SAMHI
SMART HOTEL INVESTMENTS

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.

February 12, 2024

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Scrip Code: 543984

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Sub: Transcript of Q3 FY24 Earnings Conference Call

Dear Sir / Madam,

Please find enclosed the transcripts of the Q3 FY24 Earnings Conference Call held on Monday, 5th February, 2024 at 10:00 AM.

You are requested to kindly take the same on record.

Thanking You.

Yours faithfully,

For **SAMHI Hotels Limited**

Sanjay Jain
Senior Director- Corporate Affairs,
Company Secretary and Compliance Officer

Encl.: ***As above***

Correspondence:
SAMHI Hotels Ltd.
14th Floor, Building 10C,
Cyber City, Phase II,
Gurgaon 122002, Haryana,
INDIA
Tel: +91 124 4910100
Fax: +91 124 4910199
www.samhi.co.in

SAMHI Hotels Limited

Q3 FY24 Earnings Conference Call

February 05, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 6th February 2024 will prevail.

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

Moderator: Ladies and gentlemen, good day and welcome to SAMHI Hotels Limited Q3 and 9MFY24 Earnings Conference Call. As a reminder, all participant lines will be in the 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 star then zero on a touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ashish Jakhanwala, MD and CEO from SAMHI Hotels Limited. Thank you and over to you, sir.

Ashish Jakhanwala: Thank you so much. Good morning and thank you for taking out time today. With me, I have Gyana Das, who is the EVP and Head of Investments, Rajat, who is Chief Financial Officer and also Nakul, Vice President Investments. And along with my colleagues, we have Strategic Growth Advisors who are also our Investor Relations Advisors. We have uploaded our presentation on the exchanges and I hope everybody had an opportunity to go through the same. We're quite pleased to present to you the summary of our performance for Q3 FY24.

Quick highlights. We have actually seen a very strong operational growth, RevPar improving by about 20.3% on a year-on-year basis, very strong RevPar growth and a full quarter impact of the ACIC acquisition has led to a robust revenue growth of 39.5% and EBITDA growth of 51.4% on a year-on-year basis. We also crossed a strategic milestone in the last quarter for about INR100 crores or one billion INR of EBITDA on a pre-ESOP basis.

With the strong growth in revenue and EBITDA that we've seen in the last quarter and reduction in finance costs, we are seeing a rapid transformation both in terms of path to profitability and also free cash from the business. During the last quarter, which is Q3 FY24, we have seen our PBT almost reaching break even, including considering impact of ESOP expenses and this obviously sets a strong path towards near-term profits. Free cash from business was INR460 million or INR46 crores and we continue to hold about INR300 crores or INR3 billion of cash.

We expect some of this cash to be further used for reducing gross debt and reduce interest expenses. A very strong presence across price points, different brands and being in key markets in India continues to be the driving force behind a strong performance and will be the lead indicator for our future growth. During the last calendar year, key cities in India have a total office absorption of about 40 million square feet.

Our primary markets such as Bangalore, Hyderabad, Pune and NCR, which account for almost 67% of our inventory, benefited from a total absorption of about 30 million square feet of this 40 million square feet or about 76% of India's absorption. Similarly, in the aviation sector, we've seen that it's reclaimed its pre-pandemic levels and actually we remain fairly optimistic about a supply-led growth from here on because this sector has really not seen a lot of growth from pre-pandemic levels, largely on account of supply limitations.

Against the backdrop of very strong office and airline growth, we have seen RevPar strengthen quarter-on-quarter and as mentioned earlier in the last quarter, it touched 20% growth over the previous year. Within segments, we've seen the upper upscale and upscale grow at a RevPar of

about 28% year-on-year. This portfolio contributes about 43% of our revenues in that quarter. The broader mid-scale portfolio grew at a RevPar of about 12% to 16% year-on-year.

In addition to this, we continue to take steps for further improvement in the performance of our hotels and improving our market share. Asset income from hotels was at about INR269 crores or INR2.6 billion, a 40.5% growth over last year. However, within that, if you see the breakup, for the same store hotels, the growth was about 17.6% and the additional benefit came from full integration of ACIC portfolio for the quarter. In terms of EBITDA, as I mentioned earlier, we achieved a strategic milestone of about INR100 crores EBITDA for the quarter.

The same store hotels saw an EBITDA growth of 27.8% and then we had an impact of ACIC integration, taking the full EBITDA for the quarter to 1.08 billion or about 100 crores. As we integrate the ACIC portfolio into our business, we have new inventory addition coming in the current calendar year, ongoing renovations; we are fairly confident that this INR100 crores of quarter EBITDA is just a great base for our earning trajectory. We cannot say that this is our best as yet. In terms of operating margins, we have seen the portfolio has delivered an EBITDA margin of 40.3%. We expect this to improve as we stabilize the ACIC portfolio and also the hotels which are due for or are under renovation, where the margins have about 800 basis points scope of improvement.

As we get the whole portfolio to converge where our same store hotels are performing, we expect overall margins to also expand materially. One of the key insights from our business intelligence platform that we've highlighted in the current presentation is how the occupancies are trending on weekdays and weekends. The weekday occupancies across our entire portfolio remain fairly high in the range of almost 72% to 81%.

If you see on Tuesday, Wednesday, Thursday, the occupancies were ranged around 78% to 81%. This is for a nine-month period starting April to December 2023. While weekday occupancies remain strong and will remain strong because of demand supply, we actually expect the weekend occupancies to keep improving over a period of time with increase in discretionary spend and domestic travel.

And I think that change will materially benefit how the income of hotels, especially in our portfolio, can benefit in the years to come. For all quarters, for the quarter, all three segments which is upper upscale, upscale, the upper mid-scale and the mid-scale saw very strong operating performance. We've seen upward trajectory in occupancy, RevPars and ARRs when compared to the same quarter in the previous year.

Given the strong performance of our portfolio, we are quite excited about accelerating our growth projects. As of today, we have an existing operating inventory of about 4,800 rooms and we have already taken steps to increase it to about 5,400 rooms by FY27 at minimum. In the short term, our growth strategy involves integration of the ACIC portfolio, renovating and rebranding a substantial portion of our existing portfolio and introducing new inventory.

By September 2024, we expect to have about 180 rooms added, including our entry into the Calcutta market. We will have additional 130 rooms fully renovated and rebranded and these

310 rooms make no or very little contribution to earnings as of last quarter, or quarter 3, 2024. Completing this inventory addition will provide a strong boost to our H2 performance in FY25, over and above the fact that we are seeing continued improvement in RevPars in our same store hotel.

Also, in future, the proposed renovation at large hotels such as Hyatt Regency, Pune, will transform a large asset base and its contribution to our business. We can quite assure you that our time-tested strategy of conversion and turnaround is equally accretive when applied to our portfolio from time to time to create a differentiated outcome.

With this, I will request Rajat to take you through a financial summary of the business.

Rajat Mehra: Thanks, Ashish. Good morning. Let me take you through a quick walkthrough of our financials.

With an asset income of INR2.6 billion, which is 40.5% above last year, we achieved an asset level EBITDA of INR1.08 billion, or a margin of 40.3%. Adjusting to corporate G&A, the total EBITDA prior to ESOP and one-time expenses is INR1 billion. This is a strong growth of 51.4% on a year-on-year basis.

We have seen some material reduction in our finance cost.As of last quarter, the finance cost was INR651 million, or INR65 crores, which has reduced materially from INR1.14 billion, or INR114 crores, as of quarter two of financial year 2014. With the reduction of gross debt and also cost of financing, we expect further reduction in the finance cost. PBT prior to exception item was negative INR60 million, as against a loss of INR803 million for the last year.

We are almost breaking even at PBT level and are confident of turning positive in the near future.

We would like to highlight that during January 2024, we have received a notice from Maharashtra Industrial Development Corporation, MIDC, regarding termination of lease of project land in Navi Mumbai. The asset is owned by our subsidiary Duet Navi Mumbai, and it has filed a writ petition in High Court of Mumbai challenging the notice received from MIDC. For abundant caution, as an impairment for the value of land and related assets, SAMHI has made full provisions during the quarter under exceptional items worth INR768 million. However, it is important to note that this asset is not projected to have any contribution to our revenues and EBITDA in the next two to three financial years.

As of 31st of December, our net debt stands at INR18.4 billion versus INR29.4 billion in June '23, which was the pre-IPO debt. Our current cost of debt has now reduced to 10.2% versus the 13% which was prior to the IPO. Over the period, our leverage position is consistently improving, and as on December 31st, 2023, our net debt to EBITDA, including the ACIC, for a full trailing 12-month period is at 5.1 times.

This will continue to improve as we have strong growth coming our way. Rapid reduction in debt and finance costs, combined with increase in EBITDA, is paving paths towards reaching sustainable debt levels and yet allow free cash flow generation for growth.

Ashish Jakhanwala: Thanks, Rajat. So, I think in summary, our optimism and excitement comes when we actually layer a strong portfolio we've built, and in markets that you've seen very good office and aviation demand. We layered it with a very compelling market opportunity, and clearly the market is very strong for the hotel sector. We have an established track record of growth, and now we have increasing financial flexibility.

So, as I said earlier, while we have crossed the strategic milestone of INR100 crores EBITDA for a quarter, we believe this is just the beginning and the best is yet to come. With this, I'd like to thank everyone for joining the call. We are here to address any questions which can be obviously addressed on the call here or be redirected to us later or to strategic growth advisors. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Karan Khanna. Please go ahead.

Karan Khanna: Yes, thanks for the opportunity. Am I audible?

Ashish Jakhanwala: Yes, Karan, you are.

Karan Khanna: Yes. So, I see this continuing on the discussion we had earlier this week also. How should one rate the development in Navi Mumbai in terms of cancellation of the lease? What was the indemnification cover for the entire land parcel which got cancelled? And resultantly, earlier during the call, you also spoke about, you sounded quite confident about getting to a 5,500 room inventory by end of FY'27. How should one read that in the context of the recent development at Navi Mumbai? So, that's question number one.

Ashish Jakhanwala: Hi, Karan. Okay, Karan. So, Navi Mumbai, we will tackle in three different parts actually. One is the accounting impact. The other is the legal case and the status and the remedies available to us. And third is actually repercussions and impact on the business.

As far as accounting, we've taken the worst-case scenario already in our books and no further risk is left exposed to the business. So, we took the worst-case scenario in our books in quarter three, we have not really left any risk for any future impact of this or any consequence of this ongoing discussion with MIDC on our financial statements, right. So, that's settled for all times.

In terms of legal case, obviously, as we feel very strongly about the actual position that we have vis-a-vis MIDC on this particular case; we have filed a writ petition. It is listed for a hearing later in the week. I would restrain from commenting on that till such time the matter is not listed.

As far as indemnities are concerned, we obviously, as any standard purchase agreement, we are reasonably protected in terms of indemnities we have from the sellers. Now, while the auditors have made a provision for about INR10 crores indemnity, in this particular case, the indemnity, in our opinion, may fall into fundamental reps and warranties where the indemnity should provide us a cover for the full purchase price. So, that's the second legal including any recourse is available under contract.

Now, let's focus on the main issue, which is what is Navi's Mumbai impact on the business? And I think we met a lot of you over the course of the last few months. And we kept stating that when it comes to a greenfield development asset in India, we actually always use it as a footnote information. We have not provided any forecast or guidance.

Our only guidance was this hotel will open towards the end of FY27. Therefore, we were not estimating this hotel to bring any EBITDA or revenue to SAMHI till FY27. Actually, it would only start from FY28. And therefore, for the foreseeable future, this asset has no impact on our business, except for the fact it would need about INR2.4 billion or INR240 crores of capital expenditure for it to be completed.

Now, let's model out the worst case scenario that our appeal and high court and any subsequent appeals we may be entitled to, do not get this asset to be protected. We actually are not very perturbed about that because as I said, this asset came to us through a portfolio acquisition. We would have ideally not bought a greenfield site for development. We continue to track and negotiate some very interesting and creative opportunities in the box that we are used to doing, which is not greenfield, but which is brownfield acquisition, long leases, right.

All of those opportunities bring revenue and EBITDA much faster than would a greenfield development. So, if we were not to win our argument as far as this asset is concerned, we actually think we can redeploy that same 2.4 billion in assets which would bring revenue and EBITDA in an accelerated fashion rather than in a deferred fashion. Our confidence in 5,400 rooms is, I would say, certainty because there is about 350 rooms which are lying in this bucket. The rest are lying in buckets which are under development right now.

So, replacing 350 rooms through a brownfield acquisition turnaround or a long lease is something we are tracking very, very well as of today. Hopefully, in the next quarter or two, we should be able to confirm one or two opportunities. So, as far as business is concerned, we see no impact of this particular development on our business.

Karan Khanna: Sure. This is useful, Ashish. Thanks. This is a follow-up. When we think about the acquisition opportunities that you would like to pursue in any segment that you would focus on, whether it is upscale or mid-scale or upper upscale, or any of these segments are fine with you as long as they are -- So, what kind of IRRs would you be targeting?

Ashish Jakhanwala: So, I think, normally, currently, I have a certain checklist. One of the checklists is that we should remain in key markets, which means that the seven or eight markets that we keep talking about where we see very good momentum of office and aviation demand. So, we will like to maintain that discipline for now.

Number two, we will play the segments that we are good at, which is starting from mid-scale, going to upscale, upper upscale. We do not intend violating that segment discipline as of now. The third, as I said, is we typically like assets which have near-term income, right, which means that we are not necessarily looking at houses of land for development.

We are looking at either ready buildings or ready hotels where we can either complete it to a hotel or we can convert it to a good branded hotel. So, that would be the checklist that we will

follow. As the pipeline that we have today, I can assure you, it all confirms to that checklist that I have just mentioned.

These are all opportunities in the top seven, eight cities. These are all opportunities that will eventually be positioned between mid-scale to upscale. And these are all opportunities where we will have access to income on a near-term basis, which would mean between 15 and 18 months, and not a greenfield development where it takes three to four years.

And of course, IRR is important, but that is hygiene Karan, so I would not talk much about it. Solving for a certain return on capital employed and doing it at below replacement cost is a hygiene that we have followed and will continue to follow.

Karan Khanna: Sure. And my last question on your net debt-to-EBITDA, what kind of guidance would you like to give on that front by FY25-FY26?

Ashish Jakhanwala: So, I think for FY25, we've already given and we'll maintain that guidance of going to about 3.5 times. We are seeing a rapid reduction in debt-to-EBITDA every quarter. As Rajat mentioned, we are at 5.1 times as of end of December. Don't forget, when we talk about a INR100 crores EBITDA number for quarter three, there's a lot of more upside built into that because that was the first quarter of ACIC.

We're still -- ACIC has gone into a Marriott managed portfolio from 1st February. It will go into a full Marriott managed portfolio probably sometime in first quarter of FY25, and that brings substantial impact on the contribution of that portfolio to our portfolio. Two, let's not forget the fact that about 310 rooms today are under very advanced stages of opening or rebranding. And those rooms in our portfolio have had no impact of EBITDA in quarter three.

So, then you add the impact of that on our overall business and plus continued RevPAR growth in our existing business. So we are fairly confident of maintaining a guidance of 3.5x towards the end of FY'25 on a net debt to EBITDA.

Karan Khanna: Sure. This is all for now. Thank you and all the best.

Ashish Jakhanwala: Thank you.

Moderator: Thank you. Our next question is from the line of Aditya Jhaver. Please go ahead. Mr. Aditya, your line has been unmuted. Yes, please go ahead, sir.

Aditya Jhaver: Yes. Thanks for the opportunity. Actually, I have a question on the business part, which is unclear. So, pardon me -- can you hear me?

Moderator: Yes, sir. Now it is clear. Please go ahead, sir.

Aditya Jhaver: So my question is whenever we buy out an asset, then we say that we operate it in the name of Marriott or some other party. So how does that work? So Marriott will have the management or we have the management there. So, can you explain on this part when you say operate? I'm a little unclear on this operation.

Ashish Jakhanwala: Okay, Aditya. So, all of our hotels minus the ACIC portfolio are on management contract with the hotel companies. So, under a management contract, day-to-day operations are outsourced under a contract to a Marriott or an IHG or a Hyatt. And we retain, obviously, all the asset management rights in that asset.

So, ACIC portfolio today is franchised, which means it is being managed by us. And over a course of time, we actually intend for that also to be under a management contract where the day-to-day operations will be managed by Marriott for those hotels.

Aditya Jhaver: Okay. So, what do they charge, sir, for us if we give the management contract to them?

Ashish Jakhanwala: So, Aditya, we'll take you through our P&L so that you can see the exact. So, if you see in the last quarter, the total cost towards management fee was 4.9% of our revenues.

Aditya Jhaver: Okay. So, basically, we have two kinds of portfolio. One is managed and one is franchised. And we tend to move to a franchise to again manage. So, that is our focus totally.

Ashish Jakhanwala: That's right, Aditya.

Aditya Jhaver: That's right. Okay. And in terms of when you say take time for operation. So, suppose in Calcutta, we have bought in some of the keys -- so how much time does it take to renovate and then operate then give it to management contract?

Ashish Jakhanwala: So, with respect to Calcutta, it's a hotel that is yet to be completed. So, it's not a renovation. I put that slide on the screen right now. The building is ready. It is in fit-out at this stage as we speak. And this hotel is scheduled to open by September of 2024. In terms of conversion, this is one example that you're talking about. So, in Greater Noida, this hotel has been operating under our own transition brand called Caspia Pro.

This hotel is currently under renovation. And we started the renovation somewhere in mid-January. And we expect also this hotel to be open before September 2024. And this is 137 rooms. So, this is an example of renovation and rebranding. And the prior slide is more for a brownfield being completed for an operating hotel, which is Calcutta.

Aditya Jhaver: Great. Sir, and if you could -- it's just a request, if you could publish ROCE of some particular assets you know that some are very old and some are very new, right? That would give a great sense that when operating leverage or that will kick in. So, that is just a request from my end.

Ashish Jakhanwala: Sure, Aditya, point noted. We'll try and provide some ROCE analysis in subsequent quarters, both by maturity of assets and we also feel sometimes it's important to look at ROCE of different cities. Because each city is in a certain racetrack. For instance, Bangalore, we believe is doing really well on the average room rate. Our early calculations show that our assets in Bangalore would be delivering a ROCE of somewhere in the early to mid-20s.

So that's a very healthy ROCE. And then it will be followed by markets like Hyderabad, which are also now rapidly growing and improving. So, we have that analysis ready, but I don't want

to present inadequately prepared information. Point noted, you will see some analysis of ROCE in the subsequent quarters.

Aditya Jhaver: Great, great. Thank you. All the best. If I want to connect, I can connect to SGA and the management team. Right. If I want to understand better.

Ashish Jakhanwala: You're more than welcome.

Aditya Jhaver: Thanks. Thanks. All the best.

Ashish Jakhanwala: Thank you.

Moderator: Thank you. Our next question is from the line of Nihal Jham. Please go ahead, sir.

Nihal Jham: Hi, good morning. Am I audible?

Ashish Jakhanwala: Yes, Nihal.

Nihal Jham: Yes. Thank you so much, Ashish, and congratulations on the performance. I just had one observation and question that when I look at the RevPar performance for your upper upscale and the other category, there's a decent divergence in terms of how we've seen that.

I think it's 20% plus for one and it's close to 12 and 16 for the others. So, is this a location specific issue or isn't that this is the divergence you're seeing across categories where the premium segment is having better pricing power versus the mid-scale segment?

Ashish Jakhanwala: So, Nihal, a couple of points there. One is that last year, the upper upscale hotels are still ramping up in quarter three. Now, if you look at what differentiates these segments, they are more or less in the same cities.

To some extent, the upper mid-scale has assets in, let's say, Coimbatore, which will drag the performance down because we've always believed that the Tier 1 is really outperforming all other city categories. So, there is some impact of mid-scale and upper mid-scale being in Tier 2 cities like Nasik, Vizag, Coimbatore, so on and so forth. But also, let's remember the fact that upper upscale assets have a higher dependence on international business travel.

They had a lower base last year, Nihal, because the international business travel was recovering every quarter last year. This year, we have seen reasonable recovery in that. So, some bit of a base effect also has kind of allowed the upscale to shine vis-a-vis the last year.

And the second, as I said, is the reason that our upscale is concentrated in tier one. Our mid-scale and upper mid-scale have some sprinkling of Nasik, Coimbatore, Goa, and Vizag, where we've really not seen as good a growth as we've seen in the big cities. We'll try next time, try and give you this analysis by city, and you'll be able to really clearly see as to how is the city impact, not just a segment impact actually.

Nihal Jham: Just one clarification here was that for the recovery of international travel, you mentioned that that also became a driver for the upper upscale segment in terms of the better performance.

Ashish Jakhanwala: Yes, international travel has been growing as a proportion of overall room nights sold. It is still marginally lower than where it used to be on a pre-pandemic level, but it is definitely higher than where it was in quarter last year.

So, I think that is one factor when it comes to upscale performance. Upscale typically we are about 35% international business travel, 35%-36%.

Nihal Jham: And just one more question. Is the portfolio, is the current pipeline that you have of say rooms that you identified cognizant on what the outcome for the new Navi Mumbai litigation is, that 5,400 is the target, or that is an independent assessment that will happen and we could actually end up increasing that room count also depending on the opportunity being accretive and say even if the Navi Mumbai litigation goes in our favor, just to understand that.

Ashish Jakhanwala: Yes, so I think, you know, we didn't start pursuing growth, you know, when we had no idea of the Navi Mumbai development. Actually, up until December end, MIDC was giving us all requisite approvals, including a fire NOC. And then suddenly in January, we got this a bit of a disappointing surprise. That's why we've gone to the courts. So, therefore, whatever we've been doing has not been dependent on the outcome of Navi Mumbai. It's actually driven by how we are confident about creating a reasonable financial flexibility in our balance sheet for growth, right?

So, if you look at, you know, Rajat talked about how, you know, on a trailing 12-month basis that you see, which means that we are including the full ACIC portfolios, EBITDA, right? We have achieved about INR358 odd crores of TTM EBITDA against an annualized interest cost as of today of about INR200 odd crores, right? So, if you see there's a flex of about INR158 crores, even if we assume zero growth, which in my opinion is going to be a bit too pessimistic an assumption, right?

So, with the growth coming our way in our existing portfolio, plus the fact for very negligible capital, we're going to put 300 additional rooms in operation by September. We actually see our EBITDA reasonably expanding from the 358 TTM basis to a very different basis on a full 12-month basis. Our finance cost, which is at about INR200 crores, we only expect it to marginally reduce because we continue to negotiate with banks and also achieve certain refinancing events, right?

So, this company is now getting to a point where it has reasonable cash, both for achieving its committed 3.5 debt-to-EBITDA by end of next year, but also having residual free cash to fund certain growth projects, right? So, Nihal, even if the Navi Mumbai project was to be, was to be in our favour, which we're expecting today based on the merits of the case, right? In spite of that, we expect to add a few more projects and therefore the count will be in addition to 5,400 rooms.

God forbid, if we take the worst-case scenario that Navi Mumbai is not something that we want to pursue in future. Actually, even in that case, if you're talking up until FY'27, FY'28, we expect the 5,400 rooms to be, it won't be 5,400 rooms, it'll be higher than 5,400 rooms.

5,400 rooms, Nihal, was not a guidance on growth. It was a confirmed inventory that we own, which needed to be operationalized by FY'27. We have resisted from giving any future growth

guidance so far, but that's largely coming from one thing we've been saying aloud, which is we have the financial flexibility, we have the track record, and we see the market opportunity for growth.

One footnote I like to put there is we are also pursuing what has worked really well for us, which is long-term variable leases, right? As some of you may know, part of our portfolio is on these 40 to 60-year revenue share leases, which is effectively our capital-efficient asset light model. A few opportunity that we are pursuing today are on long-term variable leases, where the capital efficiency is very high. For a very little capital, you can keep installing a lot more capacity. So, the growth is independent of the outcome of the Navi Mumbai development, and 5,400 rooms is not a stated ambition for growth. It was only committed inventory with the company. The growth will obviously be ahead of that, with or without Navi Mumbai.

Nihal Jham: Understood. This is clear. Thank you so much.

Moderator: Thank you. Our next question is from the line of Dhruvesh Sanghvi. Please go ahead.

Dhruvesh Sanghvi: Yes. Am I audible?

Moderator: Yes. Please go ahead.

Dhruvesh Sanghvi: Ashish just wanted to have your views on, how should, as an industry, we should think about the cost for the similar kind of hotels as yours, in terms of new rooms. Let us say, we take a broader basket of the top seven cities where you are in. If you can give a broad understanding of what is the cost of production equivalent metric for per room basis that people cannot sell below 3,000, 4,000, or some number and some reasoning around it.

And where I am coming from is that why is India so expensive when it comes to this overall room rates basis, that far better properties are sometimes available in international places at a cheaper cost than ours. Like, I just wanted to understand where is this coming from?

Ashish Jakhanwala: So, Dhruvesh, let me first put the comparison in correct context, right? And my apologies, a lot of our discussion will be centered around big city business hotels, right? So, I would urge, participants on this call to not triangulate that to Tier 2 leisure resorts, non-business hotels, right? That's a completely different model, so to say.

If you look at Tier 1 business hotels, right? And if you compare the size of the India market today, travel and tourism market, right? The average room rates in India continue to be at a significant discount to their global peers. I'll give you some examples. Today, I feel really excited to report the numbers that I have reported wherein a Holiday-Inn Express, and I'll take you to that actual slide.

If you see, yes, if you see for a Holiday-Inn Express platform, we are pretty excited to report an average rate of INR3700, which is $45. Now, if you were to separate Holiday-Inn Express in a Bangalore or a Hyderabad, that number would go to $50, $52, right? Now, Bangalore and Hyderabad are markets which today have 195, 100 million square feet of occupied office space.

They're adding anywhere between 7 to 12 million square feet of office space every calendar year. And in a market like that, to sell a Holiday-Inn Express for $45 to $50 does not make us nervous about having outpriced ourselves, right? And please don't get us wrong, we're not trying to be too ambitious comparing ourselves to Singapore or Hong Kong or Tokyo or New York. We're still comparing ourselves to office markets that are much smaller like Sydney, where a comparable hotel will be selling for $120, right?

So we actually think today, hotel rooms in India seems to be expensive because we were used to very cheap hotel rooms for last decade. But if you were to compare a hotel room price to an airline ticket price today within India, or if you were to compare a hotel room price to that of a comparable hotel in a similar city globally, you would actually think that there should be a lot more excitement and expectations from the industry to keep growing this average room rate. That's point number one.

Point number two, what can spoil this party? I don't think it's demand. Because demand is unquestionably very promising for broader economy and therefore for travel and tourism. We're just an economic indicator for how the larger economy is growing, right? What spoils the party for hotels tends to be the supply, right? And that is where we have now entered a period of very stable supply growth, largely on account of the fact that the big cities are sitting on reasonable inventory, right?

So you look at Bangalore, today it has about 22,000 branded rooms, okay? We actually got somebody to collect total number of rooms in Bangalore from one of the OTAs: it's 109,000 rooms in Bangalore, right? So 109,000 all rooms, right? 22,000 branded rooms. For this city to grow at 7% to 8% on demand, it needs many more rooms that the city is capable of creating, right? So today the supply is not even 50% of the demand in Bangalore. No surprises, our ROCEs as looking at premium mid-20s, right? Hyderabad is following, Gurgaon is following, right?

So we actually think that today the supply is in a state which is going to remain very stable, which is going to remain way below where the demand is growing and therefore as operators, owners, asset managers, we feel fairly confident that there is good five, six years before we need to relook at demand and supply.

In terms of cost per key, I think for each segment that would vary. For the upper upscale, upscale if you look at the industry data, you would see that the construction cost for this is in the range of about INR1.2, INR1.4 crores per key. If you look at the upper mid-scale, which is Fairfields and Four Points, that same construction cost would be INR60 to INR80 lakhs. And if you look at the mid-scale segment, that cost would be in the range of INR40 to INR60 lakhs. This is construction cost, does not include land costs, right?

So that's really the going in cost for a hotel development in India. You have to overlay on top of that land cost, you have to overlay on top of that the cost for three, four years of a development cycle. And that's why you would feel that even at the current room rate, it is not extremely, extremely attractive that you'll have also money flying in, right? Especially in Tier 1. So I think

we feel fairly confident about a reasonably long and a stable supply environment. Demand, as I've said, we've never had any questions on, not today, not in the last decade.

Dhruvesh Sanghvi: Sure. And just one more follow-up on that is that, considering the environment that you have explained, I find you to be very conservative with the kind of aggressive history that you have had. Is it, I mean, why are you certainly so conservative in terms of growth now when the money is flowing for you?

Ashish Jakhanwala: So, Dhruvesh, the past is a fact and I can't deny it, right? And the future is a promise which I typically don't make, right? So the facts can't be changed. And what is the fact? And I did talk about this, by the way, if you see, I think it's important. I think what we are saying is we are future ready. And I'll echo your sentiments here, right?

First, I think we see phenomenal opportunity, right? The office market, the aviation market is growing unabated, right? 40 million square feet being added by this country in a year is another Singapore, almost another Singapore, right? So this is really exciting times for us to put hotel in. Yes, yes. Total Singapore office supply will be 40 to 60 million square feet, right? So you're almost adding maybe two-third of a Singapore in a single year in India, right?

Two, our past strategy of acquisition turnaround, and also much lots talked-about strategy of variable leases has worked really well for us. The reason why we took the bold call of doing a INR1,200 crores IPO, resolving our debt in one go, was to allow us the financial flexibility to grow the business, right? But Dhruvesh, I will talk about growth as I keep delivering it. Today, I had to answer because a lot of people expect that, oh, the whole growth was 5,400 rooms. That's absolutely, my apologies. We, I think, express our agenda incorrectly or inappropriately. 5,400 rooms is what we hold in the business today, of which 4,800 are operational, and the balance 600 were in different stages of development.

That is not our growth path. Our growth path will come from deploying the free cash we get from the business for new opportunities, both acquisition turnaround, also variable leases, which tend to be very, very financially accretive. So you're absolutely right. We are focused on growth, and 5,400 rooms was not our growth target or promise.

Dhruvesh Sanghvi: Fine. Thank you. Thanks a lot.

Moderator: Thank you. Our next question is from the line of Pankaj Bobade. Please go ahead.

Pankaj Bobade: Hello. Am I audible?

Ashish Jakhanwala: Yes, Pankaj.

Pankaj Bobade: Well, thanks. Thanks for taking my question. As I understand, we are more of a business hotel. I mean, ours is a business-related hotel group, and our presence is mainly in the cities which are more of business centers, which is in line with what hospitality industry is in around the globe. But of late, we have seen in India that religious tourism is gaining currency, and I mean, the footfalls at cities like Varanasi, Ayodhya, are far higher than what Goa is witnessing. So just wanted to understand, do we have any plans to capitalize on this booming market?

Ashish Jakhanwala: Pankaj, of course, nobody wants to get on the wrong side of religion ever, right? But I think there's clearly a lot of pockets of demand in India. There is core business travel, there is the traditional leisure travel, there is the new homestay-led leisure travel in India, which is a completely different segment expanding very rapidly. And within that is a subset of religious travel, right?

So there are quite a few pockets of growth in India. For us, our immediate focus is on continuing growth in our core business markets, and that's largely leveraging our existing portfolio. I mean, look at ACIC. The fact that this portfolio was at 32% EBITDA margin, and we are confidently confirming to you that we see that growing to high 30s, if not 40s in a short period of time, is largely because we can leverage our existing portfolio in big cities to create economies of scale, right?

So for us, our near-term target is to use our existing portfolio and use that as, I would say, a base to jump for a higher inventory in the similar market. We are continuing to evaluate how one can create a sustainable, a scalable, and a profitable business, both in leisure, including the subset of religious tourism. But I would say that we are nowhere close to creating a strategy or having a conviction to start deploying capital, right? Does not mean that we don't believe in those opportunities. We need to have our own business model, and we don't do anything which is one-off, right? Do two or three. We need to have something which is scalable, which is sustainable, and which is financially accretive to us as well, right?

Two, don't forget the fact that religious travel, because it is so attractive, is also attracting a fair bit of private capital, right? Which means a lot of HNIs and individual investors are putting capital for hotel development in religious places, and that's a supply environment that we would like to watch out for before we deploy our own capital. So for a variety of reasons, we like all of this, but we are being clear of that in the near term to focus on our core strategy.

Pankaj Bobade: Thanks. And second question would be, what is the timeline, if you could give, by when we would be positive on PAT level?

Ashish Jakhanwala: So, let me take you through that. So as in the last quarter, yes, if you see, we delivered a PAT of 60 million before the one-time exceptional item, a PAT loss, a PBT loss of INR6 crores before exceptional item. I did mention to you earlier that we took the call of almost writing off the entire value, because we do not want any impact of that coming in the subsequent quarters, right? So with this strong performance in quarter three, Pankaj, we think that we would report a positive PAT in the next quarter or two quarters, right?

I mean, the next quarter seems very highly likely to be a PAT positive quarter, but it's about a quarter or two that we will be PAT positive on a sustainable basis. We were almost there, but for the exceptional provision that we made for a single issue.

Pankaj Bobade: So you mean to say we have written off INR76 crores before PBT, right?

Ashish Jakhanwala: No, after PBT, before exceptional items, let me just take. So as in the front page of the financial statement, there'll be PBT before exceptional and PBT after exceptional. So we've written it off as an exceptional item, post PBT, before yes, if you see here.

So we have a PBT excluding exceptional items of six crores loss. Then we have taken the exceptional item to report a PBT and then PAT size. So if the 760 was not there, you can see that we had 60 of PBT loss and then we had some tax income, which was coming to us.

So we would have been almost breakeven even on the, we would have been on a, we would have been almost, breakeven on the PAT level in quarter three, but before the exceptional item. So quarter four looks like a very strong contestant for being a PAT positive quarter.

Pankaj Bobade: So we are almost there, right?

Ashish Jakhanwala: Yes, we are there. I mean, and now it's more semantic and optics. Otherwise, from a financial perspective, we are there.

Pankaj Bobade: Okay. Thank you. Thanks a lot and good luck.

Moderator: Thank you so much. Thank you. Our next question is from the line of Dhruv Agarwal. Please go ahead.

Dhruv Aggarwal: Yes. Hi, can you hear me?

Ashish Jakhanwala Yes.

Dhruv Aggarwal: Yes. Good morning, sir. I have a little bit more questions. So pardon me for that, sir. So basically, sir, SAMHI Hotels is multi-branded and is present at multiple price points. And as we can see that travel and leisure segment has increased multi-fold after COVID, which act as a road driver for hospitality industry.

So in relation to that, what kind of RevPAR and occupancy level one should expect in coming years, say for 2024 to 2028 at consolidated level, sir?

Ashish Jakhanwala: Okay, Dhruv. So you're asking something that is a bold forecast, right? Okay, let's look at the historical numbers.

We have seen, so for the last four quarters, there has been a concern if we reach the peak of the cycle, right? This pretty much started, I think, last, yes, here. So if you see, we have seen minus the seasonal adjustments of different quarters, we've actually seen the respite growth accelerate from 15% in the first quarter to 16% in the second quarter to almost 20% in the third quarter, right?

We believe that the industry from a demand supply perspective is well positioned to maintain a double digit RevPAR growth. I would kind of not give a very specific point target, but I think a double digit RevPAR growth is a very reasonable expectation for the industry to deliver over the next two to three years, right? The second, which is even a more important aspect, is that as the occupancy levels today are reasonably, reasonably okay.

And I'm just putting the slide here for our portfolio nine months occupancy. If you see Delhi 80, Hyderabad 78, Pune 76, Chennai 72, other cities 72, Bangalore 69, what we are seeing really is

that the occupancy levels have in across India have reached that magical 70 plus mark, right? Now, we would expect this to continue to grow.

And unlike the historical myth that business hotels can't reach a 72%, 73% occupancy, we've actually seen business hotels do really well in occupancy levels, largely on account of the fact that we are doing very strong on weekdays, right? So the weekday occupancy, if you see, has been almost in the 80% mark for the last nine months. We believe that with very little supply coming in the most of the metros, the occupancies should continue to remain fairly strong and have the potential to stabilize more closer to 80, then closer to 70, as was the expectation, you know, for many years for business hotels, right? That's number two.

Rate growth will obviously be good, because now hoteliers are not worried about filling up the rooms, they are quite confident about sustainable high occupancy levels. So I think you would see them improving the rates year-on-year basis. We have seen some of the corporate rates for the next year being signed upwards of 10% growth on a year-on-year basis. That gives us the confidence of a double digit RevPAR growth.

But the most important thing really, Dhruv, is operating leverage. If you're talking about a RevPAR growth of 13%, 14%, right, for a good quality operator asset owner, that would mean that the EBITDA growth is in excess of that, right? And I think that would be the focus for many large good quality asset owners in India. Because you are in a long upcycle, the operating leverage will all accrue majority to the asset owners, right?

So we actually think we are in a very sweet spot, where even if we get an 11%, 12% revenue growth on same store basis, that should give us a 14%, 15% EBITDA growth for the same store assets as well, right? And for us, you would see that we are trying to make sure that we are not only dependent on the market forces.

And therefore, we have a lot of growth prospects within the company. I'm not talking about the new acquisitions or leases. But within our portfolio, a lot of our hotels will be repriced during the current year and towards the end of the year under a new brand, operate at a much higher average room rate. A lot of our new inventory will be ready to be completely operational. And the operating leverage from the ACIC portfolio will start to kick in.

So as far as we are concerned, we have delivered really solid both revenue and EBITDA growth. We believe we can continue that for a reasonable period of time because of the fact that growth is all already owned by the company for next several quarters now.

So Dhruv, I'm sorry I've not given you an exact numerical answer to this. But I'm only telling you that we are fairly confident and optimistic about a double-digit revenue growth, continued operating leverage, which will allow EBITDA growth to be higher than that. And for our portfolio in specific, have multiple levers over and above market forces to make sure this growth continues.

Dhruv Aggarwal: Right, sir. Sir, one more question related to that only. Sir, you have said, is my understanding correct with regarding to EBITDA margins, you are saying 14% to 15% growth in EBITDA margins would be there over the years. So is my understanding correct, sir?

Ashish Jakhanwala: No, EBITDA, absolute EBITDA growth, right?

Dhruv Aggarwal: Yes, yes, yes.

Ashish Jakhanwala: Yes, absolutely. I mean, a 10% revenue growth should give you a 13%, 14% EBITDA growth. If you're looking at 12% to 13% RevPAR growth, then you'll actually see, look at this here, our same store assets, the revenue growth was 17.6%, EBITDA growth was 28%. So that's the operating leverage you're talking about. So EBITDA growth for next several years will continue to far exceed the revenue growth. And that is something that a lot of us need to start focusing our attention on, not just on rate occupants here.

Dhruv Aggarwal: Okay, okay, fair enough. Like, sir, excluding the increase in number of rooms, are there any further growth plans of the company like to venture into something new, which will act as a driver for increase in the revenues, sir?

Ashish Jakhanwala: So, we don't need to really disturb the apple cart, but I'll give you an example, one example, and there are many more like that coming our way. Look at this particular hotel, this is currently a 301 room hotel, which has 79 apartments. This is a high-efficiency in Pune. We have initiated steps to A, increase the inventory, because we have the scope for increasing inventory in this particular asset. So it can potentially go from 301 rooms to almost 330 rooms, right? That's one.

We're adding more F&B spaces, because we are seeing discretionary spend improving, and there is a demand for dining facilities. Then we are looking at actually a reasonable renovation of the public areas, restaurants and meeting spaces, and all of this will help us improve what we call our rate share in the market. So that basically means that today, if we are achieving 90% of a competitive set, we expect that to improve to over 100% of our fair share, right?

So that gives you, a rate growth, which is independent of where the market is headed. This is one of the assets we are preparing and we'll showcase that to you in the next quarter presentation. We will bring two more large assets in focus, where we expect that we have reasonable intervention thought through, where those assets can deliver a much higher growth than the market would without those interventions, right?

So I think given the fact that we have 31 hotels that we own today, these hotels are in different markets at different price points, we have a huge experience of turning around hotel assets that we acquire, but people should, acknowledge the fact that after five, six years, the same experience can be reapplied to your existing assets as well, right?

So we're doing this to Hyderabad, Pune, we'll bring a strategy for Sheraton Hyderabad to you in the next quarter. We're doing something with four points Pune also, which we'll showcase to you next quarter.

So there's a fair bit we're doing to our portfolio through, which will help us reposition a reasonable part of our portfolio to a very different price category over the next four to five quarters. And all of this, unlike Greenfield development, is a very quick turnaround.

Dhruv Aggarwal: Okay, sir, fair enough. And so like, what would be the percentage of repeat business across hotels, sir?

Ashish Jakhanwala: Repeat business. So what we can tell you is that the business coming from loyalty members, right? And as our hotels operate with Marriott, which has a very strong BONVOY program.

We have IHG and we have Hyatt, so there's Gold Passport and there is IHG rewards. We have seen that loyalty members constituting more than 40%-50% of our total business, right? Now this number will have a huge swing between one and the other hotels, so giving an average is often misleading.

But on an average, we've seen over 40%-50% of our customers are loyalty members, which means you have a certain stickiness to the customer. Repeat visitation, of course, is a little less relevant as is how much of the loyalty customers are using your hotel, what's the power of the loyalty program. And that number is pretty healthy when you are with programs like Bonvoy and IHG rewards.

Dhruv Aggarwal: Okay, right, sir. And sir, like one more question, like if suppose you have given any hotels for like contract management to say Hyatt, and in the same city, sir, Hyatt is also having his own hotel also, sir. So don't you think like, sir, there would be a pricing war, isn't it?

So like, how are we able to deal with, sir, such circumstances? Like, is there any, like, within the contract, is there anything like within certain kilometers, that has not opened his own hotel, sir, like that, or like, what is the basically the contract in that, sir?

Ashish Jakhanwala: So first of all, we have an area of protection. Whenever we sign a contract with a hotel company, we have an area of protection around that hotel where they can't sign on the contract of similar category. So that really is the first circle of protection for us.

And beyond that, really, you cannot, I think what we need to worry about is supply, and the fact is, whether it's a Hyatt or a Marriott or a Taj, you need to worry about supply, not about just the brand that it carries, right. So we're not very perturbed about, for instance, we give no exclusivity, we take no exclusivity, right. And that's largely because our focus is on demand supply, and creating an area of protection around the hotel.

So I think that has not really bothered us. But just as a footnote, current operators that we have, all the three operators don't have any of their own invested assets in India. So there is no, from that perspective, there's no conflict, where within the same city, they have an owned asset and a managed asset, Marriott, IHG and Hyatt.

Hyatt has some joint ventures in India, of course, with Unisan Hotels, but other than that, these operators don't have their own invested capital in assets, they are operating purely as a service provider as an operator. And that, of course, creates an additional layer of comfort for us that, their whole source of income is making sure the hotels are run well for the owners that they're running these hotels.

Moderator: Thank you. Ladies and gentlemen, that was the last question of our question and answer session. I would now like to hand the conference over to Mr. Ashish Jakhanwala for closing comments.

Ashish Jakhanwala: Thanks, everyone. We quite enjoyed the discussion. We have taken down some notes for future quarterly discussions.

I would reiterate that even though we have shown phenomenal revenue and EBITDA growth in the last quarter, that's not yet the best. Two, we are well on our track to deliver both a PAT positive first quarter and also stay course on 3.5 times debt-free EBITDA in the near term. And with that, I think over the next few quarters, we will start, focusing a little bit on the growth prospects and we will start discussing them with you as well.

So, with that, thanks for your time and look forward to speaking to you at the end of the fiscal year.

Moderator: Thank you. On behalf of SAMHI Hotels Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.