Samhi Hotels Limited (Revised)

February 15, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	228.32 (Reduced from 315.69)	CARE BBB+; Positive	Revised from CARE BBB (Rating Watch with Developing Implications) and removed from Rating Watch with Developing Implications; Positive outlook assigned
Long-term / Short-term bank facilities	0.68	CARE BBB+; Positive / CARE A2	Revised from CARE BBB / CARE A3+ (Rating Watch with Developing Implications) and removed from Rating Watch with Developing Implications; Positive outlook assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has removed the ratings of bank facilities of Samhi Hotels Limited (SHL) from 'rating watch with developing implications' and revised the ratings of long-term bank facilities to 'CARE BBB+' with 'Positive' outlook, and short-term bank facilities to 'CARE A2'.

CARE Ratings has removed the ratings from 'Rating Watch with Developing Implications' following successful acquisition of the ACIC Portfolio, where SHL in a share swap deal has obtained 962 keys across six operating hotels and a parcel of land in Navi Mumbai, Maharashtra on August 10, 2023. CARE Ratings also notes SHL's listing on BSE and NSE from September 22, 2023, post a book-built initial public offer (IPO), the subsequent improvement in SHL'ss financial risk profile bolstered by the IPO fuelled deleveraging efforts and relative improvement in the debt coverage metrics.

Revision in ratings considers the overall improvement of SHL's business risk profile as reflected in healthy revenue growth and significant expansion of the operating profitability in FY23 (refers to April 01 to March 31) and 9MFY24 (refers to April 01 to December 31). This coupled with healthy demand and limited supply augured well for the profitability wherein the operating margins (adjusted for ESOPs) stood at 33.17%for FY23 and 31.30% for 9MFY24 (. Last two-years' improvement was reflected in significant increase in operating metrics such as average room rent (ARR) and occupancy rates, which stood at around ₹5,133 and 72%, respectively, in FY23 and ₹5,504 and 71%, respectively, in 9MFY23, surpassing the pre-pandemic levels. CARE Ratings expects the operating performance to sustain over the medium term aided by company's established market position and permanent cost saving measures facilitated by the current upcycle in the hospitality industry. Ratings also draw comfort from the tie-up with various international hotel brands for branding, marketing, and operating properties, as well as company's significant deleveraging efforts demonstrated by the improvement in coverage indicators.

The company's financial risk profile also improved supported by healthy accruals. SHL deleveraged significantly over 9MFY24 backed by inflow from the IPO, which was majorly utilised to prepay debt and the total external debt stood at ₹2,120.97 crore (excluding OCRDs and lease liability) as on December 31, 2023, against ₹3,046.56 crore on a pro-forma basis as on March 31, 2023. CARE Ratings observes that the net debt to profits before interest, lease, depreciation, and taxation (PBILDT) has improved as of December 2023 to 6.7x (annualised for the year, including OCRDs and lease liability and is pre-ESOP) from the past highs and expects that debt coverage will improve further due to limited incremental debt and expected healthy profitability.

The positive outlook is due to CARE Ratings' belief that the company will continue to gain advantage from the positive trend in the hotel industry and synergies from the ACIC acquisition. Additionally, sustained PBILDT improvement, decrease in interest costs and no incremental debt in the medium term, is expected to strengthen leverage and contribute to an overall improvement in credit profile.

However, rating strengths continue to be offset by moderate financial risk profile, which is characterised by improving its leveraged capital structure, competition risk, revenue vulnerability due to inherent industry cyclicality and economic cycles.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly improving financial profile, debt reduction and improving coverage and liquidity indicators with net debt/PBILDT remaining around 4x on a sustained basis.
- Improving scale of operations and sustained current healthy operating margins, translating in expansion of return on capital employed (RoCE).

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

Negative factors

- Weakening operating performance due to lower-than-estimated ARR and/or occupancy, resulting in material compression in operating margin remaining below 25% on a sustained basis.
- Weakening financial risk profile with net debt/PBILDT above 6x on a sustained basis.

Analytical approach: Consolidated

CARE Ratings has taken a consolidated view of the parent (SHL) and its subsidiaries considering significant business, managerial and financial linkages between the parent and the subsidiaries. SHL has also supported its subsidiaries in with DSRA shortfall undertaking or corporate guarantee.
The consolidated list of entities considered are mentioned in Annexure-6 below.

Outlook: Positive

The positive outlook considers CARE Ratings' belief that SHL's credit profile will continue to benefit from the upcycle in the hotel industry, complete integration of the ACIC portfolio, planned renovations, rebranding of existing hotels (which is currently on track) and additions of new rooms. Sustained improvement in PBILDT, reduction in interest cost and relative low debt over the past years is expected to bolster the company's free cash flow, consequently improving leverage, and supporting overall credit profile. However, outlook may be revised back to stable if the expected improvement in profitability and leverage is not achieved as envisaged over the medium term.

Detailed description of the key rating drivers:

Key strengths

Improving revenue and profitability in FY23 and 9MFY24 from strong operational performance fuelled by ACIC portfolio acquisition

The company reported substantial growth of more than 1.29x in total operating income (TOI) to ₹745.51 crore in FY23 over FY22. The improvement is derived from increased occupancy level from 46% in FY22 to 72% in FY23 on the total room inventory of 3,839 rooms (before adding ACIC acquired hotel rooms), approximately 61% increase in ARR to ₹5,133 in FY23 (PY: ₹3,188). Out of total revenue, approximately 72.1% is derived from room rentals, around 24.6% from F&B, and remaining from recreation and other services (including property management and space rental). Profitability margin with an absolute PBILDT of ₹244.62 crore (PY: ₹10.79 crore) stood at 32.82% in FY23 (PY: 3.31%).
In 9MFY24, SHL completed acquisition of ACIC portfolio through a share swap deal at ₹238.15 per equity share and on August 10, 2023, obtained six operating hotels (adding 962 keys) under Marriott-owned brands, specifically Fairfield by Marriott and Four Points by Sheraton across major cities, including Hyderabad, Pune, Chennai, Jaipur and Ahmedabad. The total operating rooms increased from 3,839 in FY23 to 4,801 spread across three segments – upper up-scale (1,074), upper mid-scale (2,163) inclusive of ACIC portfolio and mid-scale (1,564). Although the synergies of this acquisition will be appropriately reflective from Q1FY25 onwards, TOI in 9MFY24 stood at ₹688.84 crore, of which about 22.23% was contributed by the ACIC portfolio at an asset level PBILDT margin of 32%. The same store revenue contributed to about 70.07% of the TOI at an asset level PBILDT margin of 41%, and the same of the remaining assets inclusive of five operating hotels (including 1 ACIC asset) planned to undergo rebranding and renovations in FY24 and FY25 stood at 31%. The occupancy level for 9MFY24 stood at 71% (PY on Y-o-Y basis: 71%) and ARR improved by 17% Y-o-Y to ₹5,504 in 9MFY24 from ₹4,691 in 9MFY23.
Five hotels under rebranding include 920 operating keys across the key market areas of the company, in Pune, Delhi-NCR, and Vizag. CARE Ratings believes that the boost from rebranded five hotels and transitioning of entire ACIC portfolio's franchise agreements to Samhi's shared service arrangement will be significant drivers to the growth of SHL's business profile and will be key monitorable.
Going forward, increasing in-person engagements from corporates, return of big-ticket conferences and seminars, and corporate offsite trips covering MICE activities are expected to benefit the company's overall performance. With international commercial travel reopening, the industry is expected to receive a further boost to ARRs across hotel segments. Sustaining operating performance will continue to remain a key monitorable.

CARE Ratings also considers the legal notice received by the company from MIDC regarding termination of lease for its project land in Navi Mumbai. The said notice has been challenged by Duet Navi Mumbai by invoking a writ jurisdiction of the Hon'ble High Court of Bombay. Meanwhile, the company has provided for the value of this investment amounting to ₹75.25 crore (non-cash) in FY24.

Substantial debt reduction in 9MFY24, however, moderate financial risk profile

SHL has historically been leveraged which peaked during the COVID-19-struck years, enabling it to meet its operational and capex requirements as well as its financial obligations. As on March 31, 2023, the total debt stood at ₹2,580.04 crore (PY: ₹2,616.52 crore) while on a pro-forma basis, the total debt stood at ₹3,046.56 crore. The company has deleveraged its balance sheet significantly over 9MFY24 backed by inflow of around ₹1,141.41 crore (net IPO expense) through the IPO (total proceeds of ₹1,370.10 crore from fresh issue of ₹1,200 crore and offer for sale of ₹170.10 crore) which was majorly utilised to prepay the outside debt. On a pro-forma basis, SHL's total debt as on March 31, 2023, stood at ₹3,046.56 crore, which was reduced to around ₹2,200 crore as on December 31, 2023. Company's tangible net worth (TNW) (adjusted for goodwill) which was negative in FY23 improved to ₹523.82 crore as on December 31, 2023, owing to fresh issue of shares and ACIC Acquisition (with transactional value of about ₹892 crore). Moreover, due to debt prepayment and refinancing of high-cost loans, the company has reduced its average rate of borrowing from previous high levels of around 13% as on September 30, 2023, to around 10% as on December 30, 2023, across the portfolio. Although, debt reduction has been significant between September 2023 to December 2023, it continues to be high and going forward reducing debt will be a key monitorable.

The net debt/PBILDT was 10.01x as on March 31, 2023, which improved in H1FY24 (annualised and adjusted for ESOP/onetime) and stood at 7.75x as on September 30, 2023, and 6.7x as on December 31, 2023. As the profitability increases on account of synergies achieved and benefits derived out of rebranding and renovations, net debt/PBILDT level is further expected to improve over the medium term, which is a key monitorable. The interest coverage indicators which have remained subdued in the past are also expected to improve due to majority debt repayments in Q3FY24, and the company is expected to generate free cash flows henceforth. CARE Ratings understands, with no major incremental debt expected, further reduction in debt and ROI improvement, the credit profile is expected to improve over medium term with reduced leverage.

Tie-up with eight well-established international brands for branding, marketing and 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 long-term 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'. The company commands a significant market share, holding 43% of all Fairfield by Marriott and 71% of Holiday Inn Express hotels in India, solidifying its presence in the upper mid-scale segment with these two strong global brands. Additionally, there are two hotels with presently unbranded 279 rooms, and the company is set to finalise their renovation and branding by September 2024. Moreover, the company is also renovating three other hotels having 641 keys with targeted completion dates in September 2024 and September 2025. Renovation and rebranding efforts for these five hotels are anticipated to be advantageous for SHL, positioning them at higher price points.

PAN-India presence with a portfolio of 4,801 keys in 31 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, Jaipur, and Vizag with more than 90% of its portfolio in Tier-I cities. The company benefits from diversification across cities, price-points, and hotel operators, reducing the impact of market volatility in any of the key markets. With presence in major office markets, the company's demand-supply outlook for room inventory is expected to be favourable in the medium-term.
the company is on track for the opening of Holiday Inn Express in Kolkata by September 2024 which will add 111 new keys as well as 54 keys and 16 keys in Holiday Inn Express Bangalore and Hyatt Regency Pune, respectively, in CY24. SHL is expected to incur around ₹100 crore of capital expenditure annually in FY25 and FY26 each for the said projects. theThe company also has a pipeline of projects that are under development, and completion of these will allow SHL's entry into new geographies to expand its portfolio.

Strong management having extensive experience in the hospitality sector
SHL was founded by Ashish Jakhanwala and Manav Thadani. SHL's management team has strong domain expertise, successful project implementation, management capabilities and long-standing global relationships in the hotel industry. SHL's team has extensive experience in the hotel and real estate industry through their association with internationally renowned companies.

Key weaknesses

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 stabilisation 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, and disease outbreaks, among others). Nonetheless, the risk to revenues is partially mitigated by SHL's geographically diversified portfolio in prominent business districts allowing it to withstand any demand vulnerability related to a particular micro-market.

Liquidity: Adequate

SHL's liquidity is supported by modest cash and bank balance amounting to ₹280 crore as on December 31, 2023, as well as negative working cycle. The company has DSRA balance of ~₹54.7 crore (of ₹280 crore) as on December 31, 2023, and negligible repayments in Q4FY24. The consolidated gross cash accruals (GCA) of SHL was negative in FY23, however it turned positive in Q3FY24 and is expected to increase and remain in the next two years, against which the scheduled debt repayments for FY25 is around ~₹90 crore , which shall reduce and improve the coverage indicators post the refinancing under arrangement and hence remain monitorable The company is expected to incur ₹100 crore in FY25 and FY26 each to meet its capital expenditure requirements, which partially shall be met by available liquidity with SHL and its expected cash accruals. CARE Ratings envisage no incremental debt for the planned capex, which is underway.

CARE Ratings notes that, at present, the cash flow from the Duet portfolio is not accessible to Samhi Hotels. However, the company is actively pursuing arrangements to establish fungibility of cash flow. As on December 31, 2023, the Duet portfolio has contributed ₹58 crore to the company's overall cash and bank balance, and to that extent, SHL's credit profile remains unaffected.

Assumptions/Covenants: NA

Environment, social, and governance (ESG) risks:

The ESG profile of SHL supports its credit risk profile. The sector has a moderate environmental and social impact.

Environment: The company is focused on energy and resource conservation measures and has implemented solar water heating and central building automation systems at certain properties and is actively working towards reducing the carbon footprints. It has also set up energy-efficient variable refrigerant flow based air-conditioning units, heat pumps to transfer energy gained in air-conditioning to heat water for showers and kitchens, and motion detection sensors to reduce energy consumption.

Social: The company work closely with hotel operators in establishing the overall human resource policies and establish training and motivational programs for employees at the hotels aimed at promoting employee well-being. Further, the company adopted a corporate social responsibility policy in compliance with the Companies Act, 2013 and has a Corporate Social Responsibility Committee under Section 135 of the Companies Act 2013 in place.

Governance: The company has a sound governance architecture that upholds responsible and ethical conduct. It has a dedicated committee to proactively lead risk management. Further, 50% composition of the Board of Directors is constituted by independent directors.

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

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Consumer services	Leisure services	Hotels & resorts

Incorporated on December 28, 2010, SHL is a hotel investment and development company. It was founded by Ashish Jakhanwala and Manav Thadani with focus on ownership of internationally branded hotels in the business segment, across key cities in India. The company has acquired 962 keys across six operating hotels and a parcel of land for the development of a hotel in Navi Mumbai, Maharashtra on August 10, 2023, in a share swap deal from Asiya Capital for which SHL gave around 30% of its equity. Thus, the company expanded its portfolio to 4,801 keys as on December 31, 2023, across 31 operating hotels. SHL came up with a book-built IPO of listing dated September 22, 2023, on BSE and NSE.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	325.62	745.41	688.84
PBILDT	10.79	244.62	181.08
PAT	-443.25	-338.59	-177.89
Overall gearing (times)	-5.66	-3.95	4.20
Interest coverage (times)	0.03	0.47	0.63

A: Audited; UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

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

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	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+; Positive
Fund-based - LT-Term loan		-	-	31/03/2030	223.32	CARE BBB+; Positive
Non-fund-based - LT/ ST-BG/LC		-	-	-	0.68	CARE BBB+; Positive / CARE A2

Annexure-2: Rating history for 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 2023-2024	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
1	Fund-based - LT-Term loan	LT	223.32	CARE BBB+; Positive	1)CARE BBB (RWD)	1)CARE BBB; Stable	1)CARE BBB (CW with	1)CARE BBB+ (CW with

					(17-Apr-23)	(07-Dec-22) 2)CARE BBB; Stable (07-Apr-22)	Negative Implications) (06-Apr-21)	Negative Implications) (13-May-20)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	0.68	CARE BBB+; Positive / CARE A2	1)CARE BBB / CARE A3+ (RWD) (17-Apr-23)	1)CARE BBB; Stable / CARE A3+ (07-Dec-22) 2)CARE BBB; Stable / CARE A3+ (07-Apr-22)	1)CARE BBB / CARE A3+ (CW with Negative Implications) (06-Apr-21)	1)CARE BBB+ / CARE A2 (CW with Negative Implications) (13-May-20)
3	Fund-based - LT-Cash credit	LT	5.00	CARE BBB+; Positive	1)CARE BBB (RWD) (17-Apr-23)	1)CARE BBB; Stable (07-Dec-22) 2)CARE BBB; Stable (07-Apr-22)	1)CARE BBB (CW with Negative Implications) (06-Apr-21)	1)CARE BBB+ (CW with Negative Implications) (13-May-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the 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: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of all the entities consolidated

Sr No.	Name of companies/ Entities	Extent of consolidation	Rationale for consolidation
1.	SAMHI Hotels (Ahmedabad) Private Ltd	Full	100% Holding
2.	CASPIA Hotels Private Limited	Full	100% Holding
3.	SAMHI Hotels (Gurgaon) Private Ltd	Full	100% Holding
4.	SAMHI JV Business Hotels Private Ltd	Full	100% Holding
5.	Barque Hotels Private Limited	Full	100% Holding
6.	Paulmech Hospitality Private Limited	Full	100% Holding
7.	Ascent Hotels Private Limited	Full	100% Holding
8.	Argon Hotels Private Limited (Before as Xenon)	Full	100% Holding
9.	Duet Hotels (Pune) Pvt. Ltd.	Full	100% Holding
10.	Duet Hotels (Hyderabad) Pvt. Ltd.	Full	100% Holding
11.	Duet Hotels (Ahmedabad) Pvt. Ltd.	Full	100% Holding
12.	Duet Hotels (Jaipur) Pvt. Ltd.	Full	100% Holding
13.	Duet Hotels (Chennai OMR) Pvt. Ltd.	Full	100% Holding
14.	Duet Hotels (Chennai) Pvt. Ltd.	Full	100% Holding
15.	Duet Hotels (Bangalore) Pvt. Ltd.	Full	100% Holding
16.	Duet Hotels (Navi Mumbai) Pvt. Ltd.	Full	100% Holding
17.	ACIC Advisory Pvt. Ltd.	Full	100% Holding

Note on the 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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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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