

Management Discussion

Puneet Chhatwal - Managing Director and Chief Executive Officer, The Indian Hotels Company Limited

Good evening, everyone, and thank you for joining our global conference call for Q2 '26-'27. We are pleased to inform you that we have continued our record performance for the 18th consecutive quarter, underpinned by our diversified operating model and disciplined execution despite macroeconomic headwinds. Building on this strong foundation, sustained momentum and seasonally strong quarters ahead, we are confident of exceeding our previously communicated FY '27 consolidated revenue growth guidance of 12% to 14% by 300 basis points. Accordingly, we are revising our full-year growth guidance upwards to 15% to 17%, and within that, the hotel segment revenue is expected to grow by 17% to 19%. I'll now outline the 10 key highlights of the quarter.

Number one, the strong performance in the second quarter. Our consolidated operating revenue grew 22% year-on-year to INR2,484 crores. Operating EBITDA grew 24% year-on-year to INR706 crores, yielding operating EBITDA margin of 28.4%, an expansion of 50 basis points. Our bottom line grew by 23% to INR349 crores. Consolidated hotel segment operating revenue and EBITDA grew by 25% and 30%, respectively, driven by the strength of our diversified brandscape and unique portfolio. On the standalone basis, we continued to deliver strong performance, with operating revenue growing 26% year-on-year to INR1,336 crores and operating EBITDA growing by 40% to INR520 crores, yielding operating EBITDA margin of 38.9%. That represents an expansion of 400 basis points. Our standalone PAT margin stood at a healthy 27%. Our performance is not defined by a single year, but by sustained execution over time. Over the past five years, we have delivered double-digit CAGR across revenue, EBITDA and PAT, reflecting consistency and structural strength of our business model. Importantly, our current growth rate is ahead of our five-year CAGR, demonstrating a clear acceleration in our growth trajectory.

Moving on to the second highlight is double-digit RevPAR growth across all brands on the back of strong domestic demand. The Indian hospitality sector witnessed multiple macro headwinds during this quarter. Ongoing geopolitical tensions in West Asia resulted in elevated fuel prices, leading to reductions in airline capacity and higher airfares, which moderated travel demand, particularly in certain international and long-haul corridors. Despite these challenges, domestic demand remained resilient, supported by multiple large MICE events such as the BRICS Summit. We delivered double-digit RevPAR growth across all our brands, demonstrating the resilience of our business model and the strength of our market positioning. This translated into market share gains, with occupancy increasing from 75% in Q2 last year to 82% this year. Our continued focus on efficient revenue management and operational excellence enabled us to achieve 28% growth in standalone RevPAR and 25% growth in consolidated domestic hotels' RevPAR.

Number three as a highlight was asset management driving pricing power in key cities. Our asset management strategy continues to be a key driver of growth and value creation. During the last financial year, we completed major upgrades across several marquee hotels, including Taj Palace, New Delhi; President, Mumbai; Taj West End, Bengaluru; Taj Fort Aguada in Goa; and Taj Lake Palace, Udaipur. These investments are now translating into stronger pricing power and improved operating performance across key markets. We expect this momentum to continue through the second half of FY '27. A strong example is Taj Palace, New Delhi, where room revenue grew 132% in Q2 FY '27 versus last year. In September, the hotel crossed INR100 crores in monthly revenue for the first time while delivering a very high CGOP margin. This underscores our ability to deploy capital in a disciplined manner, unlock value from our existing assets and generate strong returns with a relatively short payback period.

Number four,

portfolio growth. We continue to deliver industry-leading portfolio expansion with 47 hotels signed and 20 hotels opened in H1 FY '27, taking our portfolio to 670 hotels with over 69,000 keys in operation or under development. With 390 operational hotels, we are on track to cross the 400-hotel milestone in November or latest before the end of Q3. Our pace of growth is accelerating. It took us 110 years to reach 100 operational hotels in 2013, another 12 years to double that to 200 in 2025, and just 18 months to approach 400 operational hotels. More importantly, our growth remains capital light and very well diversified. Of the over 34,800 keys in our pipeline, 94% are capital light, comprising 81% under management contracts and 13% under capital light leases. This model strengthens earnings visibility while limiting capital requirements, which in return enable us to scale our portfolio, expand our margins and improve returns on capital. This is a very interesting phase because we have given a guidance under Accelerate 2030 of 700 hotels portfolio. We will revert to all the investors by middle of November with a revised target of the 700 because we should get to that number definitely before the end of this financial year. Number five; management fee growth backed by new openings momentum. Our asset-light growth driven by management contracts continues to translate into strong growth in management fees. During the quarter, management fee income grew by 25% to INR156 crores from INR125 crores in the corresponding period last year. This growth was driven by 25% increase in managed room inventory, higher RevPAR, technical fees and new revenue streams like brand fees from various branded residences and villas projects. This performance despite temporary headwinds reinforces the resilience of our asset-light business model. Looking ahead, we remain confident of sustaining management fee growth at a high-teens CAGR, supported by a strong pipeline of hotel openings and incremental contributions from newly added hotels. Number six, Select Service Business consistently driving and delivering on all fronts. IHCL's Select Service Business comprising of Ginger, Qmin, ama and Tree of Life continued to deliver robust performance. Consolidated revenue of Ginger stood at INR193 crores, delivering 24% growth year-on-year with an EBITDA margin of 40%. Our growth brands continued to scale new milestones this quarter. Ginger became India's first hotel brand. Yes, it became India's first hotel brand to reach 100 operational hotels and is on track to reach 150 by March 31, FY '27. Qmin now has over 130 outlets. ama Stays & Trails has crossed 400 villas and bungalows, and Tree of Life has grown to a portfolio of over 50 results. Number seven, a strong balance sheet with healthy cash reserves. Our balance sheet continues to be healthy, with gross cash reserves of over INR4,350 crores. This provides us with the flexibility to continue investing in brand and revenue-enhancing initiatives, including hotel upgrades, expansions, greenfield developments and asset management opportunities such as strengthening our marquee food and beverage concepts. Number eight, Oriental Hotels' merger, as a strategic transaction unlocking synergies. During the quarter, we also announced strategic merger of OHL with IHCL, which will unlock operational synergies, expand asset ownership and accelerate long-term revenue growth. It will also leverage IHCL's strong balance sheet to fund inventory expansion and product upgrades, further strengthening the portfolio's premium positioning. The all-stock transaction with a share exchange ratio of 25 IHCL shares for every 117 OHL shares is expected to drive 6% to 7% upside in our standalone operating revenue in FY '28. We do not expect this transaction to come into force before 1st April of next year. So the guidance that we are providing of 300 basis point increase in the total revenue for the year does not include revenues from OHL. That will come on top next year. The merger will further simplify the group's holding structure by increasing IHCL's direct ownership, thereby streamlining governance, optimizing corporate overheads and enhancing operational efficiency. The scheme of arrangement has been filed with the stock exchanges, and as I already mentioned, the appointed

date remains at 1 April, 2027. Number 9, Paathya. Staying aligned with our ESG++ initiative, Paathya, that is what we call it, is well on the journey towards our 2030 targets. It remains absolutely on track, and IHCL now uses 41% energy from renewable sources and has installed over 361 EV charging stations across 170 locations in India. Continuing our journey of eliminating single-use plastic, IHCL has installed bottling plants at 92 hotels and achieved 54% recycling of water used in Q1. IHCL currently partners in operating 83 skilling centers across 20 states in India. Since 2020, we have trained over 56,000 youth, and we are very well on track to reach our goal of skilling 100,000-plus youth by 2030. Finally, the number 10 point is Taj was rated by Brand Finance as World's Strongest Luxury Hotel Brand. And we are extremely delighted that this is happening again and again year after year, including Taj being recognized as India's strongest brand across all sectors, which was announced in the previous quarter. Further reinforcing this leadership, Taj Falaknuma Palace and Taj Lake Palace have retained their Three Michelin Keys rating for the second consecutive year, making them the only two hotels in India to receive this distinction. We are grateful to our loyal patrons and dedicated colleagues who have played an integral role in making Taj the epitome of hospitality and luxury. Finally, looking ahead to the remainder of the year, which is our H2, as we look ahead, we remain confident of delivering on our upgraded guidance of 15% to 17% revenue growth for FY '27, with hotel segment growing from 17% to 19%, with sustained margins and strong cash generation. We are also on track to achieve our target of 50 hotel openings this year. That means 30 hotels are expected to open in the second half of this year. With strong foundations in place, disciplined execution and a clear strategic direction, we remain focused on delivering sustainable, profitable growth and long-term value for all our stakeholders. Thank you. And we will now be happy to take your questions.

Questions & Answers

Operator

Thank you very much. We will now begin with the question- and- answer session. [Operator Instructions] Your first question comes from the line of Binay Singh with Morgan Stanley. Please go ahead.

Binay Singh - Analyst, Morgan Stanley

Hi, team. Thanks for the opportunity. Congrats on a very strong set of numbers. I have two questions. Firstly, when we look at your revised guidance, it implies mid-teens-plus growth in the second half. Given that occupancy rates are already running quite high at 82%, though they keep surprising us on the upside, but fair to assume that the incremental growth will be more driven by room rates, thus to an extent higher trickle-down on the leverage side, on the margin side? That's the first question.

Puneet Chhatwal - Managing Director and Chief Executive Officer, The Indian Hotels Company Limited

And the second?

Binay Singh - Analyst, Morgan Stanley

The second is, when we look at the Taj SATS' air catering business, even sequentially we see the EBITDA lower. So, could you talk a little bit about what happened over there?

Puneet Chhatwal - Managing Director and Chief Executive Officer, The Indian Hotels Company Limited

So, Ankur was signaling he wants to answer the second question, but let me answer it also first. So, we answer the second one first. Taj Sats is already improving. The geopolitical crisis has not been very helpful and kind to airlines sector as well as airline catering business. Having said that, if you look at the non-aviation revenues from Taj Sats, which is really driven by institutional catering, they have really done quite well in diversifying that revenue. We remain very, I would say, optimistic on Taj Sats going back to where it was and actually even improving upon it in the second half. Of course, we have no control over any further activities on the war front in West Asia.

On the first one, yes, most of the revenue is coming from rates. But we also expect besides the typical domestic and average rate, I think we are also expecting to do much better in the third quarter in our international portfolio, especially London, Pierre, San Francisco, and anything else that we are opening. And Frankfurt will be ramping up quite well after the six months of, let's say, startup challenges which we have had, and we mentioned those in the last call also. So all in all is positive.

I think Ankur wants to add to whatever I said.

Ankur Dalwani - Executive Vice President and Chief Financial Officer, The Indian Hotels Company Limited

Couple of points, just to add to that, Binay. One is that, as you see in the Q2 numbers, it's been a balanced growth between occupancy and ARR. It's not purely ARR-led growth, which means that our hotels have gained market share in key markets, both on the standalone basis as well as the domestic consol numbers. In both the markets, we've increased occupancy by roughly by 6% to 7%. And therefore, that is one trend, which you should take note of as you think about the H2. And secondly, on your point one Taj Sats, what was different between Q1 and Q2 was that the curtailment of schedule in airlines happened primarily in June, and therefore, the first half of Q1 was actually quite strong for them, and then they got impacted more so towards the second half of Q1.

Going into Q2, we already knew that it's going to be a challenging quarter because all the curtailments had been announced, and that's why you see relatively from Q1 to Q2 a little bit more impact on the margin. But I guess this year is a year of consolidation for Taj Sats. They were at a pretty high base as far as the catering business was concerned, and therefore, we think from here it can only look better. Good thing is that they've been able to preserve the top line growth by diversifying into non-flight catering business, which is albeit a little bit lower business and that also gets reflected in the combined margin for them.

Binay Singh - Analyst, Morgan Stanley

Great, great. Great, team. Thanks for the clarification.

Operator

Thank you. Your next question comes from the line of Prateek Kumar with Jefferies. Please go ahead.

Prateek Kumar - Analyst, Jefferies

Yeah, congratulations, sir, for very strong numbers and raising the guidance. My first question is on your second half outlook. Of course, first half benefited from -- second quarter benefited from series of events both in Delhi and Mumbai, which also showed up in like 50% RevPAR growth, which you have shown in PPT in Delhi. So is there a way to strip out the impact of MICE in your

performance? And is the second half outlook factors any significant events for your forecast?

Ankur Dalwani - Executive Vice President and Chief Financial Officer, The Indian Hotels Company Limited

We do give the MICE breakup in the pie chart. It's gone up from -- if you look at H1 to last year to H1 of this year, it has gone up, and you can see it in the mix there. But I think this is obviously H1. If you were to look at Q2, Q2, clearly MICE has grown much faster. The good thing is MICE is a structural story. It's not a one-quarter story. So, you will keep on happening -- you will keep on having events in the country, and the infrastructure of holding events going up. And even this quarter, you've already seen a few of them, some heads of states coming in as recently as this week, and then, of course, the Bloomberg New Energy event which happened in Delhi last couple of weeks back.

So, we also had the fintech event happening in the last quarter. So upcoming events are also -- the Aero Show planned in Bangalore, which happens every two years, plus Vibrant Gujarat. We've got a few lists of these also in our -- in the presentation. Also, we have much more wedding nights in H2 compared to particularly Q4, compared to Q4 of previous year. So, I think the event economy is both social MICE and corporate MICE is something, which we are very bullish on. And we are well positioned to take more than our fair share of that market.

Prateek Kumar - Analyst, Jefferies

Sure. On wedding, comment on wedding calendar. It actually extends beyond Q4 into Q1 and other quarters also, like throughout FY '27. Does that mean you could book like significantly higher revenue from social MICE also versus like your ongoing entire two, three years?

Ankur Dalwani - Executive Vice President and Chief Financial Officer, The Indian Hotels Company Limited

Yeah. See, you're right, the wedding calendar for next year is actually more of 95 wedding nights as opposed to normal 65 or 60, 65 wedding nights. So there is clearly a potential to sort of grow the social MICE business next year. We will be able to answer this with much more granularity as we get towards the end of the year, and we have a forward calendar coming in. But this is definitely going to be a tailwind for next year.

Prateek Kumar - Analyst, Jefferies

One last question. While you are expanding your supply significantly outside top 10 cities, how do you see ADR growth or RevPAR growth for cities outside top 10 markets for yourself and for industry?

Ankur Dalwani - Executive Vice President and Chief Financial Officer, The Indian Hotels Company Limited

So, I think this goes back to the fundamental question, Pratik, of demand-supply, and I think every micro-market is going to be different. It's very hard to sort of paint the whole country with the same brush. The key markets where we are located and where our key assets are, which are the big cities or the big leisure markets, they continue to have fairly healthy growth. If you see our city-wise numbers which we have also shared with you in the presentation, you can see pretty secular growth across the markets. And with everybody doing double-digit growth and a lot of cities doing high-teens to early 20s. I mean, even Delhi, which obviously had the benefit of BRICS in this quarter, even if you adjust for that, it would have been a very healthy growth of, let's say, late 20s. So fundamentally, I think demand-supply balance continues to be in favor, and that plays to our

strength of consolidated hotels locations in the domestic market and also plays on to our strategy of doing management contracts in complementing the consolidated hotels which we own.

Prateek Kumar - Analyst, Jefferies

Thank you. And I'll get back in queue.

Operator

Thank you. Your next question comes from the line of Karan Khanna with Ambit Capital. Please go ahead.

Karan Khanna - Analyst, Ambit Capital

Yeah. Hi. Thanks for the opportunity, and congrats on the guidance upgrade. First question to you, Puneet. 1H has seen about 18% growth, and if I take midpoint of your full-year guidance of 16%, this implies you are indicating about 14% growth in second half of the year. How should one treat this considering you are also entering a seasonally strong 2H? Do you think this 14% growth number is still conservative and there is an upside risk even now, basis the visibility you have for December? And base quarters also had the impact of IndiGo flight cancellations in December and the West Asia crisis in the month of March. So, how should we read the 14% number for second half?

Ankur Dalwani - Executive Vice President and Chief Financial Officer, The Indian Hotels Company Limited

Yeah, I think two things. One is depending on how you do the math, it's probably going to be higher than that number, which you actually said. To arrive at our guidance of 15% to 17%, we will have to end up doing much higher than that to arrive at that because it's not just -- we have to balance the hospitality growth with the somewhat slowness in the Taj Sats. We are running into a quarter, which is seasonally strong, like you said. So, there's a lot of MICE events, marriages, which will sort of add to our growth momentum. We also have to keep in mind that there is a base which we have to sort of keep in mind, especially we had a high base of Q4 last year. So, that's keeping in mind we have given this overall full-year guidance.

Karan Khanna - Analyst, Ambit Capital

Sure. And then secondly, on the acquisition landscape, as we understand, you've been actively evaluating asset-light expansion opportunities globally. So at what point do you expect to close some of these potential opportunities? And how do you expect to see yields on international management contracts compared to what you are seeing in the domestic benchmarks?

Puneet Chhatwal - Managing Director and Chief Executive Officer, The Indian Hotels Company Limited

Karan, I mentioned in my opening note that we will come back to all the investors in the next 10 days to 15 days, latest by middle of November, with a separate development guidance as we are already -- if I go away from the end September numbers, we already crossed 675 hotel portfolio and we are at 392 hotels opened as of yesterday, with four more openings for the remainder of this month. So, I think that guidance needs to be revised. And when we do that, then we'll come with what all we are planning to do and what kind of growth will come from where. And when we say we'll open 30 hotels in the remainder of the year or even maybe 32 or 34, that is what is also adding to a certain revenue guidance because the not like-for-like growth is very strong. So, a few 100 basis points of your revenue guidance, if it was to slip on the existing, it will be compensated through the not like-for-like growth.

Karan Khanna - Analyst, Ambit Capital

Sure. And lastly, on the international subsidiaries, St. James' Court has seen revenue trajectory improving, but the margins have declined 360 bps Y-o-Y for 1H FY '27. So what's driving this negative operating leverage, and what's the outlook for all international subsidiaries for the rest of the year?

Puneet Chhatwal - Managing Director and Chief Executive Officer, The Indian Hotels Company Limited

The guidance remains positive for all subsidiaries, including London. We have spent every year a lot of money. In the last quarter, we had explained that some of the works were delayed, including the meeting room space, the lobby works, the new bar, the new cigar lounge, the new whiskey lounge, etc., etc. So, a few months of delay with all this supply chain disruption around the world happens. And when that happens for one or the other quarter, the margins drop and the revenue drops. But important is those works are completed. The London property is coming back with a big bang. We see very good increase and a double-digit increase at least in the month of October as far as London is concerned. So, we are very positive because this is where in your own portfolio the operating leverage kicks in. So, although we are so much focused on capital-light growth, but a lot of our operating leverage is coming through asset management initiatives which we are undertaking in the company-owned assets.

Ankur Dalwani - Executive Vice President and Chief Financial Officer, The Indian Hotels Company Limited

Karan, just to add to that, London also had -- I mean, London and U.S., both the markets did get impacted by the Western Asia crisis on the cost side apart from some impact on the revenue. But cost side, the fuel and power actually has gone up there. And specifically, there was a property tax waiver, which was there in London which got also removed in this quarter. So, that is something which is specific to London. But these are things, which will get built into the base going forward, should settle now.

Karan Khanna - Analyst, Ambit Capital

Sure. Thank you and all the best.

Operator

Thank you. Your next question comes from the line of Sameet Sinha with Macquarie. Please go ahead.

Sameet Sinha - Analyst, Macquarie Capital

Yes. Thank you. Congratulations. I have a couple of questions. So first, remind me, I mean, you last year, you had taken -- done some renovations, so you had taken some rooms offline. Is that the low base that's contributing some of that 25%? And the reason I ask is I don't want to be assuming that this is going to be the sustained growth rate going forward, so I just want to make sure I model it properly.

And secondly, on the guidance side, are you -- clearly, you're benefiting from some of the domestic travel, probably people who were trying to travel internationally and decided not to and splurged domestically. So are you assuming that continues for the rest of the year? And if so, can you help us with, say, quantum, maybe occupancy, something so that we at least have that in our thoughts?

And my final question is more of a higher-level question. The international assets, clearly there has

to be a strategic rationale for you to continue with them. They are problematic, margins are lower. So financially, it does not seem like it's making sense, but strategically, I'm sure that there's something to validate ownership. So if you can talk about that. Thank you.

Puneet Chhatwal - Managing Director and Chief Executive Officer, The Indian Hotels Company Limited

The first point was if the room base is lower. This is not the way to look at it. We are a 123-year-old company. Even if we take the last 50 years, with the kind of assets we have, including the ones in our ownership, something is always under renovation. We are spending -- if you look at our capex spend in the first half of this year, it is higher than what we used to spend annually. It is 20% to 30% higher than what we spent annually on an average for the last or the preceding seven, eight years. So given that we own the assets, these are iconic assets, there will always be something or the other which is under renovation. And it is good that way because that is what maintains the iconic nature of the portfolio. That's why the Taj hotels are very iconic across the world.

Number two is you're saying that because people are not traveling and it's domestic. No, there is a -- in our opinion, there is a structural shift. This sector, I have said many times in various forums, not only just our quarterly calls but other tourism associations that I chair or I am associated with, there is a structural shift when it comes to India. The consumer behavior has changed. The consumption is for now, and it's not for like five years from now we will do this or three years from now we will do that. So people are traveling, people are dining out, and they are doing that more and more than we have ever seen before as a sector.

Finally, on the international assets, I don't know what gives you that impression because London is highly profitable for us. Dubai is, at the moment, down because of the West Asia crisis, but it gives us very rich management fees. Cape Town has become highly profitable for us. Yes, the margins internationally will never be the same as in India because there is a change in -- when you go more and more west, your labor cost is much higher. Your F&B footfalls, the weddings like they happen in India don't happen outside. So that part is there. But what is the key differentiator between us and the rest of the brands from this part of the world, we are present in the three of the four largest lodging markets of the world, which is New York, London, and with three hotels in Dubai. We are missing Paris.

So, what is the differentiator when it comes to people going to these places who send business to us, be it because of their family issues, be it because of their health issues, be it because of the United Nations General Assembly, or it is India playing cricket in the U.K., or it is Wimbledon that is the courtyard of London is the key differentiator to the rest of the brands even in London, other international brands. So, international is what makes Taj the world's strongest hotel brand. You cannot stop international. And how do you put a value to it in terms of, as you rightly said, strategic reasons and consideration. We are very happy with the margins of 35% consolidated. This is industry-leading when you also include other international brands.

And we will not be aggressive on international growth but opportunistic whenever we can, we will keep adding because it is the first and at the moment, the only consumer brand from India that has made it on an international front. We should actually, coming from India, be very proud that there is Taj in London, that there is Taj on the Fifth Avenue, not a hotel in New York but on the Fifth Avenue. So, I think these are important considerations for strategic reasons where it is very difficult to calculate the value that is added to the Indian portfolio because you are in that part of the world. Hopefully, this answers, but otherwise when you come, we can share with you some customer data

to see how that works and who are the kind of people I was talking about, but not in a call.

Sameet Sinha - Analyst, Macquarie Capital

Right. No, I appreciate that. Thank you.

Operator

Thank you. The next question comes from the line of Shaleen Kumar with UBS India. Please go ahead.

Shaleen Kumar - Analyst, UBS

Yeah. Hi. Thank you. Thank you so much for the opportunity. And congratulations to the management for a very solid number. So see, it seems like FY '27 is in pocket, and I'm jumping the gun here, I know. So, when I think about FY '28, we have a much more number of weddings. Taj Sats should be in base, and we should be hopefully looking for recovery. Oriental will be there to add to the growth, and then we are talking about many more signings, which we should contribute. So qualitatively, FY '28 can be better or equal to FY '27?

Puneet Chhatwal - Managing Director and Chief Executive Officer, The Indian Hotels Company Limited

What do you mean can be? It will be better.

Shaleen Kumar - Analyst, UBS

Okay, I didn't want to put you in right position.

Puneet Chhatwal - Managing Director and Chief Executive Officer, The Indian Hotels Company Limited

No, no, I'm just trying to give you an answer that you're looking for. You're putting it diplomatically and I'm putting it straight.

Shaleen Kumar - Analyst, UBS

Okay.

Puneet Chhatwal - Managing Director and Chief Executive Officer, The Indian Hotels Company Limited

So of the hotels added this year, another 50 or 70 coming online next year, with none of that coming at a risk, with the international business hopefully recovering. And this is all safe for war or pandemic or whatever. So if that happens, every sector, everybody starts suffering. But if that does not happen, then mathematically it's not possible that we don't do better than this year.

Ankur Dalwani - Executive Vice President and Chief Financial Officer, The Indian Hotels Company Limited

Yeah. And like you said, everything is in the base. Whatever had to go wrong in terms of, let's say, some of the businesses which haven't fired, and despite that we've grown what we've delivered.

Shaleen Kumar - Analyst, UBS

Correct. Correct.

Ankur Dalwani - Executive Vice President and Chief Financial Officer, The Indian Hotels Company Limited

That's going to be in the base, and we do -- we'll have the tailwind of the OHL merger as well.

Shaleen Kumar - Analyst, UBS

Correct. That's it. That's the question from my side.

Puneet Chhatwal - Managing Director and Chief Executive Officer, The Indian Hotels Company Limited

Thank you.

Shaleen Kumar - Analyst, UBS

Thank you. Thank you.

Operator

Thank you. Your next question comes from the line of Saurabh Kundan with Goldman Sachs. Please go ahead.

Saurabh Kundan - Analyst, Goldman Sachs

Yeah. Thank you very much for the opportunity. Sir, my question is around the management fee. Your guidance always has been high teens, but the current run rate is obviously a little higher than that. I just wanted to ask you if this high-teens guidance, in your opinion, is a little bit conservative? Or is that a fair number to work with? And what's the time period for this high-teens that you guide to?

Puneet Chhatwal - Managing Director and Chief Executive Officer, The Indian Hotels Company Limited

I think it's a very good and a very interesting question. So, we said in my opening remarks that this also includes certain brand fees for branded villas, residences, etc. So if I take an example of Ras Al-Khaimah where we were getting these fees and suddenly, there comes the West Asia crisis and it stops, high-teens represents something between 15% and 20%, right? So 17%, 18%, we are doing 25%. I think it is possible that we keep growing because of our pipeline with or without this branded villas and other fees coming in.

I think now that we have the confidence, we have done it over several quarters, it is possible to keep growing that business. I would say we will change that guidance also maybe end of next quarter. At the moment, we have just done it. Whatever the number is, is included in the total revenue. The 300 basis points includes the increase in fees. But if you want a separate guidance on that, we will do that also end of next quarter because we are doing some work on the expected income and the value of the pipeline that we have.

Saurabh Kundan - Analyst, Goldman Sachs

Sure.

Ankur Dalwani - Executive Vice President and Chief Financial Officer, The Indian Hotels Company Limited

Let me also add to that. Given where we are, what we see of the pipeline, our opening trajectory, like we've also said we'll open 5,000 keys every year. That's the guidance we've also put out in terms of hotels and the keys. And as the older hotels stabilize, I think we'll be disappointed if we don't cross INR1,000 crores in two years from today, I think given where we are. So, you can derive your CAGR or whatever from there, but broadly that is what we are internally targeting, and we will be able to

sharpen the pencils by end of the quarter.

Saurabh Kundan - Analyst, Goldman Sachs

Great, great. Thanks. Thanks, Puneet. And Ankur, the second question is again going back to the previous participant's question on the U.S. assets, the Pierre specifically. I completely appreciate that it brings a lot of value to the Taj brand. But what is your view on where should the sustainable EBITDA margin of this business be of that subsidiary specifically? And what will get you there and how long could it take?

Puneet Chhatwal - Managing Director and Chief Executive Officer, The Indian Hotels Company Limited

Yeah. As I said, I think I'll answer this instead of Ankur. I've already stated that there are -- everything is not going to give you big margins. There are certain things you have to consider as a marketing expense. I think where Pierre was and where it is today is a huge gap. And in a positive way, it is not doing any cash loss. It is doing positive EBITDA margin. And we expect this year for it to go beyond the positive EBITDA margin that we had last year. And San Francisco as a market had tanked, especially all you people on the call would know what happened in the SFO market, how it went down and it's on the way back up. It's almost 90% there where it used to be three, four years ago.

And hopefully, post the biggest event that San Francisco sees in January is the JPMorgan Conference. I think post that, I expect it to go beyond that 100, go to 105, 110. And we have this very nice location there. It does good for the brand, and we are very pleased with both the assets. Pierre has been difficult, as you all know. We have never made any secret about it. But I think we are getting very close to finding a more sustainable solution. But this is not the one, which will do 20% or 25% EBITDA margin. You have to see this as having the Indian flag flying on the Fifth Avenue and doing wonders for us, getting us guests which we would normally never get. That kind of profile.

Saurabh Kundan - Analyst, Goldman Sachs

Right. Thank you very much.

Operator

Thank you. Your next question comes from the line of Achal Kumar with HSBC. Please go ahead.

Achal Kumar - Analyst, HSBC

Yeah. Hi. Thank you for taking my question. So, my first question is around the demand structure. So Puneet, as you rightly said, that the structural change is there. But apart from that, we've been talking about airlines versus hotels. And for airlines, of course, there are a lot of challenges and the demand is soft. But on the other side, if you see, inbound international tourism has been strong. And if you see this quarter, inbound international tourism was up 8% to 9%. Partly could be because India is a lot cheaper now. Forex in INR has depreciated. So how do you see? I mean, do you see a bit of a change for you guys also in terms of international inbound, international versus domestic mix? And going forward, do you think that could continue and that will also help the hotel industry and especially, upper upscale hotels or luxury hotels? Any thoughts around that, please?

Puneet Chhatwal - Managing Director and Chief Executive Officer, The Indian Hotels Company Limited

Yes, yes, yes. So in the last 10 years, the international, the foreign tourist arrivals has seen a CAGR

of 3.9%. That's not bad. It could improve by a few 100 basis points. The domestic has seen more than a double digit, around 11% growth in the last 10 years. Having said that, I think maybe not everybody is aware of the good news. The World Travel and Tourism Council's Global Summit next year is happening now in India, and I think it has the who's who of travel business, and they will start marketing India. I'm hoping that it could give a much larger growth to our foreign tourist arrivals over the next 12-month period.

And this marketing should start through the WTTC already in a few months from now. So all in all, I see this as a hidden upside. I've always seen it as a hidden upside because we were lagging behind. And at some point, markets are efficient as we have all learnt and they all correct themselves. If they are too hot, they go down. If this is too low -- India is very low in its share of -- even I think Albania and Croatia get more foreign tourists than India does and there is no reason why you cannot marry in India, heal in India, spiritual tourism, all possible things that are there that should give it the required tailwinds to go beyond. But domestic will remain the stronger pillar. If today it is giving you like 90%, then maybe on a larger base, it might give you 80%, 85%. Only thing is the foreign tourist arrivals has to grow to a number, which is helping us get to a 5% or 6% CAGR versus a 3.9%.

Ankur Dalwani - Executive Vice President and Chief Financial Officer, The Indian Hotels Company Limited

I think that's the upside. Achal, if you see our current year numbers, I mean, this current quarter, if you look at the room nights sold, I mean, that data we look and track internally, it's not really moved too much from what it was from last quarter of previous year, same quarter of previous year. So it's pretty much flat in terms of room rate. Of course, the revenue contribution is higher because of the fact that there's more high spending contribution from the foreigners. But the upside is if the 3% becomes 5% or 6%, that itself is an automatic upside to all the numbers we are talking about.

Achal Kumar - Analyst, HSBC

Right. Fair enough. And then I think going back to the previous question and to one of your slides where you mentioned that the capacity growth in Tier 2, Tier 3 cities could be around 12% CAGR. And now we are talking about the Tier 2, Tier 3 cities where probably the demand is not as strong as, or maybe not corporate demand, it's pure leisure. So how do you -- 12% CAGR growth is really enough for creating a bit of a pressure on ARR? Or do you think that demand actually is much stronger than that? How do you see the demand versus supply balance going forward in Tier 2, Tier 3 cities and again, given that you have a lot of growth coming in Tier 2, Tier 3 cities, please?

Ankur Dalwani - Executive Vice President and Chief Financial Officer, The Indian Hotels Company Limited

Yeah. Achal, this Tier 2, Tier 3 is, obviously, a combined number for so many cities. If you start looking, 300 cities I'm told. So if you start looking at per city-wise, it will look like 500 keys per city kind of a number, or even lower on an average. Therefore, what happens when on that base you add 200 keys, it starts looking like a 50% addition. The fact of the matter is that even if you -- even we look at current year data, a lot of these markets are pacing at 15% to 20% demand growth on the room night side, and a lot of that is getting met through unorganized or unbranded sort of chains, right?

So automatically, when you put up a quality supply, that shift will happen. And we are seeing that even in this financial year and last year as well. So, one has to look at this in that context. The headline numbers are, of course, what got reported by the recent industry report which came out.

And keep in mind, these are supplies over a period of five to six years. We also don't know how much of this will actually get built in the timeframe it is supposed to get built. So, these are all numbers, which assume a certain start date and assume certain completion date. And as you know, in India, the projects do move around in terms of that execution timeline, and therefore, we don't think it's a big concern as far as the headline number is concerned because it's getting divided across a large ecosystem.

Achal Kumar - Analyst, HSBC

Okay. Perfect. Thanks. I have one more question. So, I'll come back in the queue.

Ankur Dalwani - Executive Vice President and Chief Financial Officer, The Indian Hotels Company Limited

Thank you.

Operator

Thank you. Your next question comes from the line of Akash Gupta with Nomura. Please go ahead.

Akash Gupta - Analyst, Nomura

Hello. Hi. Am I audible?

Ankur Dalwani - Executive Vice President and Chief Financial Officer, The Indian Hotels Company Limited

Yes, Akash. Please go ahead.

Akash Gupta - Analyst, Nomura

Hi, sir. Congrats on an excellent set of numbers. My question is on the standalone EBITDA margin. We saw 400 basis points of margin expansion in the second quarter. Was there any one-off that was involved, and how should we think about the EBITDA margin going forward? Is that how we should project it even going forward, roughly 2% to 3% margin expansion?

Ankur Dalwani - Executive Vice President and Chief Financial Officer, The Indian Hotels Company Limited

See, there was no one-off in this quarter. In fact, this quarter we had a normal payroll increase in standalone, which was not the case in the previous quarters. In fact, we had the normal payroll coming in, and this obviously benefits from two things. One is the operating leverage and the MICE activity which happened in this quarter, plus also the mix of revenues because all the management fee gets booked in the standalone entity and therefore, that contributes to expansion of margins going. And I think that trend should not change, whether it's 1% or 4%, that obviously varies from quarter-to-quarter.

And if you see, we have given some more color to you on how we have held up margins despite absorbing costs of new hotels stabilizing, both on consol as well as some of the IT spends we have done, some of the regulatory changes which have happened because of the -- on the HR side, for example, there were new rules on Provident Fund which came in, there was code of wages which got implemented. All of that has been absorbed in the numbers. And if you see Slide 10, it will give you -- basically, we are saying we have a positive outlook on margins without giving out specific guidance on the numbers.

Akash Gupta - Analyst, Nomura

Understood. My second question is on the RevPAR for the standalone. If we exclude the BRICS Summit impact, what would be the RevPAR for the quarter?

Ankur Dalwani - Executive Vice President and Chief Financial Officer, The Indian Hotels Company Limited

See, again, while we're not getting into specifics of that event, but I can just tell you one thing, that events is an ongoing thing for us. So, whether you have BRICS Summit or AI Conference, or let's say, the Bloomberg Summit which happened this quarter, these are all things which are kind of contributing to the MICE activity. All I can say that even without that event, even if it would have been a very healthy number, it would have been a comfortable double-digit number without the BRICS Summit as well. Because you know what happens if you remove the BRICS Summit, you would have done something else. There would have been a replacement of that with some other business.

Puneet Chhatwal - Managing Director and Chief Executive Officer, The Indian Hotels Company Limited

See, that's one. The second is our base is so large that one hotel or one city it can benefit. So it may have, let's say, a couple of basis points in percentage points in additional growth. But whether it's a G20 or the year after with the AI Summit or the year after with the BRICS Summit or the Bloomberg or tomorrow we have NDTV Summit starting in Taj Palace, Delhi. So, India is becoming an important market for both international and national players. And there are a lot of events happening in all these places that have been built like Bharat Mandapam, Yashobhoomi. Yesterday, I went for this Marco Rubio's reception. He was staying at the Taj Mahal Palace, but we can't accommodate so many people, so the reception was at the Jio. So, I think there is a lot of these activities happening with lot of people coming in from outside of India for business reasons, not necessarily for tourism. So with them, they don't come alone. They bring a full entourage and some of them stay longer. And I don't think that is going to change in the short to medium term.

Ankur Dalwani - Executive Vice President and Chief Financial Officer, The Indian Hotels Company Limited

Yeah, I think the point that Achal also made about the currency being a tailwind, I think this is something we also mentioned in the past. One is, of course, the government events are not really impacted by this, but then if people come back and stay back and then they not only stay in Delhi, Mumbai, but also end up doing leisure trips, which benefits markets like traditional leisure markets, but also the newer ones which are states of Uttarakhand, Uttar Pradesh, etc., or down south. So, I think those are all tailwinds as far as the sector is concerned. Understood.

Akash Gupta - Analyst, Nomura

Understood. And my final question is on our penetration. So we are at 390 hotels, moving towards 700 hotels. Once we reach this 700-hotel mark, how much penetration ability do we have after that? Just wanted to know your thoughts, sir.

Ankur Dalwani - Executive Vice President and Chief Financial Officer, The Indian Hotels Company Limited

I mean, if you look at the branded supply in India, it's a minuscule of what it really should be, right? I mean, if you look at that picture firstly, it's only we're talking about -- anywhere we pick up different

reports, you're talking about anywhere between 210,000 to 230,000, 240,000 keys. Several cities in the world will be either that or at least half of that. So as such, the penetration levels can -- there is no outer cap on this. 700 is the number we set out for ourselves, which when we did the Capital Market Day two years ago, and that was -- a lot of people told us it is very challenging, how will you get there? But like we are saying that we will probably get there in the next few months. So, we will reset that number. The opportunity set is pretty large given where we are on the consumption cycle of services, not of products. We continue to be very bullish on that.

Akash Gupta - Analyst, Nomura

Understood, sir. Thank you so much for answering my questions.

Operator

Thank you. Your next question comes from the line of Prashant Biyani with Elara Capital. Please go ahead.

Prashant Biyani - Analyst, Elara Capital

Yeah. Thank you for the opportunity. Mr. Dalwani, the standalone -- sorry, non-standalone depreciation is up 34% year-on-year, or around INR27 crores for Q2. This incremental depreciation would be relating to which investment?

Ankur Dalwani - Executive Vice President and Chief Financial Officer, The Indian Hotels Company Limited

It's about 20% growth if you go to the consol depreciation, which is basically pertaining to the normal depreciation, which we have done in our standalone and the new and our existing subsidiaries. It also includes depreciation coming on account of newer assets. So Frankfurt, for example, Noida, and Taj Sats. All the assets which have come in because of the acquisitions have all added to this. If you adjusted for this, this would have been a normalized 8% to 9% growth without the assets which have come on board early this year. And that's also reflected in the revenues for those being contributed from those as well.

Prashant Biyani - Analyst, Elara Capital

Right. And sir, similarly, your non-standalone owned hotel EBITDA, as per my calculation, is declining for this quarter or for the last two quarters. Can you give some color on that, whether it is correct or how should we look at that number?

Ankur Dalwani - Executive Vice President and Chief Financial Officer, The Indian Hotels Company Limited

Prashant, we can't look at business like this because at the end of the day, this is a consolidated business. At different points in time, different things work, and then sometimes standalone fires, sometimes our international business fires. So, that's what gets reported. We've already given the disclosure on how international has done this quarter. And like we are saying, we are positively inclined towards how H2 will play out for international because a lot of the things which were happening in H1 are kind of getting in the P&L, and that's where we are.

Prashant Biyani - Analyst, Elara Capital

Sure. Thank you so much.

Operator

Thank you. Your next question comes from the line of Amyn Pirani with JPMorgan. Please go ahead.

Amyn Pirani - Analyst, JPMorgan

Hi. Good evening, and thanks for the opportunity. My first question is just going back on the supply growth discussion, which happened earlier in the call and you've given city-wise supply growth expectations. Would it be fair to say that given that a lot of these cities have expanded a lot and have become mega cities in a sense, if you look at large localities within the city, then the supply growth is even tighter than what the numbers suggest, which means that the RevPAR and the occupancy could continue to be quite high in the existing large hotels for you as well as for other brands?

Ankur Dalwani - Executive Vice President and Chief Financial Officer, The Indian Hotels Company Limited

Yeah. We've said that these are megapolises actually, not just metros. And in these megapolises, you have to look at micro markets. And then maybe like you cannot compare South Mumbai with suburb, for example. Similarly, Central Delhi with other parts of Delhi. So clearly, there is a sort of area of influence of a hotel or area of where a business falls for the hotel. And then that is very true what you're saying, that these are overall numbers and micro-market-wise they will be different numbers.

Amyn Pirani - Analyst, JPMorgan

Okay. Thanks for that. And secondly, just on the MICE growth, I mean, like you said, I mean, in fact, we've now seen for a few years that there are MICE events and initially, you used to call out that there was an event last year, so we should adjust for that. But like you rightly said, every year we are having events. My question is that given that a lot of these events also end up happening in the first half of the financial year, should we assume that going forward the seasonality in your first half or the second half as a business should come down materially? Or do you think that 2H would continue to be the large chunk of revenues and profits even going forward?

Ankur Dalwani - Executive Vice President and Chief Financial Officer, The Indian Hotels Company Limited

I mean, the H2 has traditionally been a seasonally strong H2. I think that to some extent, it will continue to be that because of the fact that this is also the holiday season where the Indian weather becomes far more amenable for foreign tourists to come in, more domestic travel to happen and also the MICE dates can vary, right? Sorry. And the MICE dates will vary from season to season and that gets reflected in the wedding business, right? So like, for example, you do have an H2, which is going to have a good amount of wedding dates coming up now and that will obviously vary from year-to-year. So, I don't think that's fundamentally changing where H1 will kind of become equal to H2, but our view is that you will see a lot more corporate MICE happening throughout the year.

Amyn Pirani - Analyst, JPMorgan

Okay. Thanks for that. I'll come back in the queue.

Operator

Thank you. The next question comes from the line of Abhay with Axis Capital. Please go ahead. Abhay, your line is unmuted. Please proceed with your question. No response from the line of Abhay. We'll move on to the next question.

Our next question comes from the line of Vaibhav Muley, which will be the last question for today from Haitong India Securities. Please go ahead.

Vaibhav Muley - Analyst, Haitong India Securities

Hi. Thanks for the opportunity, and congratulations on a strong set of numbers. My first question, Puneet sir, was on our new acquisitions. So Brij Hospitality, Clarks, as well as Atmantan have seen a very strong growth after we have acquired the properties. I just wanted to understand what kind of interventions you have taken after acquisition that has led to this strong growth?

And related to this, after acquisition of Oriental Hotels is completed, what kind of interventions do you plan to take to improve the performance in that entity? That's my first question.

Ankur Dalwani - Executive Vice President and Chief Financial Officer, The Indian Hotels Company Limited

So in terms of acquisitions, which we have completed early this year, and both Brij and Atmantan, both have actually done very well because of the fact that they play to different segments. Atmantan is focused on integrated wellness. We have now sort of done our integrations with our marketing sales efforts. So, that has definitely helped in pushing the business in H1. And I think that this is just the first year of integration, so we think that benefit will also play out as we move towards H2 and towards the next financial year.

Clarks, which is the ANK-Pride brand, which is -- Clarks, which is some part of the ANK-Pride transaction, is also getting integrated with Ginger. And we are now -- I can say we have completed 75 signings, close to 75 signings, out of which 30 have already sort of come on board as Ginger. So, I think there is again going to be a lot of upside from that integration as we bring them on level as far as the Ginger brand is concerned, both in terms of quality, customer experience and overall RevPAR and overall margin profile is concerned. And that will play out in the next financial year. So, I think we have dedicated task forces actually working on integrating the revenue management led by my colleague on the commercial side and as well as my colleague on the select service side on the Ginger integration with Roots Corporation. And this is something we obviously review on a very regular basis, on a monthly basis. And I think we're happy to say that they're tracking what we have set out for ourselves at the beginning of the year.

Coming to OHL, it is still some time away. We expect it to close sometime in next financial year with an effective appointed date of April 1. There are synergies, both on asset management. Since the business was going through a debt reduction cycle in OHL's case, they were not looking at asset management proactively, but now this will become a proactive focus for us. And even before the merger gets completed, we can actually -- we will start sort of engaging and seeing what can happen immediately post-merger completion. So, we have given some guidance on how it will contribute to our numbers next year, but more importantly, as we get closer to the end of the financial year, we will also tell you what benefits we see both on revenue and margins going forward.

Vaibhav Muley - Analyst, Haitong India Securities

Perfectly clear. Second question on our Bangalore and Chennai performance. While overall RevPAR has been very strong, relatively Bangalore and Chennai have underperformed. I presume this is because of higher dependency on FTAs. So from Q3 onwards, can we expect higher contribution from Bangalore and Chennai in overall RevPAR, baking in FTA recovery?

Puneet Chhatwal - Managing Director and Chief Executive Officer, The Indian Hotels Company Limited

Yeah. I think Bangalore anyways is a strong market, so you should have recovery. But Chennai and Kolkata have been lagging behind versus other metros. So, we do expect whether it's next quarter or the quarter after that, that both these markets will move up significantly from where they are today.

Vaibhav Muley - Analyst, Haitong India Securities

This is very helpful. Thank you so much, and all the best for coming years.

Puneet Chhatwal - Managing Director and Chief Executive Officer, The Indian Hotels Company Limited

Thank you.

Ankur Dalwani - Executive Vice President and Chief Financial Officer, The Indian Hotels Company Limited

Thank you

Puneet Chhatwal - Managing Director and Chief Executive Officer, The Indian Hotels Company Limited

Thank you everyone for joining the call. Anyone who feels that they need some more answers to questions, please feel free to reach out to our investor team led by Rupesh. And all of you have a wonderful evening and look forward to our next call with you after the closing of the Q3 results. Thank you very much.

Operator

Thank you.

Ankur Dalwani - Executive Vice President and Chief Financial Officer, The Indian Hotels Company Limited

Thank you. Thank you.

Operator

[Operator Closing Remarks]