RETAILRESEARCH

IPO Note

September 13 2023

Samhi Hotels Limited

HDFC securities
Click. Invest. Grow.
20 YEARS

Issue Snapshot:

Issue Open: Sep 14 – Sep 18, 2023

Price Band: Rs. 119 – 126

*Issue Size: 108,738,095 eq sh (Fresh Issue of Rs 1200.0 cr + Offer for sale of 13,500,000 eq sh)

Reservation for:

QIB	atleast	75% eq sh
Non-Institutional	upto	15% eq sh
((including 1/3rd for applications between Rs.2 lakhs to Rs.10 lakhs))		
Retail	upto	10% eq sh

Face Value: Rs 1

Book value: Rs -113.07 (March 31, 2023)

Bid size: - 119 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs.	12.28 cr
*Post issue Equity:	Rs.	21.80 cr

Listing: BSE & NSE

Book Running Lead Managers: JM Financial Limited, Kotak Mahindra Capital Company Limited

Sponsor Bank: Kotak Mahindra Bank Ltd & HDFC Bank Ltd

Registrar to issue: KFin Technologies Limited

Shareholding Pattern

Shareholding Pattern	**Pre issue %**	**Post issue %**
Promoter and Promoter Group	0.00	0.00
Public & Others	100.0	100.0
Total	100.0	100.0

*=assuming issue subscribed at higher band

Source for this Note: RHP

Background & Operations:

Samhi Hotels Limited (SHL) is a prominent branded hotel ownership and asset management platform in India, with the third largest inventory of operational keys (owned and leased) in India as of March 31, 2023. Within 12 years of starting its business operations, the Company has built a portfolio of 3,839 keys across 25 operating hotels in 12 of India's key urban consumption centers, including Bengaluru (Karnataka), Hyderabad (Telangana), National Capital Region ("NCR"), Pune (Maharashtra), Chennai (Tamil Nadu) and Ahmedabad (Gujarat), as of March 31, 2023. Pursuant to the completion of the ACIC Acquisition on August 10, 2023, SHL's portfolio has further increased to 4,801 keys across 31 operating hotels. It has adopted an acquisition-led strategy, which is underpinned by its track record of acquiring and successfully turning around hotels to grow its business. SHL acquire or build primarily business hotels, and it take steps to further upgrade properties and engage with established branded hotel operators to allow the hotels to be appropriately positioned within the market. Subsequent to this one-time upgrade of the property, it deploys its in-house and proprietary asset management tools and capabilities to further enhance the ongoing financial and operational performance of the property.

SHL's portfolio is diversified across key consumption centers in India, at different price-points and with established brands catering to a broad set of demand (Source: JLL Report). It currently categorizes its hotel portfolio into three distinct hotel segments based on brand classification – Upper Upscale and Upscale, Upper Mid-scale and Mid-scale. Over 51.14% of its Total Income for the Financial Year 2023 was from Upper Mid-scale and Midscale hotels. The Upper Mid-scale and Mid-scale segments offer significant growth opportunities in India due to their relevant price positioning and limited dependence on international travelers. Its Upper Upscale and Upscale hotels, which contributed to 47.35% of its Total Income for the Financial Year 2023, are supported by markets with high density demand in cities such as Bangalore (Karnataka), Hyderabad (Telangana), Ahmedabad (Gujarat) and Pune (Maharashtra).

As a hotel owner and asset manager, SHL identify the focus markets and target properties for capital allocation and growth. Its dominant position among the Upper Mid-scale and Mid-scale brands in India enabled it to grow its Fairfield by Marriott and Holiday Inn Express portfolio to 936 and 1,427 keys, respectively, as of March 31, 2023, making it the largest owner of these brands in India. SHL is actively involved in development of the hotel and identification of the appropriate hotel operator with established brands. The key to its successful turnaround strategy is the preparation and execution of an asset management plan. Its hotels typically operate under long-term management contracts with established and well recognized global hotel operators such as Marriott, Hyatt and IHG. These engagements benefit its hotels by giving them access to strong operating processes, sales and distribution experience, larger clientele and loyalty programs of such hotel operators.

Given SHL's pace of expansion, scale and pan India footprint, it has developed proprietary tools that helps it to manage and improve the performance of its hotels. With these tools, it can leverage an extensive number of operating parameters and data that it has across its hotels and use data analytics to improve its operations and acquisition strategy. Further, SHL's hotel portfolio is supported by its shared service centers which improve the process and quality of its operations and business units.

Objects of Issue:

The Offer comprises the Fresh Issue of up to Rs. 12,000 million by SHL and the Offer for Sale of up to 13,500,000 Equity Shares by the Selling Shareholders.

Offer for Sale

The object of the Offer for Sale is to allow the Selling Shareholders to sell an aggregate of up to 13,500,000 Equity Shares. SHL will not receive any proceeds from the Offer for Sale. Each Selling Shareholder will be entitled to its respective portion of proceeds of the Offer for Sale, after deducting its respective proportion of the Offer related expenses and the relevant taxes thereon.

Objects of the Fresh Issue

The net proceeds of the Fresh Issue, i.e. gross proceeds of the Fresh Issue less the Offer Expenses apportioned to the Company ("Net Proceeds") are proposed to be utilised in the following manner:

- Repayment/ prepayment/ redemption, in full or in part, of certain borrowings availed of by SHL and its Subsidiaries including payment of the interest accrued thereon; and:
- General corporate purposes

In addition, SHL expect to achieve the benefit of listing of its Equity Shares on the Stock Exchanges.

Utilisation of Net Proceeds

The Net Proceeds are proposed to be utilised in the following manner:

Particulars (In Rs million)	Total estimated amount / expenditure to be funded from the Net Proceeds	Amount to be deployed from the Net Proceeds in Fiscal 2024
Repayment/ prepayment/ redemption, in full or in part, of certain borrowings availed of by SHL and its Subsidiaries including payment of the interest accrued thereon;	9,000.00	9,000.00
General corporate purposes	*	*
Total	*	*

Competitive Strengths

Ability to Acquire Dislocated Hotels and Demonstrated Track Record to Re-Rate Hotel Performance through Renovation and/or Rebranding: SHL's business model is based on the ownership of hotels. This is a similar model to most listed Indian hotel companies, which typically derive their revenue primarily from leased and owned hotels as compared to management contracts and franchises. Using an acquisition and turnaround-led strategy, it has established an asset ownership business model that has enabled it to achieve scale and earnings growth by incurring lower capital expenditures. Within 13 years of Company's inception, SHL has grown to become India's third largest hotel owner, by number of keys, as of March 31, 2023. Further, it is India's fastest growing hotel owner by number of keys added per year in the last decade, as of March 31, 2023. As of March 31, 2023, SHL has added approximately 369 keys to its portfolio per year since its inception in 2010 (including keys added pursuant to the ACIC Acquisition). It has demonstrated its ability to identify, acquire and turnaround hotels which offer significant opportunities for value accretion over the years and, consequently, have grown its total operating keys to 3,839 keys as of March 31, 2023.

SHL has extensive experience in completing hotel acquisitions and regularly track hotel properties across India which, in its view, are dislocated from their optimal positioning and performance. The Company follow a data analytics driven approach for evaluating acquisition opportunities and the final decision to act on such opportunities is primarily driven by its ability to create products at a discount on replacement cost, expected hotel profitability, integration with its existing portfolio and the long-term prospects of the market.

Portfolio's Scale and Diversification Further Enhanced by Sector Tailwinds: SHL's hotels are located in 12 cities in India that constitute key urban consumption centers across India, which collectively accounted for approximately 70% of air passenger traffic and approximately 90% of office space in India, as of March 31, 2023. It has selected its target cities based on macro themes such as proximity to airports and premium office space growth to ensure long term and sustainable growth within its selected cities. Its hotels are strategically located in high-density micro-markets, which generally have high barriers-to-entry due to land acquisition complexities, long development time frames, and fragmented ownership structures. Hotels are generally well connected to key transport infrastructure and located near social infrastructure and residential areas. It benefits from diversification across cities, price-points and hotel operators which reduces the impact of market volatility in any of its key markets. Its multi-brand and segments business model enables it to capitalize on expected growth in several hotel segments. The spread between geographies, segments and hotel operators diversifies its revenue base and functions in rationalizing the risks associated with dependence on any one city, segment or hotel operator. SHL focus on hotel segments with high growth potential from strong existing domestic demand and increasing demand from international travelers.

Track Record to Operate Hotels Efficiently*:* SHL's augment its scale and quality of portfolio with its track record to operate hotels efficiently. Its operating efficiency enables it to maximize the impact of favorable revenue growth on its profitability and limit the impact of low revenue cycles. The parameters for measuring the operating efficiency of its hotels include gross floor area per room, staff per room and EBITDA margin.

Efficient space utilization
Across portfolio of hotels, it has an average gross floor area of 61 sq. mt. per room. This is fundamental for long term operating efficiency, as space utilization has a material impact on the utility expenses, repair and maintenance costs and manpower-related expenses required to operate and maintain a hotel. As these costs contribute to a significant portion of the operating expenses for a hotel, efficient space utilization enables it to maintain strong EBITDA margins across its portfolio.

Shared services centers
Given partnership with Marriott and IHG across multiple hotels, SHL has set up shared services centers to centralize the key functions across hotels. This enables it to reduce on-property staff for operational functions such as finance, engineering and procurement. Its shared service centers are able to serve multiple hotels in a cost-efficient manner and improve the operating quality and standards across its hotels and portfolios.

Lowest staffing ratios amongst peers
SHL's use of technology to manage hotels, space efficiencies and shared services centers enables it to achieve one of the lowest staffing ratios amongst peers.

Ability to Create Operating Arbitrage using Analytical Tools: As a large owner and asset manager of hotels across segments, brands and operators, SHL benefit from a cross-section of operating data that it receives on a real-time basis from its hotels. The analysis of such data helps it to continuously improve performance, identify opportunities for future growth and monitor risks that it foresees. It also helps it improve its analysis for new investments that it evaluates on an ongoing basis. To help it leverage this data and achieve the aforementioned objectives, it has developed SAMHIIntel, a proprietary analytics tool, and SAMConnect, a building management tool.

SAMHIIntel, - Business Intelligence System
SHL has developed and implemented an active analytics system, SAMHIIntel, to manage, analyze and use operating data received from its hotels. This data analytics platform monitors and analyzes several financial and non-financial parameters of each of its hotels.

Superior Governance and Seasoned Management Team: SHL is led by a strong and stable management team supervised by an experienced Board of Directors. Its operations are led by a professional management team that has been with the Company since early days and has a proven track record of growing its business through different business cycles. Its leadership team consists of experienced professionals from diverse backgrounds and has raised multiple rounds of institutional capital since its inception, with a weighted average tenure of 10.45 years as of March 31, 2023. In addition, it has endeavored to motivate its leadership team through prior employee schemes and the ESOP Scheme, thereby enabling a strong alignment of their interests with its performance. It is majority owned by institutional investors and follow global best practices of separation of management from ownership which brings in high degree of managerial accountability.

Business Strategy:

Position its Hotels to Benefit from Favorable Demand Trends in the Sector and Enhance Operating Efficiencies: With occupancy levels reaching above 70.00% levels across portfolio during the Financial Year 2023, SHL intends to focus on increasing Average Room Rates and improving operating margins, while driving occupancies further. It intends to focus on the following key initiatives to benefit from a favorable demand environment for the hospitality industry:

- monitor the performance of various demand generators, analyze trends in the modes and sources of bookings and identify high occupancy periods to improve Average Room Rates across portfolio.
- work with hotel operators to identify areas that could present incremental revenue opportunities.
- rationalize operating cost base across all major expense heads while benchmarking each of the hotels to other hotels within its existing portfolio, using analytics platforms;
- augment product offerings by way of improved F&B services, room facilities, event facilities for meetings, incentives, conferences and exhibitions to maintain competitiveness and achieve improved growth in market share; and
- enhance hotel utilization and revenue-generating areas within portfolio.

Complete Development of Identified Opportunities that are Currently Under Development: SHL has a strong pipeline of projects that are under development, which it intends to complete in the near future; these are projects where material capital expenditure has already been incurred:

Renovation and rebranding of Hyatt Regency Pune

SHL intends to renovate and rebrand its existing 301 keys Hyatt Regency Pune into a Luxury brand hotel under Hyatt's management, which is expected to be completed by September 30, 2025. The estimated cost of this renovation and rebranding is between Rs.298.00 million and Rs.403.00 million, which it aims to fund utilizing its cash flows from operations.

Completion of under-development Holiday Inn Express in Rajarhat, Kolkata, West Bengal

SHL owns a 111 keys Holiday Inn Express in Rajarhat, Kolkata, West Bengal which is currently under-development and completion of this hotel is estimated by September 30, 2024. The estimated cost of developing this hotel is between Rs.228.00 million and Rs.252.00 million, which it aims to fund utilizing its cash flows from operations.

Expansion of existing facilities

SHL regularly evaluate measures to enhance utilization of real estate in hotel portfolio to maximize revenues. It currently plans to expand several facilities in its hotels to capture future demand growth. The estimated total cost of the above expansion projects is between Rs.984.00 million and Rs.1,193.00 million, which it aims to fund utilizing its cash flows from operations.

Integrate ACIC Portfolio to Improve Financial Performance: On March 30, 2023, SHL entered into a binding share subscription and purchase agreement with Asiya Capital to acquire nine SPVs incorporated in India comprising the ACIC Portfolio. It completed the ACIC Acquisition on August 10, 2023 through the issuance of 37,462,680 Equity Shares to Asiya Capital. The ACIC Acquisition will provide it material synergistic benefits with its existing portfolio of hotels that are run under the Marriott brand and that are in the Upper Mid-scale segment. Taking the following initiatives, SHL would aim to further improve the revenue and profitability of the ACIC Portfolio:

- adding the six operating hotels into existing Marriott portfolio cluster to enhance revenue management and cost efficiencies, thereby enhancing hotel management and profitability of the portfolio;

- renovation and rebranding of the 217 keys Four Points by Sheraton Pune into an Upper Upscale and Upscale hotel. SHL expect to complete this renovation and rebranding by September 30, 2025, subsequent to which the Average Room Rate potential of this hotel would improve from current levels based on its prior experience. The estimated cost of this renovation and rebranding is between Rs.213.00 million and Rs.288.00 million, which it aims to fund utilizing its cash flows from operations; and

- development of 350 keys hotel under the Upper Mid-scale segment in MIDC, Navi Mumbai, Maharashtra for which it has begun architecture and design planning. SHL expect to complete the construction of this hotel by June 30, 2027, subsequent to which its portfolio of hotels will be expanded. This hotel will diversify its geographical footprint by establishing its presence in the Mumbai Metropolitan Region. The estimated cost of developing this hotel is between Rs.2,276.00 million and Rs.2,474,00 million, which it aims to fund utilizing its cash flows from operations.

Pursue Growth Opportunities via Programmatic Capital Deployment and Tactical M&A:

Utilize internal accruals for continued de-leveraging and growth

SHL intends to use a portion of the Net Proceeds towards repayment of debt and thereafter it intends to utilize the cash generated from operations towards further reduction in debt and partly to fund continued growth. India's low share of organized keys and brand penetration makes a case for institutional ownership in the hotel sector. The fragmented nature of industry will continue to offer consolidation opportunities, and SHL intends to increase its market share and enter high-growth geographies through such opportunities. Its growth strategy to expand hotel portfolio is based on its track record in hotel acquisition and turnaround and is focused on acquiring properties with the intent of obtaining long term and sustainable risk-adjusted returns on capital employed. Its strategy is based on the following key factors:

- identification of hotels which SHL view as dislocated (i.e., hotels underperforming as compared to a fair competitive set) from their inherent potential due to combination of factors such as poor product, brand, capital structure or management or inadequate operating model;
- strategic timing of target selection (with adequate demand base but with significant potential for growth as the precinct matures in terms of social and commercial infrastructure);
- renovation and rebranding of acquired hotels by identifying core target market, product and brand;

- assessing potential operating opportunities using data analytics, asset management tools and economies of scale; and
- engaging with hotel operators such as Marriott, Hyatt and IHG – allowing it access to industry best practices and their global network of loyalty programs, among other things.
- SHL's brand flexible asset ownership model allows it to acquire properties operating in a range of hotel price points and gives flexibility to work with several leading operators to determine appropriate brands for each hotel. As its portfolio matures with time, it intends to add more operators, brands and locations to further diversify its portfolio.

Ensure Disciplined Capital Allocation and Reduction of Debt: As of June 30, 2023, SHL's weighted average cost of debt for its secured borrowings from financial institutions was 11.46% and its weighted average cost of debt for its consolidated borrowings was 12.87%. In addition, it maintains sufficient cash and cash equivalents as reserves to manage its debt and working capital obligations, and had an aggregate of cash and bank balances of Rs.1,414.02 million (excluding restricted bank deposits) of March 31, 2023. It intends to utilize Rs.9,000.00 million of the Net Proceeds towards the repayment/ prepayment/ redemption of all or a portion of certain borrowings availed by it including the payment of the accrued interest thereon.

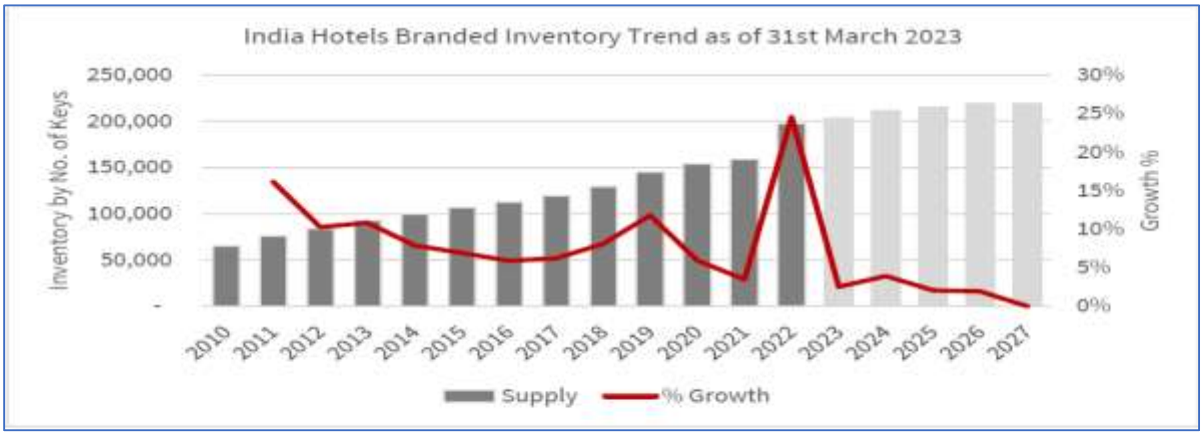
Industry:

Hospitality Sector Overview

Hotel industry landscape in India

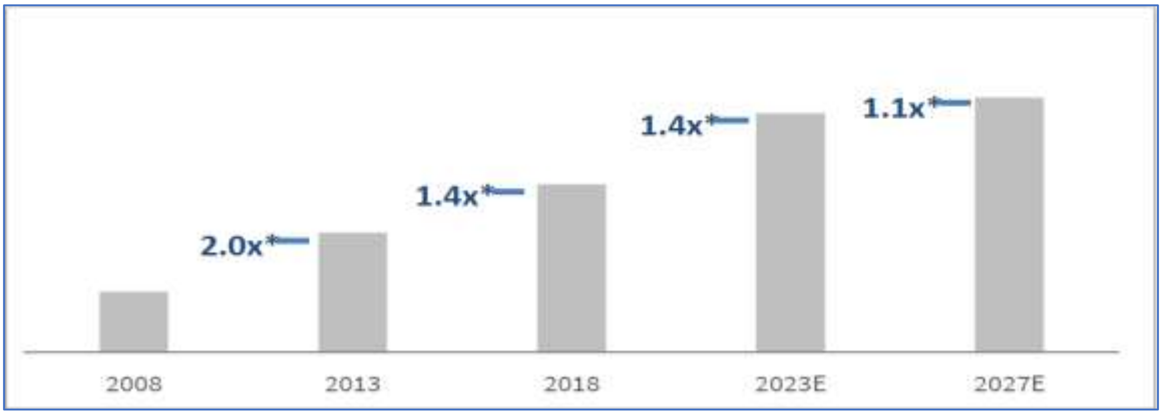
As of March 2023, India has over 360,000 keys including branded hotels, independently run hotels and aggregators. Of this, the current branded inventory market size as of March 2023 stands at approximately 180,000. The overall market size is still small especially relative to the size & growth of the office market. The table below indicates the branded inventory supply from 2010 onwards.

India hotels branded inventory overview as of March 2023



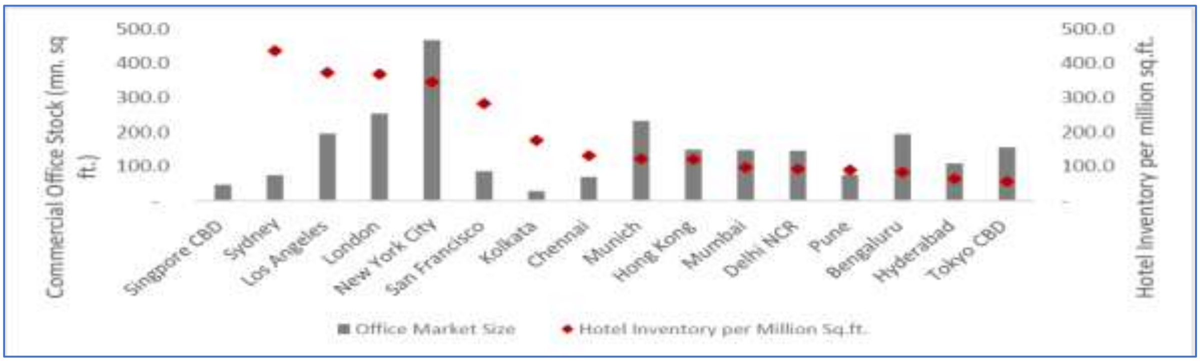
Over the last decade, the branded segment in India has recorded maximum growth in comparison to the other segments and accounts for 40% of the total inventory. Subsequent to a low base with a large supply pipeline in the market between the Financial Year 2008 to the Financial Year 2013, the hotel inventory supply in India has now transformed to a large base with a stable supply, resulting in better capacity utilisation, and facilitating higher occupancy levels. This also insulates core markets from any new supply shocks given the relative high base of existing supply. The table below indicates the growth in branded inventory from 2008.

India branded hotel supply (number of keys)



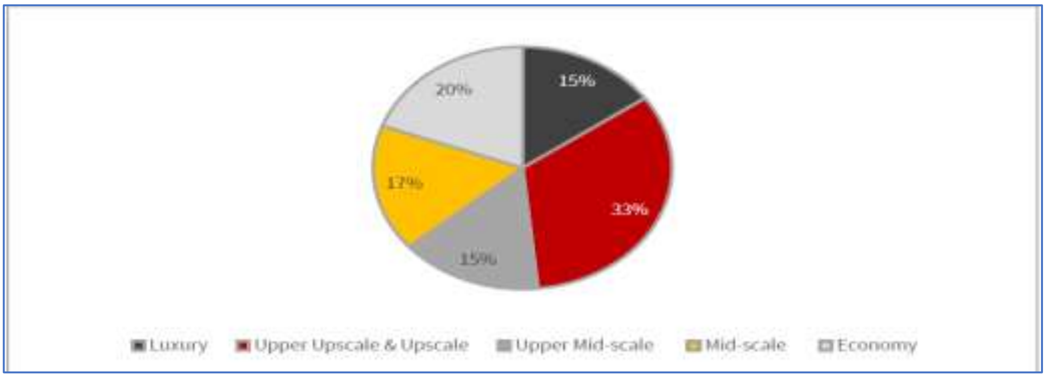
Despite an increase in inventory over the past decade, hotel supply across key Indian cities lags office demand and market size as compared to global peers. The demand for hotel rooms is closely linked to several factors such as macroeconomic policy, economic development and the growth of commercial real estate and tourism industries. The table below highlights hotel inventory per million square feet across key commercial markets globally. As seen below, Indian hospitality sector is yet to achieve the hotel inventory vis-a-vis commercial stock ratio as seen in business districts across global mature markets thus showing material headroom for further supply absorption without impacting capacity utilization (i.e., Bengaluru at 88 rooms per million square feet of office space materially lags mature markets such as Singapore, London and New York at 447, 393 and 348 rooms per million sq. ft. respectively).

Benchmarking Indian cities to global counterparts in terms of office market size (million sq. ft.)



Indian cities have emerged as one of the largest office markets globally as is visible in terms of office market size in the table above, benchmarking the key Indian office markets against their global counterparts. Bengaluru, Mumbai, Delhi NCR and Hyderabad are now amongst the top 10 markets in terms of size and performance compared to key global cities. Furthermore, in terms of new absorption between 2014 and 2020, Bengaluru, Delhi NCR, Mumbai and Hyderabad have highest net absorption amongst all key global cities as of March 31, 2023 as per JLL Research.

India branded inventory segmentation

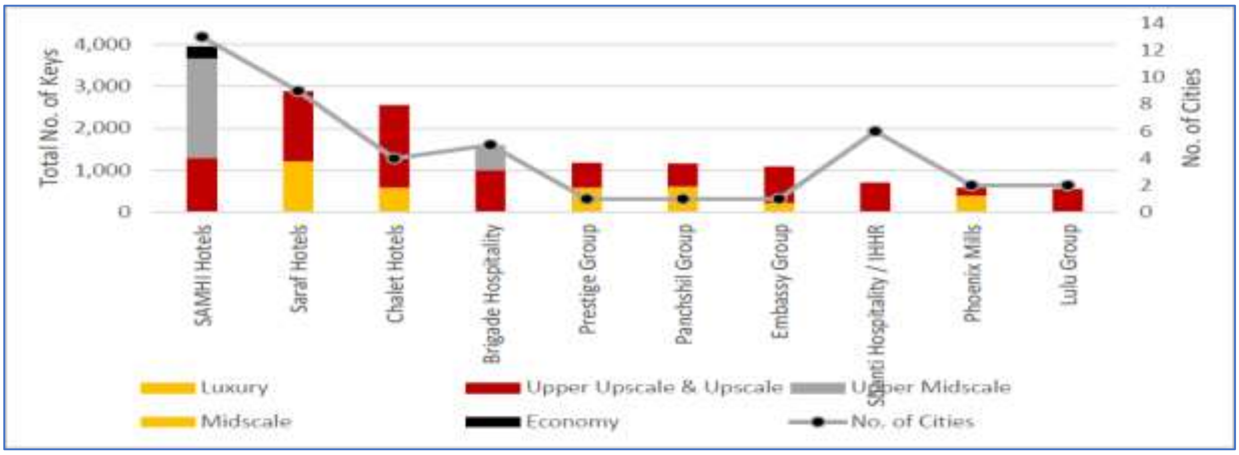


Across India, the top 10 hotel brands by operating inventory size manage over 130,000 keys which account for approximately 76% of the total branded inventory in India, as of March 31, 2023. Of this, Marriott International operates the largest volume of branded inventory in the country with over 28,600 keys, accounting forapproximately 22% of the total branded inventory followed by IHCL with over 21,800 keys accounting for almost 16% of the total branded inventory, as of March 31, 2023.

The top 12 hotel owning entities in India by inventory size own over 18,000 keys which account for approximately 10% of the total branded inventory in India, as of March 31, 2023. The top four companies with 22,799 keys are "owner operators" i.e., they only own hotels which are branded by their brand (and in addition manage hotels for other owners on management contract/ franchise). Amongst owners who own hotels operated under multiple brands, SAMHI Hotels operates the largest volume of diversified branded inventory at different price-points and with established brands catering to a broad set of demand. Their presence spreads across more than 12 highdensity, key urban consumption centres in India, all of which collectively account for approximately 70% of the country's air passenger traffic and approximately 90% of the office space in India as of March 31, 2023. SAMHI Hotels is a prominent branded hotel ownership and asset management platform in India, with the third largest inventory of operational keys (owned and leased) in India as of March 31, 2023. Their hotels are strategically located in high-density micro-markets, which generally have high barriers-to-entry due to land acquisition complexities, long development time frames, and fragmented ownership structures. As of March 31, 2023, the portfolio comprises 3,839 keys of which almost 43% is operated by Marriott International. SAMHI Hotels is also the largest owner of Fairfield by Marriott and Holiday Inn Express operating inventory in India, as of March 31, 2023.

This inventory will be supplemented by 962 keys from the ACIC Portfolio under SAMHI Hotels' share purchase agreement with Asiya Capital and its affiliates (the "**ACIC Portfolio**"), making SAMHI Hotels the largest single owner of Marriott hotels in India with over 43% share of the Fairfield by the Marriott brand and over 30% share of the Four Points by the Sheraton brand, as of March 31, 2023.

Inventory classification by ownership



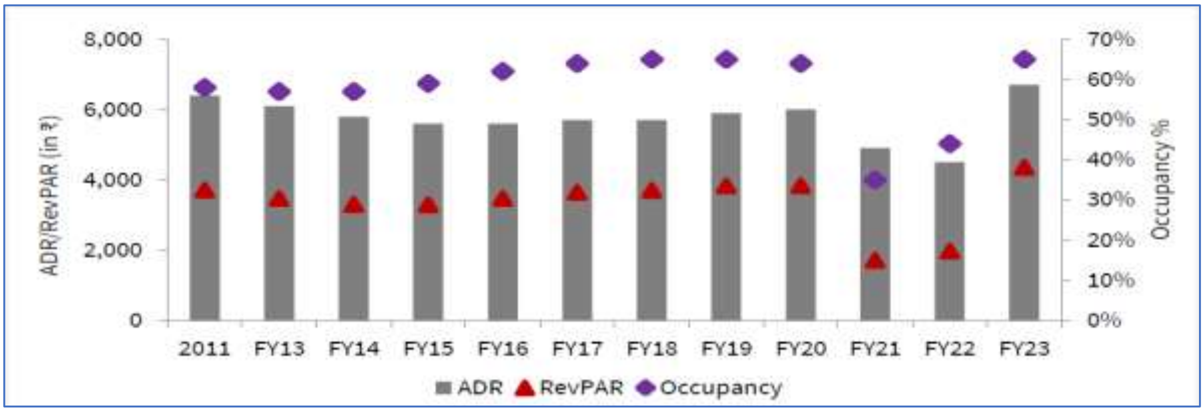
While traditionally, hotel owning companies in India grew predominantly through greenfield developments, SAMHI Hotels acquired a large number of hotels to rapidly scale up their operations, becoming one of the fastestgrowing hotels owning entities in India by number of keys added per year to their portfolio in comparison to listed hospitality companies in India, as of March 31, 2023. They have strategically invested in hotels which are well connected to key transport facilities and have well established social and residential infrastructure. Within 13 years of its inception, SAMHI Hotels became India's third largest hotel owner by number of keys and has added approximately 369 keys to its portfolio per year as of March 31, 2023 (inclusive of the ACIC Portfolio), making them India's fastest growing hotel owning entity by number of keys added per year in the last decade, as of March 31, 2023.

As of the Financial Year 2023, most listed Indian hotel companies derive their revenue primarily from leased and owned hotels vis-à-vis income from management contracts and franchises. SAMHI Hotels' Upper Upscale and Upscale hotels, which contributed to 47.35% of their total income from assets for the Financial Year 2023, are supported by markets with high density demand in cities such as Bengaluru (Karnataka), Hyderabad (Telangana), Ahmedabad (Gujarat) and Pune (Maharashtra). These cities are expected to demonstrate strong growth in airline passenger traffic and premium office space absorption, which is expected to benefit the overall demand base for its hotels. Their dominant position among the Upper Mid-scale and Mid-scale brands in India also offers significant growth opportunities due to their relevant price positioning and limited dependence on international travellers.

Industry Performance Overview

2011 witnessed the highest percentage growth in inventory influx over the last decade, resulting in stabilising occupancy levels for the next few years to come. From the Financial Year 2015 to the Financial Year 2019, occupancy and RevPAR levels continued to grow steadily as supply stabilised and demand continued to grow across major metropolitan cities and key leisure markets. The table below demonstrates the overall India performance from 2011 onwards.

India country-wide performance



The hotel sector witnessed a strong demand in the second half of the Financial Year 2023 as compared to the first half of the Financial Year 2023. However, the seasonality was observed more in the leisure hotel segment as compared to the hotels located in business locations.

Pre and Post the COVID-19 Pandemic - Business Overview

Occupancy levels for the overall branded hotel segment in India are gradually inching towards the pre-COVID- 19 pandemic levels. While several key markets have surpassed all previous performance, the Indian average occupancy as of March 2023 is back to 2019 figures. With the opening up of all travel, first half of the Financial Year 2023 saw the return of corporate travel, company off-sites and overall business travels as well. Large scale meetings, incentives, conferences and exhibition events made a comeback in 2022 with fourth quarter of the Financial Year 2022 witnessing the highest number of events in a month since the onset of the pandemic. Leisure travel continues to enjoy year-round domestic demand and witnessed a quick recovery in the third quarter of the Financial Year 2021. The wide acceptance of digital connectivity and remote employment has resulted in an increased length of stay across select markets, diminishing the business impact of traditional market seasonality on hotels. Through the course of the pandemic, hotel companies have also streamlined expenses to achieve leaner staffing ratios and rationalised cost structures with a stronger focus on profitability. On the whole, the pandemic has not only triggered a definite shift in guest preferences and consumer patterns but has also established consolidation as the key theme for the expansion of the branded industry. With a renewed focus on repositioning, rebranding, mergers and joint ventures, hotel companies, developers and other opportunistic investors are taking a more cautious approach, thus inching towards a more financially and environmentally sustainable industry.

Investment outlook

The hotel inventory growth rate in India has been increasing at a diminishing rate in comparison to previous years. With the significant rationalising of new developments, mature as well as upcoming markets are witnessing a slower growth in the pipeline than before. By virtue of high barriers to entry and a long gestation period, key cities and metro markets will see limited development activity, most likely in emerging parts of the city.

Approximately 48% of the total hotel inventory in India lies in the unbranded segment as of March 31, 2023. In terms of key count, this accounts for nearly 174,000 keys as of March 31, 2023 in the ecosystem, which are primarily owner operated with locally trained staff and are distributed via limited digital and offline sources. The ebb and flow of the COVID-19 pandemic over the last few years has caused a significant shift in consumer choices across segments and has also resulted in hotel companies recalibrating their business decisions with a renewed focus on flexibility and continuity. Since the onset of the COVID-19 pandemic, for reasons of safety and consistency, guest sentiments have echoed stronger faith in well-established, branded hotel chains. Equipped with larger distribution systems, betternegotiating capabilities, and established operating networks, hotel chains have also succeeded in capturing a larger domestic audience during the same period. Several global and Indian hotel operators have also launched subbrands with the clear focus of acquiring quality, erstwhile independently operating inventory within key destinations towards swiftly building a robust pipeline. This trend marks a shift in the nature of hotel investments and capital allocation in India, indicating a stronger preference in the acquisition of well performing, operational hotel assets across key destinations, rather than greenfield and brownfield developments. This trend in expansion strategy by hotel brands presents a mutually beneficial opportunity for owners and operators to establish a stronger foothold in the branded hotel market, while expanding the pool of quality inventory and formalising a quantum of the sector.

This change in approach towards expansion also results in the efficient use of capital and presents a more sustainable development of pipeline with the upgradation of existing facilities to cater to an already existing demand base. While newer markets require the exploration and sometimes the creation of a robust demand base, the pan-India development pipeline currently shows a clear correlation between upcoming hotel supply vis-à-vis the upcoming commercial facilities and tourism and infrastructure developments.

Hospitality Sector Outlook

The Indian hospitality industry is a direct beneficiary of economic growth in India. Rapid urbanization, expansion of office market, increasing domestic travel, low set-up costs as compared to other developed and developing economies, initiatives from the Government of India and the availability of an established talent pool provide strong demand for the sector in the foreseeable future. On the back of this surge in domestic consumption and underlying GDP growth, the Indian hotel industry is seeing strong capacity utilization in recent quarters (and in quarters preceding the COVID-19 pandemic impact in the Financial Year 2020) driven primarily by the buoyant domestic demand across all segments of hotels. With sharp increase in capacity utilization combined with negligible supply growth, hotels are seeing significant ability to yield the demand for branded hotels by re-pricing their hotels on a continuous basis to drive superior ARR growth from current levels. While material contribution from international travellers is yet to materialize, hotels in

India are yet witnessing a sharp upward re-rating in performance levels driven by domestic demand and a more diversified set of customers from a diverse range of industries.

In today's context particularly, the growth and outlook for the office sector can provide some clues to the pace of performance that hotel markets can hope to see moving forward. Key office markets in India displayed resilience with higher leasing activity recorded for the first quarter of the Financial Year 2023 than in the corresponding periods during the last two years. India's gross leasing activity across the top seven cities was recorded at 12.8 million sq.ft, better than the quarterly run rate of 2022. It was higher by 23.3% year-on-year and was the highest in terms of leasing activity during the same periods in 2021 and 2022.

Moreover, India's G20 presidency comes as a mammoth boost to the hospitality sector as it presents an opportunity to establish India as a global meeting, incentives, conferences and exhibitions destination while generating significant room night demand and higher room rates, especially across key metro markets and urban consumption centres. JLL anticipates significant demand to come from the more than 200 meetings and conferences that are likely to happen in the Financial Year 2024. In light of the same, the government is also undertaking necessary initiatives to streamline visa and immigration processes to further boost inbound travel. Given this environment, investors and operators are optimistic about the overall hospitality market potential for the near future on the back of a structural up-cycle that is projected in the years to come, driven by strong demand and stable supply, growth in discretionary spending, and rise in travel and tourism. Apart from this, the Indian hospitality market also offers low set-up costs as compared to other developed and developing economies, improving government support, and the availability of an established talent pool. With anticipated demand likely to outpace current supply and should the current travel momentum continue into the new financial year, the first half of the Financial Year 2024 is likely to witness growth in room rates while hotel occupancy levels stabilize at pre-COVID-19 levels.

Key Concerns

- SHL was not in compliance with certain covenants under certain of its financing agreements in the past, and in case of any breach of covenants in the future, such non-compliance, if not waived, could adversely affect its business, results of operations and financial condition.
- SHL has experienced restated losses and negative net worth in recent years.
- SHL's indebtedness and the conditions and restrictions imposed by its financing arrangements may limit its ability to grow its business.
- Business is subject to seasonal and cyclical variations that could result in fluctuations in results of operations.
- SHL has entered into hotel operator services agreements and other related agreements with Marriott, Hyatt and IHG (and their affiliates) to receive operating and marketing services for its hotels. The ACIC SPVs have entered into franchise agreements and brand license agreements with Marriott for the license of Marriott's brand name. If these agreements are terminated or not renewed, its business, results of operations and financial condition may be adversely affected.
- A significant portion of revenues are derived from a few hotels and from hotels concentrated in a few geographical regions and any adverse developments affecting such hotels or regions could have an adverse effect on the business, results of operation and financial condition.
- If SHL is unable to realize the anticipated growth opportunities and synergies from the assets it acquires, including from the ACIC Acquisition (as defined below) or any other acquisition that it may undertake in the future, its business, financial condition, cash flows and results of operations may be adversely affected.
- SHL's market capitalization to Total Income multiple, market capitalization to tangible assets multiple and enterprise value to EBITDA multiple based on the Offer Price may not be indicative of its market price on listing or thereafter.
- Operations are dependent on SHL's ability to attract and retain qualified personnel, including its senior management and any inability on its part to do so, could adversely affect its business, results of operations and financial condition.
- There are certain defaults/ delay in payment of statutory dues by SHL and any further default/ delay in payment of statutory dues may attract financial penalties from the respective government authorities.

- The COVID-19 pandemic, or any future pandemic or widespread public health emergency, could affect the business, financial condition, cash flows and results of operations.
- The hospitality industry is intensely competitive and inability to compete effectively may adversely affect the business, results of operations and financial condition.
- SHL and its Subsidiaries are involved in certain legal proceedings. An adverse outcome in any of these proceedings may adversely affect the profitability, reputation, business, results of operations and financial condition of the Company and its Subsidiaries.
- SHL has pledged equity shares of certain of its Subsidiaries in favor of certain lenders and if events of default arise under the relevant share pledge agreements, such lenders could exercise their rights under the agreements, adversely affecting the business, results of operations, cash flows and prospects.
- 10 of SHL's 25 operating hotels are located in buildings which have been leased to it by third parties. If it is unable to comply with the terms of the lease agreements, renew its agreements or enter into new agreements, its business, results of operations and financial condition may be adversely affected.
- SHL may require additional equity or debt financing in the future in order to continue to grow its business, which may not be available on favorable terms, or at all.
- SHL has availed certain credit facilities that are repayable on demand.
- The Company has granted security interests over certain of its assets, and any failure to satisfy its obligations under such borrowings could lead to a forced sale or seizure of such assets.
- In the event SHL fails to obtain, maintain or renew its statutory and regulatory licenses, permits and approvals required to operate its business, its business and results of operations may be adversely affected.
- SHL may face challenges in transitioning the operation of its two hotels that are under its owned brands to hotel operators in the future.
- Reliance on third parties for the quality of services at SHL's hotels managed under the brands of third-party operators. Any adverse impact on the reputation of its hotels, or the brands under which they operate, or a failure of quality control systems at its hotels could adversely affect the business, results of operations and financial condition.
- SHL is exposed to risks associated with the ownership and development of its hotels. Delays in the construction of new buildings or in the renovation of its existing properties may have an adverse effect on its business, results of operations and financial condition.
- Any failure of the information technology systems used in SHL's operations could adversely affect its business and operations.
- SHL has a large workforce deployed across its hotels and may be exposed to service-related claims and losses or employee disruptions that could have an adverse effect on the business and reputation.
- Any failure on SHL's part to manage operational risks inherent in its business could adversely affect its business, results of operations and financial condition.
- Inability to effectively manage SHL's expansion and execute growth strategy could have an adverse effect on the business, results of operations and financial condition.
- Exposed to a variety of risks associated with safety, security and crisis management.
- SHL has sold certain of its assets in the recent past and may dispose of other assets in the future.
- The Company is subject to a variety of risks relating to owning real estate assets.
- A portion of hotel bookings originate from travel agents and intermediaries. In the event such companies continue to gain market share compared to SHL's direct booking channels, or if its competitors negotiate more favorable terms with such agents and intermediaries, its business and results of operations may be adversely affected.

- Many of financing agreements entail interest at variable rates and any increases in interest rates may adversely affect the results of operations.
- SHL relies on independent contractors for construction and renovation of hotels and any failure on their part to perform their obligations could adversely affect the business, results of operations, and cash flows.
- SHL may be unable to successfully grow its business in new markets in India, which may adversely affect the business prospects and results of operations.
- Several expenses incurred in operations are relatively fixed in nature, and inability to effectively manage such expenses may have an adverse effect on the business, results of operations and financial condition.
- Operations could be adversely affected by strikes, work stoppages or increased wage demands by SHL's employees or any other kind of disputes with its employees.
- Reliance on contract labor for carrying out certain of SHL's operations and it may be held responsible for paying the wages of such workers, if the independent contractors through whom such workers are hired default on their obligations, and such obligations could have an adverse effect on the results of operations and financial condition.
- Disruptions or lack of basic infrastructure such as electricity and water supply could adversely affect the operations.
- A slowdown in economic growth in India could have an adverse effect on the business, results of operations and financial condition.
- The occurrence of natural or man-made disasters could adversely affect the results of operations, financial condition and cash flows.
- Fluctuation in the exchange rate between the Indian Rupee and foreign currencies may have an adverse effect on the value of Equity Shares, independent of its operating results.
- Fluctuations in interest rates could adversely affect SHL's results of operations.

Profit & Loss

Particulars (Rs in million)	FY23	FY22	FY21
Revenue from operations	7385.7	3227.4	1695.8
Other Income	228.5	103.6	96.7
Total Income	**7614.2**	**3331.0**	**1792.5**
Total Expenditure	**5008.3**	**3113.1**	**2389.6**
Cost of Materials Consumed	579.7	327.7	185.5
Employee Benefits Expenses	1229.8	905.5	865.4
Other Expenses	3198.8	1880.0	1338.7
PBIDT	**2606.0**	**217.9**	**-597.1**
Interest	5220.6	3460.1	3087.3
PBDT	**-2614.7**	**-3242.2**	**-3684.4**
Depreciation and amortization	962.8	1006.0	1118.0
PBT	**-3577.4**	**-4248.2**	**-4802.4**
Exceptional items	-191.8	184.1	12.6
Tax (incl. DT & FBT)	**0.3**	**0.3**	**-37.7**
Current tax	0.3	0.3	-21.6
Deferred tax (credit)/charge	0.0	0.0	-16.2
PAT	**-3385.9**	**-4432.5**	**-4777.3**
EPS (Rs.)	-43.9	-58.1	-62.6
Face Value	1	1	1
OPM (%)	32.2	3.5	-40.9
PATM (%)	-45.8	-137.3	-281.7

Balance Sheet

Particulars (Rs in million) As at	FY23	FY22	FY21
Non-current assets			
Property, plant and equipment	17,974.2	19,236.2	20,659.9
Capital work-in-progress	202.1	197.4	177.3
Right of use assets	937.6	918.7	978.4
Investment property	146.1	149.2	152.3
Goodwill	67.0	67.0	67.0
Other Intangible assets	31.5	51.0	67.9
Financial assets			
Loans	66.01	58.78	44.29
Other Financial Assets	500.13	354.1	312.5
Income tax assets (net)	145.8	131.7	95.6
Other non-current assets	87.4	95.3	93.2
Total non-current assets	**20,157.7**	**21,259.1**	**22,648.3**
Current assets			
Inventories	32.8	25.2	28.7
Financial assets			
Trade receivables	512.7	247.8	179.4
Cash and cash equivalents	1,185.5	1,514.0	1,450.7
Bank balances other than cash and cash equivalents	128.8	92.9	99.9
Loans & Advances	0.3	4.3	0.0
Other financial assets	110.0	46.8	63.0
Other current assets	432.3	305.9	340.0
Assets held for sale	70.0	370.0	70.0
Total current assets	**2,472.3**	**2,606.7**	**2,231.7**
Total assets	**22,630.0**	**23,865.8**	**24,880.0**
EQUITY & LIABILITIES			
Equity			
Equity share capital	85.3	76.3	76.3
Other equity	-8,161.8	-6,464.7	-2,031.2
Total equity	**-8,076.5**	**-6,388.4**	**-1,954.9**
Liabilities			
Non-current Liabilities			
Financial Liabilities			
Borrowings	20,552.8	23,742.2	18,706.3
Lease liabilities	448.1	431.0	497.3
Trade payables			
total outstanding dues of creditors other than micro enterprises and small enterprise	13.6	80.0	0.0
Provisions	52.5	44.4	48.3
Other financial liabilities	41.0	1,620.2	52.9
Other non-current liabilities	261.5	283.2	305.6
Total non-current liabilities	**21,369.6**	**26,200.9**	**19,610.4**
Current liabilities			
Financial liabilities			
Borrowings	6,347.0	2,191.0	5,164.0
Lease liabilities	92.5	97.1	76.6
Trade payables			
total outstanding dues of micro enterprises and small enterprises	73.7	30.3	10.1
total outstanding dues of creditors other than micro enterprises and small enterprises	1,326.1	1,194.8	992.5
Other financial liabilities	1,107.3	146.3	530.9
Other current liabilities	359.6	372.3	428.2
Provisions	30.8	21.3	22.2
Total current liabilities	**9,336.9**	**4,053.2**	**7,224.5**
Total liabilities	**30,706.5**	**30,254.2**	**26,834.9**
Total equity and liabilities	**22,630.0**	**23,865.8**	**24,880.0**

Source: RHP

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report. As regards the associates of HSL please refer the website.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from t date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

For grievance redressal contact Customer Care Team Email: customercare@hdfcsec.com Phone: (022) 3901 9400

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

This report is intended for non-Institutional Clients only. The views and opinions expressed in this report may at times be contrary to or not in consonance with those of Institutional Research of HDFC Securities Ltd. and/or may have different time horizons. Mutual Fund Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

Disclaimer: HDFC Bank (a shareholder in HDFC Securities Ltd) is associated with this issue in the capacity of Public Offer Account Bank and Sponsor Bank and will earn fees for its services. This report is prepared in the normal course, solely upon information generally available to the public. No representation is made that it is accurate or complete. Notwithstanding that HDFC Bank is acting for Samhi Hotels Limited, this report is not issued with the authority of Samhi Hotels Limited. Readers of this report are advised to take an informed decision on the issue after independent verification and analysis.