



**CHALET HOTELS LIMITED**

**ANNUAL REPORT 2004-2005**

# Chalet Hotels Limited



## DIRECTORS' REPORT

To  
The Members,

Reg. No. 11-28538  
Nominal Capital 2110 crores  
A.C.M. Dt. 15.07.2005

We are pleased to submit the Twentieth Annual Report of the Company together with the Audited Statements of Accounts for the year ended March 31, 2005 and the Auditors' Report thereon.

## FINANCIAL RESULTS

	(Rs. in Laes)	
	<u>Current Year</u>	<u>Previous Year</u>
Profit before interest, depreciation and taxes	3736.07	3758.39
Less: Interest	(1077.87)	(938.81)
Depreciation	(865.04)	(844.42)
Profit for the year	1793.16	1975.16
Extraordinary Items +(-)	0	30.87
Net Profit after Extraordinary Items	1793.16	2006.03
Provision for Taxation	(154.66)	(7.00)
Net Profit after Taxation	1638.50	1999.03
Transfer to Furniture and Fixtures Renewal Reserve	(308.58)	(254.74)
Profit after appropriation	1329.92	1744.29
Profit/(Loss) brought forward	(2269.03)	(4013.31)
Balance Carried to Balance Sheet	(939.10)	(2269.02)

## OPERATIONS & PERFORMANCE

The year under review shows a strong performance in terms of growth in revenue and profitability. Occupancy in the Hotel and Apartment Rooms was higher at 80% and 86%, respectively and the property also maintained a higher average room rate. Room realizations and Food and Beverage Revenues increased by 14% each and Other Income by 59% over the previous year, leading to a Gross Revenue from Hotel operations at Rs.102.51 Crores compared to Rs.87.95 Crores in the previous year, an increase of 16%.

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The gross operating profit was Rs.36.82 Crores against the previous year's Rs.32.65 Crores an increase of 12%. The net profit in the current year is Rs.17.93 Crores compared to Rs.20.06 Crores in the previous year.

The year under review has been one of the best years for the tourism and hospitality industry. Tourist arrivals in India, for the first time, crossed the 3 million mark during the year, riding on the positive factors such as political stability, increased economic activity and economic growth reflected by the GDP growth of 6.9%. The distinct upward trend reflects in the performance of the Hotel. In fact, the Hotel has outperformed competition by picking up the larger share of the market.

As regards the industry in general, it is benefitting from various governmental initiatives viz. opening up of the Indian skies to allow international air carriers to operate more flights, allowing Indian private airlines such as Jet Airways and Air Sahara to operate international flights into the South Asian countries and beyond into Europe and U.S.A., steps towards building new airports and improving existing ones at Mumbai and Delhi and allocating funds to build state-of-art convention centers with a capacity of over 5000 people in both Mumbai and Delhi. The only negative factor right now is a lack of developed infrastructure, which hopefully, is being addressed by government and local authorities.

### **CURRENT AND FUTURE OUTLOOK**

After a long period of time, the parameters that enhance the success of this industry have simultaneously fallen in place. The robust economic growth and the continuing flow of foreign investments into the country is expected to be the main driver of the increasing trend in business travel. The improvement in road and airport infrastructure aids in promotion of tourism with a larger number of international leisure travelers visiting the country, and this trend is expected to continue. Domestic tourism is also on the rise due to increase in air connectivity at lower costs. With new domestic carriers supplementing the existing ones, air fares are bound to remain competitive, bringing down the overall cost of travel for businessmen and leisure tourists alike. The favourable macro and micro factors in India as well as across the globe are expected to boost the demand for hotel rooms and thereby enable hotels to realize significantly higher room rates and maintain high occupancy levels.

For any developing economy with the size and potential of this country, the figures of inbound tourism at 3 Million annually are still at rock bottom. This can only grow and while the demand can be increase rapidly from year to year, supply has a longer gestation period. As per industry estimates, India needs about 80,000 hotel rooms in the next five years to meet the growth in demand for quality rooms and services. Hotel supply is concentrated in the major cities of India viz. Delhi, Mumbai, Chennai and Bangalore. While these cities continue to offer opportunities for further investments in the sector due to the overall economic growth, the demand supply gap in cities like Hyderabad, Pune,

Trivandrum and other developing cities will soon witness greater investments in these locations, across all segments, one-two star to five star.

### **EXPANSION PLAN & ISSUE OF FURTHER EQUITY**

Your Board of Directors has decided to increase the Company's presence in the hospitality industry. Towards that objective, the Company has taken initial steps for three new hotel projects, viz. a 250 room project at Hyderabad, a 150 room project at Navi Mumbai and expansion of the existing Renaissance Mumbai Hotel & Convention Centre by construction of an additional tower comprising 271 rooms. These projects together involve a capital outlay of approx. Rs.275 Crores. Two/three other locations have been identified and the Board will move strategically to finalise its plans in those locations either as stand-alone hotels or mixed-use properties including hotels/apartments.

To finance a part of the funds required by the Company for expansion and to maintain a healthy debt equity ratio, the Company has issued 10 million Equity Shares of Rs.10/- each at a premium of Rs.40/- per share to India Development Fund (IDF), a private equity fund managed by IDFC Asset Management Co. Ltd. Out of the total infusion of Rs.50 Crores by IDF, an amount of Rs.10 Crores has been received during the financial year under report.

### **REAL ESTATE PROJECT**

In order to more fruitfully utilize the cash surplus from the current hotel operations, the Company availed of an opportunity to acquire development rights in respect of a piece of land at Mahim, Mumbai for construction of a residential building thereon. The project involves construction of flats having an aggregate carpet area of approx. 28,000 sq.ft. Plans for the building have been approved and the work on the project is in progress. The profit arising from the project will be utilized to meet a part of the cost of the new hotel projects.

### **SUBSIDIARY COMPANY & STATEMENT U/S. 212**

The Company has acquired 100% shares of a company known as Grandwell Properties & Leasing Private Limited, thus making it a 100% subsidiary of the Company. The subsidiary has acquired development rights in respect of two pieces of land, both of which abut the hotel property of the Company at Powai, Mumbai.

The statement related to the subsidiary under section 212 of the Companies Act, 1956 accompanies this report

### **DIRECTORS**

Mr. Luis Miranda, Nominee Director of IDF, was appointed as an Additional Director of the Company on 15<sup>th</sup> April, 2005 and he retires at the ensuing Annual General Meeting of the Company in terms of Section 260 of the Companies Act, 1956. A notice has been

received from a shareholder under section 257 of the Companies Act, 1956, proposing to appoint Mr. Luis Miranda him as a Director of the Company at the Annual General Meeting of the Company.

Mr. Chandru L. Raheja and Mr. Ravi C. Raheja retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for reappointment.

### **DIRECTORS' RESPONSIBILITY STATEMENT**

In terms of Section 217(2AA) read with Section 292A of the Companies Act, 1956, we, the Directors of the Company, state in respect of Financial Year 2004-05 that:

- a) in the preparation of Annual Accounts, the applicable Accounting Standards have been followed along with proper explanation relating to material departures;
- b) the Directors have selected such Accounting Policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the Financial Year and of the profit of the Company for that period;
- c) the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- d) the Directors have prepared the Annual Accounts on a going concern basis.

### **FOREIGN EXCHANGE EARNINGS AND OUTGO**

During the year under consideration, the Company earned foreign exchange of Rs.39,85,59,602/- (Previous Year Rs.32,74,77,894/-) from services to hotel guests. The total foreign exchange outgo during the year was Rs.15,21,72,371/- (Previous Year Rs.12,63,09,969/-) towards import of capital goods, payment towards technical and consultation fees, design services, travelling expenses and reimbursement of costs and expenses to consultants and Marriott.

### **AUDITORS' REPORT**

With regard to qualifications in the Auditors' Report, the Directors have to state as under:-

The guidelines of the Institute of Chartered Accountants of India and the Circular of the Department of Company Affairs concerning issue of bonus shares out of the revaluation reserves are recommendatory in nature and not mandatory. The Company has received opinions in this regard and has acted in accordance with those opinions.

**AUDITORS**

M/s. S. B. Billimoria & Co., Chartered Accountants, Mumbai. hold office as Auditors of the Company until the conclusion of the ensuing Annual General Meeting. The Company has received a certificate from the Auditors to the effect that their reappointment, if made, would be within the prescribed limit u/s 224(1B) of the Companies Act, 1956.

**OTHER INFORMATION**

- Your Company has received an approval dated 17<sup>th</sup> June, 2003 from the Department of Company Affairs u/s.211(4) of the Companies Act, 1956 exempting the Company from disclosure of certain quantitative particulars in the Annual Report.
- The Audit Committee of the Company comprises of Mr. Conrad D'Souza as Chairman, Mr. Hetal Gandhi, Mr. Luis Miranda and Mr. Neel Raheja, Managing Director. The Committee met three times during the year under review. The Audit Committee has reviewed the financial statements for the year at its meeting held on 17<sup>th</sup> June, 2005 and recommended the same for approval by the Board of Directors.
- Your Company's efforts towards conservation of energy resulting in surplus in consumption of electricity and gas, a significant component of energy and gas, is an on going process.

**ACKNOWLEDGEMENTS**

Your Directors express their appreciation for the assistance and co-operation received from Banks and Financial Institutions. Your Directors are happy to place on record their gratitude to the employees at all levels. The Directors also thank you, the shareholders, for your continued support to the Company.

For and on behalf of the Board of Directors

**CHALET HOTELS LIMITED**



**CHANDRU L. RAHEJA  
CHAIRMAN**

Place: Mumbai

Date: 17<sup>th</sup> June, 2005

**Chartered Accountants**

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**S.B.Billimoria & Co.**

**AUDITORS' REPORT  
TO THE MEMBERS OF  
CHALET HOTELS LIMITED**

1. We have audited the attached Balance Sheet of **CHALET HOTELS LIMITED** as at 31<sup>st</sup> March, 2005, the Profit and Loss Account and the Cash Flow Statement of the Company for the year ended on that date, both annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 (CARO), issued by the Central Government in terms of Section 227(4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. *The Company had issued bonus shares in the year 1998-99, aggregating Rs.45 crores by capitalisation of revaluation reserve. The issue of bonus shares out of revaluation reserve is contrary to the recommendations of the Institute of Chartered Accountants of India and the circular issued by the Department of Company Affairs in this regard.*
5. Further to our comments in the Annexure referred to in paragraph 3 above:
  - a. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit
  - b. In our opinion, proper books of account as required by the law have been kept by the Company so far as it appears from our examination of those books.
  - c. The Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of account.
  - d. In our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in compliance with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956.



## S.B.Billimoria & Co.

- e. In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956 in the manner so required and, *subject to our comments in paragraph 4 above regarding issue of bonus shares by capitalisation of revaluation reserve*, give a true and fair view in conformity with the accounting principles generally accepted in India:
- i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> March, 2005;
  - ii) in the case of the Profit and Loss Account, of the profit of the Company for the year ended on that date and
  - iii) in the case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.
7. According to the information and explanations given to us and on the basis of the written representations from the directors as on 31<sup>st</sup> March, 2005, taken on record by the Board of Directors, we report that none of the directors is disqualified as at 31<sup>st</sup> March, 2005 from being appointed as a director under Section 274 (1) (g) of the Companies Act, 1956.

For S. B. BILLIMORIA & CO.  
Chartered Accountants

*Nalin M. Shah*

Nalin M Shah  
Partner  
(Membership No.15860)

MUMBAI, 17<sup>th</sup> June, 2005  
NMS/AVK/AR



## S.B.Billimoria & Co.

### ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 3 of our report of even date)

- (i) Having regard to the nature of the Company's current business / activities and results for the year, clauses (viii), (xii), (xiii), (xiv), (xviii), (xix) and (xx) of CARO are not applicable.
- (ii) In respect of its fixed assets:
  - (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
  - (b) Physical verification of fixed assets has been carried out by the Management in accordance with a programme of verification which, in our opinion, provides for physical verification of all the fixed assets at reasonable intervals. According to the information and explanations given to us, reconciliation of physical verification with the fixed asset register is still pending.
  - (c) The fixed assets disposed off during the year, in our opinion, do not constitute a substantial part of the fixed assets of the Company and such disposal has, in our opinion, not affected the going concern status of the Company.
- (iii) In respect of its inventories:
  - (a) As explained to us, inventories were physically verified during the year by the Management at reasonable intervals.
  - (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the Management were reasonable and adequate in relation to the size of the Company and the nature of its business.
  - (c) In our opinion and according to the information and explanations given to us, the Company has maintained proper records of its inventories and no material discrepancies were noticed on physical verification.
- (iv) In respect of the unsecured loans granted by the Company to companies, firms or other parties covered in the Register maintained under Section 301 of the Companies Act, 1956, according to the information and explanations given to us:

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## S.B.Billimoria & Co.

- (a) Loans aggregating Rs.252,800,000 were granted to two parties. At the year-end, the outstanding balances of such loans aggregated Rs. 250,300,000 and the maximum amount outstanding during the year amounted to Rs. 250,300,000.
- (b) The rate of interest and other terms and conditions of such loan are, in our opinion, *prima facie* not prejudicial to the interests of the Company.
- (c) The receipt of principal amounts and interest has during the year been as per stipulations.
- (d) There are no overdue amounts outstanding at the year-end.
- (v) In respect of the unsecured loans taken by the Company from companies, firms or other parties covered in the Register maintained under Section 301 of the Companies Act, 1956, according to the information and explanations given to us:
  - (a) Loans aggregating Rs.7,500,000 were taken from one party. At the year-end, the outstanding balances of such loans aggregated Rs. NIL and the maximum amount outstanding during the year amounted to Rs. 7,500,000.
  - (b) The rate of interest and other terms and conditions of such loan are, in our opinion, *prima facie* not prejudicial to the interests of the Company.
  - (c) The payment of principal amounts and interest has during the year been as per stipulations.
- (vi) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of inventory and fixed assets and for the sale of goods and services and we have not observed any continuing failure to correct any major weakness in such internal controls.
- (vii) To the best of our knowledge and belief and according to the information and explanations given to us, in respect of contracts or arrangements entered in the Register maintained in pursuance of Section 301 of the Companies Act, 1956:
  - (a) Particulars of contracts or arrangements, referred to in Section 301 have been entered in the Register, except for transactions in the ordinary course of business, which in the opinion of the Management are not required to be entered in the Register.

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