

Samhi Hotels Limited (Revised)

December 07, 2022

Ratings

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|--|---|---|---------------|
| Long Term Bank Facilities | 315.69 (Enhanced from 260.44) | CARE BBB; Stable (Triple B; Outlook: Stable) | Reaffirmed |
| Long Term / Short Term Bank Facilities | 0.68 | CARE BBB; Stable / CARE A3+ (Triple B ; Outlook: Stable/ A Three Plus) | Reaffirmed |
| Total Bank Facilities | 316.37 (₹ Three Hundred Sixteen Crore and Thirty-Seven Lakhs Only) | | |

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Samhi Hotels Limited (SHL) takes into account the management team's extensive experience in hospitality space, strategic equity holding from established and renowned investment firms, professional and qualified management team, tie-up with various international hotel brands for branding, marketing and operating properties along with Pan-India presence of hotel properties at favourable locations. The rating also factors in improved operational performance of the group in H1FY23 (April 01 to September 30) resulting in operational profits. The above strengths continue to be offset by modest financial risk profile with negative networth, high debt levels along with competition risk and vulnerability of revenues due to inherent industry cyclicality and economic cycles.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant improvement in the financial profile coupled with debt reduction and improvement in its coverage and liquidity indicators.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Weakening in financial or operational metrics leading to continued negative cash accruals.
- Prolonged delay in fund raising either through IPO/strategic investment/fund infusion from promoters to reduce the external debt levels by Q2FY24.

Detailed description of the key rating drivers

Key rating strengths

Promoters' extensive experience in hospitality sector and strong management team: SHL was founded by Mr. Ashish Jakhanwala and Mr. Manav Thadani. The founding team together has 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.

Demonstrated track record of raising funds; strategic investments from globally established PE firms: The group has been successful in raising funds in form of equity shares/ NCD/ CCD, to the tune of Rs. 1352.54 crore from global private equity/ investment firms such as Goldman Sachs (GS), International Financial Corporation (IFC), GTI Capital Group (GTI), Equity International (EI) and other financial institutions over the past 9 years till March 31, 2022. These global investment firms hold 96.25% equity in the company viz. Equity International (49.35%), Goldman Sachs (28.88%) and GTI Capital Group (18.02%) as on Mar 31, 2022. During FY21 & FY22, the investors (GS and GTI) infused additional funds to the tune of Rs 87 crores and other investor infused additional funds of Rs. 30.30 crore in the form of NCD/OCDs to support the operations of the company. The additional support in the form of timely fund infusion from the existing/new investors in timely manner would be crucial from the credit perspective.

Tie-up with 8 well established international brands for branding, marketing & operating hotels: SHL is an institutional multi-branded hotel ownership company which has partnered with premier hospitality management companies to leverage their global brands. SHL has entered into hotel management agreement with Marriott under the banner of 'Courtyard

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

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'. Majority of the SHLs portfolio is positioned in the midscale segment.

Pan-India presence with a portfolio of 4050 keys in 27 properties with favourable locations of hotels across regions: SHL's assets are located across key gateway markets in India such as Ahmedabad, Bangalore, Chennai, Coimbatore, Delhi, Goa, Gurgaon, Greater Noida, Hyderabad, Kolkata, , Nashik, Pune and Vizag with 89% of its portfolio is in Tier I cities. As on September 30, 2022, out of the 29 assets, 18 are owned by SHL and remaining 11 assets are on long term lease. As on September 30, 2022, 52% SHLs assets lie in the south, 31% in west and 14% north & 3% east. A geographically diversified asset portfolio insulates the company from cyclical specific to a particular region. Further, SHL's properties are mostly located in central business districts (CBD) or business centre of a city.

Improved operating performance albeit deterioration in Covid hit years: The operational performance of the SHLs asset portfolio has improved significantly in H1FY23 and surpassed pre-covid levels. The occupancy and ARR has improved to 72% and Rs. 4692 respectively in H1FY23 as against 61% and Rs. 4602 in FY20. (FY22: 46% and Rs. 3188). This increase in RevPar has led to improved total operating income (TOI) & profitability. Going forward, increase in the in-person engagements by corporates, return of big-ticket conferences and seminars, as well as corporate offsite trips that encompass MICE activities, are expected to benefit the company's overall performance. Furthermore, with the reopening of international commercial travel, the industry is expected to receive a further boost to ARR across hotel segments. The sustainability of the operating performance will continue to remain the key monitorable.

Indian hospitality industry outlook: After an abysmal FY21, the Indian hospitality sector made a steady recovery in FY22 as successful vaccination drives and reduction in COVID-19 cases have helped improve travel sentiment. Though the Omicron wave caused a temporary blip, FY22 has witnessed a sharp rebound in the revenues. The revival can be largely attributed to pent-up demand for leisure and business travel, supported by increased bookings on account of weddings and significant uptick in MICE. The sector also saw some green shoots from international travel, after a lull of nearly two years. The sector is on track to achieve or even surpass the pre-COVID-19 level occupancies in FY23. As per the estimated data available for the hospitality industry, the fiscal year 2022 closed at ARR in the range of ₹4,400 - ₹4,590 and occupancy of 44%-46%. The performance of the industry improved significantly despite the temporary roadblock caused due to emergence of the third COVID-19 wave (Omicron). According to CARE Ratings, the hospitality sector is slowly moving into 'hospitable territory', anticipating recovery of domestic and international travel gradually through FY23 till the end of FY24 to the pre-COVID-19 levels. For FY23, CARE Ratings estimates the majority of its portfolio of hotel companies to report improved performance, largely restored to pre COVID-19 levels. Domestic tourism is expected to be the key growth driver, with international travel slowly gaining momentum, specifically post resumption of international flights. The situation is, however, still evolving, and the same remains contingent on the possibility of another COVID-19 wave and its severity on the sector. Pan-India average occupancy for H1FY23 is expected to be in the 63-65% range, 22-25 percentage points (pp) higher than H1FY22, and almost inching back to the pre-pandemic levels. The strong recovery in demand is driving steady increases in Average Room Rates (ARR), with hotels, particularly in the leisure sector, surpassing their pre-pandemic ARRs along with corporate travel and MICE gaining momentum. Domestic demand reported a strong recovery while international travel is still lagging. With the pick-up in foreign inbound travellers in H2 coupled with resilient domestic demand, H2FY23 is expected to be stronger. For FY23, CareEdge expects pan-India average hotel occupancy to be at 67-69% which shall surpass the pre-covid levels and ARR at Rs 5,800-6,000, thus leading to margin expansion for the players.

Key rating weaknesses

Weak coverage indicators and high debt levels: With continued net losses, the networth of the company has eroded completely. Thus, impacting all the coverage indicators. Total external long-term debt outstanding stood at Rs. 2553.95 crore as on October 31, 2022 as against Rs. 2215.15 crore as on March 31, 2022. The debt levels increased due to draw down of additional loans under the Government's ECLG Scheme which enabled the company to meet its financial obligations in the covid struck years. Further in FY22, SHL refinanced its loan from IL&FS Financial Services (IFIN) in Barque Hotels Limited and Samhi JV Business Hotels with Cerberus Capital Management company (Sarvara Investment Fund) of Rs. 285 crore and Rs. 410 crore respectively. In November 2022, the group is under the process of refinancing the same with reduced rate of interest (ROI) and ballooning repayment structure,

In addition to this, the group is in advance stage of finalizing the deal of monetizing of one of its asset. The monetization will further aid its liquidity and will be utilized for debt reduction.

Further, as guided by the management with the anticipated infusion of equity and subsequent debt reduction by Q2FY24, the financial risk profile is expected to improve. The proceeds from the infusion will be utilized completely for external debt reduction. Going forward, reduction in external debt (other than shareholder's debt) to sustainable levels either through IPO/strategic investment or fund infusion from promoters will be the key monitorable.

Regional movements and competition risk: Although the risk is largely mitigated owing to diversification in terms of geographies, hotel-operators and hotel-segments and favourable micro locations of the group's assets, going forward the pace

of the recovery in the economic cycle and stabilization of the hotel properties in competitive markets will be critical for the company's financial risk profile.

Vulnerability of revenues due to inherent industry cyclicality, economic cycles and exogenous events: Operating performance of the properties remain vulnerable to seasonal industry, general economic cycles and exogenous factors (geopolitical crisis, terrorist attacks, disease outbreaks, etc.). Nonetheless, the risk to revenues is partially mitigated by SHL's geographically diversified portfolio in prominent business districts, which allows it to withstand any demand vulnerability related to a particular micro-market.

Liquidity: Adequate

Samhi Hotels Limited's liquidity profile is marked by negative working capital cycle, healthy cash and bank balance. SHL's (consolidated) cash and bank balance stood at Rs. 166.22 crore as on October 31, 2022. In addition to this the company has DSRA balance of Rs 20.96 crore as on October 31, 2022. Further, the unutilized limits OD limits stood at Rs. 5.76 crore as on October 31, 2022 (with an average utilization of 71% for the 12 months ended October'22).

In addition to this, SHL as a group has ECLGS undrawn available as per ECLGS guidelines of Rs. 168.37 crore as on October 31, 2022, which the company can avail till June'23. Therefore, SHL currently has adequate liquidity available for meeting its debt servicing obligation in the medium term, but the debt level is high and reduction of the same is a key rating monitorable.

Analytical approach- Consolidated.

The entities considered in consolidation are mentioned in Annexure-6 below.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Hotel](#)

[Service Sector Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company

Incorporated on December 28, 2010, SHL is a hotel investment and development company. SHL was founded by Mr. Ashish Jakhanwala and Mr. Manav Thadani with focus on ownership of internationally branded hotels in the business segment, across key cities in India. The group has received investments from global private equity/ investment firms such as Goldman Sachs (GS), International Financial Corporation (IFC), GTI Capital Group (GTI) and Equity International (EI). SHL, along with its subsidiaries, has developed a portfolio of around 4050 rooms across 27 properties in 14 Indian cities under 8 premium international brands

| Brief Financials (₹ crore) | March 31, 2021 (A) | March 31, 2022 (P) | H1FY23 (Prov.) |
|----------------------------|--------------------|--------------------|----------------|
| Total operating income | 169.58 | 322.74 | 344 |
| PBILDT | -70.00 | 11.80 | 118.00 |
| PAT | -446.34 | -443.97 | NA |
| Overall gearing (times) | -ve | -ve | NA |
| Interest coverage (times) | -0.25 | 0.03 | NA |

A: Audited; NA: Not Available, Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

| Name of the Instrument | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|-------------------------------|----------------------------|-----------------------------|---|
| Fund-based - LT-Cash Credit | - | 5.00 | CARE BBB; Stable |
| Fund-based - LT-Term Loan | 31/03/2030 | 310.69 | CARE BBB; Stable |
| Non-fund-based - LT/ ST-BG/LC | - | 0.68 | CARE BBB; Stable / CARE A3+ |

Annexure-2: Rating history for the last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---------|--|-----------------|------------------------------|-----------------------------|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 | Date(s) and Rating(s) assigned in 2019-2020 |
| 1 | Fund-based - LT-Term Loan | LT | 310.69 | CARE BBB; Stable | 1)CARE BBB; Stable (07-Apr-22) | 1)CARE BBB (CWN) (06-Apr-21) | 1)CARE BBB+ (CWN) (13-May-20) | 1)CARE BBB+; Stable (10-Feb-20) |
| 2 | Non-fund-based - LT/ ST-BG/LC | LT/ST* | 0.68 | CARE BBB; Stable / CARE A3+ | 1)CARE BBB; Stable / CARE A3+ (07-Apr-22) | 1)CARE BBB / CARE A3+ (CWN) (06-Apr-21) | 1)CARE BBB+ / CARE A2 (CWN) (13-May-20) | 1)CARE BBB+; Stable / CARE A2 (10-Feb-20) |
| 3 | Fund-based - LT-Cash Credit | LT | 5.00 | CARE BBB; Stable | 1)CARE BBB; Stable (07-Apr-22) | 1)CARE BBB (CWN) (06-Apr-21) | 1)CARE BBB+ (CWN) (13-May-20) | 1)CARE BBB+; Stable (10-Feb-20) |

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

Annexure-4: Complexity level of various instruments rated for this company

| Sr. No. | Name of Instrument | Complexity Level |
|---------|-------------------------------|------------------|
| 1 | Fund-based - LT-Cash Credit | Simple |
| 2 | Fund-based - LT-Term Loan | Simple |
| 3 | Non-fund-based - LT/ ST-BG/LC | Simple |

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Annexure-6: Entities considered in consolidation

| Subsidiaries | % shareholding as on Mar 31, 2022 |
|--------------------------------------|-----------------------------------|
| SAMHI Hotels (Ahmedabad) Private Ltd | 100 |
| CASPIA Hotels Private Limited | 100 |
| SAMHI Hotels (Gurgaon) Private Ltd | 100 |
| SAMHI JV Business Hotels Private Ltd | 100 |
| Barque Hotels Private Limited | 100 |
| Paulmech Hospitality Private Limited | 100 |
| Ascent Hotels Private Limited | 100 |
| Xenon Hotels Private Limited | 100 |

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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