY2018-2019?

Vikash Agarwal: Please wait for at least one quarter because now so many events are happening in this quarter. So we want to ensure that if we are giving any guidance we do not want to see any setback on that. So from GST which is going to be implemented from July 1 onwards so by July 30, we will have more clarity on the business which is going forward? I do not see any negative impact of anything, but still we want to wait till July to give any guidance so with the conference call of Q1 of FY2017-2018 we will certainly give you the guidance for FY2018.

Asit C Mehta: Sir any plan to add new agents?

Vikash Agarwal: Agents, as and when required we keep adding to that.

Asit C Mehta: Sir, we are also planning an online platform for agents? So what is the status right now?

Vikash Agarwal: It is in process. It is under soft launch and we are under technology test for that.

Asit C Mehta: Okay so by when you will see this online?

Vikash Agarwal: One and a half to two months' time we will do an internal business we will start doing through online platform.

Asit C Mehta: Sir, you had guided for 300 more rooms in FY2018. So this will include how many properties Sir?

Vikash Agarwal: We are not targeting any property, which is less than 60 to 70 rooms. So 4 to 5 properties we are targeting or maximum six properties we are targeting to add through this.

Asit C Mehta: Sir, this will be operational by FY2018 end?

Vikash Agarwal: Yes.

Asit C Mehta: Lastly on this franchise model again your brand name will not be there, right? You will be managing?

Vikash Agarwal: Franchise model we have a brand. Franchise is a model where you give your brand to some particular hotel who does not have any brand.

Asit C Mehta: Okay and you will be managing the entire hotel?

Vikash Agarwal: We will help the owner to manage that property. It is our know-how which gives and helps the owner to manage that property in a better way. So if I explain that why they require this kind of business because by single hotel owner there is a huge resistance from the corporate, so corporate do not want to go to any hotel, which does not have any kind of brand. So through this franchise model, with the established brand coming into the hotel, we have a huge visibility across the country as well as we can leverage the property with the corporate sources, which will help you to increase the business as well as to increase the ARRs.

Asit C Mehta: Okay so then how the revenue will be calculated then?

Vikash Agarwal: We will have a share of the topline. So we are under discussion with various hotel owners under the various kind of revenue stream. So after two quarters or maybe third quarter or fourth quarter onwards we will start adding hotels through franchise as well as management contract model, so that time only we will give you a clarity on what kind of revenue sharing model or maybe it is a sharing with the topline, maybe it is a corporate sharing, but whatever it is so that time we will give you a clarity on that so currently we are exploring different kind of revenue stream, which we can introduce into the system.

Asit C Mehta: Sir, it will be a pure hotel or it will have a mix?

Vikash Agarwal: If Byke brand is there, we will ensure that it should be a pure vegetarian hotel.

Asit C Mehta: No, pure hotel rooms only or it will have restaurants or banquet and all?

Vikash Agarwal: We are not targeting any property. We have exited the small property only because these properties do not have any room for any other revenue streams. So we have exited only because of that. So now we are targeting only those properties either through franchise or management contract or long lease where we have restaurants, where we have banquet hall, where we have lawn, so we can cater all kinds of requirements and all kinds of revenue stream which we can generate into the company.

Asit C Mehta: Sir, out of your current nine properties, how many are halls, and parties?

Vikash Agarwal: Every, apart from Redwood Matheran we all properties are equipped with everything.

Asit C Mehta: Thank you Sir. That is it from me.

Moderator: Thank you. We will take the follow up question from the line of Abhijay Sethia from SJC Capital. Please go ahead.

Abhijay Sethia: Thanks for the followup. I am just trying to understand the franchise model a bit better. What is the ROA that you currently generate on the O&L business?

Vikash Agarwal: Combined is 21%.

Abhijay Sethia: If I look at only the owned and leased model, not the chartering business?

Vikash Agarwal: I do not have any breakup of investment between these two segments as of now.

Abhijay Sethia: Because what I am trying to understand is if you move to the franchise model and you have the exact same metrics like occupancy, ARR, etc., what is the different or the step up in ROE that you kind of foresee if you are going to this model?

Vikash Agarwal: Franchise and management contract model – so currently in our leased model, we have to invest close to Rs.7 to Rs.8 lakhs in a room if we add into leasing model. So in franchise model that investment is not required. So whatever we will add we will add through asset fees business model. So it will see a huge jump into the ROI and ROE.

Abhijay Sethia: What is the total number of agents you are using in FY2017 for the chartering business?

Vikash Agarwal: This is 312 which we have.

Abhijay Sethia: Last question if I look at the F&B revenue for FY2017 and I look at this on a per room basis, so it looks like that has actually gone down versus FY2016. Any reason for the softness there?

Vikash Agarwal: You want to compare 61 Crores of F&B revenue in compare of FY2016 room which are there?

Abhijay Sethia: Yes.

Vikash Agarwal: Just a moment. I do not see any negative impact of that. Let me do the analysis of this later and we will get back to you. You are from SGC right?

Abhijay Sethia: Right Sir. Thank you.

Moderator: Thank you. We will take the next question from the line of Aditya Jaiswal from Stewart & Mackertich. Please go ahead.

Aditya Jaiswal: Thanks again. Just wanted to know that under the franchise model are we going to train the employees as well because under the room chartering segment we do not train the employees?

Vikash Agarwal: These two segments are completely different. In room chartering we are acting as an agent. We are aggregator. So we do not require to train the hotels. We always ensure good services over there so we see a good response from the clients, number one. In franchise model, it is as well as operating Byke brand irrespective of either you are operating or your partner is operating as hotel owner. So we have to ensure similar kind of service quality, which you have in your own and lease model. So it is our responsibility to train their hotel staff so people should not feel any kind of difference between franchise hotel and hotel which is owned and leased by the operating by Byke staff itself. So this is going to be the responsibility.

Aditya Jaiswal: Thank you Sir. That is it.

Moderator: Thank you. We will take the next question from the line of Kunal Thanvi from Equity Master. Please go ahead.

Kunal Thanvi: Thanks again. So as you described that you do not want any difference in the property that Byke owns and lease and the property that we take out for franchise, so this may or may not require some capex initially because the rooms and the way the hotels are structured you may not be comfortable with that so if at all if there is an initial capex in those properties how would you deal with that. Will Byke be investing on those capex or only the hotel owner will do that?

Vikash Agarwal: That is why I told we need six months' time to formulate some strategy where I see a long-term relationship with the hotel owner because putting your brand and exiting in six months will not be our liking. If we want to put our brand over there, we want to remain there for years. We do not want to exit ever. It can only happen if we are at equal stage with the property owner. So we have identified property owner who are well capitalized, who have money to invest, who have money to invest only we have to show them if they are investing, if Byke brand is coming, how they can be benefited, both parties can be benefited in a better way, the way they are making returns there are better ways to make returns irrespective to their investing mode. So we will ensure that none of the property will be in a deficiency from the existing property of Byke and people are well capitalized and we are in discussion with the people who have money to invest. So currently we are not exploring any possibility where we have to invest money. If we have to invest any money into the franchise or management contract model so obviously it will give me a higher percentage of revenue sharing but currently we are in discussion with various property owners under various models and we will see a clarity in the next three to four months coming in what kind of model we are going to adopt.

Kunal Thanvi: That is great. In addition to this what we plan in management contracting. Are we planning to go to the geographies where Byke currently is not present or could be a function of deficiency that we feel we are having with the lease and own business?

Vikash Agarwal: If you see Jaipur we have added second property over there because of the increasing demand. So it can be a mixed strategy where we have increasing demand. We may aid another hotel through management and franchise contract or those locations where we do not have any presence as of now to expand through lease as well as franchise model both. At a time, we will go only with one property. So first if we have choice, if we see a long-term visibility on those locations, we will certainly try to add through lease model. If we have any property coming in through franchise model, where we see a good visibility in terms of the size of the property and everything so if we have to go we will go only with one business model at one location at a time. The way the business is growing then only we will take decisions. Now we have to wait for more properties over there than what is the best way to add more properties through franchise model or add more properties through leasing model. So it is a matter of time and only future can tell us but currently we have a strategy to add one property at one location.

Kunal Thanvi: That makes sense. In addition to that are we planning to have any long-term contracts as we have in case of lease models because here the owner of the property cannot…?

Vikash Agarwal: That is why we are taking long time. We do not want to do any short-term play.

Kunal Thanvi: This is helpful. Thank you.

Moderator: Thank you. We will take the next question from the line of Manish Jain from SageOne Investments. Please go ahead.

Manish Jain: We believe that for Byke the brand is the most critical asset and strategically do you think that we are taking a risk on our brand when we are doing a franchise model especially with the risk of service levels not being adhered?

Vikash Agarwal: So we will ensure that this will not be a risk. This is why we are taking time because in hotel industry as I mentioned earlier, if I put my brand over there, people should get equal amount of services, equal amount of feel, which they are getting in a leased property. So that is why we have put in systems in place where we can get good service, good training to the owner of the existing hotels, employees if we requires we can ask them to replace some of the employees, if we required we may have some kind of contribution into the employee management also. So currently, we are exploring various opportunities under various systems and before going live we will ensure there should not be any kind of deficiency into the brand.

Manish Jain: So the first franchised model will be up and running by when do you think?

Vikash Agarwal: Third or maybe fourth quarter.

Manish Jain: I will join back the queue.

Moderator: Thank you. Ladies and gentlemen as there are no further questions from the participants, I would now like to hand the conference over to Mr. Agarwal for his closing comments.

Vikash Agarwal: Thank you everyone for your participation in our Q4 FY2017 earning call. We have uploaded the result presentation on our website. In case of further queries you may get in touch with the Stellar Investor Relations or feel free to get in touch with us. Thank you.

Moderator: Thank you very much. Ladies and gentlemen on behalf of The Byke Hospitality Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.