



IPO Report

19th Feb'24

Snapshot

Company is a luxury hotel development and ownership company, and is the largest owner, by number of Keys of “Hyatt” affiliated hotels in India as of September 30, 2023. Company have a portfolio of seven hotels and serviced apartments and operate a total of 1,836 keys as of September 30, 2023. Company benefit from a unique and longstanding partnership of over 40 years between Saraf Hotels (including erstwhile and current affiliates, collectively referred to as the “Saraf Group”), a hotel developer with a strong and well established track record in India, and affiliates of a globally recognized premier hospitality brand, Hyatt Hotels Corporation (collectively with its affiliates “Hyatt”).

VALUATION

Company is bringing the issue at price band of Rs 342-360 per share at EV/EBIDTA multiple of 37x on FY23 EBIDTA basis. Company has expertise in site selection and identifying opportunities to develop its hotels. Company’s unique partnership between asset owner and operator brand backed by strong parentage along with robust asset management capabilities with a focus on enhancing operating efficiency and profitability. Company has. Increasing returns by having multiple revenue streams and complementary offerings. Also, company is well positioned to benefit from industry trends with experienced and qualified board and management team. Hence ,looking after all above we recommend “ Long term Subscribe” on issue

Price Band (Rs./Share)	342-360
Opening date of the issue	21st Feb '2024
Closing Date of the issue	23rd Feb '2024
No of shares pre issue	172502384 Eq Shares
Issue Size	Rs 1800 Cr
Fresh issue	Rs 1800 Cr
No of Shares	50000000-52631578 Eq Sh
Face Value (Rs/ share)	Rs 10/share
Bid Lot	40

BIDDING DETAILS

QIBs (Including Anchor)	75% of the offer (Approx 37500000 Eq Shares)
Non-Institutional	15% of the offer (Approx 7500000 Eq Shares)
Retail	10 % of the offer (Approx 5000000 Eq Shares)
Lead managers	JM Financial Ltd, CLSA India Pvt. Ltd, ICICI Securities Ltd
Registrar to the issue	KFin Technologies Ltd

WHAT WE LIKE

Unique asset owner and operator brand backed by strong parentage

The Saraf Group and Hyatt have had a longstanding relationship of over 40 years, dating back to the opening of the first Hyatt hotel in India, namely, Hyatt Regency, Delhi, in 1982. This continuing relationship has led both partners to have a deep understanding and alignment on the business goals, company values and working culture, which has led to the success of Company, driving high EBITDA margins.

Increasing returns by having multiple revenue streams and complementary offerings

Company have introduced complementary revenue generating streams at its hotels, and benefit from revenue contribution from areas such as serviced apartments, restaurants, MICE services and other services, to ensure optimal utilization of available resources. For instance, during the COVID-19 pandemic, the Average Occupancy, the Grand Hyatt Mumbai Hotel and Residences decreased by 64.70% in Fiscal 2021 from the previous year, while Average Occupancy at its serviced apartments at the Grand Hyatt Mumbai Hotel and Residences and Hyatt Delhi Residences, remained strong, with a decrease in Average Occupancy by 26.06% and 9.42%, respectively, in Fiscal 2021 from the previous year.

Well positioned to benefit from industry trends

In Fiscal 2022, India was the fifth largest global economy with GDP at current prices of USD3.18 trillion. The International Monetary Fund’s World Economic Outlook Report (October 2023) forecasts India’s per capita GDP to grow at a CAGR of 8.3% between Fiscal 2023 and Fiscal 2028, and estimates India to have the highest GDP in the next few years (followed by China and other global economies). In addition to impressive economic growth, the Indian hotel industry benefits from other factors such as an increased population and individual incomes.



COMPANY BACKGROUND

Company is the the only hotel development company in India with which Hyatt has a strategic investment. Company own 19.6% of Hyatt group affiliated hotel rooms and apartments in India as on September 30, 2023 (source: Horwath Report) and have extensive experience in identifying opportunities in hospitality destinations, developing high-end hotels in these locations and nurturing them through active asset management. Company is also focused on providing quality guest experience, while operating company's assets efficiently. Company's hotels and serviced apartments are present across the luxury, upper upscale and upscale category of hotels and are established landmarks in Mumbai, Delhi, Ahmedabad, Lucknow, Raipur and Hampi. Besides Grand Hyatt Mumbai Hotel and Residences being the largest luxury hotel in India, the Hyatt Regency Lucknow and Hyatt Regency Ahmedabad are the largest upper upscale hotels in their respective markets and Hyatt Raipur is the only upper upscale hotel in Raipur (source: Horwath Report). Company is jointly held by Saraf Hotels and its affiliate, Juniper Investments and Two Seas Holdings (an indirect subsidiary of HHC). The partnership between company's key stakeholders has been built over several decades. Saraf Group, led by Arun Kumar Saraf, have over 40 years of industry experience and have developed a number of hotels across South Asia. HHC is a global hospitality company with widely recognized, industry-leading brands and a tradition of innovation developed over 65 years, with a hotel portfolio consisting of 1,310 hotels and 313,257 rooms, across full service hotels and resorts, all-inclusive resorts, select service hotels, lifestyle hotels and other properties, as of September 30, 2023.

Company benefit from the experience of its key shareholders and are able to leverage their long-standing brand heritage, in-depth market understanding, operational experience, and the World of Hyatt loyalty program with approximately 42 million members as of September 30, 2023. Company currently own a portfolio of seven hotels and serviced apartments which are located across six cities in India, comprising established metro cities (Mumbai and Delhi), emerging business destinations (Ahmedabad, Lucknow and Raipur) and upcoming tourist destinations (Hampi), providing guest and geographic diversification. Company's hotels and serviced apartments are classified under three distinct segments: (a) luxury – the Grand Hyatt Mumbai Hotel and Residences and Andaz Delhi; (b) upper upscale – the Hyatt Delhi Residences, Hyatt Regency Ahmedabad, Hyatt Regency Lucknow and Hyatt Raipur; and (c) upscale – Hyatt Place Hampi (source: Horwath Report).

Company have the largest aggregate inventory of upper tier branded serviced apartments in Mumbai and New Delhi among hotels owned by major private investors (source: Horwath Report). As of September 30, 2023, (a) the Grand Hyatt Mumbai Hotel and Residences had 665 keys, which represents approximately 12% of the total supply of 5.4k luxury room inventory in Mumbai, and (b) Andaz Delhi had 401 keys, which represents approximately 12% of the total supply of 3.3k luxury room inventory in New Delhi. Company's significant presence in New Delhi and Mumbai provides company with a strategic advantage from both international and domestic travel through these cities and the well-established business ecosystems. Ahmedabad is a hub for economic growth in Gujarat and Lucknow stands to benefit from the push for active investments in Uttar Pradesh. As of September 30, 2023, (a) the Hyatt Regency Ahmedabad had 211 keys, which represents approximately 26% of the total supply of 0.8k upper upscale inventory in Ahmedabad; and (b) the Hyatt Regency Lucknow had 206 keys, which represents approximately 52% of the total supply of 0.4k upper upscale inventory in Lucknow. In Raipur, the Hyatt Raipur was established to benefit from the industrial growth in the capital city of Chhattisgarh, the resource rich state. The Hyatt Place Hampi was established to cater to tourists visiting the Hampi UNESCO World Heritage Site, as well as to business travelers visiting the nearby steel manufacturing facilities. Company identify and acquire sites to develop its hotels and serviced apartments, accounting for factors such as location, economic potential of the location, target customers and branding. The Grand Hyatt Mumbai Hotel and Residences is located between the Bandra Kurla Complex ("BKC") (which is the business center of the city) and the Chhatrapati Shivaji Maharaj International Airport, situated in Mumbai. Similarly, Andaz Delhi and Hyatt Delhi Residences are located at the Indira Gandhi International Airport hospitality district (Delhi Aerocity), between Gurgaon and New Delhi. Once company identify and acquire sites, its expertise in development allows company to move swiftly from a capital deployment phase to a revenue generation phase by making its assets operational.

Company is the flagship entity for the Saraf Group, through ownership of a unique portfolio of luxury, upper upscale and upscale hospitality assets, located in highly desirable locations across key locations. Company's continued strategy is to expand on its current ownership of marquee assets across India, bringing in more luxury and upscale hotels and serviced apartments into the portfolio, by consolidating the in0s of Saraf Hotels and its affiliates in entities incorporated in India operating in the hospitality sector or through new opportunities, enhancing the Company as the flagship entity for the Saraf Group.



INVESTMENT RATIONALE

<p><i>Experienced and qualified board and management team</i></p>	<p>Company is led by its founder and one of Promoters, Arun Kumar Saraf, company’s Chairman and Managing Director who has notable experience in the hospitality industry. Arun Kumar Saraf has led the construction of its hotels and serviced apartments and has been instrumental in its operations. Company have a diverse Board, which is supplemented by a qualified management team with significant experience. Along with Arun Kumar Saraf, its Board includes Pallavi Shardul Shroff and David Peters, each of whom has a wide experience in various industries such as hospitality and law. Company’s Key Managerial Personnel and Senior Management includes Varun Saraf (Chief Executive Officer) who has experience in the hospitality and tourism industries and is responsible for managing the overall operations of Company; P.J. Mammen (Chief Operating Officer) who has experience in the hospitality industry, leads the asset management team and is responsible for the asset management of its operating hotels and serviced apartments and monitoring their operations; Amit Saraf (President), who has experience in the hospitality industry and is responsible for inter alia corporate affairs, legal and finance and commercial leasing functions of Company; and Tarun Jaitly (Chief Financial Officer), who has experience in corporate finance, capital markets and investor relations and is responsible for finance & accounts, capital markets, debt finance, fund raising, treasury management and investor relations functions of Company.</p>
<p><i>Robust asset management capabilities with a focus on enhancing operating efficiency and profitabilit</i></p>	<p>Company have established specialized asset management teams with asset managers at each of its hotels. Company have formed functional clusters – operations, finance, human resources (“HR”), procurement and a dedicated aboveproperty sales team. This cluster-based approach provides company with the ability to apply best practices and maximize results. Company’s operations cluster enables it to review all revenue strategies implemented in driving business across its hotels and its finance cluster gives company the ability to analyze real-time financial and accounting MIS from a central location, giving the asset team a sharper insight on its cost structure, leading to better internal controls. Company’s centralized approach enables standardization of products and the economies of scale provides increased negotiating power. Each hotel has a dedicated asset manager, which gives company the ability to monitor asset upkeep by prudent and timely expenditure on resources and management to ensure the upkeep of its hotels, which is crucial to drive revenues and to also maintain or grow asset values.</p>
<p><i>Expertise in site selection and identifying opportunities to develop its hotels</i></p>	<p>Company have demonstrated a strong track record in establishing its presence across key cities. Company’s hotels and serviced apartments are located in: (a) established markets such as Delhi and Mumbai; (b) emerging business destinations such as Ahmedabad, Lucknow and Raipur; and (c) growing tourist destinations such as Hampi. In Raipur and Hampi, its hotels were the first international chain affiliated hotels . Company identify micro-markets and locations within the cities based on their proximity to airports, central business districts, areas with concentrated industrial catchment and areas with high tourism activities. Company align the appropriate Hyatt sub-brand with each development. The right sub-brand, along with the right size of development in the optimal location in the chosen city, allows company to cater to the high-end traveler and maximize long-term returns.</p>



OBJECTS OF OFFER

The Issue comprises the issue of Equity Shares aggregating up to ₹ 18,000.00 million by Company. The net proceeds of the Issue, i.e., gross proceeds of the Issue less the Issue related expenses (“Net Proceeds”) are proposed to be utilised in the following manner:

1. Repayment/ prepayment/ redemption, in full or in part, of certain outstanding borrowings availed by Company and its recent acquisitions, namely CHPL and CHHPL; and
2. General corporate purposes.

RISKS

Company and its Subsidiary, MHPL, have incurred losses in the past. In addition, on September 20, 2023, Company acquired 100% of the equity share capital of CHPL from its Corporate Promoters, pursuant to which CHPL has become company’s wholly owned direct subsidiary, while CHHPL has become its indirect subsidiary. CHPL and CHHPL have incurred losses in the past,

Source:RHP

INDUSTRY OVERVIEW

Key Demand Drivers

Demand for hotels arises for various purposes. The key demand drivers are briefly described herein:

- Business travel comprises inbound and domestic visitation for business related purposes. This includes travel on corporate accounts and by individual business travellers predominantly to business oriented locations. Demand is substantially between Monday and Thursday, slowing down towards the weekend or public holidays. Business travel also slows during vacation periods. Hotels located in Select Markets draw sizeable demand from business related travel.
- Leisure travel is discretionary in nature and comprises long and short stay vacations, staycations within city hotels, weekend stays for recreation and entertainment, leisure attached to a business trip or to a trip for weddings and meetings. Greater affordability, changing attitudes towards lifestyle, and improved connectivity have encouraged staycations and weekend stays at hotels with good F&B, recreation and entertainment facilities. The ability to attract weekend leisure demand at city hotels is vital to high occupancy levels for city hotels. Leisure demand arises from domestic and inbound travel; domestic leisure demand was a mainstay for the industry during and after the COVID-19 pandemic.
- MICE – corporate, government, institution and association events (conventions, conferences, retreats, incentives and promotions, training programmes, customer-facing events, staff events etc.). Corporate and government demand is mainly during the working week or on Saturday; institution and association demand can be on weekends. MICE demand occurs through the year, barring the main holiday periods and the months from March through May. Large format hotels, have been key to creating large MICE activity (domestic and international) in India; this can be further increased manifold once international convention centres are developed in Indian cities. These large convention centres also need supporting hotels; the shortage or absence of sufficient supporting inventory benefits larger hotels that are located in proximity to the convention centre.
- Weddings and social travel involve mainly destination weddings, residential and non-residential weddings and other social/celebratory events. MICE and weddings/social demand are important demand drivers for large format hotels such as the Grand Hyatt Mumbai Hotel and Residences and Andaz Delhi; in turn, these large hotels also facilitate such demand to be created, and attracted to a city, and effectively served.
- Diplomatic travel comprises government leaders and representatives of other countries, often accompanied by large trade delegations, and diplomats posted to India using upper tier hotels during the transition period.

Airline crew helps create a core of demand at hotels, albeit at significantly discounted pricing. Airlines also create limited demand for layovers due to significantly delayed flights.

- Transit demand comprises persons on overnight transits during air or road travel to a domestic or international destination.

Each demand segment attracts domestic and inbound travel of varying measures, also dependent upon the hotel and destination character.



Consolidated Financials

(Rs in Mn)

Financials	FY21	FY22	FY23	H1FY24
Total Revenue (A)	1663.51	3086.89	6668.54	3361.12
Total Expenditure (B)	1706.47	2422.87	3949.26	2128.35
EBIDTA	-42.96	664.02	2719.28	1232.77
EBIDTA Margin	-2.58	21.51	40.78	36.68
Other Income	265.01	350.66	504.34	13.18
Depreciation	1053.96	999.39	815.21	389.89
EBIT	-831.91	15.29	2408.41	856.06
Interest	1862.14	2156.29	2663.60	1321.45
PBT	-2694.05	-2141.00	-255.19	-465.39
Exceptional	0.00	0.00	0.00	0.00
PBT	-2694.05	-2141.00	-255.19	-465.39
Tax	-699.19	-260.69	-240.22	-200.37
PAT	-1994.86	-1880.31	-14.97	-265.02
NPM	-119.92	-60.91	-0.22	-7.88
ROE%	-36.68	-52.76	-0.42	-3.08
EPS	-13.88	-13.08	-0.10	-1.82
Eq Cap	1,437.00	1,437.00	1,437.00	1,725.02
Net Worth	5,438.97	3,563.67	3,545.07	8,596.67

(Source: RHP)

Peer Comparison

Company Name	Face value	P/E	Revenue from operations (Rs in Mn)	EPS	NAV	ROE %
<i>Juniper Hotels Limited</i>	<i>10</i>		<i>6668.54</i>	<i>-0.10</i>	<i>24.67</i>	<i>-0.42</i>
Peers						
Chalet Hotels Limited	10	79.78	11284.67	9.06	75.20	12.03
Lemon Tree Hotels Limited	10	92.34	8749.90	1.45	10.78	16.46
Indian Hotels Company Limited	1	65.67	58099.10	7.06	56.20	13.19
EIH Limited	2	56.59	20188.10	5.03	53.96	9.75
SAMHI Hotels Limited	1	NA	9328.09	-47.48	2.51	NA

(Source: RHP)



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