SAMHI Hotels Limited

14th September, 2023

IPO NOTE

Recommendation	SUBSCRIBE	
Price Band	Rs 119-126	
Bidding Date	14th Sep – 18th Sep	
Book Running Lead Manager	JM Financial, Kotak Mahindra Capital Company	
Registrar	Kfin Technologies	
Sector	Hotels	
Minimum Retail Application- Detail At Cut off Price		
Number of Shares	119	
Minimum Application Money	Rs. 14,994	
Payment Mode	ASBA	
Consolidated Financials (Rs Cr)	**FY22**	**FY23***
Total Income	323	933
EBITDA	11	280
Adj PAT	-443	-365
Valuations (FY23)	**Lower Band**	**Upper Band**
Market Cap (Rs Cr)	2,595	2,747
Adj EPS	-16.74	-16.74
PE	NM	NM
EV/ EBITDA	11.2	15.8
Enterprise Value (Rs Cr)	4,279	4431
Post Issue Shareholding Pattern		
Promoters	0.0%	
Public/Other	100.0%	
Offer structure for different categories		
QIB (Including Mutual Fund)	75%	
Non-Institutional	15%	
Retail	10%	
Post Issue Equity (Rs. in cr)	21.8	
Issue Size (Rs in cr)	1,370	
Face Value (Rs)	1	

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BACKGROUND

Incorporated in 2010, SAMHI Hotels Limited (SHL) is a branded hotel ownership and asset management platform in India. It has a portfolio of 4,801 keys across 31 operating hotels in 14 of India's key urban consumption centres (includes recent acquisition with ACIC SPV's). SHL operates under well-recognized hotel operators. It follows an acquisition-led strategy, where it invests in operational turnaround of an acquired hotel to allow the hotels to be appropriately positioned in the market. SHL mainly focuses on domestic market for its future business growth.

Objects and Details of the Issue:

- Total issue of ~Rs. 1,370Cr (at upper price band) consists of fresh issue worth Rs.1,200 Cr and offer for sale worth Rs.170 Cr
- The company proposes to utilise the net proceeds from the fresh issue towards repayment / prepayment / redemption of borrowings including payment of the interest accrued thereon

Investment Rationale:

- Favourable demand-supply conditions in the hospitality sector
- Brand penetration in India has been on an upward trajectory
- Hotel supply across key Indian cities lags office demand
- Leveraging power of strong hotel brands; Integration of ACIC Portfolio
- SAMHI Hotels have grown to become India's third-largest hotel owner
- Strong management team with extensive experience in hospitality sector

Valuation and Recommendation:-

SAMHI Hotels Ltd (incl. ACIC Portfolio) has delivered topline performance with a growth of 15.5% CAGR (excl. ACIC portfolio at 6.8% CAGR) between FY20-23 compared to 7.9% average growth of listed peers. With this issue, the management is aiming to deleverage its balance sheet with repayment of ~Rs. 1,150 cr of its total debt of Rs. 2,900 cr. The same is expected to improve its SHL's profitability and to generate high free cash flow for the subsequent years. As on Mar'23, ROCE (proforma incl ACIC portfolio) stood at 6.6% which is further expected to improve on the back of debt repayment and growth planned for the upcoming few quarters. The issue is valued at 15.8x to EV/EBITDA based on FY23 proforma financials which is discount to average valuation of 30.2x EV/EBITDA for its listed peers. **Thus, we recommend SUBSCRIBE to the issue.**

Financials	FY20	FY21	FY22	FY23*
Net Revenues	606	170	323	933
Growth (%)	-	-	90.3%	189.0%
EBITDA	150	-69	11	280
EBITDA Margin (%)	24.8%	-40.9%	3.5%	30.0%
PBT	-302	-482	-443	-368
Adjusted PAT	-300	-478	-443	-365
EPS	-13.75	-21.91	-20.33	-16.74
ROCE	-3.9%	-7.9%	-5.0%	6.6%
EV/Sales	7.3	26.1	13.7	4.8
EV/EBITDA	29.5	NM	387.6	15.8
P/E	NM	NM	NM	NM

Source: Company data, NBRR

**FY23 Financials are based on Proforma incl ACIC SPVs; NM – Not Meaningful*

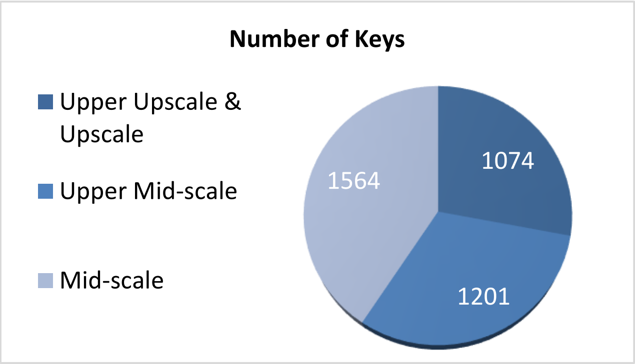
Company Background

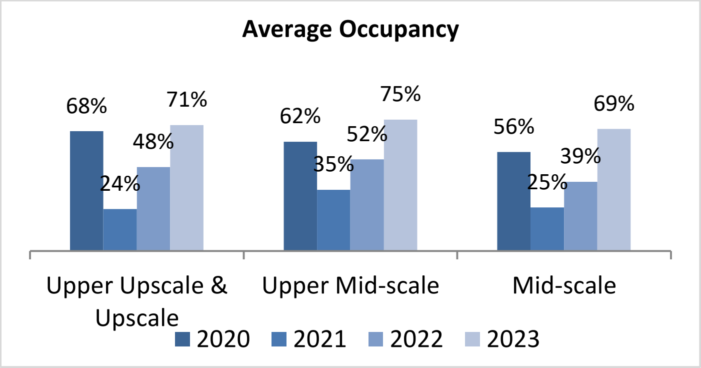
SAMHI Hotels Limited is a branded hotel ownership and asset management platform in India. SAMHI's hotels operate under well-recognized hotel operators such as Courtyard by Marriott, Sheraton, Hyatt Regency, Hyatt Place, Fairfield by Marriott, Four Points by Sheraton, and Holiday Inn Express, which provide its hotels' access to the operator's loyalty programs, management and operational expertise, industry best practices, online reservation systems, and marketing strategies. Within 12 years of starting its business operations, it has built a portfolio of 3,839 keys across 25 operating hotels in 12 of India's key urban consumption centres. On August 10, 2023, SHL acquired Asiya Capital and the ACIC SPVs which gained the company an additional 962 keys across six operating hotels and land for the development of a hotel in Navi Mumbai, Maharashtra. SHL operates its hotels across various segments such as i) Upper Upscale & Upscale, ii) Upper Mid-scale and iii) Mid-scale hotels.

It follows an acquisition-led strategy, where it invest in operational turnaround of an acquired hotel successfully by analysing the demand in the respective locality and upgrade the operational capability. It acquires or build primarily business hotels and 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. The company mainly focuses on domestic market only for its future business growth.

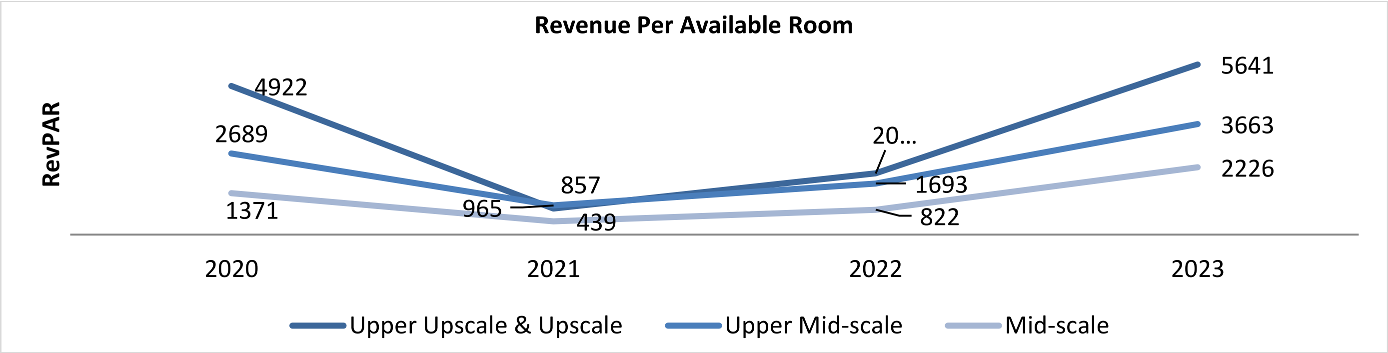
Post pandemic it has observed growth in its Average Occupancy Rate from 28% in FY21 to 72% in FY23 (pre-pandemic level: 61% in FY20) and Revenue Per available Room (RevPAR) from Rs. 733 in FY21 to Rs. 3,632 in FY23. RevPAR has seen ~31% overall growth on absolute basis from pre-pandemic level of Rs, 2,772.

Key operating metrics





Source: RHP, NBRR



Source: RHP, NBRR

Investment Rationale

Favourable demand-supply conditions in the hospitality sector

Travel and tourism industry is expected to grow by 10.35% between 2019 to 2028. Air passenger volume between the FY14 and FY20 has more than doubled for most key cities, resulting in healthy growth rates. From FY13-FY20, passenger load factor for the domestic aviation segment grew at 2% CAGR while the available seat kilometres grew by 11% CAGR and the revenue passenger kilometres grew by 13% CAGR. 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 Average Room Rate (ARR) growth from current levels. Thus, there is an established supply base, negligible supply growth and continued demand growth to further support industry growth.

Brand penetration in India has been on an upward trajectory

The Indian hotel industry is largely unorganized and has one of the lowest brand penetration rates in comparison to other key markets in the Asia-Pacific region. Brand penetration in India has been on an upward trajectory since the CY13 and has steadily increased year on year, despite the pandemic. As on Mar'23, brand penetration in India stands at 52% which is the highest in the last decade and yet is lower than other comparable markets in the region. India's low share of organized keys and brand penetration makes a case for the need of institutional ownership in the hotel sector. The fragmented nature of the industry will continue to offer consolidation opportunities which the Indian hotel market is currently witnessing. The recent past has witnessed a large number of conversions of independent inventory into the branded segment either through change in ownership or rebranding through management contracts and/or franchises.

Hotel supply across key Indian cities lags office demand

As on Mar'23, India has over 360,000 keys including branded hotels, independently run hotels and aggregators. Of this, the current branded inventory market size as of Mar'23 stands at ~180,000. The overall market size is still small especially relative to the size & growth of the office market. 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 growth in office market is expected at 7.7% CAGR between April 2023-2025 which is an indicative of the growth in the broader economic activity. As, 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.

Leveraging power of strong hotel brands

SHL is an institutional multi-branded hotel ownership company which has partnered with premier hospitality management companies to leverage their global brands. It has tie-up with 8 well established international brands for branding, marketing & operating hotels. SHL has entered into hotel management agreement with Marriott under the banner of 'Courtyard by Marriott', 'Fairfield by Marriott', 'Four Points by Marriott', 'Sheraton by Marriott' and 'Renaissance by Marriott', with Hyatt under the banner 'Hyatt Place' and 'Hyatt Regency' and IHG under the banner of 'Holiday Inn Express'. They have outsourced day to day operations but control material aspects like product development, brand & operator selection, budgetary approvals, positioning strategy, renovation and asset disposal.

Growth opportunities outside of ACIC assets:

- Renovation and rebranding of its existing 301 keys Hyatt Regency Pune hotel into a Luxury hotel under Hyatt's management (expected completion by Sep 30, 2025)
- Development of a 111 keys Holiday Inn Express in Rajarhat, Kolkata, West Bengal, currently under development (expected completion by Sep 30, 2024)

- Renovating and/or rebranding 402 keys, adding 156 keys and adding two additional F&B outlets across several locations within existing portfolio (expected completion between Sep 30, 2024 and Sep 30, 2026)

Integration of ACIC Portfolio

SHL acquired ACIC Portfolio of 962 keys across 6 operating hotels and a parcel of land for the development of a hotel in Navi Mumbai, Maharashtra from Asiya Capital on August 10, 2023. It has completed the acquisition through the issuance of 3.75 cr equity shares to Asiya Capital. The success of the ACIC Acquisition or other acquisitions depends on management's ability to realize the anticipated growth opportunities and synergies from integrating these businesses, which requires substantial management attention and efforts as well as additional expenditures.

Growth opportunities within the ACIC Portfolio post completion of the ACIC Acquisition:

- Renovation and rebranding of the 217 keys Four Points by Sheraton Pune into an Upper Upscale and Upscale hotel (expected completion by Sep 30, 2025).
- Development of a 350 keys hotel under the Upper Mid-scale segment in MIDC, Navi Mumbai (expected completion by Jun 30, 2027).

ACIC Portfolio

Hotel Name	Location	Number of Keys
Fairfield by Marriott, Hyderabad	Gachibowli	232
Four Points by Sheraton, Pune	Viman Nagar	217
Fairfield by Marriott, Ahmedabad	Ashram Road	147
Four Points by Sheraton, Jaipur	City Square	114
Four Points by Sheraton, Chennai	OMR	116
Fairfield by Marriott, Chennai	Mahindra World Centre ("MWC")	136
Navi Mumbai Land	Navi Mumbai	N.A.*
Total for the ACIC Portfolio		**962**

Source: RHP, NBRR

ACIC Portfolio's operational performance indicators

ACIC Portfolio	As on Mar'23	As on Mar'22
Number of Keys	962	962
Average Occupancy (%)	78.6%	58.1%
Average Room Rate (Rs)	4,918	2,998
RevPAR (Rs)	3,865	1,743

Source: RHP, NBRR

SAMHIIntel, in-house data harnessing

SHL has developed SAMHIIntel tool, an in-house data accumulation and trend identification system. With this tool at hand, the management can have a quick view of multiple performance parameters across hotels, cities, segment and operators. It helps in identifying trends and patterns, compare hotels to benchmarks, hence improving performance. The company can harness power from large and diversified portfolio to support acquisition benchmarking and integrate new acquisition efficiently.

SAMHI Hotels have grown to become India's third-largest hotel owner

SAMHI Hotels has grown to become India's third-largest hotel owner, by the number of keys, as on Mar'23. SAMHI Hotels augment the scale and quality of its portfolio with its track record of operating hotels efficiently. SAMHI Hotels Ltd focuses on hotel segments with high growth potential from strong existing domestic demand and increasing demand from international travellers. Its hotels operate under leading global brands within each hotel segment. The day-to-day operations are efficiently managed by a team of professionals who have been with the company since its inception, demonstrating a successful history of expanding the business during various economic phases. The spread between geographies, segments and hotel operators diversifies the company's revenue base and functions in rationalising the risks associated with dependence on any one city, segment or hotel operator.

Strong management team with extensive experience in hospitality sector

The team has a strong domain expertise, successful project implementation and management capabilities and long-standing global relationships in the hotel industry. SHL has developed a team of highly experienced and technically qualified professionals to handle different departments. The team has people with extensive experience in the hotel and real estate industry through their association with internationally renowned companies.

Key Management Personnel are as below:

- Ashish Jakhanwala, who is the Chairman, Managing Director and Chief Executive Officer, has experience across a variety of functions in the hospitality industry, including hotel operations, design, consulting and investment.
- Rajat Mehra, the Chief Financial Officer, holds a bachelor's degree in Commerce (honors) from Sri Guru Teg Bahadur Khalsa College, University of Delhi and has been associated with SHL for over 10 years.
- Gyana Das, the Executive Vice President and Head of Investments, holds a master's degree in city planning from the Indian Institute of Technology, Kharagpur and has been associated with SHL for over 12 years.
- Sanjay Jain, the Senior Director of Corporate Affairs, Company Secretary and Compliance Officer, is a member of the Institute of Company Secretaries of India, a member of the Institute of Cost and Works Accountants of India and has been associated with SHL for over 11 years.
- Tanya Chakravarty, the General Counsel, is an alumnus of Army Institute of Law, Mohali, and holds a bachelor's degree in law and has been associated with SHL for over five years.

Risk and concerns

Company's indebtedness: There were non-compliance with certain covenants of company's financing agreements in the past; any other breach in the future could adversely affect the operations and financial condition. The indebtedness and the conditions and restrictions imposed by financing arrangements may limit the ability to grow. Failure to satisfactorily comply with such conditions may lead to an event of default.

Current losses and future prospects: There is restated losses and negative net worth in recent years. A substantial portion of the Net Proceeds will be utilized for the repayment, prepayment and/or redemption of indebtedness availed of by the Company and its Subsidiaries. Hence, the Net Proceeds will not be available for any capital expenditure or creation of tangible assets.

Uncertainty about acquisitions' realisation: The success of the ACIC Acquisition or other acquisitions requires substantial management attention and efforts as well as additional expenditures. If company is unable to realize the anticipated growth opportunities and synergies from the assets then business, financial condition, cash flows and results of operations may be adversely affected.

Cyclical business: The hospitality industry is cyclical, and demand for hotel rooms, occupancy levels and room rates realized by owners of hotels experience increases and decreases through macroeconomic cycles. As a result, room rates, sales and results of operations may fluctuate significantly from period to period.

Dependence on third party hotel operators: The Company derives a substantial majority of revenues from hotels managed by third-party operators, namely Marriott, Hyatt and IHG. If hotel operator services agreements or other related agreements are terminated or not renewed the results of operations and financial condition may be adversely affected.

Concentration of revenue from few hotels: A significant portion of company's revenues are derived from a few hotels and from hotels concentrated in a few geographical regions. Any adverse developments affecting such hotels or regions, including social, political, economic or other factors, could have an adverse effect on the business.

Development cost: Hotels are capital heavy investments with a long gestation period as compared to other real estate asset classes. The development costs can also vary by land cost, facilities mix, overall built-up area, and debt/ interest ratios. While good demand conditions prevail, rising material costs and supply chain issues have become a cause of concern for realtors and stakeholders. Key building materials like steel, cement, and labor charges are facing inflationary pressures. As a result, hotel development costs have seen an increase as compared to pre-pandemic costs.

Lack of technology and standardisation in hotels: Technology is used mainly to promote, review and sell at competitive pricing. Indian hotels have a long way to go to creating hotels where everything from check-in to check-out is automated. In today's tech-driven world, technology and people can work hand in hand to provide a memorable experience for guests. Most top hotel chains are still trying different ways to achieve standardisation, especially in the food production department. Trying to serve a standard taste of a particular dish throughout the entire hotel chain, all over the country or the world, is a challenge.

Valuation and Recommendation

SAMHI Hotels has been operating in the industry since a decade where it has delivered stable operating performance (except for FY20-21 performance was impacted due to COVID pandemic). SHL mainly focuses on acquiring units at discount to replacement cost which are under operational stress. It invests in these units to bring operational turnaround with renovation and rebranding in order to achieve required growth. SHL (incl. ACIC Portfolio) has delivered topline performance with a growth of 15.5% CAGR (excl. ACIC portfolio at 6.8% CAGR) between FY20-23 compared to 7.9% average growth of listed peers. Also, EBITDA performance delivered 23.1% growth between FY20 to FY23 with EBITDA margin improvement of ~524bps over the same period led by bringing operational efficiencies.

With this issue, the management is aiming to deleverage its balance sheet with repayment of ~Rs. 1,150 cr of its total debt of Rs. 2,900 cr. The same is expected to improve its SHL's profitability and to generate high free cash flow for the subsequent years. SHL has estimated capex planned at ~Rs. 461 cr between FY24 to FY27 for its future business growth. As on Mar'23, ROCE (proforma incl ACIC portfolio) stood at 6.6% which is further expected to improve on the back of debt repayment and growth planned for the upcoming few quarters. The issue is valued at 15.8x to EV/EBITDA based on FY23 proforma financials which is discount to average valuation of 30.2x EV/EBITDA for its listed peers. **Thus, we recommend SUBSCRIBE to the issue.**

Listed Comparable Peers

FY23 Figures	Chalet Hotels	EIH	Lemon Tree Hotels	The Indian Hotels Company	Average	SAMHI Hotels
Revenue	1,128	2,019	875	5,810	2,458	933
CAGR (FY20-23)	4.8%	8.1%	9.4%	9.2%	7.9%	15.5%
CAGR (FY21-23)	98.6%	102.2%	86.3%	92.1%	94.8%	134.5%
EBITDA Margin	37.0%	29.6%	51.2%	31.1%	37.2%	30.0%
Asset Turns (x)	0.2	0.5	0.2	0.4	0.3	0.3
Working Cap Days	-121	67	-98	30	-31	-274
ROCE (%)	10.4%	14.7%	14.1%	17.2%	14.1%	6.6%
ROE (%)	12.8%	10.6%	16.7%	12.9%	13.2%	NM
Debt/Equity	1.8	0.0	2.0	0.1	1.0	54.7
EV/EBITDA	34.3	26.0	25.5	35.0	30.2	15.8
P/E	64.2	50.1	80.9	60.9	64.0	NM

Source: Company Data, NBRR
** SAMHI Hotels financials are based on proforma (including ACIC portfolio)*

Business Metrics of Peer Companies

Peer Business Metrics (Cr)	SHL		SHL & ACIC SPVs (Proforma)		Chalet Hotels		Lemon Tree		Indian Hotels		EIH	
	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
Total Income	333	761	442	964	530	1,178	416	879	3,211	5,949	1,044	2,096
Total Income Growth	86%	129%	-	118%	72%	122%	57%	111%	85%	85%	91%	101%
Adj EDITDA	22	261	39	311	114	502	133	451	560	1,943	46	665
Adj EBITDA Margin	7%	34%	9%	32%	22%	43%	32%	51%	17%	33%	4%	32%
Restated profit / loss	-443	-339	-495	-366	-81	183	-137	141	-265	1,053	-95	329
Restated profit/loss Margin	-133%	-44%	-112%	-38%	-15%	16%	-33%	16%	-8%	18%	-9%	16%
Net Debt	2,416	2,614	2,719	2,834	2,434	2,672	1,644	1,718	797	-235	73	-402
Net Debt / Equity	NA	NA	12.3	51.8	1.8	1.7	1.5	1.5	0.1	0.0	0.0	-0.1
Inventory (No. of operating keys)	4,050	3,839	5,012	4,801	2,554	2,634	8,489	8,382	20,581	21,993	4,499	4,269
Inventory Growth	0%	-5%	-	-4%	0%	3%	2%	-1%	6%	7%	-1%	-5%
No of Hotels	27	25	33	31	7	8	87	88	175	191	30	30
Average Room Rent	3,149	5,069	3,114	5,037	4,576	9,169	3,459	N.A.	9,717	13,736	N.A.	N.A.
Average Occupancy	45.9%	71.7%	48.3%	73.0%	51.0%	72.0%	46.0%	N.A.	53.0%	72.0%	N.A.	N.A.

Source: RHP, NBRR
NA- Not Available

Financials

SAMHI Hotels Ltd - Financials

P&L (Rs. Cr)	FY20	FY21	FY22	FY23*
Net Revenue	**606**	**170**	**323**	**933**
% Growth	-	-	*90%*	*189%*
Raw Materials	53	19	33	77
% of Revenues	*8.8%*	*10.9%*	*10.2%*	*8.3%*
Employee Cost	131	87	91	160
% of Revenues	*21.6%*	*51.0%*	*28.1%*	*17.1%*
Other expenses	271	134	188	416
% of Revenues	*44.8%*	*78.9%*	*58.3%*	*44.5%*
Adj EBITDA	**150**	**-69**	**11**	**280**
EBITDA Margin	*24.8%*	*-40.9%*	*3.5%*	*30.0%*
Depreciation	126	112	101	130
Other Income	22	10	10	32
Interest	208	309	346	569
Exceptional item	140	1	18	-19
Adj PBT (excl. excep.)	**-302**	**-482**	**-443**	**-368**
Tax	-2	-4	0	-3
Tax rate	*1%*	*1%*	*0%*	*1%*
Non controlling Interest	0	0	0	
Adj. PAT (norm. Tax)	**-300**	**-478**	**-443**	**-365**
% Growth	-	*59%*	*-7%*	*-18%*
EPS (Post Issue)	**-13.75**	**-21.91**	**-20.33**	**-16.74**

Ratios & Others	FY20	FY21	FY22	FY23*
Debt / Equity	7.4	-12.2	-4.1	54.7
EBITDA Margin (%)	24.8%	-40.9%	3.5%	30.0%
PAT Margin (%)	-49.5%	-281.7%	-137.3%	-39.1%
ROE (%)	NM	NM	NM	NM
ROCE (%)	-3.9%	-7.9%	-5.0%	6.6%

Turnover Ratios	FY20	FY21	FY22	FY23*
Debtors Days	20	39	28	27
Inventory Days	3	6	3	2
Creditor Days	41	216	148	68
Asset Turnover (x)	0.2	0.1	0.1	0.3

Valuation Ratios	FY20	FY21	FY22	FY23*
Price/Earnings (x)	NM	NM	NM	NM
EV/EBITDA (x)	29.5	-63.9	387.6	15.8
EV/Sales (x)	7.3	26.1	13.7	4.8
Price/BV (x)	9.7	-14.1	-4.3	50.2

Balance Sheet (Rs. Cr)	FY20	FY21	FY22	FY23*
Share Capital	7.6	7.6	7.6	8.5
Other Equity	275	-203	-646	46
Networth	**282**	**-195**	**-639**	**55**
Total Loans	**2,098**	**2,387**	**2,593**	**2,993**
Other non-curr liab.	95	90	238	90
Trade payable	68	100	131	175
Other Current Liab	63	106	64	184
Total Equity & Liab.	**2,608**	**2,488**	**2,387**	**3,496**
Fixed Assets & CWIP	2,274	2,182	2,035	2,674
Intangible Assets	16	13	12	425
Financial Assets	84	42	46	63
Other non Curr. assets	47	19	23	27
Inventories	5	3	3	5
Cash	75	145	151	141
Bank	11	10	9	18
Debtors	34	18	25	69
Investments	14	15	15	14
Other Current assets	49	41	68	60
Total Assets	**2,608**	**2,488**	**2,387**	**3,496**

Cash Flow (Rs. Cr)	FY20	FY21	FY22	FY23
Profit Before Tax	-302	-482	-443	-339
Provisions & Others	447	416	458	584
Op. profit before WC	**146**	**-66**	**15**	**245**
Change in WC	21	74	15	-27
Less: Tax	-5	13	-4	-1
CF from operations	**162**	**22**	**26**	**217**
Addition to assets	-28	-1	0	-7
(Purchase)/Sale of invst.	12	37	-6	71
Int & Div Received	8	6	4	5
CF from Investing	**-9**	**42**	**-3**	**68**
Proceeds from borrowing	186	382	1151	1018
Repayment of borrowing	-128	-214	-828	-1054
Increase in share capital	29	0	0	0
Dividend & Interest paid	-211	-161	-340	-283
CF from Financing	**-124**	**6**	**-17**	**-319**
Net Change in cash	**30**	**70**	**6**	**-33**
Cash & Bank at beginning	45	75	145	151
Cash & Bank at end	75	145	151	119

Source: RHP, NBRR

**Proforma incl ACIC Portfolio*

FY2023 Proforma Cash Flow not provided in the RHP, Thus FY2023 Cash Flow statement is based on SHL Financials (excluding ACIC Portfolio)

Disclosure:

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