

# SAMHI Hotels Investment Thesis

## 1) Business Understanding & Competitive Edge

### Brief Description:

Samhi Hotels is India's second-largest institution-backed hotel asset owner. As on Q3FY25, the company has 4,943 hotel rooms across 32 hotels in 13 major cities.

Samhi Hotels does not build hotels from scratch, it focuses on **acquiring dislocated hotels**, renovating them, and rebranding them under management agreements with brands like Marriott, IHG, and Hyatt.



### Strategy & Approach:

- **90% of their revenue comes from Tier-1 cities** in India, where hotel traffic and ARR (Average Room Rates) tend to be higher.

Their strategy involves targeting locations near airports and office spaces to ensure steady occupancy and room rents driven by corporate demand.

Samhi operates in the premium segment, not ultra-luxury, where the average key setting up price is ₹1-2cr, and building considerable keys takes a few years.

They focus on business hotels, resulting in better weekday occupancy (78-80% on Tue, Wed, and Thu) compared to weekends (64-67% on Sat-Sun).

- Since asset-heavy capex is required when buying distressed assets, a key aspect of their strategy is to monetize assets using sale and leaseback arrangements once they are turned around.

The company aims for capital-efficient growth through long-term variable leases, avoiding land and building costs.

The company aims to increase the share of revenue from variable leases from 13% to 20% in the near term and recycle capital by divesting non-strategic assets.

### Competitive Advantages:

1. **Strategic Locations:** Approximately 80% of SAMHI's keys are in top 7 office markets. SAMHI has a diversified presence in core office markets.
2. **Brand Tie-ups:** SAMHI has tie-ups with global brands like Marriott, Hyatt, and IHG. These tie-ups drive ADR (Average Daily Rate) premium, higher occupancy rates, and customer loyalty.
3. **Acquisition & Turnaround Expertise:** SAMHI has a track record of acquisition-led turnaround of dislocated assets, achieving more than 20% RevPAR CAGR after renovation or rebranding.
4. **Cost Efficiency:** Lower per-key cost structure (₹1-2Cr per key vs. industry average of ₹2-3Cr) due to better capital allocation and asset acquisition strategies. The company prefers buying hotels that are already operational or near completion to reduce risks and time associated with building new ones from scratch.
5. **Operating Efficiency:** SAMHI boasts materially lower staff-to-room ratio due to space efficiencies via shared service centres and centralised functions.
6. **Proprietary Analytics Tool:** SAMHI has developed "SAMHIIntel," an analytics tool providing real-time operating data across brands. SAMHI also uses SAMConnect to drive operational efficiency.
7. **Experienced Management:** SAMHI is overseen by an experienced board and run by professional management with Ashish Jakhanwala at the helm of affairs.

## 2) Growth Drivers and Projected Impact on Financials (Next 3-5 Years)

- **Sectoral Tailwinds & Demand-Supply Dynamics**

The Indian hospitality sector is experiencing robust demand growth of **8-10% CAGR**, exceeding the **5-6% CAGR supply growth**, leading to increased occupancy and higher Average Room Rates (ARR).

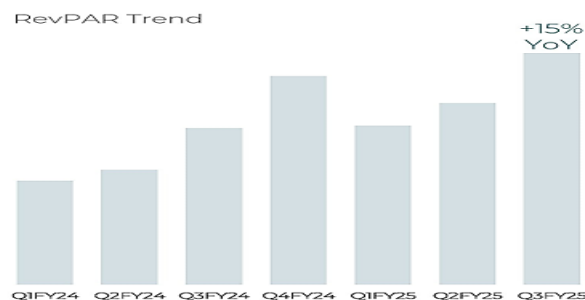
Corporate travel is projected to grow at a **10.1% CAGR**, reaching **\$20.8 billion by FY30**, further supporting demand for premium hotel rooms.

- **Revenue Per Available Room (RevPAR) Growth**

RevPAR is expected to grow at **high single-digit to low double-digit rates** over the next few years, driven by:

- Strong demand in **Bangalore, Hyderabad, Delhi NCR, and Pune**.
- Office market growth in key cities supporting higher occupancy rates.
- ADR hikes due to rebranding and renovations.

**Q3 FY25 saw 15% YoY RevPAR growth**, highlighting strong operational performance in core markets.



- **Portfolio Expansion & Asset Additions**

The ACIC acquisition added **962 keys**, contributing **22% of revenue** and expected to drive **8-10% EBITDA margin improvement** post-integration.

**Planned room expansion:**

- **857 additional keys (18% growth) between FY25-29**
- Portfolio expected to grow to **5,650 keys from 4,939 currently**

**New projects include:**

- **165 rooms** in Kolkata and Bangalore
- **525 upscale and upper-upscale rooms** in Bangalore and Hyderabad

**Renovation and rebranding:**

- Caspia Pro (Greater Noida) → Holiday Inn Express
- ACIC assets in Pune & Jaipur rebranded under Marriott brands.

- **EBITDA Margin Expansion & Cost Optimization**

SAMHI aims to **increase EBITDA margins to 38-40%** (up from ~30% currently) through:

- Portfolio rebranding & integration of the ACIC portfolio
- Lower ESOP costs and one-time expenses
- Operational efficiency improvements

**800 bps (8%)** EBITDA margin improvement expected over FY24-26.

Approximately **60% of additional revenue** is expected to flow to EBITDA.

- **Free Cash Flow Generation & Deleveraging**

Expected cumulative **₹10 billion FCF generation from FY24-26**, enabling debt reduction.

Net Debt/EBITDA ratio projected to decline from:

**8.2x (FY24) → 4.5x (FY25) → 3.7x (FY26) → 3.2x (FY27E)**

Improved profitability should aid in further deleveraging.

- **Strategic Partnerships & Market Positioning**

SAMHI's focus on asset-light expansion aligns with **global hotel chains' expansion plans**, positioning it as a preferred partner.

Market share is expected to **increase with the expansion of upper-upscale brands like Westin**.

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### Projected Financial Impact (FY25-FY29)

Metric	FY24	FY25E	FY26E	FY27E
Revenue Growth	~12% CAGR	13% CAGR	12% CAGR	12% CAGR
EBITDA Margin	~30%	38-40%	40%+	40%+
Net Debt/EBITDA	8.2x	4.5x	3.7x	3.2x
RevPAR Growth	9-10%	10-12%	High single digits	High single digits
EBITDA Growth	32% CAGR	26-32% CAGR	25%+	20%+
PAT	Negative	Turns positive Q1FY25	Improves further	Stronger profitability

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### 3) Company Specific Risks and Valuation

#### 1. Financial Risks

- **Debt Burden:** SAMHI operates with significant debt, posing refinancing and interest rate risks. If revenue growth does not meet expectations, the debt burden could become a constraint on profitability and affect investor sentiment.
- **Accounting Risks:** A history of write-offs raises concerns about the company's financial reporting quality. There is a possibility of additional write-offs in the future.
- **Contingent Liabilities:** The company's contingent liabilities appear to be on the higher side, creating potential downside risk.

#### 2. Operational Risks

- **Dependence on Business Travel:** SAMHI is vulnerable to any reduction in corporate travel spending, particularly if businesses cut costs due to lower profitability.
- **Regional Concentration:** 41% of SAMHI's inventory is in Bengaluru and Hyderabad, making it exposed to regional economic and competitive pressures.
- **Integration of ACIC Portfolio:** The successful integration of the ACIC hotel portfolio is critical for cost synergies and operational efficiency. Any delays or inefficiencies in this process could impact margins.
- **Project Delays:** Key expansion projects, including the Bangalore room addition at Holiday Inn and Kolkata, are experiencing delays, potentially affecting future revenue streams.

#### 3. Governance and Market Risks

- **Internal Control Weaknesses:** In its FY24 Annual Report, SAMHI's auditors flagged material weaknesses in the company's internal controls, raising concerns about operational and financial oversight.
- **Keyman Risk:** CEO Ashish Jakhanwala plays a central role in the company's strategic direction. Any disruption in leadership could impact operations and investor confidence.
- **Share Overhang from PE Investors:** Private equity investors, including ACIC Mauritius, Blue Chandra PTE, and GTI Capital Alpha, collectively hold 22% of the company's shares. Post March 2025 lock-in expiration, a significant sell-off could impact stock liquidity and price stability.

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#### Comments:

SAMHI faces a mix of structural, financial, and operational risks. While its business is positioned in high-demand urban centers, concerns around **debt, governance, integration risks, and PE exits** could create headwinds. **Key monitorable** include:

1. Ability to **reduce debt levels** through operational cash flows.
2. **Execution of ACIC portfolio integration** to maintain margins.
3. **Market reaction to post-March 2025 PE exits** affecting stock price.

## Fair Exit Multiple for 2028 (EV/EBITDA)

- Base Case: **15x** (aligned with mid-scale hotel chains)
- Bear Case: **12x** (if risks materialize: weak integration, competition, demand shocks)
- Bull Case: **18x** (if growth remains strong, debt is reduced, and PE selling impact is absorbed)

### Rationale:

	Enterprise Value (Cr)	Revenue (Cr)	EBITDA Margin	EBITDA CAGR (FY18-24)	EV/EBITDA	
Domestic Peers						
Chalet Hotels	17022	1614	42%	16%	24.2	Closest Peer
Juniper Hotels	6558	788	35%	16%	21.4	
Lemon Tree Hotel	12630	1235	49%	25%	20.9	
Average	12070	1212	42%	19%	22x	
International Peers						
Marriott	850991	54810	68%	8%	22.9x	
Intercontinental	216618	32434	28%	6%	23.6x	
Hilton	657150	41290	53%	5%	30.2x	
Average	574920	42845	50%	6%	26x	

- **Historical Multiples for Indian Hotel Industry:**
  - During peak cycles (2018-19, 2022-23), EV/EBITDA multiples expanded to **22x-25x**.
  - During downturns (COVID-19, 2008 financial crisis), multiples compressed to **8x-12x**.
- **Adjusting for SAMHI's Specific Risks:**
  - **Debt Burden:** Higher leverage should lead to a discount in valuation multiple.
  - **PE Overhang in 2025:** Supply overhang may lead to price pressure.
  - **Business Model:** SAMHI operates in the **mid-scale** segment, typically valued at a discount to luxury hotels.
  - **Integration Risk:** Uncertainty around ACIC integration lowers predictability of future EBITDA growth.
  - **Regional Concentration:** 41% exposure to Bengaluru and Hyderabad increases local market risks.

## Fair Discount Rate (WACC) Computation

Risk-Free Rate (Rf)	7%	India's 10-Year G-Sec Yield
Equity Risk Premium (ERP)	6.5%	India's Historical ERP ranges from 5.5%-6.5%
Equity Beta (β)	1.25	Indian hotel sector beta ranges 0.9-1.3
Cost of Equity	15.2%	

## Valuation:

### Financial Projections

Particulars	2023	2024	2025E	2026E	2027E	2028E	CAGR %
<b>Room Revenue</b>							
Keys (no)	3,839	4,801	5,106	5,182	5,438	5,438	
ARR (INR)	4853	5665	6036	6386	6858	7140	
Occupancy (%)	71	72	73	74	74	74	
RevPAR (INR)	3467	4104	4409	4736	5084	5276	
<b>Total Room Revenue</b>	<b>538</b>	<b>719</b>	<b>822</b>	<b>896</b>	<b>1009</b>	<b>1047</b>	10%
<b>F&amp;B + Other Revenue</b>	201	238	269	304	343	388	13%
<b>Total Revenue</b>	739	957	1090	1199	1352	1435	11%
EBITDA Margins	32%	28%	36%	38%	40%	40%	
<b>EBITDA</b>	<b>238</b>	<b>267</b>	<b>393</b>	<b>456</b>	<b>541</b>	<b>574</b>	21%
Net Debt/EBITDA	10.9	8.2	6	4.5	3.7	3.3	
<b>Interest Expense</b>	<b>522</b>	<b>345</b>	<b>247</b>	<b>215</b>	<b>210</b>	<b>196</b>	
Depreciation	96	113	128	136	143	151	
Non-Operating Income	23	21	23	24	26	27	
Extraordinary items	19	-64	-	-	-	-	
<b>Profit After Tax</b>	<b>-338</b>	<b>-234</b>	<b>40</b>	<b>128</b>	<b>214</b>	<b>255</b>	

Target EV for FY28	<b>@14x EV/EBITDA</b>	8037
Present Value	<b>@15% Discount rate</b>	5103
Less: Net Debt		1866
Fair Value of Equity		3237

<b>Fair Price per share</b>	<b>22 Cr. Shares o/s</b>	<b>147</b>
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CMP of shares 154 **Fairly Valued**

### Sensitivity Analysis

		EBITDA Growth (FY25-28) %				
		15%	17%	19%	21%	23%
Exit EV/EBITDA	10x	50	60	70	81	92
	12x	77	88	101	114	127
	14x	104	117	132	147	162
	16x	131	146	162	180	197
	18x	158	175	193	213	233

**Fair Value Range:** 114 to 197

**Max Expected Drawdown from CMP (VaR):** 26%