

SAMHI Hotels

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A long term growth story

Summary

Incorporated in 2010, SAMHI Hotels Limited is a branded hotel ownership and asset management platform in India. The company has a portfolio of 4,801 keys across 31 operating hotels in 14 of India's key urban consumption centers. It acquired 962 keys across six operating hotels and land for the development of a hotel in Navi Mumbai, Maharashtra from ACIC in March, 2023. SAMHI's hotels operate under well-recognized hotel operators viz Marriott, Hyatt and IHG which provide its hotels' access to the operator's loyalty programs, management and operational expertise, industry best practices, online reservation systems, and marketing strategies. At upper price band, IPO is priced at EV/EBITDA (pre-ACIC acquisition) of 23.5x based on FY23. We recommend SUBSCRIBE.

Key Investment Rationale

Ability to acquire dislocated hotels and improvise the performance through renovation/rebranding: SAMHI Hotels' business model is based on the ownership of hotels. Using an acquisition and turnaround-led strategy, the company 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 the company's inception, it has grown to become India's third largest hotel owner, by number of keys, as of March 31, 2023.

In a sweet spot to benefit from sector tailwinds: SAMHI'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. The 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.

Issuer	SAMHI HOTELS LIMITED
Transaction Type	Fresh issue of Equity Shares up to Rs 1,200 Cr and Offer for Sale of up to 13,500,000 Equity Shares.
Issue Open / Close	September 14 th 2023/ September 18 th 2023
Type of Offering	Fresh Issue and OFS
Total Offer Size	Rs 1,361 – 1,370 Cr
Price Band	Rs 119 – 126/sh
Bid Lot	119 Shares and in multiple thereof
Total Offer Size as % of Post Issue Capital	50% at upper price band
Percentage of Offer Size (Allocation)	<ul style="list-style-type: none"> • QIB: 75% • NIB: 15% • RET: 10%
Market Cap Post IPO	Rs 2,661- 2,747 Cr

Share holding pattern %

	Pre-Issue	Post-Issue
Promoter	59.78%	27.48%
Public	40.22%	72.52%
Total	100.00%	100.00%

Financial Snapshot

(Rs mn)	FY21	FY22	FY23
Revenue	1,696	3,227	7,386
EBITDA	-694	114	2,377
EBITDA Margin (%)	-41	4	32
Adj.PAT	-4,777	-4,433	-3,386
EPS (Rs)	-62.6	-58.1	-43.9
Dividend Yield (%)	NA	NA	NA
EV/EBITDA (x)	NA	489.5	23.5
RoE (%)	NA	NA	NA
RoCE (%)	92.7	13.9	-17.5

Source: RHP, Company

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About the Company

SAMHI Hotels stands out as a prominent and well-established hotel ownership and asset management platform in India. As of March 31, 2023, it boasts the third-largest inventory of operational keys (comprising both owned and leased properties) within the country. In a relatively short span of 12 years since its inception, SAMHI Hotels has successfully curated a portfolio encompassing 3,839 keys, distributed among 25 operational hotels strategically located in 12 of India's prominent urban consumption hubs. These key locations include Bengaluru (Karnataka), Hyderabad (Telangana), National Capital Region (“NCR”), Pune (Maharashtra), Chennai (Tamil Nadu), and Ahmedabad (Gujarat). Furthermore, with the recent acquisition of ACIC on August 10, 2023, SAMHI Hotels' portfolio has expanded significantly, now encompassing a total of 4,801 keys across 31 operational hotels.

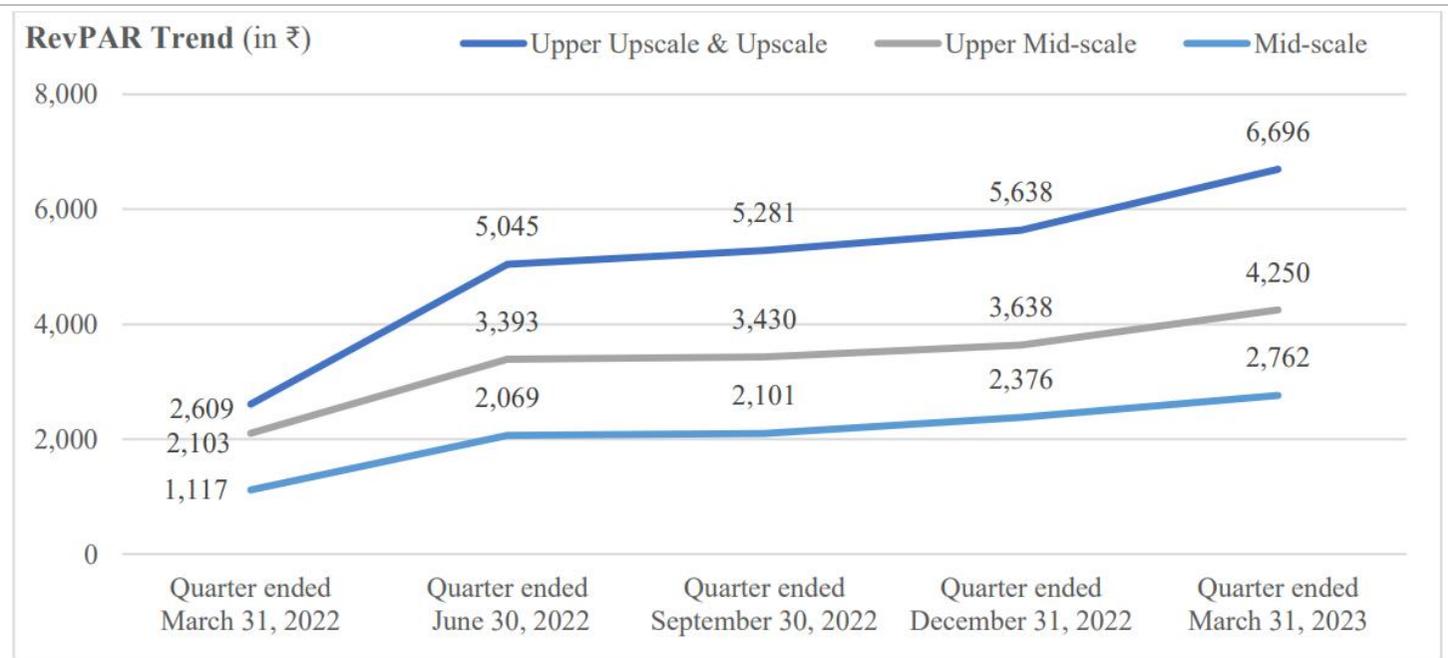
SAMHI Hotels employs an acquisition-focused strategy, leveraging their successful track record in revitalizing hotels to drive growth and primarily focusing on business hotels that they acquire or construct. After an initial upgrade, they collaborate with established branded hotel operators to position the properties effectively. Their diverse portfolio covers key consumption centers in India, categorized into three segments: Upper Upscale and Upscale, Upper Mid-scale, and Mid-scale. In FY2023, over 51.14% of their Total Income came from Upper Mid-scale and Mid-scale hotels, offering growth potential due to their pricing and limited reliance on international travelers. Their Upper Upscale and Upscale hotels, contributing 47.35% of Total Income in FY2023, thrive in high-demand cities like Bangalore, Hyderabad, Ahmedabad, and Pune, with expected growth in passenger traffic and office space absorption. Their average number of keys increased significantly: 5.8 times from FY2014 to FY2017, 2.8 times from FY2017 to FY2020, and an additional 1.2 times from FY2020 to FY2023. As hotel owners and asset managers, they target markets and properties for growth. Their key count grew significantly over the years, most recently by 1.2 times in FY2023, including keys acquired through the ACIC Acquisition. Their hotels operate under long-term contracts with globally recognized operators like Marriott, Hyatt, and IHG, providing operational expertise and loyalty programs.

Exhibit 1: Performance on key operational metrics

Particulars	Upper Upscale and Upscale	Upper Midscale	Mid-scale	Total Portfolio
Number of Keys as of March 31, 2023	1,074	1,201	1,564	3,839
Average Occupancy for the Financial Year 2023	71.38%	74.51%	69.35%	71.67%
Average Room Rate for the Financial Year 2023	₹7,902	₹4,917	₹3,210	₹5,069
RevPAR for the Financial Year 2023	₹5,641	₹3,663	₹2,226	₹3,632
Total Income from Assets for the Financial Year 2023	₹3,605.09 million	₹2,450.27 million	₹1,443.45 million	₹7,498.81 million
Adjusted EBITDA from Assets for the Financial Year 2023	₹1,453.42 million	₹830.33 million	₹521.70 million	₹2,805.45 million
Percentage of Adjusted Gross Block as of March 31, 2023	54.57%	29.26%	15.65%	99.48%
Brands	Hyatt Regency, Sheraton, Courtyard by Marriott, Hyatt Place, Renaissance	Fairfield by Marriott, Four Points by Sheraton, Caspia	Holiday Inn Express, Caspia Pro	N.A.

Source: RHP, IDBI Capital Research

Exhibit 2: RevPAR Growth Quarter-to-Quarter



Source: RHP, IDBI Capital Research

Competitive Strength

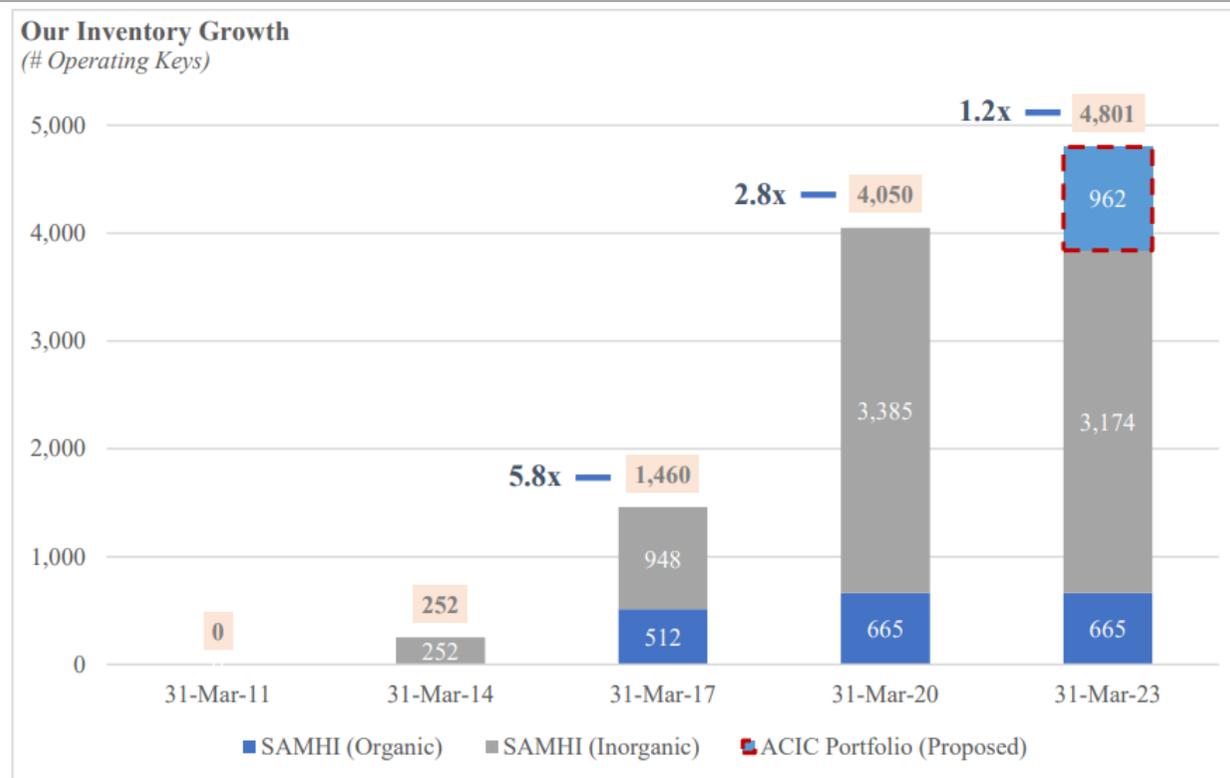
■ **Their competitive strength comprises:**

- Capability to acquire distressed hotels and a proven track record in improving hotel performance through renovation and/or rebranding.
- The scale and diversification of their portfolio, which is further bolstered by favorable industry trends.
- Established history of efficient hotel management.
- Capacity to generate operating efficiencies and long-term performance improvements using analytics tools.
- Robust governance practices and the presence of an experienced management team.

- **Ability to Acquire Dislocated Hotels and Demonstrated Track Record to Re-rate Hotel Performance through Renovation and/or Rebranding**

Their business model centers around hotel ownership, a common approach among listed Indian hotel companies that primarily generate revenue from owned and leased hotels, rather than management contracts and franchises. The strategy, focused on acquisition and turnaround, has allowed them to adopt an asset ownership model, resulting in substantial scale and earnings growth while minimizing capital expenditures. In just 13 years since the company's inception, they have become India's third-largest hotel owner in terms of the number of keys as of March 31, 2023. Furthermore, as of the same date, they hold the title of India's fastest-growing hotel owner in terms of keys added annually over the past decade. They have consistently added around 369 keys to their portfolio per year since their establishment in 2010, including keys acquired through the ACIC Acquisition. Their success lies in their ability to identify, acquire, and turn around hotels with significant value accretion potential, resulting in a total of 3,839 operating keys as of March 31, 2023.

Exhibit 3: Portfolio growth over the years



Note: Figures as of March 31, 2023 in the above diagram include the ACIC Portfolio, and excludes Four Points by Sheraton Ahmedabad and Fairfield by Marriott OMR Chennai, which they sold on February 2, 2023 and February 8, 2023, respectively.

Source: RHP, IDBI Capital Research

They possess extensive experience in completing hotel acquisitions and regularly monitor hotel properties across India that they consider to be underperforming. Evaluation of acquisition targets follows rigorous methodologies, emphasizing data analytics. Their decisions to pursue such opportunities are primarily guided by their ability to create products below replacement cost, expected hotel profitability, integration with their existing portfolio, and long-term market prospects. They assess each acquisition based on parameters like location, micro-market life cycle, and acquisition cost relative to replacement cost. Their focus lies in enhancing performance metrics to enable their asset management team to plan turnaround strategies.

Complementing their acquisition strategy are in-house development capabilities to construct greenfield hotels efficiently in prime locations within high-density tier-1 markets, where existing supply is limited. For these greenfield hotels, they aim to align with predictable demand-supply trends, creating long-term assets with high barriers to entry. Their capacity to acquire and build hotels through a cost-effective model, results in significant returns on invested capital, exemplified by a relatively low Average Cost per Key compared to the industry for the Financial Year 2023.

Exhibit 4: Average Cost per Key in comparison to the Industry

Particulars	Upper Upscale and Upscale	Upper Mid-scale	Mid-scale
Our Portfolio	11.96	5.73	2.36
India Industry Average	12.0 – 18.0	7.0 – 9.0	5.0 – 7.0

Source: RHP, IDBI Capital Research

■ Portfolio's Scale and Diversification Further Enhanced by Sector Tailwinds

Their hotels are strategically located in 12 key Indian cities, representing major urban centers. These cities accounted for approximately 70% of air passenger traffic and around 90% of office space in India as of March 31, 2023. Target city selection aligns with macro themes like proximity to airports and premium office space growth, ensuring long-term sustainability. These hotels are strategically positioned in high-density micro-markets, known for their barriers to entry due to land acquisition complexities, lengthy development timelines, and fragmented ownership structures. They have excellent connectivity to vital transport infrastructure, social facilities, and residential areas. The diversified approach spans cities, price points, and hotel operators, reducing the impact of market volatility in their key markets. With a multi-brand, multi-segment business model, they are well-positioned to capitalize on growth across various hotel segments. This diversity across geography, segments, and operators not only broadens their revenue sources but also helps mitigate risks associated with dependency on any single city, segment, or hotel operator.

Exhibit 5: Breakdown of Total Income from Assets by hotel operator, hotel segment and city



Source: RHP, IDBI Capital Research

Exhibit 6: Brands under each hotel segment



Source: RHP, IDBI Capital Research

■ Track Record to Operate Hotels Efficiently

They enhance the scale and quality of their portfolio through a demonstrated ability to operate hotels efficiently. Their operational efficiency allows them to maximize profitability during periods of favorable revenue growth while minimizing the impact of low-revenue cycles. Key parameters used to measure the operating efficiency of their hotels include gross floor area per room, staff per room, and EBITDA margin.

- Efficient space utilization:** Their average gross floor area per room across their hotel portfolio is 61 sq. meters. This efficient space utilization significantly affects utility expenses, repair and maintenance costs, and manpower expenses. By optimizing space, they maintain strong EBITDA margins.
- Shared services centers:** They have established shared services centers in collaboration with Marriott and IHG across multiple hotels. These centers centralize key functions, reducing on-property staff required for operational tasks like finance, engineering, and procurement. This approach enhances operational quality and standards across their hotels and portfolios in a cost-efficient manner.

- **Lowest staffing ratios among peers:** Leveraging technology, space efficiency, and shared services centers, they achieve one of the lowest staffing ratios compared to industry peers.

■ **Ability to Create Operating Arbitrage using Analytical Tools**

As a prominent hotel owner and asset manager across various segments, brands, and operators, they leverage real-time operating data obtained from their hotels. Analyzing this data continually enhances performance, uncovers growth prospects, and monitors anticipated risks. Additionally, it aids in refining their assessments of new investment opportunities. To facilitate the utilization of this data and achieve their goals, they've created two tools: SAMHIIntel, a proprietary analytics system, and SAMConnect, a building management tool.

SAMHIIntel - Their Business Intelligence System

They have introduced SAMHIIntel, an active analytics system, to handle, analyze, and harness operating data from their hotels. This data analytics platform assesses numerous financial and non-financial parameters for each hotel, enabling:

- Centralize and track operating data in real-time.
- Analyze trends, variations, and strategic metrics.
- Benchmark parameters and optimize space utilization.
- Monitor performance against forecasts and plan interventions.
- Analyze potential acquisitions and develop management plans.

Strategies:

Their key strategies aim to boost portfolio profitability, invest capital in profitable growth projects, and leverage opportunities within the hospitality sector, drawing on their industry expertise. Their core growth strategies include:

- Optimizing hotel positioning to align with favorable demand trends and improve operational efficiencies.
- Completing ongoing development projects.
- Integrating the ACIC Portfolio to enhance performance.
- Pursuing growth opportunities through strategic capital deployment and targeted mergers and acquisitions.
- Maintaining disciplined capital allocation and reducing debt.

Exhibit 7: New keys addition at existing hotels

Hotel Name	Planned Expansion	Target Date
Hyatt Regency Pune	Addition of 16 new keys Addition of a new F&B facility of approximately 422 sq. meters	September 30, 2024
Four Points by Sheraton Vizag	Addition of a new F&B facility of approximately 255 sq. meters Renovation of 123 keys	September 30, 2024
Holiday Inn Express Bengaluru Whitefield ITPL	Addition of 54 new keys	September 30, 2024
Fairfield by Marriott Chennai Sriperumbudur	Addition of 86 new keys	September 30, 2026
Caspia Pro Greater Noida	Renovation of 137 keys Rebranding to Holiday Inn Express	September 30, 2024
Caspia Delhi	Renovation of 142 keys Rebranding to Fairfield by Marriott	September 30, 2024

Source: RHP, IDBI Capital Research

The estimated cost for these expansion projects ranges from ₹984.00 million to ₹1,193.00 million, and they plan to finance them using operational cash flows. These initiatives are anticipated to yield economies of scale benefits, leveraging operations and enhancing results for the respective hotels.

Exhibit 8: Key Management

Management	Designation
Mr. Ashish Jakhanwala	Chairman, Managing Director and CEO
Mr. Rajat Mehra	Chief Financial Officer
Mrs. Gyana Das	Executive Vice President and Head of Investments

Source: RHP, IDBI Capital Research

Exhibit 9: Key Milestones

Year	Key Milestones
2010	Incorporation of the Company
2011	Initial equity investment by GTI Samhi Pte. Limited and Blue Chandra in the Company
2012	Opening of Corporate Office in Gurugram Acquisition of a majority stake (60%) in Barque and addition of Formule 1 hotels to the portfolio
2013	Commencement of operations at Fairfield by Marriott Bangalore Rajajinagar Hotel
2014	Investment by IFC in the Company by way of subscription to the FCCDs Commencement of operations at Hyatt Place Gurgaon Udyog Vihar
2015	Equity investment by GSA in the Company Commencement of operations at Sheraton Hyderabad Hotel, Fairfield by Marriott Bangalore Outer Ring Road and Courtyard by Marriott Bangalore Outer Ring Road
2016	Acquisition of 100% shareholding in Ascent, which currently owns the Hyatt Regency Pune hotel Commencement of operations at Four Points by Sheraton Visakhapatnam

Year	Key Milestones
2017	<p>Acquisition of the remaining 40% shareholding in Barque as a result of which Barque became a wholly owned Subsidiary of the Company.</p> <p>Entered into hotel operator agreements with Intercontinental Hotels Group for rebranding the portfolio of hotels, which was acquired as a result of acquisition of Barque, to “Holiday Inn Express”</p> <p>Commencement of operations under the Marriott brand at Renaissance Ahmedabad Hotel and Fairfield by Marriott Coimbatore</p>
2018	<p>Acquisition of Luxury Singapore Holding Company Pte Limited’s 33% shareholding in SAMHI JV, as a result of which their Company acquired 100% shareholding of SAMHI JV</p> <p>Commencement of operations at Holiday Inn Express Pune Hinjewadi, Holiday Inn Express Chennai OMR Thoraipakkam, Holiday Inn Express Gurgaon Sector 50, Holiday Inn Express Bengaluru Whitefield ITPL, Holiday Inn Express Ahmedabad Prahlad Nagar, Holiday Inn Express Hyderabad Banjara Hills, Holiday Inn Express Hyderabad Hitech City, Holiday Inn Express Nashik Indira Nagar, Holiday Inn Express Pune Pimpri and Holiday Inn Express Yeshwanthpur Bengaluru. Commencement of operations at Fairfield by Marriott Bengaluru Whitefield, Fairfield by Marriott Pune Kharadi, Fairfield by Marriott Goa Anjuna, Fairfield by Marriott Sriperumbudur Hotel</p>
2023	<p>Acquisition of the ACIC SPVs which includes 962 keys across six operating hotels in the Upper Midscale segment under the Fairfield by Marriott and Four Points by Sheraton brands and a parcel of land for the development of a hotel under the Upper Mid-scale segment in Navi Mumbai, Maharashtra</p>

Source: RHP, IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23
Net sales	1,696	3,227	7,386
<i>Change (yoy, %)</i>		90	129
Operating expenses	-2,390	-3,113	-5,008
EBITDA	-694	114	2,377
<i>Change (yoy, %)</i>		-116	1,980
<i>Margin (%)</i>	-41	4	32
Depreciation	-1118	-1006	-963
EBIT	-1,812	-892	1,415
Interest paid	-3087	-3460	-5221
Other income	97	104	229
Pre-tax profit	-4,802	-4,248	-3,577
Tax	38	0	0
<i>Effective tax rate (%)</i>	1	0	0
Minority Interest	0	0	0
Net profit	-4,765	-4,248	-3,578
Exceptional items	13	184	-192
Adjusted net profit	-4,777	-4,433	-3,386
<i>Change (yoy, %)</i>		-7	-24
EPS	-62.6	-58.1	-43.9
Dividend per sh	-	-	-
<i>Dividend Payout (%)</i>	-	-	-

Balance Sheet				(Rs mn)
Year-end: March	FY21	FY22	FY23	
Shareholders' funds	-1,955	-6,388	-8,076	
Share capital	76	76	85	
Reserves & surplus	-2,031	-6,465	-8,162	
Total Debt	574	528	541	
Other liabilities	19065	25726	20,869	
Curr Liab & prov	7,196	4,000	9,297	
Current liabilities	7,126	3935	9,214	
Provisions	70	66	83	
Total liabilities	26,835	30,254	30,706	
Total equity & liabilities	24,880	23,866	22,630	
Net fixed assets	21816	20,352	19,114	
Investments	152	149	146	
Other non-curr assets	680	758	898	
Current assets	473	723	612	
Inventories	29	25	33	
Sundry Debtors	179	248	513	
Cash and Bank	1551	1607	1,314	
Loans and advances	0	4	0	
Total assets	24,880	23,866	22,630	

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22	FY23
Pre-tax profit	(4,815)	(4,432)	(3,386)
Depreciation	1,118	1,006	963
Tax paid	134	(35)	(8)
Chg in working capital	738	147	(267)
Other operating activities	3042	3051	4872
Cash flow from operations (a)	217	263	2,175
Capital expenditure	(7)	(4)	(75)
Chg in investments	-	-	-
Other investing activities	(430)	(22)	759
Cash flow from investing (b)	423	(26)	684
Equity raised/(repaid)	-	-	-
Debt raised/(repaid)	1678	3227	(361)
Dividend (incl. tax)	-	-	-
Chg in minorities	-	-	-
Other financing activities	(1613)	(3401)	(2826)
Cash flow from financing (c)	65	(175)	(3,187)
Net chg in cash (a+b+c)	(329)	63	705

Financial Ratios

Year-end: March	FY21	FY22	FY23
Book Value (Rs)	-15.9	-52.0	-65.8
Adj EPS (Rs)	-38.9	-36.1	-27.6
Adj EPS growth (%)	NA	NA	NA
EBITDA margin (%)	-41	4	32
Pre-tax margin (%)	-283.1	-131.6	-48.4
Net Debt/Equity (x)	0.5	0.17	0.1
ROCE (%)	92.7	13.9	-17.5
ROE (%)	NA	NA	NA
DuPont Analysis			
Asset turnover (x)	NA	0.1	0.3
Leverage factor (%)	2.3	2.2	2.4
Net margin (%)	-281	-131.6	-48.4
Working Capital & Liquidity ratio			
Inventory days	NA	60	37
Receivable days	NA	24	19
Payable days	NA	626	325

Source: Company; IDBI Capital Research



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