SAMHI Hotels Ltd.
CIN: L55101DL2010PLC211816
Regd. Office: Caspia Hotels Delhi, District Centre Crossing, Opp. Galaxy Toyota Outer Ring Road, Outer Ring Rd., Haider Pur, Shalimar Bagh, Delhi-110088.

19th November 2024

BSE Limited
Corporate Relationship Department
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai 400 001
Maharashtra, India

Scrip Code: 543984

National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (East), Mumbai – 400 051

Scrip Code: SAMHI

Sub: Transcripts of Q2 FY25 Earnings Conference Call

Dear Sir / Madam,

Please find enclosed the transcripts of the Q2 FY25 Earnings Conference Call held on **Monday, 11th November 2024 at 11:30 a.m. IST**.

You are requested to kindly take the same on your records.

Thanking You.

Yours faithfully,

For **SAMHI Hotels Limited**

SANJAY JAIN
Digitally signed by SANJAY JAIN
Date: 2024.11.19 18:43:02 +05'30'

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Senior Director- Corporate Affairs,
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SAMHI Hotels Limited

Q2 FY25 Earnings Conference Call

November 11, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 11th November 2024 will prevail.

MANAGEMENT:
MR. ASHISH JAKHANWALA – CHAIRMAN & MANAGING DIRECTOR
MR. RAJAT MEHRA – CHIEF FINANCIAL OFFICER
MR. GYANA DAS – EXECUTIVE VICE PRESIDENT & HEAD (INVESTMENTS)
MR. NAKUL MANAKTALA – VICE PRESIDENT (INVESTMENTS)

Moderator: Ladies and gentlemen, good day and welcome to SAMHI Hotels Limited Q2 FY25 Earnings Call.

This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantee of future performance and involve risk and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*", then "0" on your touch tone phone. Please note that this conference call is being recorded.

I now hand the conference over to Mr. Ashish Jakhanwala – Chairman & Managing Director, SAMHI Hotels. Thank you and over to you, sir.

Ashish Jakhanwala: Good morning, ladies and gentlemen. Welcome to SAMHI Hotels Earnings Call for the quarter ending September 30, 2024.

I have with me today Gyana Das, who is EVP and Head of Investments, Rajat, who is the Chief Financial Officer and Nakul, who is VP of Investments. We also have on call our investor relations advisors, Strategic Growth Advisors. We have uploaded our Q2 FY25 Financials and Presentation on the Exchanges. And I hope everybody had an opportunity to go through the same.

To begin with, I will start off with some exciting new developments for our growth, along with a brief update on the business performance for the quarter. Post which I will request Rajat to give us a summary of the financial performance and then we will leave the floor open for Q&A.

Starting off, I am quite pleased to announce that on 7th October, we signed a long-term variable lease for an existing building in the heart of HITEC City, Hyderabad, which will be converted into a 170-room upper-upscale hotel. With this and the earlier announced acquisition in Bangalore, Whitefield, SAMHI has secured three upper-upscale and upscale hotels with about 525 rooms in core markets of Bangalore and Hyderabad. These three assets are all in different stages of development, which I will take you through one by one.

The first is an operating 142 room hotel in Bangalore, Whitefield, which we acquired in October 2024. We see significant upside in the revenue and EBITDA potential of this asset, once it is renovated and rebranding to the upscale segment, for which, we are in advanced stages of discussion with an international operator. The second is an additional tower to be developed adjacent to the existing hotel in Whitefield. This would add another 200 to 220 rooms in the upper-upscale segment to be managed by the same operator.

We then come to the recent acquisition of the building in Hyderabad, for which we have secured the leasehold rights. This is located in the heart of HITEC City in Hyderabad. The building is being taken over on a long-term variable lease linked to revenues and we will complete the fit outs to convert it into an upper-upscale hotel with about 170 to 175 rooms.

The shorter capex to revenue cycle in this development will lead to quick contribution to incremental revenues and EBITDA starting Financial Year 2027. Moreover, the variable lease nature of the development wherein our investment will be limited to the fit outs will boost both our return profile and also provide capital efficient growth for SAMHI.

So, in summary, these additional 525 rooms all in the upscale and upper-upscale segments and in our core markets of Bangalore and Hyderabad shall materially augment the growth of our portfolio. Moreover, since these assets are in different stages of either operation or completion, we shall ensure strong incremental revenue and EBITDA growth over the next three years to four years. Just as a reference on a trailing 12-month basis, the revenue in upscale hotels in Bangalore and Hyderabad market was upwards of Rs. 50 Lakhs per room. This demonstrates the true potential of the 525 rooms that we are adding to our portfolio.

Now talking about our existing portfolio assets, we are very excited about how our core markets, especially Bangalore and Hyderabad continue to grow, which is also where we have secured our growth pipeline. This is demonstrated by both of these cities absorbing almost 10 million square feet of the 22 million square feet of office space in the first-half of Financial Year 2025 on a net basis. In addition, air passenger. growth in Q2 was highest in Bangalore and Hyderabad at 13% and 14% respectively, reinforcing our confidence to densify our presence in these two markets.

Our operating portfolio of hotel assets are well located to take advantage of the sectoral tailwinds which reflect in delivering strong same-store revenue growth. In the last reported quarter, our same-store assets, which excludes the recently acquired ACIC Portfolio and the Caspia Pro in Greater Noida which is under pre-opening, delivered at 16.5% YoY RevPAR growth in the second quarter, driven by robust demand as demonstrated in the office space net absorption and aviation growth in our core markets. Operating performance remains strong with 13.3% YoY revenue growth in our same-store assets, resulting in EBITDA growth of about 20.2% leading to a margin expansion to almost close to 40%. As we move into seasonally stronger second-half of FY'25 higher revenue led primarily by ARR growth and strong flow throughs to EBITDA, will result in further margin expansion.

Next is a quick update on the internal growth levers we are working on for the improvement of the performance of our existing hotels. The integration of the ACIC Portfolio is progressing smoothly as planned, contributing to a significant margin improvement approximately 590 basis point in Q2 FY'25 compared to H1 FY'24 which is pre acquisition. This is currently at about 36% for the quarter. We have also completed the renovation and rebranding of the 137 room Caspia Pro in Greater Noida and to be reopened as Holiday Inn Express. In addition, the 165-room new hotel in Calcutta and Bangalore also under the Holiday Inn Express brand have been completed. All these 300 rooms are currently under pre opening and should start contributing to revenues in the next few weeks.

We have also received approval to convert the commercial block in our Sheraton, Hyderabad assets into 42 additional rooms. And in addition, we are converting some of the public areas to 10 additional guest rooms. All of this should get operational by Q3 to Q4 of FY26. Hyderabad being a strong market, this will have a significant impact on the revenue and the EBITDA potential of that asset and our portfolio. However, we do see some short-term impact of about Rs. 2 crores per quarter, which was the rent coming from the commercial block, till such time we have not operationalized the guest rooms.

Our internal projects also include conversion of the two mid scale ACIC hotels in Pune and Jaipur to the upscale segment and the room expansion in Hyatt Regency, Pune and Fairfield, Sriperumbudur, all of which have been summarized on Page 27 of our quarterly presentation. The combination of the above that is strong same-store growth, the internal growth levers that I just mentioned above and the three new upscale projects in Bangalore and Hyderabad that we have secured, shall continue to drive a sustainable compounding of revenue and EBITDA and create significant value for our shareholders.

While the growth initiatives require capital, most of these are being funded from our cash and internal accruals with quick turnaround of these hotels as only one has a long-lead time, we expect to see material growth in our EBITDA in the near-term. In addition, we are progressing to recycle some capital through sale of few non strategic assets. All this together gives us high degree of confidence of maintaining a very high growth without compromising on the quality of our balance sheet.

I will now hand over the line to Rajat to take you through the "Financial Summary" for the Quarter. Rajat. Over to you.

Rajat Mehra: Thank you, Ashish and good morning, everyone. It gives me intense pleasure to announce SAMHI's financial performance for the quarter ending September 30th, 2024. Our asset income, which captures the revenue generated from hotels, stood at Rs. 266 crores, registering a YoY growth of 20% as compared to the same quarter last year. This is driven by good same-store growth and the addition of ACIC Portfolio. Same-store assets saw a strong RevPAR growth of 16.5% YoY. This helped us maintain a 13% same-store revenue growth with MICE and F&B revenue recovering after a muted Q1.

Our asset EBITDA, which captures hotel level profitability, stood at Rs. 104 crores, registering a YoY growth of 28% as compared to the same quarter last year. Asset EBITDA margin stood at 39.11% being diluted by the impact of ACIC Portfolio, which stood at 36% for the quarter. With ACIC Portfolio conversion to managed hotels under Marriott now completed, we should see material marginal improvement over the coming quarters.

Our corporate G&A and ESOP expenses were stable at Rs. 2.3 crores and Rs. 4.4 crores respectively. On the basis of this, I am happy to report that our reported consolidated EBITDA stood at Rs. 97 crores, registering an 80% YoY growth as compared to the same quarter last year. Consolidated margin too have reached to 36% with material headroom for further growth. Depreciation expense and finance cost has been stable at Rs. 29 crores and Rs. 56 crores respectively, leading to a reported PAT of Rs. 12.6 crores. As Ashish mentioned, the seasonally strong H2 should result in material expansion of PAT as compared to H1 levels on the back of higher EBITDA and stable depreciation and finance costs.

From a capital structure perspective, our net debt as on 30th of September 2024 stood at about Rs. 1,880 crores with a cost of debt of 9.5%. Also, our average tenure of the debt is now more than 10 years, this provides us with a very conducive leverage environment for our business. Post the acquisition of Bangalore, the net debt increased to Rs. 2,080 crores. However, of this, Rs. 300 crores is allocable towards investment in growth, including the assets as Ashish mentioned are in pre-opening.

The Hyderabad lease requires very little capital upfront and hence has an inconsequential impact on our net debt. With sustainable growth in EBITDA due to strong performance of our existing hotels and ongoing growth initiative. And as Ashish had mentioned earlier, with some capital recycling, we are confident of continuing to strengthen our balance sheet and reduce the overall leverage in the near-term.

With this, I shall open the floor for Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. We will take our first question from the line of Karan Khanna from Ambit Capital. Please go ahead.

Karan Khanna: Ashish, I had a question on the HITEC City micro market. If you can talk a bit more about the market in terms of occupancies and ARRs for similar price hotels in the market? And when you compare this versus Whitefield, so HITEC City obviously has a much higher supply of branded rooms, how do you see this in terms of demand supply and the rate of playing out in this market? And rather this you can also reiterate what kind of CAPEX do you envisage for the Bangalore and Hyderabad properties put together and timelines for the same in FY'25, FY'26 and FY'27?

Ashish Jakhanwala: Karan, first of all, I think we have been tracking Hyderabad market, as you know, we have as of today 4 hotels in that market and our assessment is that HITEC is an extremely strong market. We have a small Holiday Inn Express there, which outperforms the rest of the portfolio. You are absolutely right, Hyderabad HITEC City market is far more mature than many other markets, has a reasonable existing pace of supply, but that has performed extremely strong. So, the data available to us for FY'24 demonstrates that the average rate of the competitive set was almost Rs. 12,400 and the RevPAR was about Rs. 9,200. Also, it is important to note is that the RevPAR saw a growth of almost 26% YoY in FY'24 vis à vis FY'23.

So, this clearly demonstrates what we have been kind of reiterating for the last several quarters that the strong growth in the office market, the strong growth in the aviation market and the fact is there's very little new supply in that market is providing very strong tailwinds to Hyderabad and also to micro markets like HITEC City. So, we have acquired this existing building in an extremely strong performing market with very little new supply threat in the foreseeable future. And given the fact the building is already ready and we expect to operationalize it in the next 6 odd quarters, we expect to take benefit of those tailwinds and really have no sight of new supply. I will take a pause. Karan, if you have any follow on questions on the market. But it's a very strong market, growing in double-digits YoY and no new supply.

Karan Khanna: Rajat, just update on the kind of capex that you envisage for both Bangalore and Hyderabad in next two years to three years?

Rajat Mehra: Sure, Karan. So, Bangalore, as we say, there are two assets predominantly. One is an operating hotel which has got 140 rooms. To rebrand that hotel, we are expected to spend close to about Rs. 70 crores to Rs. 80 crores over the next 12 to 18 months. On the additional inventory of our 200 to 220 rooms, we are looking at spending about Rs. 270-odd crores. This should get spent over the next approximately 3 years or so. On the Hyderabad asset, there is about Rs. 180 crores to Rs. 190 crores is the total CAPEX. Since that's got a shorter time to the market, we are expecting this to be spent over the next 18 to 24 months.

Karan Khanna: Ashish, second question, with these acquisitions and these developments, how do you envisage the balance sheet moving forward in terms of net debt to EBITDA, any changes to your previous guidance for FY'26 and FY'27?

Ashish Jakhanwala: So, Karan, as you remember, we had done an update call post the Bangalore acquisition, wherein we did the math, we had an intended target of 3.5x, 3.6x net debt to EBITDA end of FY'25 because of the Bangalore acquisition, where we have spent about Rs. 205 crores to Rs. 210 crores some more expense towards that asset by the end of the year. On our base of our financial statements, the leverage will be about 4.5x net debt to EBITDA. If we, however, allocate the capital that we have invested in the Bangalore asset. we will get to about 3.7x, 3.8x net debt to EBITDA.

Our capital recycling efforts are going on, of course we need a counterparty. But as we materialize them, we expect to get close to the 3.7x net debt to EBITDA with the Bangalore acquisition. Hyderabad is a very interesting Karan, because honestly, our upfront investment in that asset, which is land, building, all the MEP equipment is lower than Rs. 20 crores. And therefore, has inconsequential impact on our balance sheet as of today. Also, in the last quarter, our net free cash generated post interest servicing was about Rs. 45 crores. As we get into the seasonally stronger Q3, Q4, we expect the cash generation to be substantially higher than the Rs. 45 crores we have done in quarter 2. So, therefore, a lot of capital that is going into the renovation, rebranding of the existing Bangalore asset and completion of Hyderabad is happening through internal accruals or the cash that we have.

So, no new debt is being assumed as of date for these two completions and therefore, we should maintain the guidance that we had given you and including the Bangalore acquisition, we should be in the zip code of about 4.5x. And depending on the success of the capital recycling effort, we should be able to bring the leverage down closer to the 3.7, 3.8 zip code.

Karan Khanna: The second question, Ashish, you had six hotels which you moved from franchising into management contract with Mariott. So, has been the initial response? Has there been any uptake that you are seeing because of those efforts taken by the Mariott team?

Ashish Jakhanwala: So, Karan, these are 6 hotels which were ACIC Portfolio. The transition to the management contract happened in October of the current year. So, it's just been a month. We have already seen a significant improvement in the operating margin, but that has been an effort going on for the last two-three quarters. As we speak, there is an effort to change the business mix so to say, that will have an impact on two or three parameters. The first is really the source of the business and we are clearly expecting over the next few quarters, the contribution of OTAs to reduce that has a direct impact on the margins improving because there's a commission attached to that.

And the second is in markets like, especially Hyderabad and Pune, we really expect to rationalize the pricing and see a growth in average room rates of these hotels. So, we are seeing results as we had anticipated in terms of what's happening to ACIC. And then, of course, it is important to add for the audience that of those six hotels, two hotels are currently being planned to be completely rebranded and repositioned in the higher segment. So, the Four Points in Pune and the Four Points in Jaipur are being planned to be rebranded as Courtyard by Marriott and as part of the Tribute Collection by Marriott.

So, Karan, I will take that opportunity to highlight one significant change in SAMHI because of the three acquisitions and also because of these two rebrandings, what is happening is that the share of our upscale portfolio is materially changing to our overall portfolio. So, if you see, historically, we have had about 1,074 rooms in the upscale segment of the total 4,800 rooms. With all of this that we are doing, we are expecting the total inventory to grow from 4,800 to about 5,600. But of that 5,600 almost about 1,900 rooms will be in the upscale segment. The second important point to note is that in FY24, we have seen the upscale hotel performance to be almost 2x in terms of revenue per key to our portfolio average.

Both these three acquisitions plus the two conversions are actually helping us to significantly reconfigure our own portfolio and have a much higher share of the upscale where we expect the revenue per key to be at least twice that of the portfolio average. So, I just thought, I will grab the opportunity to explain this particular one which is related both to the three acquisition and also to the two conversions we are doing in the ACIC Portfolio.

Moderator: Thank you. The next question is from the line of Pavas Pethia from Aditya Birla Mutual Fund. Please go ahead.

Pavas Pethia: Ashish, I have a question about this HITEC City hotel. Is this one-off kind of thing or there could be many more kind of this variable lease which could be available for you? Something like which is already a ready building. And secondly when you spoke about this Rs. 160 crores - Rs. 170 crores of CAPEX and it's just the fit-out CAPEX, isn't it expensive for say Rs. 1 crores per key investment?

Ashish Jakhanwala: So, Pavas, there are two questions really, one is the opportunity set and the second is your response from the CAPEX per key. So, on the first one, we think that unless I have missed something historically, this would potentially be one of the first. I can't claim the first, but one of the first office building conversions to a hotel. I think this is really important because over the last 13 years, SAMHI has demonstrated its capabilities to continue to grow, finding different opportunities to suit different market cycles. And often people used to wonder as to how would we grow that the hotels are performing really well. I think here is our answer, that we have always been creative to find opportunities to grow our business.

We already have, prior to Hyderabad, we already had seven hotels. All in Holiday Inn Express portfolio where we had what we call variable long-term leases. And let me explain this for the audience, variable means that the rent is being paid as a percentage of revenue. And beyond the first three to five years, there is really no, so to speak committed rent that we have to pay and that's just to manage unforeseen liabilities. And the long-term means that the leases have to be in the zip code of 40 to 60 years. So, we already had seven hotels, but all in the Holiday Inn Express portfolio. And therefore, their revenue contribution was approximately 13% to the total portfolio.

Now as we continue to pursue growth, it is important that we find a capital efficient way and I will be cautious to say asset light, Pavas, because we believe that in a market like India where growth tends to be slightly lesser than you would see for our sector and other economies, you really don't want to go so asset light that you only have assets for 10 to 20 years and you only get 5% to 10% of the revenue. You want to work hard in this market to get 80% to 90% of the revenue if not 100% and have the assets with you for decades, so that they can benefit as the micro markets transition in those cities. So, for us, being capital efficient is more important and variable lease provides a phenomenal opportunity for doing so.

We had indicated historically that we would like to make sure that the percentage of revenue coming from variable leases should go from 13% to about 20% in the near-term and about 25% in the long-term. And Hyderabad provides us an immense opportunity to kind of follow that path because this is the first upper-upscale hotel that we have on a variable lease model, where the revenue per key is substantially higher. We do think this opens up an avenue of new growth for SAMHI, where we can to adoptive conversion of non hotel buildings and buildings which are not finding commercially viable landing in their respective micro markets, but can be great hotels. And therefore, we completely believe that this opens up a new avenue for our growth in the future. So, that's part one.

Part two is your comment on CAPEX per key. So, this hotel is being converted to an upper-upscale segment, where on an early assessment basis, we believe that about Rs. 1 crore per key continues to be at a substantial discount to what an upper-upscale hotel would be. We would request a little patience, because in the next few weeks we will also confirm to you the brand partnerships we have in Hyderabad and also in Bangalore. And post which, I think you would be fairly convinced, that the overall investment that we are making in Hyderabad is at a material discount to what would it take to build a similar category of hotel on the same spot.

Pavas Pethia: Sure. And just lastly on this overall number of keys, in presentation, one is 4,800 other is 4,940 in the second last page. So, what is the existing number and how the ramp up to this 5,600 happens? You have given some guidance for the next quarter, what's getting added? But if you could give a much more granular pathway to this 5,600 keys?

Ashish Jakhanwala: I will do that. So, prior to the acquisition of the Bangalore asset, we had 4,800 rooms in our portfolio. Post 4th October we have added 142 rooms to our portfolio and that's why you see that number going past 4,900 rooms. To that you have to add about 327 rooms, which is internal growth. I'm referring to actually Slide #9 of our investor presentation. So, 327 rooms are added through, rooms being added in our existing portfolio, which includes 76 rooms in the upper-upscale upscale, which is the Sheraton, Hyderabad and Hyatt Regency, Pune. We are actually adding inventory to both these existing hotels.

We are adding 86 rooms to our upper mid-scale portfolio, which is largely the hotel in Sriperumbudur, we are adding a block. And we are adding about 165 rooms to our Holiday Inn Express platform through the opening of Holiday Inn Express, Kolkata and additional rooms in Bangalore. So, that's 327. Over 4800 plus 327 plus 142 plus we will also add about 200, 220 rooms in Bangalore in our second phase. Then we have Hyderabad in lease of about 170 rooms. So, when you add all of this together, actually numerically it is 5,640 rooms. That's how the transition from 4,800 to 5,640 rooms is.

All of this is today assets owned by the company and are not subject to any second, third-party race for acquisition. And for now, we have also excluded Navi Mumbai from this, where the matter continues to be sub-judice and therefore we do not find the confidence level to add that inventory to the portfolio. But there's an additional 350 room opportunity with the company and as it is still with us. But without that it's about 5,600 rooms.

Pavas Pethia: Yes, actually I was looking for the timelines rather than the actual key numbers.

Ashish Jakhanwala: Sorry, sorry. So, in terms of timeline, we are currently at 4,900 rooms. The mid-scale inventory of 165 rooms will be added, Pavas, should be added before the end of November. We could have some OC delays in Calcutta, but plus minus you could say that in the next few weeks 165 rooms will be added to 4,900 rooms. So, we will cross 5,000 rooms within the current calendar year. Then the addition in Hyatt Regency, Pune and Sheraton, Hyderabad will be completed before the end of the next fiscal year. So, before we end FY'26, you will have an incremental about 150 to 160 rooms being added to our portfolio.

The Hyderabad lease of 170 rooms will be added in FY'27. Our expectation is in the end of first-half, the hotel should get operational. And then the last 220 rooms will be added in Bangalore which Rajat had earlier mentioned is about three years period. So, that's really the timeline of growth in the portfolio. 165 within the current calendar year, the balance is being done 76 rooms in the next, I would say 6 to 9 months. Sriperumbudur is the only one which will take another 18 odd months. Hyderabad, as I said, end of H1 FY'27 and Bangalore in three years.

Moderator: Thank you. We will take our next question from the line of Jinesh Joshi from PL Capital. Please go ahead.

Jinesh Joshi: Sir, I just want to understand this arrangement in the HITEC City a bit better, especially from the lessor perspective. Because I mean, if he has a corporate tenant, then it provides a fixed annuity stream, versus having a hotel operator, whereby his income is linked to the revenue that we earn. So, what can be the rationale for him to switch from a corporate tenant to a hotel operator?

Ashish Jakhanwala: So, Jinesh, a couple of pointers here. First of all, every real asset needs to go through a best use analysis. And what we have seen as often in India, unless you are not a part of a large business or an office park, the rentals in standalone office buildings tend to be at a discount to what would be considered a grade A office rent in a business or an IT park. The second is that even a building owner is a businessman. And he can clearly see the fact that while offices are being added at 8 to 10 million square feet a year, hotel addition in some of these markets is now slowing down to 2% or 3% a year, which means that the revenue growth from the hotel tends to be fairly healthy.

And therefore, when you combine the two and our ability to bring a strong product and a strong brand, assures and owner to give his building to us, partner with us for a period of 40 to 60 years actually. And really be satisfied to take a percentage of the hotel revenue as its lease rent. So, I would not say that every owner would do this, but I think there are unique opportunities where combination of the existing building, the existing market opportunity between commercial office space and hotel. And also the reputation that we have built in terms of how we can sweat these assets, helps us get some of these variable leases. This is not the first one. This will be the 8th one in our portfolio.

Jinesh Joshi: And secondly, till the time we rebuild this building into a hotel, there will be some revenue loss to the owner, so are we supposed to compensate for that or how is the arrangement over here?

Ashish Jakhanwala: As of today, it is an empty building. It's a ready building built for an office, but has no tenants. There's really no tenancy loss to the owner.

Jinesh Joshi: And one last question from my side, in this arrangement, I believe the entire revenue and the P&L will belong to us and we just pay our rent to the owner, which is linked to the revenue. Is that understanding correct?

Ashish Jakhanwala: Jinesh, absolutely right. So, the way it will impact our P&L is as follows, we have taken a long-term lease on the assets. So, 100% of the revenue comes to us. As a part of our operating expense, we will a pay rent to the owner. There will be some minimum guarantees for the first three years to five years. Those minimum guarantees under Indian accounting standards will come below EBITDA, but in the long-term because beyond five-year period it's all linked to the revenue of the hotel, it will come above EBITDA as an operating expense. And then obviously we will report EBITDA after paying the rent to him. So, the entire P&L continues to be with us. He gets a percentage of revenue as a lease rent which becomes an operating expense for us in the long-term.

Jinesh Joshi: Sorry, sir, one last question, is the percentage fixed? And what is the percentage which we will be sharing with him?

Ashish Jakhanwala: So, we can't share the percentage, Jinesh, because these are bilateral transactions. The percentage remains fixed because the lease is very long-term, we typically may have a staggered approach where after the first 20 years, 25 years we give a small incentive in terms of the percentage increasing. But largely, the percentage remains fixed through the tenure of the lease.

Moderator: Thank you. We will take our next question from the line of Nirvana Laha from Badrinath Holdings. Please go ahead.

Nirvana Laha: Ashish, in the press release for this Hyderabad long-term lease, you had said that the post development cost will be lower than replacement cost. So, just trying to understand, how you are calculating this. So, the CAPEX that we will do on this is about Rs. 180 crores, Rs. 190 crores, if I heard right, this added to the lease asset that will sit on our balance sheet as we add these together. You are saying that this will be lower than the cost of constructing a hotel from the ground up in that locality, is that understanding correct?

Ashish Jakhanwala: Nirvana, absolutely right. So, whenever we looked at a leasehold asset, it will be improper to ignore the cost of the lease. And therefore, you have to take the value of the lease added to your capital investment to determine what's your total capital and whether it is at discount or replacement cost or not.

Nirvana Laha: And right now the replacement cost for a hotel of this profile per room would be how much, if you can indicate?

Ashish Jakhanwala: Nirvana, only thing is, as I said, we will announce the brand partnership in the next few days. But the upper-upscale segment in heart of HITEC City, Hyderabad, if we take the last few reports done by Hotel Consulting Firms, the construction cost is being stated to be in the zip code of Rs.

1.5 crores, Rs. 2 crores per key and on top of that you have to add the land cost. So, typically land cost, I'm reluctant to say anything about land cost because we are not in that business. But typically, the land cost tends to about 30% of the total project cost. So, you are looking at just the construction cost of an upper-upscale hotel in heart of Hyderabad to be in the zip code of Rs. 1.5 crores to Rs. 2 crore.

On top of that, you have to add land cost and Nirvana, not to forget, if you start building a hotel, you have to also add the time value of money. And typically, it takes you about three to four years to get a hotel up and running. So, that's why developing new hotels tend to get, in our opinion, fairly expensive, the margin of error is not very comforting. Whereas, when you do acquisitions and on top of that, you do acquisitions in a manner where you are effectively transferring part of the value of the hotel linked to the revenue of the hotel in future, you effectively are able to kind of create a much larger, much higher margin of error, which I think is absolutely critical in a business like ours.

Nirvana Laha: I will understand better as you declare more. Next question is on the market overall, so if I look at your upper-upscale and upper mid-scale, the occupancy on a Q-o-Q basis dropped by 200 bps and 100 bps, respectively. That was one data point that I thought was interesting. And the other one in terms of airline traffic, it has been fairly static over the last four quarters. It's not able to breach beyond the 70 million mark, I think on your PPTs. So, any comments on the overall demand scenario for you specifically and also for the overall industry?

Ashish Jakhanwala: So, Nirvana the demand scenario is to be fairly stable. I think quarter-on-quarter, a little drop for growth in occupancy levels is just an operational adjustments. We have seen RevPAR grow pretty strong across all segments actually. Just Nakul, if you can take into the slide on the RevPAR. So, if you see upper-upscale RevPAR growth was about 16% in quarter two. Upper mid scale was about 21%. So, you know both these segments continue to grow pretty strong in terms of RevPAR. There's always quarter-on-quarter rate versus occupancy adjustment, but RevPAR is what we look at.

I think you've asked a very important relevant question, which is we are seeing a stable airline passenger movement and Nirvana there are no surprises there. It's completely constrained by capacity. So, if you saw the Indigo results, they did mention that there were significant amount of grounding of their aircrafts because of engine issues. And when the market leaders who has, I don't know you guys will know better, but 60% market share of the total aviation market in India has constraints on capacity. It obviously reflects overall passenger numbers.

We actually think that because the airline capacity takes a little bit of time to be added because of the fact that this is really a duopoly between Airbus and Boeing as the capacity gets sorted and at least between Air India and Indigo, they start adding more aircraft. You should see an unleashing of the passenger moment, because it's really at the brim right now in terms of capacity. It's a capacity constraint issue when you look at the office space on the other side, it should tell you that a lot more people are occupying office spaces in India and therefore, naturally a lot of people want to travel, but it's really a capacity constraint issue right now.

Nirvana Laha: Last question if I may, so on your net debt to EBITDA, sorry I missed what you had said earlier on the call. So, I think you said you'll end the year around 2,100 and you are maintaining a guidance of 4.5x net debt to EBITDA, did I catch that right without assets.

Ashish Jakhanwala: Yes, it is right, Nirvana. We have about Rs. 180 crores cash and now most of our growth is coming from internal accruals and cash. So, we should maintain that net debt level till the end of the fiscal year.

Nirvana Laha: And when you report this number, do you report it on a pre-ESOP EBITDA basis or is that the post – ESOP EBITDA that this ratio that you can?

Ashish Jakhanwala: Pre ESOP.

Moderator: Thank you. We will take our next question from the line of Prolin Nandu from Edelweiss. Please go ahead.

Prolin Nandu: I just have one question and this is something which I as an investor is thinking about. I mean in terms of growth versus the balance sheet discipline, while I see the net debt to EBITDA over the years have come down a lot. But just want to understand from your end, let's say if we think about next six quarters, are we done with pretty much whatever we wanted to acquire? Or let's say hypothetically, for if a good deal comes, which will, it's a Rs. 200 crores, Rs. 300 crores deal, it will take your net debt to Rs. 2,100-odd Rs. 2,200-odd. Are you willing to still stress that number and take that deal or? Right now, we are more focusing on executing on whatever assets that we have? So, just want to understand from your point of view, how do you think about growth worthy, maintaining the balance sheet discipline?

And where I'm coming from Ashish, is the fact that while you have done your assessment in terms of how the demand will pan out. Historically, this industry has been cyclical, right? So, let's assume for whatever reason, things go wrong or something like COVID happens then this net debt level is still very, very high, because the denominator will just vanish quickly, right? So, how do you think between growth and discipline on the net debt part?

Ashish Jakhanwala: Thank you so much for your question, so, first of all, let me objectively state that where we are today, we feel that we have secured a fairly exciting growth pipeline for SAMHI. And therefore, we are not likely to do a large acquisition. Most of our growth pipeline are variable leases where honestly the upfront capital is almost negligible. So, to answer you, you can safely assume that, we have committed significantly to the growth of the business. And here a lot of our focus over the next few quarters is going to be executing on these opportunities so that we can actually deliver the EBITDA from these assets. That's part one. Part two is in terms of leverage and I think we have over the last few quarters articulated our comfort level,, which is that in the near-term we would want to see the business in the zip code of about 3.5x and over a medium-term also we need to take it down to less than 3x.

Given the fact that all of our debt is now long tenor, which is more than 10 years, a less than 3x net debt to EBITDA is a very, very comfortable position including kind of creating scenarios for a fairly downside few quarters. And I think that's happening on account of the fact that whatever growth capex we have invested, which is effectively going to take our net debt to EBITDA from that 3.5, 3.6x to 4.4, 4.5x in the short-term. But in the near-term, which is once these hotels get operational, they materially start helping us lower the net debt to EBITDA levels. If we had invested this capital in Greenfield, I would have been very worried because honestly, you keep investing capital for multiple years before you see EBITDA. But in our case, as we invest the capital, it's a matter of a few quarters before you start seeing them back of that investment coming in terms of your bottom line.

And the last bit, which I cannot probably reiterate enough, is the fact that we have committed disclosed intent to recycle some of our capital. And I think it's safe to assume Hyderabad as we mentioned is largely a cash neutral transaction because of its structure. The money that we invested in Bangalore, we are more than confident that over the next few quarters we should be able to recycle that by divesting some of our non-strategic assets, which really don't have any material impact to our EBITDA. So, when you combine the overall strategy that we have in place, which is a strong growth in our earnings, putting our money in assets which can bring short-term growth to revenue and EBITDA and add on top of that the fact that we have some capital recovery expected from capital recycling, we feel very confident that we will be able to deliver the leverage targets. And we are very respectful of the fact that the business needs to be prepared for an unforeseen down cycle, whether it's a few quarters or longer than that. We have suffered and therefore as a management team, let me assure you, we can never be indignant to that scenario.

Prolin Nandu: Just a follow-up. See, again, when you give a target of net debt to EBITDA, there is an implied assumption in terms of how the EBITDA will grow. And when the unforeseen circumstances come that EBITDA will not play out. So, is there a hard stop or a hard target on where you want to get an absolute net debt number to in let's say two to three years? And largely, are we willing to take a proposal to go to raise equity to bring down our net debt to equity level in let's say, I mean in the near-term?

Ashish Jakhanwala: I will answer the second one. I think given the fact that SAMHI is a professionally managed company. Both our intent and our ability to recapitalize the company as and when the need arises or probably let me assure you ahead of the need arises is rather simple and straightforward. However, having said that, there is a lot of to-do's that we had to deliver, we believe we are on track to deliver promises that we had made last year and what we have been discussing over the quarters. So, we are fairly confident that given that it's a professionally managed company and the board has a fiduciary to maintain a good quality balance sheet. That path is probably simpler than SAMHI as relative to it would be in some other companies. So, that's part one of your question.

Part two, I think in terms of the absolute net debt level, Prolin honestly, the answer depends on how we assess the EBITDA to be. So, you are absolutely right, I'm not trying to evade giving you a number, but in all standards, the board and the management will make an assessment of what is a very highly achievable number over the next two to three years, not really underwrite very high market growth, largely underwrite depend upon income the investments that we have made. So, it's fair to assume that you take the FY'24 EBITDA on stable assets, you estimate the EBITDA coming from the growth initiatives that you've invested. And bases that you calculate what your net debt levels should be.

I think what we typically are reluctant to do is when we are looking at leverage in the company, make very bold assessment or assumptions about where our existing portfolio will be headed. So, when we talk about future EBITDA, it's largely about executing on the growth that we have invested in and not necessarily underwriting a very high growth of EBITDA from existing pool of assets.

Moderator: Thank you. We will take our next question from the line of Yash Dedhia from Maximal Capital. Please go ahead. I request you to restrict to two questions please.

Yash Dedhia: Sir, one thing is how much of tax loss are we carrying in our balance sheet which can be set off against future tax?

Rajat Mehra: Tax losses, so these are close to around Rs. 2,500 crores of total PAT losses that we carry forward. With the 25% tax rate, you know 25% of the Rs. 2 and half thousand or Rs. 2,500 crores is what we will actually see as a deferred tax impact on the balance sheet.

Ashish Jakhanwala: So, effectively to simplify, we on other than some leakages in our subsidiary level, Yash largely we expect to remain zero tax company for the foreseeable future, given the fact that we are carrying about Rs. 2,500 crores of losses, which gives us about Rs. 600 odd crores of tax shield. But to be clear, you know taxes are applicable at an entity level, so there could be small tax leakages at one or two subsidiaries. But largely, we will remain to be a zero-tax company.

Rajat Mehra: You know, with the current assessment that we have done, we don't see any of our subsidiary actually will be paying taxes over the next three years. And depending upon the kind of investment that we make in capex and otherwise, this may actually get deferred further. But as of now, the earliest one will be probably in three years. But beyond that, it will be probably ranging to six years or eight years.

Yash Dedhia: And on the recycling basis, so how do we look at our current portfolio like you know obviously we are trying to probably increase the mix in favor of upper-upscale. But what's the velocity behind, what kind of hotels are there because we were under the impression that everything which is under our engine is running smoothly and efficiently already. So, then what becomes non-core and why are they getting sold? And if they are getting sold then what kind of multiples on EBITDA are we looking at?

Ashish Jakhanwala: So, Yash, very interesting. I think everything is doing well but, I wish. I would think 90% of our portfolio is doing really well, 10% can do a lot better. But that's not the reason, what's not doing better. We will work hard to make sure it does good. But there are certain assets where we expect the markets to be not as exciting as we want them to be. So, for instance, if you look at markets like Hyderabad or Bangalore or Pune, these are four markets or Delhi for instance, the NCR. These are four markets for us. These are markets which give us the confidence that they'll continue to grow anywhere between high single-digits to early double-digits revenue growth which is what we want. And you saw our same store asset where the revenue growth was 13%, the EBITDA growth was 20%. So, that's the sort of operating leverage we carry.

So, even if the larger portfolio grows between 9% to 11% total revenue growth, we remain fairly excited about how our earnings growth will be, especially given our financing cost is coming down, depreciation remains stable. So, we really see a very strong operating momentum in SAMHI over the next few quarters. But yes, there are a few assets where we don't expect the market to support us in terms of delivering that double-digit revenue growth. And we on the contrary have secured markets like Hyderabad and Bangalore where we are very, very convinced given the data that is available that our money being deployed in those markets will help us maintain and secure double-digit revenue growth.

So, it's all about reallocating capital from assets and markets where we expect the revenue growth to be substantially lower than what we are seeking as a company. And this helps us make sure that we maintain high growth without exerting any pressure on our balance sheet and also take concerns about constantly reducing our leverage. So, it's a strategy of balancing growth with balance sheet, using the capital that we have stuck in some of our assets. Now I will be reluctant to exactly tell you the market, because I don't want potential buyer to start discounting those markets. So, I will stay away from saying which market we have our own opinion, but we do feel we have to reallocate capital from some assets and market where our excitement is far lesser than our excitement about the rest of the portfolio. And that's something which has nothing to do with cycle, nothing to do with what we have done in those assets historically, it's all about future proofing our business and I think every two or three years you'll see some rebalancing of our portfolio.

Moderator: Thank you. We will take our next question from the line of Vignesh Iyer from Sequent Investments. Please go ahead.

Vignesh Iyer: My question is on the line for ACIC hotel, we have now two quarters back-to-back seeing RevPAR growth of double digit. Now, I mean, in this year that is 13% and 16% and last year we have seen like consistently between 15% and 18%. So, can we continue to see this RevPAR growth going ahead for quarter three and quarter four as well? We have been consistently doing that 15%, 17% on YoY basis.

Ashish Jakhanwala: Vignesh, I think, I would maintain our long-stated view that sustainable total revenue growth in our markets will be in the zip code of high single-digits to early double-digits. We obviously expect to keep beating that if we continue to get the tailwinds that they're getting. But I would I myself, my team and I would advise our investors to feel comfortable and happy if the markets give high-single digits to early double-digits RevPAR growth. We believe that most of the large markets have the right economics in terms of demand and supply. But you know it's also a business which is very temperamental and there are often quarters when one single event or lack of an event can kind of disturb those averages. But that's really the long-term sustainable growth that we are targeting from our same store of assets.

However, we as a company feel that we have a lot more ammunition to kind of beat the market averages and that's happening through what we classify as internal growth projects and they've been articulated well on our presentations, I will not go into the details. But all of the internal growth projects that you see are really an effort for us to make sure that we constantly beat averages and that's really perfect job of a management team in a strong market that can you beat the averages.

Vignesh Iyer: Second question from my side is the movement that we are seeing in upper-upscale from 1,070 rooms that we have and yes we estimate that it could reach 1,900. So, two things on this part, I wanted to understand. First thing is what is the timeline, if you could guide me on around which quarter? And second is it that the movement of 900, almost 800 rooms that is getting added to upper-upscale is the majority of that coming from ACIC Portfolio?

Ashish Jakhanwala: No. So, if you see the breakup of approximately 900 rooms, 525 rooms is the three acquisitions that we have made. 76 rooms is the growth of inventory in our existing operating assets. So, almost 600 of these circa 900 room is coming from incremental inventory. The balance circa 300 rooms is coming from the two conversions of the ACIC Portfolios.

Vignesh Iyer: And the first part of it, sir, I mean timeline on that?

Ashish Jakhanwala: So, it's really staggered and that's a good thing that our delivery of premiumization of our portfolio starts from the 142 rooms we acquired in Bangalore, the 76 rooms in Hyderabad and Pune will get added let's say by the same time next year. The Hyderabad asset will get added sometimes in FY'27. The second Bangalore asset will get added let's say three years from now. So, the process has already started and almost I would say every six months you would see the upper-upscale inventory growing from the existing base of 1,000 rooms. And in a three-year period moving to that circa 2,000 room inventory that we are disclosed right now.

We understand the concerns on the timeline, so we will try and update an invest the presentation over the next few weeks and upload it to our website, so that the investors have a clear view of the timeline. We understand that that's one concern that probably has not been addressed adequately in the deck that we have uploaded.

Moderator: Thank you. We will take our next question from the line of Siddharth from Caprize Investment LLP. Please go ahead.

Siddharth: I have a small question as to, will you be raising funds to reduce your overall debt, so can we expect any fundraise in the short-term?

Ashish Jakhanwala: I think given we are a professionally managed company, unless I don't have this discussed at the board level, I really don't want to make any loose statements about it. But I will reassure, that given we are a professionally managed company, our ability and our intent to recapitalize ahead of the requirement is fairly certain. But today we have no such discussions. We have had discussions at the board level in terms of assessing the opportunity and the risk, but we have not really reached a decision until such time I will not be able to comment on the timeline.

Moderator: Thank you. We will take our next question from the line of Krishna Shah from Ashika Stock Broking. Please go ahead.

Krishna Shah: I have one question. I wanted to understand the ramp up period for the new hotel that we are building. What time will it take to reach the optimum occupancy level that we target between 70% to 75%?

Ashish Jakhanwala: This thing you are talking about Hyderabad, Bangalore?

Krishna Shah: Yes, yes. The new hotels, yes.

Ashish Jakhanwala: Okay. So, as I said, there are three components to that. The first one is the existing operating 142 room hotel in Bangalore, Whitefield. We expect that in the next 18-odd months, the hotel will get rebranded. Till then, the hotel continues to remain fully operational and at the end of 18 months, as we renovate and rebrand the hotel, is when we will see a big change in its performance. Historically, we have seen that in existing operating assets it takes about two quarters to deliver a strong performance given the fact that you get time prior to the rebranding to take the steps that you need to.

The second one will be Hyderabad, which we mentioned will be opening somewhere in FY'27. And we expect that it will take about, I would think 12 to 15 months for us to deliver strong performance, largely given the fact that the market is doing about a 75% occupancy, very strong rates and we don't see any new supply in that micro market at least in the timelines that we expect to operationalize the hotel. So, we expect very quick stabilization of these two hotels. And the third one which is a new block in Bangalore Whitefield, honestly, it's at least three years away from opening, so I would not comment on stabilization of that hotel yet.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question for today. I would now like to hand the conference over to Mr. Ashish Jakhanwala for closing comments. Over to you, sir.

Ashish Jakhanwala: Thank you everybody for your time. As I mentioned in my opening remarks, we feel fairly confident and excited about adding this growth to our portfolio. We also remain fairly confident about the fact that our ability to do these long-terms lease conversions provides us a path for a fairly capital efficient growth in the future. We think the existing portfolio is well poised to continue to deliver industry-leading growth rate. And with that, I think we are looking forward to closing a strong FY'25 and positioning SAMHI for greater success in the next year or two. So, with that, thank you so much for your time and we look forward to speaking to you soon.

Moderator: Thank you, sir. On behalf of SAMHI Hotels Limited, we conclude this conference. Thank you for joining us. And you may now disconnect your lines.