SAMHI
SMART HOTEL INVESTMENTS

SAMHI Hotels Ltd.
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November 17, 2023

BSE Limited
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Maharashtra, India
Scrip Code: 543984

National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G
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Mumbai – 400 051
Scrip Code: SAMHI

Sub: Transcript of Q2 FY24 Earnings Conference Call

Dear Sir / Madam,

Please find enclosed the transcripts of the Q2 FY24 Earnings Conference Call held on Thursday, 9th November 2023 at 3:30 PM.

You are requested to kindly take the same on record.

Thanking You.

Yours faithfully,

For **SAMHI Hotels Limited**

Sanjay Jain
Senior Director- Corporate Affairs,
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Encl.: ***As above***

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SAMHI Hotels Limited

Q2 FY24 Earnings Conference Call

November 09, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 9th November 2023 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 Q2 FY24 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 your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to **Mr. Ashish Jakhanwala, Chairman and MD**. Thank you and over to you, sir.

Ashish Jakhanwala: Thank you so much. Good afternoon and warm welcome to everybody for SAMHI's Q2 and H1 FY24 earnings call. Today I have with me my colleagues, Rajat Mehra, who is the Chief Financial Officer. I got Gyana, who is the Executive Vice President and Head of Investments. I also have Nakul, who is Vice President of Investments. And along with my team, we also have the team from Strategic Growth Advisors, who are Investor Relations Advisors.

First of all, this is our first earnings call. Thank you so much to all of you for a very warm reception to our IPO. I think for the management team at SAMHI and our shareholders, it's a very proud achievement for us to have created a formidable hotel company within a period of about 12 years.

We have uploaded our result presentation on the exchanges. I hope everybody had a chance to go through the same. But we also have a video webcast where we will be taking you through the detailed management presentation.

And we would encourage participants to join the webcast so that they can see the presentation as we take you through our commentary. Given it's our first earnings call, I would spend four or five minutes to take you through a brief profile on SAMHI, our journey, what has been a principal business strategy before we go into details of Q2.

SAMHI is one of India's leading branded hotel ownership and asset management company. We have a very unique business model that we'll talk about, which is rooted in our ability to acquire and turn around underperforming hotels. As of 30th September, we are very proudly standing as India's third largest owner of hotel rooms by number of rooms. As you can see on the slide, those of you who have joined the webcast, we have about 4,800 rooms across key markets in India.

And our hotels span across what we call mid-market segment. We have about 1,500 rooms there. We have about 2,000 rooms in the upper mid-scale. And then we have about 1,000 rooms in the upscale. So the company captures demand at different price points and across key cities in India. One of the most important pillars for our growth actually has been our acquisition and turnaround strategy.

We believe that given the low institutional penetration of capital in the hotel sector, there is a huge potential of hotel assets in India, which today exist, but are underperforming to their true potential. Over the last decade, this has been our mode. We've been able to create a programmatic approach to acquiring underperforming, under-managed hotels.

And invariably, once we've acquired these hotels, we have taken them through a very systematic approach of product, brand, and asset management upgrade. And we've seen significant changes to the performance of those hotels. So of the total 4,800 rooms that we own today, other than 700-odd rooms that we've built greenfield, rest of the rooms have been acquired through an acquisition and turnaround strategy. And that demonstrates the strength and the success of our principle business strategy.

The second important thing for us, of course, is the fact that it has allowed us to grow fairly rapidly. We are very proud of the fact that we've been able to create India's third largest owner of hotel rooms all within a period of about 12 years.

As you know, development cycles in India tend to be fairly long. They tend to be fraught with a lot of development and delay risk. When you're doing an acquisition and turnaround-led growth, you tend to kind of avoid those inherent risks which are there in development.

The other key factor for us is the fact that we have a large portfolio. As I mentioned earlier, our portfolio is spread across different price points in key Indian cities. And we have been able to leverage the power of strong global hotel brands which sit on top of our hotels. And therefore, these brands are a bridge to the customer. As of 30th September, about 71% of all Holiday Inn Express hotels in India were owned by SAMHI. Almost over 40% of all Fairfield by Marriott hotels in India were also owned by SAMHI.

So even though we partner with a global hotel company like Marriott, Hyatt, or IHG for bringing brand and operational expertise to our hotels, we have a very dominant share of some of the largest global mid-market hotel brands for the Indian market and for Indian consumers. And we are very proud of our track record.

This is a company we created in around FY12. And, you know, from FY12 when we started the business, our total turnover was just about a crores of rupees. And in FY23, on a pro forma basis, including the recent acquisition that we'll talk about, we had crossed a revenue of about INR964 crores. So this company has really demonstrated what I would consider industry-leading growth rates over the last five, six years, even if I was to ignore a very low base of what we had started from about 10 years back.

Coming to a recent acquisition that we have made, and, you know, there will be a fair bit of discussion about SAMHI's performance and a pro forma performance. And just to clarify upfront, when we talk about pro forma, we are just making an assumption that the acquisition was made for the full fiscal year, rather than for the stub year after closing of the transaction. And it's really important for us because A, that's how we have represented the numbers in our prospectus. And two, when we talk about our total debt today, or what we talk about our future cash flows, it does assume the ACIC portfolio as it has been fully acquired. So this portfolio that we've acquired in August of 2023, consists of six hotels with about 962 rooms. It additionally has given us a land parcel in Navi, Mumbai, for a potential development of about 350 rooms. We believe this acquisition is extremely accretive to SAMHI over the next few quarters, as we integrate this business with our existing portfolio.

Just a quick introduction, I have already briefly introduced the team to you, but SAMHI is also a business which is unique in a way that it has been built by a professional management team. And most of the management in this company has been with the business for over 8 to 10 years.

Also, backed by a very strong Board. In terms of governance, we have almost 50% of our Board comprising of independent directors. Those directors bring a great depth of experience of different sectors, including hotels, banking, real estate, travel and tourism, and so on and so forth. So we have built the business since inception, with a very strong independent professional board.

In terms of macroeconomics, we will give you some perspective of how we see us being positioned in the macroeconomic situation. I think there are two things that we'll talk very often with all of you over the next few quarters. One is airline passengers, and the second is the grade A commercial office space.

These are two demand parameters, you know, indicators that SAMHI has relied heavily to make its investments to evaluate how our hotels are doing, and our underwriting of what our portfolio could be doing in future. If you look at airline passengers, and it's a fairly interesting data point. There's been a lot of anecdotal discussion about how there is a problem of capacity in airlines in India, airfares are at an all-time high. And if you were to look at actual data for Q2, or even some quarters preceding that, we realized that the total passenger movement on a quarterly basis is just about getting to where it used to be pre-pandemic. So in Q2 FY24, we had about 65 million passengers transiting through various Indian airports. And this number actually is very similar to what the number was on a pre-pandemic basis.

So there has been a lot of supply side constraints, but we have barely seen the full recovery of the airline sector. And for us as a hotel owner asset manager, it's actually a great news, because we still feel there's a fair bit of headroom for growth for the airline business in India, because effectively from FY20, Q2, to FY24, Q2, we've really not seen any meaningful growth of total passengers.

In terms of office space, India has an incredible market. In the last quarter, which is Q2 of FY24, the key cities in India saw about 22.5 million square feet of total absorption. And that's really some of the highest absorption rates that you'll see in any global market. No surprises, Hyderabad, Bangalore, Delhi, Pune, Mumbai lead the pack.

And as I mentioned to you earlier, we've been following these two data points, and therefore you would see our portfolio largely concentrated and dispersed across markets, which are large office markets and large aviation markets within India. And within those markets, you will see us operating at different price points, starting from a Holiday Inn Express, which is our mid-scale brand, selling at an average rate of about Rs.3800 to Rs.4000. Then going to our upper mid-scale brands like Fairfield by Mariott and Four Points by Sheraton. And then eventually in five markets, we have upper-upscale and upscale brands such as Hyatt Regency, Sheraton, Courtyard, Hyatt Place and Renaissance.

In terms of our Q2 performance, we'll just quickly jump to Q2, so we leave a lot of time for Q&A. During the last reported quarter, the company reported an occupancy of about 72%. So all of our 31 hotels, the aggregate occupancy was about 72%.

Our average room rate, and we will caution the audience, that the average room rate in our portfolio is a weighted average of three different segments. And therefore you would sometimes see some noise in the average room rate. So there'll be a lot more focus on average room rates for each segment.

But portfolio-wide occupancy was about 72%. RevPAR and ARR both grew in the range of about 16.4% and 14.7% respectively. Rajat will take you through the financials later, so I'll skip that part.

In terms of growth, last year, same quarter, we did a total revenue of about INR176.4 crores. What we have seen is about 14.6% growth for same store assets. And then we have an impact of the recent acquisition that we've made, resulting in a total revenue growth of about 25.3% year on year. Similarly, in EBITDA, last year, same quarter EBITDA was about INR62.5 crores. We've seen about 19.2% year on year growth on same store. And then there's an impact of about INR8.8 crores from the acquisition of ACIC. Therefore, the total EBITDA at an asset level is being reported to grow at 29.8% year on year.

RevPAR, which most of the participants would know, is a very important indicator for our business. We've seen really healthy growth, both in Q1 and Q2. We saw about a 14% growth in Q1. We've seen that improve to about 15%. Early indications confirm to us that this RevPAR growth continues through the current quarter. I think there are really enablers and sometimes something that always pulls you back. In the last quarter, the enabler was really the fact that we've seen really no new supply coming in our core market. And the demand for business travel continues to remain very, very healthy. No surprises. 22.5 million square feet of office space was absorbed in India in one single quarter. So that is what is driving the RevPAR growth. We actually could have seen a better quarter, but for the fact we saw some negative impact in Karnataka because of the Karnataka bandh towards end of September. As you know, we have a reasonable presence in Bangalore city. And two, also we had certain apartments which we had taken for some upgradation in Pune.

And therefore, if we had these two incidents were netted off, we would have seen probably a higher RevPAR growth and net impact on total income and EBITDA. Every quarter, we are very proud of our in-house and proprietary asset management tool that we've built, which we call SAMHI Intel. This tool uses really high frequency daily data to identify trends which can have a potential impact, positive or negative on the performance. It's one of very unique asset management tools, perhaps in the industry today.

And every quarter, we'll give you one insight from that tool. And so that you get the information asymmetry between management and investors is kind of removed over a period of time. This quarter, one of the things that we have identified is what we call demand compression. How many days in a year the portfolio is achieving a very healthy occupancy. And if you see in the current calendar year, and I'll repeat current calendar year, so from 1st Jan till literally day before

yesterday, we actually saw that our entire portfolio had achieved more than 70% occupancy on almost 60% of all days.

And that's a really healthy trend given the fact that we are heavily based in business locations with business hotels. So including the impact of weekends and holidays, we saw 70% occupancy being crossed on almost 60% of all days. But more important is the fact that almost one in four days, our portfolio was doing more than 90% occupancy, which is when we realized that we can really yield our assets to our advantage.

So this is just one insight. In terms of segment, we have three segments, as I articulated earlier. Starting from the lower end, we have mid-scale, we have a singular brand there, Holiday Inn Express. Then we have upper mid-scale, which we have two brands right now, Fairfield and Four Points by Sheraton. And then in the upper upscale and upscale, we have different brands with five hotels. We'll quickly take you through what we've seen as performance trends in these segments.

We have seen RevPAR grow in excess of 7% almost in all three segments. Even in the upper upscale, we've seen RevPAR grow in excess of 7%. There's a fair bit of upcoming growth coming within the segment for us, which includes adding some inventory to our Hyatt Regency in Pune, including a restaurant.

We have an in-principle agreement with Hyatt to renovate and rebrand Hyatt Regency in Pune. We're also looking at improving our market share in social events in hotels in Pune and Hyderabad through refurbishment of our banquet facilities there. And then of course, we're launching about 45 refreshed executive rooms at Sheraton Hyderabad.

So whatever performance we see today, you will see a significant upside because of these operative actions that we're taking in the business. Similarly, in the upper mid-scale segment, we've seen RevPAR grow in excess of 7% both in H1 and in Q2. And again, in this segment, we expect, first of all, the biggest advantage will come from integration of the ACIC portfolio with the 962 rooms.

We're also starting, we were starting to do the planning of the 350 room hotel in Navi Mumbai, but that's really a long lead delivery. And then over the next year, year and a half, we'll see the renovation and rebranding of Caspia at Delhi and the Four Points by Sheraton in Pune. The higher than 7% RevPAR growth trends continue in mid-scale assets, where we've seen good performance.

This segment also will see a new hotel being added sometime next year in Calcutta, which is 116 rooms. We'll see a 56 rooms, you know, addition to our Holiday Express in Bangalore Whitefield. And we are going to undertake a renovation of an existing hotel in Greater Noida, which will then reopen as a Holiday Express. All of this is targeted to be done in FY25.

In terms of our strategic initiatives, I think we've classified them in three buckets, operative, financial, and growth. In terms of operations, clearly, you know, a simple low hanging fruit for us is our portfolio is in markets which have the largest office space and airline business.

We can leverage that for our benefit. The integration of the 962 rooms of ACIC will bring tremendous advantages to our overall portfolio in terms of margin improvement and revenue growth. In terms of financial target, Rajat will take you through how we have transformed the balance sheet through the IPO proceeds, but we are moving fairly quickly towards our commitment to get net debt to EBITDA around three and a half times by end of FY25, alongside bringing reduction in the financing costs.

And growth, some of the growth targets which are immediate, we've already spoken about when we spoke about each segment. This is just a roadmap of our various growth targets over the next two to three years. And as I mentioned earlier, all of this growth is internal to the company, no acquisition needs to be made, but we're fairly confident that of the 4,800 rooms that we have today to ourselves, about 3,900 rooms are stable, same store, about 900 rooms are undergoing some renovation, rebranding over the next year, two years.

And then we have the ability to add 600 rooms to take our portfolio to about 5,400 rooms. All of this will be delivered over the next two to three years. Rajat, I'll now pass it on to you for financial results.

Rajat Mehra: Thanks Ashish. Good afternoon, ladies and gentlemen. I will take you through the financial performance of our company for Q2 FY24. During the quarter, we completed the acquisition of the ACIC portfolio on the 10th of August, 2023. As a result, our financial performance for the quarter includes performance of ACIC portfolio as well. Our asset income for the quarter has increased to 2,211 million in Q2 FY24 from 1,764 million in Q2 FY23, registering an increase of 25.3%. Our asset EBITDA for the quarter has increased to 811 million in Q2 FY24 from 625 million in Q2 FY23, thereby registering an increase of 29.8%.

The consolidated EBITDA pre ESOP and the one-time expense has increased by 29.7% to 739 million from 570 million. Overall, our estimated ESOP cost for the year is about 460 million which is being amortized over four quarters and that's why you see very similar expense coming in Q1 and Q2 of the current financial year. The other one-time expenses are completely charged off in the P&L and we don't expect these to incur in the coming quarters. Our depreciation for the quarter is higher as compared to the same quarter last year due to the inclusion of the depreciation related to the ACIC portfolio.

Our finance cost for the quarter is actually not a true representation of our ongoing interest costs as we have not been able to use our IPO proceeds and reduce debt to the extent that we have planned in the current quarter. Significant part of the high-cost loans were actually paid post the quarter end and you will see the reduction in the finance costs in subsequent quarters. Also, the finance cost in the current quarter includes some one-time exceptional costs of close to about 250 million.

In our balance sheet, if you see post the IPO, we've been able to improve our financial strength. Our net worth actually has turned positive to 10,782 million from a negative of 8,076 million primarily due to the IPO and as well as the all-stock deal that we did for acquisition of the ACIC portfolio. On the operating efficiencies, our overall EBITDA for the portfolio is 37% while the EBITDA for the ACIC portfolio is only 32%.

We are confident with the completion of the integration of this portfolio with SAMHI, the asset EBITDA margin of this portfolio will also improve closer to that of SAMHI's similar segment. On the overall debt, we have been able to reduce our net debt from about 28,339 million as on March 31st, 2023 to a net debt of about 18,333 million, which is a reduction of close to 35% here.

If you see on a current trading 12-month basis, our debt to EBITDA has considerably reduced to 5.4 times as compared to that of about 8.7 times as on March 31st, 2023. With the reduction of overall payments that we have made for reducing the overall debt, we have also been successful in reducing the cost of borrowing. Although we have talked about the cost of borrowing of 10.49% in the presentation here, but I am happy to inform that it is actually further reduced to about 10.42% by actually paying certain high cost debt after the release of this presentation.

With that, I actually pass the presentation back to Ashish.

Ashish Jakhanwala: Thank you so much. That is from our side. We are happy to take questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Jaiveer Shekhawat from Ambit Capital. Please go ahead.

Jaiveer Shekhawat: Thanks for taking my question and Ashish, congratulations for your maiden earnings call. So, Ashish, my first question is about your portfolio, overall portfolio, given that you have bit scaled this portfolio in the past. So, apart from the Navi Mumbai land parcel development and also the plans that you already have of sort of adding more rooms, are there any other plans over the next three to four years in terms of acquiring any further assets or would you still focus on just growing and integrating the current portfolio?

Ashish Jakhanwala: Jaiveer, thanks. So, I think in terms of our plans, we will just like to take you through prioritization. I think our priority is to ensure we deliver on what we call internal growth targets. So, from where we are today, Jaiveer, we have 4,800 rooms. About 900 of those rooms need to undergo a significant renovation and rebranding. We have seen from our past track record that renovation and rebranding creates a significant upside in the performance.

That's one. Second, we need to add about 600 rooms to our portfolio, which is all of which real estate is currently owned by the business. So, I think in terms of priority, we are focused on these two internal growth levers. In terms of medium to long term, we constantly look for interesting growth opportunities. As you know, a part of our portfolio, especially in the mid-scale space, is long variable leases.

We continue to find interesting opportunities for local landowners to come to us for long variable leases, which is also extremely capital efficient. And if there is a very interesting long lease opportunity in the urban market, we shall respond to that opportunity. But again, I will repeat, our priority is to focus on our internal growth projects.

Jaiveer Shekhawat: Right. This is very clear. Thanks. And secondly, on your ACIC asset level margin, so when do you expect that to catch up with the rest of the portfolio level margins? And if you can also detail the process that undergoes in terms of doing that turnaround.

Ashish Jakhanwala: So, Jaiveer, there are really two or three steps to doing that. The first, that portfolio currently is on a franchise basis, which means the resident management team is also looking after the hotel operations. Our first target is to convert those franchises to management contracts. And by doing that, these hotels start benefiting from a broader distribution and sales support system from Marriott. Second, you know, we have a very large portfolio with Marriott Hotels and because of which we run a shared services center. That shared services center effectively, you know, works like a mothership for all Marriott SAMHI-branded hotels.

And we have started integrating these hotels with our shared services center. So, combination of franchise to management and second, these hotels getting integrated into our shared services center will help us get the margins to expand from current 32% to at least 37%-38%, which is where we see our portfolio. I think the margin will start getting reflected from first quarter of next fiscal year. But every quarter you will see a graded improvement, but the real impact will be really Q1 of FY25.

Jaiveer Shekhawat: Sure. I think that's very clear as well. And now more in terms of about the net debt to EBITDA levels. Now I see that you've targeted less than 3.5x by end of '25. But just a more calculated guess, if you target a net debt to EBITDA of less than 2x by let's say FY26, what kind of RevPAR growth would that imply for your portfolio?

Ashish Jakhanwala: So, Jaiveer, there is really two things which will help us get to a desired debt to EBITDA level. One of course is growth in income and the other also is a consistent reduction in our leverage. In terms of growth in income, again, I will break it up for three parts. There is an existing same store, 3,900 rooms. And as we have disclosed, they have been growing at a RevPAR of about 14%-15% in the last two quarters over the last year. We will obviously talk a lot about demand supply, but we see little resistance in terms of demand and supply for RevPAR to continue to grow in that zip code.

So that's one. Two, you will see a significant improvement in the margins coming through from the ACIC portfolio. Three, you will see that we have some low-hanging fruits in terms of the additional inventory. So, for instance, the hotel in Calcutta, the new inventory in Bangalore and Pune, these are already buildings. Substantial capital has already been invested in these buildings, which is a part of our current net debt in a way. And as we operationalize these hotels over the course of the next 6 to 8 months or 12 months, you will see incremental EBITDA coming from those assets itself.

So you combine all those three together to get to, I mean, you asked FY26, you have an EBITDA which has grown exponentially from where we are right now because of a combination of these three things. And on the other hand, we are seeing consistent reduction in leverage because from quarter three, we have free cash with us. And because of that free cash, a part of that free cash is going towards funding the capex that we have to do for capacity expansion and renovation.

But a part of that free cash is going towards constant reduction in leverage over the next two years. So, a combination of two, they will converge together. And that's why we are fairly confident about bringing the net debt to EBITDA down to about 3.5x by end of FY25.

Jaiveer Shekhawat: Sure. And lastly, my question to Rajat. So, Rajat, if you can just specify what are these one-time expenses for which you've also incurred last quarter? And also, if I see your 4Q FY23 RevPAR, and there was quite a jump there. So, are there any one-offs due to any asset addition? Or do you still believe the growth can be still around, say, the level that you have been talking over the last two quarters?

Rajat Mehra: So, I'll take a first question the one time expenses that you see predominantly includes two parts to it, one is there where some one time bonuses which was released that was actually committed to the team last year. But because of the cash conservation, we did not release this last year. These were actually released this year. So, that's the one-time expense. This has been charged off in Q1 and Q2.

The second bit of large expense there is the money that actually has been spent in the ACIC portfolio. Because they were actually also doing a lot of work primarily for the IPO, by way of the certification that had to be done, their audit work had to be conducted. But since they were not part of SAMHI at the time, we couldn't actually net that off from the IPO proceeds. And that necessarily had to be charged off in their case. So, these are the two of these one-time costs that were actually are booked in the P&L now.

Ashish Jakhanwala: Yes. And also, Jaiveer, just to clarify, the ESOP expense that we are currently seeing at about INR11.5 crores per quarter, which is as Rajat said, about 460 million or INR46 crores for FY24, it will materially go down to just about INR17 crores for the entire year, next fiscal year. And subsequent to that, it will go down to barely about 95 million or INR9.5 crores for the year after that. So, not just the one-time expenses, which will not repeat from quarter three onwards, but after FY'24, there will be a significant reduction also in the ESOP expenses, which are currently reflected. In terms of common debt, yes. Sorry, sorry, Jaiveer.

Jaiveer Shekhawat: No, I mean, that's on the common debt because usually the third quarter is the strongest quarter, which will be fourth. But we have seen some increase for all the other hotel chains as well. But then the kind of increase that we saw in your RevPARs from 3Q to 4Q, that was quite significant. So, any comments there?

Ashish Jakhanwala: Jaiveer, the line was not very clear. The question is, are you saying that quarter three, quarter four, RevPAR growth, you are asking? We could not hear it.

Jaiveer Shekhawat: That's right. That's right. So, were there any kind of one-off due to any asset addition or anything?

Ashish Jakhanwala: No, no, no. So, what you are seeing as RevPAR growth that we have reported for Q1 and Q2, it does not have any bump up because of any non-business, non-recurring travel issues. Even just to clarify, the net impact of World Cup, for instance, was barely a percentage and a half, 2% in the quarter.

So, the RevPAR growth is coming all because of a very strong sustainable business travel demand and really no threat coming on the supply side. And therefore, we've really not seen anything being added. And the RevPAR growth, actually, the 14% and 15% is on the same store.

Management: Slide number 10.

Jaiveer Shekhawat: So, Ashish, if you can just clarify on fourth quarter of last year, I think my question was relating to that. If I see from third quarter of last year to fourth quarter, I think there was a substantial increase. So, just trying to understand that?

Ashish Jakhanwala: No, no. So, quarter four is the best quarter. Okay. So, on a daily run rate basis, quarter three and quarter four are very similar. But just the fact that quarter three tends to have a lot of holidays. So, you'll have Dussera, you will have Diwali, you have Thanksgiving, and then you have Christmas and New Year.

So, if you look at the business travel tends to accelerate towards the H2. But within H2, while a daily revenue run rate is pretty healthy, even in Q3, as it is in Q4. But Q4 has a unique advantage that once people come back on fifth or sixth of January from their New Year break, from then till 31, March, there is no interruption because of a large holiday.

So, therefore, we've always seen quarter four to be a strong quarter. And there was really no any other special event or one time issue that bumped up the RevPAR from 3,600 to 4,200.

Jaiveer Shekhawat: Sure, that's very helpful. Wish you guys all the very best. Thank you a lot.

Ashish Jakhanwala: Thank you so much, Jaiveer.

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

Dhruvesh Sanghvi: Yes, thank you for taking my question. Am I audible because I'm slightly in the middle of noise? And I'm sorry for that.

Ashish Jakhanwala: Yes.

Dhruvesh Sanghvi: So, Ashish, I just wanted to understand, how do you think about returns in this business? Considering I mean, do you think from a payback perspective or a ROE, ROC perspective after the assets mature in three to four years, some of your thoughts on how you think about these assets in general?

Ashish Jakhanwala: So, okay. So, there are really two measures that we deploy for ascertaining the return. One is NOI yield, which is nothing but EBITDA over total invested capital. And second is the traditional ROCE, which I don't need to explain, right. Now, typically, because of high depreciation in the first few years, we've seen the NOI yields give a true representation of the real, I would say, efficiency of capital deployment. But honestly, after five, six years, we've seen NOI yield and ROCE starts to converge with each other because the depreciation has been adjusted on both sides.

What we've seen in our portfolio so far is that even though people believe it's an asset heavy business, and therefore tends to be poor ROCE, but we've actually seen that if you've made the investment in a capital efficient manner, and I know there's a lot of debate about asset light versus asset heavy, but so long as you maintain capital efficiency, you can actually get anywhere between mid-teens to high-teens of ROCE. It also depends on market cycles.

So, for instance, if you look at our portfolio, by the end of FY'24, what we see is a large part of our stable portfolio of 3,900 rooms, which does not need any renovation or rebranding, will be in the zip code of about 15%, 16% ROCE. But within that portfolio, if you look at a Bangalore market where the rates have really gotten to being really healthy, you will see ROCE being in early to mid-20s. So, we've actually seen a very healthy trend where good investments in this business can allow you to create at an early stage mid to high-teen ROCEs, and as the rates mature, you can get to early to mid-20s.

Dhruvesh Sanghvi: Sure. And in connection to that, additionally, so when basically the idea is that once it matures, we are talking about a 15% to 18% number. Now, considering the kind of cyclicity that hotels in general sometimes face over a five-to-eight year period, isn't it, I mean, how should we think that, in a good year, we will do a 15% to 18% five-year cycle, but maybe followed by a bad cycle. And then how should we think over a 10-year investing journey? Suppose if we are invested with SAMHI or any other hotel player, just your thoughts. And I've almost read all your podcasts and TV interviews starting back till 2012.

And you have amazing insights and the way you think, and I really appreciate the way you generally challenge your industry quorum also. And so that is why I want to probe your mind around this topic?

Ashish Jakhanwala: So, okay, so let me clarify. You should be able to get 15% to 18% average ROCE if you are in a volatile 10-year cycle. When I mean volatile, you know, in the old times, we were told two good years, two average years, and two bad years. Okay, so that six, seven year cycle was very easily split into one third, one third, one third, right. So there are a couple of things we need to keep in mind here.

When a city or a market gets to really healthy performance, I won't be happy with mid to high Teen's. Then I would be greedy to see mid 20% ROCEs. So our Bangalore city ROCEs will be sitting at about 24%, 25%, right. Hyderabad is getting upwards of 20% right now. So just to reiterate, a good cycle should deliver an investor that early to mid-20% ROCEs. An average cycle is where you should be in that zip code of 15% to 18%, right.

Now let's come to quote unquote a bad cycle, right. I think there what is really important is what is your fundamental business model. And that really goes down to what segment you're operating in. And we have seen that typically mid-scale hotels, because the capital investment in them is relatively lower. Second, the price points at which they sell, the delta, the delta drop that you see in them sometimes is not as significant as you would see in luxury or upper upscale hotels.

So we have seen that typically mid-scale hotels provide you a reasonable safe haven for a drastic drop in ROCEs in such bad cycles, right. But just to reiterate, good cycles, please don't ever be

happy with any management. If in a good cycle, they're giving you a mid-teen. In a good cycle, they should give you 20s. In an average cycle, mid to high teens. But what is very important in all of this is to understand cycles.

And I know it's a bit of a crystal ball gazing. And it's really difficult to talk about the past. But Steve Jobs very famously said, you can never connect the dot in future, you can always connect the dots in the past, right. So if you try and connect the dots right now, that demand supply equilibrium in India is more clear than I've ever seen it before, right.

And therefore, as we invest in the sector, as we grow our business, as management, as investors, we need to have a high degree of confidence about the fact that we have several years to yield this business before we potentially see a supply threat. And only a supply threat can disrupt the party. Because the demand in a country like India, trust me, we don't need to question each other for the next two decades. And it's never an easy answer, Dhruvesh. So I'm sure I'm not giving you a 100% answer here. But that's my best effort.

Dhruvesh Sanghvi: No, no, I completely understand. And I really like the way you described it. Thank you. Thanks a lot. And one more additional aspect. I mean, just before the IPO, a lot of the TV interviews you did, you talked about pro forma EBITDA. I actually am forgetting the number, was it INR311 crores that you were mentioning?

Am I right? Or 411? I'm actually confused a little bit. But the pro forma EBITDA, considering the ACIC portfolio, so what should be the pro forma EBITDA estimate, if you can give us for FY'24, without the margin increase coming from ACIC?

Ashish Jakhanwala: So a few numbers will give you so you're absolutely right. The pro forma EBITDA for FY'23 was INR327 crores. And there was some onetime expenses that finally reported was INR311 crores. So you're absolutely spot on. Without really going to FY'24, I'm a reluctant forecaster, I must tell you this. But I can explain to you where I see the business headed. If you see my trailing 12 months, we have already achieved an EBITDA of about INR340 crores, right?

So the INR340 crores includes Q3, Q4 of FY'23, and Q1, Q2 of FY'24. Two, we have actually seen same store EBITDA growth of about 20% in Q2. I will again repeat the fact that we are not seeing any evidence of there being a disruption to the EBITDA growth in quarter three and quarter four, especially in view of the fact that we just highlighted that quarter four is really a really strong quarter.

So we have already reached about INR345, INR350 crores EBITDA. We've been seeing a 20% growth in the first Q1, Q2. That's all I can say for now. As I said, I'm a reluctant forecaster of my own future. So you'll have to live with the facts I've given to you about the past.

Dhruvesh Sanghvi: Sure, sure. That's helpful. And last question, and I'll come back in the queue, is what is the kind of capex that we require for refurbishments of rooms? And how often in the cycle of a hotel do we have to see this as a I mean, how should we assume these numbers in the future?

Ashish Jakhanwala: So, okay. So first of all, for our portfolio, when we talked about the 900 rooms renovation and rebranding, we are allocating about INR125 crores of total capital expenditure for that. But I

think your answer is different. Your answer is more about recurring capital expenditure for maintenance.

Dhruvesh Sanghvi: Yes.

Ashish Jakhanwala: So there you see we almost take about 5% of our top line, 4% to 5% of our top line, which would almost range INR40 to INR50 crores in our P&L. So substantial amount of money is being spent on an annualized basis to maintain properties in a fairly good state and therefore preventing any one-time major capex. In addition to that, we typically provide for an additional 2.5%, 3%, which would go in form of an extraordinary capex, but that does not go on an annualized basis. That goes at a periodic basis.

Third, just to explain to you why that is adequate, it really depends on the sector you're operating in. What we've seen again, that suburban business hotels tend to have the least capital reinvestment cycle relative to leisure hotels or luxury hotels. And that's largely because both in leisure and luxury hotels, the proportion of the FF&E spent is much higher than the proportion of the FF&E spent, which is furniture, fixture, and equipment in a mid-scale hotel.

And that's the item which gets depreciated in seven, eight years, whereas building, engineering, all of that is a really long shelf life. So that we have already provided for, and we have been expensing about INR40 to INR50 crores a year on maintenance capital expenditure before we report the EBITDA to all of you. And in addition to that, we would provide for about additional 2% and 2.5%, which will be in the range of about INR 20 to INR 30 crores of additional capital expenditure. That's more a reserve that will go from our current cash or future cash flows.

Dhruvesh Sanghvi: Right. So, okay. From another parameter, let's say if we have, I think we always speak about INR1 crores per room as the cost to us. From that angle, then can we say that it is a INR5 lakh cost per room per year? I mean, on an ongoing basis, or I mean, I know I can convert it later from what you said, but if we think it from this angle, is it the correct way to think?

Ashish Jakhanwala: I'll use our own numbers. Our total capital expenditure per key in our portfolio was INR70, INR72 lakhs per key. But that actually included land cost as well. Right. So we've only over the last 12 years spent about INR70, INR72 lakhs per key, including land. Right. And if you eliminate, let's say hypothetical, because we buy existing hotels often. So it's difficult to separate land from building. But if we take a hypothetical 20% towards the land, then you're barely talking about, some INR55 lakhs per key is the total capital expenditure.

No, you don't have to take a 10% of that or a 5% of that. As I mentioned earlier, FF&E expense in that INR55 lakhs will barely be about INR 10 lakhs or so per key. And that INR 10 lakhs per key needs to be amortized over a period of seven years, eight years, really. So that's how your FF&E spend on an annualized basis comes to be really efficient.

Moderator: Thank you. Our next question is from the line of Pradyumna Choudhary from JM Financial. Please go ahead.

Pradyumna Choudhary: Yes, hi, so you mentioned that out of 4,800 rooms, 900 will go for renovation. Can you please highlight the timeline for this? When would these rooms go under renovation? And by when do we expect them to have expect us to have these rooms back into our inventory?

Ashish Jakhanwala: So, the renovation and rebranding of the Holiday Inn Express in Calcutta is a new build actually. Renovation rebranding of Caspia Pro Greater Noida is going to be completed in FY25. The renovation and rebranding of the Hyatt Regency in Pune and Four Points in Pune will be done by FY26. So that's really the target that we have for key renovation rebranding. So Delhi Greater Noida by end of FY25, and both the hotels in Pune, sometimes in FY26.

But what is really important to note here is the assets like Delhi and Greater Noida today have negligible contribution to our total EBITDA. And therefore, as we take them through renovation and rebranding, and these hotels open next year, with the fresh brand and the new product, their entire EBITDA of those hotels will be effectively a delta over what we're doing right now.

In terms of Hyatt Regency in Pune and Four Points by Sheraton Pune, the large amount of our renovation and rebranding is about soft furnishing and change of look and feel. The hard infrastructure and product is pretty good. And therefore, just to clarify, we don't actually anticipate any significant disruptions to the business as we take these hotels through renovation and rebranding.

Pradyumna Choudhary: Understood. And apart from these, I think you mentioned that there are a couple of assets which are not really operational but which are ready, but are not really contributing to our numbers right now. Can you mention those ones?

Ashish Jakhanwala: So yes, we have the Holiday Inn Express in Calcutta. It's a 111 room hotel. The hotel is currently starting fit outs. And therefore, this should be ready in FY '25. Clearly today that hotel is non-operational. Then we have a really well performing Holiday Inn Express in Bangalore Whitefield. We're adding 54 rooms to that hotel. Again, the building is completed. We are starting the fit outs. Similarly, we're adding anywhere between 16 to 31 apartments, service departments in our Hyatt Regency in Pune. Again, in that particular instance, the building is completely ready. We are starting, we have to start the fit outs there. So these are three additions which should happen, which are targeted to be completed before FY '25. Because in all of these cases, substantial part of the work has already been completed.

Pradyumna Choudhary: Understood. That is really helpful. Thank you and all the best.

Moderator: Thank you. Our next question is from the line of Raj Joshi from ACE Securities. Please go ahead.

Raj Joshi: Thank you, sir, for the opportunity. Sir, I have only one question. What is the difference between asset income and reported income and also asset EBITDA and reported EBITDA?

Rajat Mehra: Asset income actually includes income which is generated, specifically from the hotels. Besides that, there is some bit of other income also that we have in the nature of fixed deposits in India. And also we have a small bit of a commercial plot that we have. That’s the rental income of that also is a part of the other income. So if you add all of this put together, you’ll see the total revenue.

Ashish Jakhanwala: And similarly in EBITDA, each hotel reports in EBITDA at a property level. When you add that together, you get to what we are reporting as asset EBITDA, which tells you the performance of the actual business. Then from that we adjust net expense towards corporate and administration, which is any interest income or salaries, wages, travel for the corporate office overhead. That gets you to the reported EBITDA pre-ESOP and one-time expenses.

So the difference between asset EBITDA and EBITDA is really the reduction of corporate G&A and any income at a corporate level largely in form of interest from investments.

Raj Joshi: Okay, sir. That's it from my end. Thank you.

Moderator: Thank you. Our next question is from the line of Giriraj Daga from Visaria Family Trust. Please go ahead.

Giriraj Daga: Yes. Hello, sir. My first question is related to like what percentage of business in the normal year comes from the contract, which we let's assign for an annual contract with corporates and what percentage is spot market?

Ashish Jakhanwala: Okay. So in terms of contribution, about 34% of our business comes from what we call special corporate. About 47% of our business comes from retail. 13% will be group and MICE, which is Meeting Incentive Conferences and 4.5% is airline crew. So that's the big breakup, about 34% special corporate, 47% retail.

Giriraj Daga: Understood. So the negotiation cycle is basically January to December, right? So the negotiation for the next cycle must be underway right now. What are the feeders you are getting on the ARR for the next year?

Ashish Jakhanwala: So Giriraj, if you were to see this trend over the last several years, you'll actually realize that 34% special corporate is not very high. And that's largely because given the fact that all hotel companies are fairly confident about simple demand supply, they don't need to necessarily rely on a fair bit of upfront contracting. But you're absolutely right. The contracting for the RFPs, as we call them for the next year, start now. We are seeing a reasonable acceptance in the market about accepting a price increase. And I wouldn't also be surprised because these are the same customers who are flying, taking an airfare, which have skyrocketed almost 2x to 3x.

So today if we fly from Delhi to Bombay, we're trying to book some tickets for two weeks from now. It's INR19,000 one way for premium economy. And when those guys land in Mumbai, if they're supposed to pay INR12,000 for a hotel for the next 24 hours, I would like to believe the resistance will not be very high. So we are seeing a reasonable acceptance of the fact that there is a demand supply equilibrium, which is working. And therefore, people are accepting reasonable rate growth, even on corporate contracts.

Giriraj Daga: Okay, my second question on the renovation and rebranding, how many quarters will we be able to have to lose this business? Like two quarters, three quarters?

Ashish Jakhanwala: No. So typically in our existing hotel, and we've done multiple times these renovations, what would happen is that the hotel will keep operating as is. The renovation will continue because

there are areas that need to be renovated. And the real interruption is literally for just a few weeks, when you need to effectively, let's say, take the reception, lobby or the elevators under maintenance, right?

I'll give an example of this. So when we started talking to our partners at Hyatt about potential upgradation of the Hyatt Regency, there was a product improvement plan given to us, which included multiple areas. And we're happy to inform you that of those multiple points that we had agreed with Hyatt, many of them have actually been complied with, while the hotel has been operating.

And that includes addition of a 17,000 - 18,000 square feet of meeting space that we call EQ:IQ, a complete renovation of an existing restaurant that we relaunched as Zeta. We have upgraded the existing rooms. So we don't, as I said, we don't expect a meaningful impact and typically we do this upgrade work during the few weeks when business tends to be poor.

So on an ongoing basis, we don't expect material interruption to any business because of the proposed renovations and rebranding. And in any case, two of them, their contribution to our earnings is negligible. So there is effectively nothing to think.

Giriraj Daga: No, but it will have fixed costs to be absorbed, right? That is also one of our tasks. Okay?

Management: Yes.

Giriraj Daga: My last thing is that what percentage of, let's say, contribution you got it from the foreign, basically customers. And what was the percentage in FY20, normal year prior to COVID?

Ashish Jakhanwala: So in the last quarter, we were 79% domestic and 21% international. Also, I'd like to highlight the fact that we have a large portfolio of mid-scale and upper mid-scale hotels, which any case have a significant business coming from domestic sources. But if we were to separate the upscale segment, we've actually seen the international business just barely recovering to the pre-pandemic levels.

So just to give you the exact data, just give me 10 seconds. It used to be about 42% in the upper upscale space in Q2 of 2020. And that number today is at about 37%. So from 42% to 37%, there's still about a 5% point gap in terms of contribution from international business travel.

Giriraj Daga: And you agree that once that number goes back to normal, the year will also be visible, right?

Ashish Jakhanwala: Yes. And we have seen historically, the international business was coming at about a 30%-35% rate premium. We have been seeing quarter-on-quarter improvement in terms of contribution of international business travel to total business. So you're absolutely right. It's a latent opportunity. Every quarter we've seen some recovery. So without the broader market really shifting, this 5 percentage point improvement in the room nights being sold to international business will have an impact on the weighted average room rates.

Giriraj Daga: Sure. Thanks a lot.

Ashish Jakhanwala: Just to give you data points here, the domestic rate is about INR 7,200 today and the international rate is about INR 9,900. This is only in the upper upscale segment, where we see a larger contribution from international business. So that's really the gap between domestic and international.

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

Dhruvesh Sanghvi: Yes. Just trying to understand a little bit of the history. So, you mentioned that dots can be connected only from the past. So what are the learnings that, when you started in 2012 to 2015 period and started collecting these assets, what did not work out well and what were the learnings that you have adapted for the future whenever you do? And I'm not considering this COVID-led problems because that was completely unimaginable.

So I'm not looking at answers from the COVID learnings because that could be around the leverage area, which you have actually survived very well. But I would try to understand from you how you think about the past decade and what were the assumptions that went wrong or where were you aggressive in your assumptions? And some thoughts around that? Thank you.

Ashish Jakhanwala: Yes. Thank you so much. So I can highlight two or three big lessons, right? One is the lessons in the markets. And what we have learned is that for a company like ours, we do find a safe haven in Tier 1 markets. And I don't want to be misunderstood that we don't believe in Tier 2 markets. We do believe in the strength of the Tier 2 and Tier 3 markets. But purely in terms of risk reward, we have seen Tier 1 outperform Tier 2 by a large margin. And we've been thinking if that was just anecdotal, it was just a small blip in a long cycle or there is a statistical evidence for that risk reward. `And we've actually been able to isolate that. What we've realized is that let's take two extreme examples of markets. In a market like Bangalore, today we have about 22,000-odd rooms operating in different branded categories. This is a market where we've seen office space grow at about 3 million square feet a quarter and growth rate on an annualized basis will be about 8% to 10%. We've seen the airline business in Bangalore also grow in the same zip code of about 10% to 12%. So fundamentally, all demand indicators are leading to a growth of 8% to 10%, 12%.

For the supply to keep pace with demand growth, they need to add or they need to open 2,200 rooms a year in that market. And we just don't see that happening because it's a fairly large inventory to be added every year, year-after-year for the next four years to five years. So what we are seeing in Tier 1 market is that the demand has really left the supply by a large margin. And now the supply is finding it difficult to catch up with demand. And therefore, you tend to see more stable performance in these cities.

Let me take another extreme example. And I will not say a city's name here because all of us have hotels in different cities. And I don't want to necessarily talk more about any market. But there's another city B, which is not a Tier 1 market. Their total inventory today is less than 1,500 rooms to 2,000 rooms. Demand growth is yet there 10%, 12%. I'm not questioning that. But the bigger problem is, for the supply to grow at 10% to keep pace with demand, they barely need

150 to 200 rooms in size. So therefore, in those markets, we are a little anxious about seeing a repetition of what the core markets saw between 2008 and 2018.

So let's not forget, '8 to '18, India was never oversupplied. It is just that India had 50,000 rooms, which grew to being 1,50,000 rooms. And therefore, that period did not allow the sector to perform to what we all expected it to. We fear that some of the Tier 2 markets may again expose you to that low supply base. And therefore, on a low supply base, adding incremental supply of 10%, 12% is not that difficult. So that's one lesson that if you want to have a reward matrix, Tier 1 gives you a good place to invest your capital and have your assets.

And the good news really is there is more than enough opportunity for you to grow in Tier 1. And that's by the way, just because of the size of the office market growth and airline growth in those markets. So that's one lesson. The second lesson that we learned and which is very peculiar to our business is, we started by saying we buy underperforming, undermanaged hotels. And we typically will acquire those hotels, make significant changes to the product, bring a strong brand. And because of that, we've seen the performance really transform, often 2x, 2.5x on RevPAR.

One of the lessons we had was in some of the instances, like Four Points Vizag or Four Points Ahmedabad side, we decided to defer capital expenditure in stages. So for instance, we'll say we'll do public areas in one year and we'll wait and do guest rooms in second year or third year. What we've realized is for customer, it's either a complete product or it's an incomplete product. The customer is not interested in your pert chart, about saying I've done 40%, they will not give you 40% higher rate. So till such time you don't complete your renovation program, do not expect the markets to reward you for your underwriting. That's the second lesson.

And the third lesson is F&B is a lot of hard work. And I'm not trying to say that, we will not do that hard work. But what we've seen is incremental returns coming from the room business are outstripping anything we can get from food and beverage business. And I'm not talking in terms of revenues. I'm talking in terms of net contribution margin from that business. So we've seen the competition from standalone F&B outlets, both in terms of quality, ease of access, pricing and the cost structure is really something that as a hotelier, I would find difficult to compete with on an on-going basis.

So, if I was to really summarize our top three learnings, it would be Tier 1 versus Tier 2. Don't be cute about deferring renovations. And third is really about F&B. Having said that, I know you've been gracious by saying let's not talk about COVID, but for a company like ours, it is important. And I think there are lessons in that as well. And one of the lessons of COVID is this industry needs to fundamentally transform its cost structure to increase the ratio of variable cost to fixed cost.

Because see what happens in it, I'm not worried about pandemic happening again or our response to pandemic being so severe again across India for all of our hotels. But we have also to be prepared one hotel going through a period of turmoil. It could be because of a metro rail construction in front. It could be because of a local unrest and so on and so forth. We've learned a lesson that, it is going to be helpful for the sector and definitely our business to move from a

high fixed to a low fixed, but transfer that to a variable cost structure. We aren't yet there, but that's clearly a path that we want to walk.

And that's why I would say that COVID is not something we'd like to ignore. COVID is something that we've got to take some lessons from where we are.

Dhruvesh Sanghvi: Thanks a lot for this. And just around this topic, you had also, somewhere I think in my reading and that it is almost impossible considering the cost of real estate or the cost of construction and the land. It is almost impossible that anybody can offer a decent quality room below INR 3,500. Is this metric correct, number one?

And number two, if this is so, on the other hand, when we talk about, constant increases in RevPAR or, average room rates, but the kind of market that we are as a country, can we really absorb a 10%, 10% increase or 15% increase for five years? I mean, isn't it a little bit of a, too much of positivity building in?

Ashish Jakhanwala: So, current average room rate into 1.15 raised to the power five. I'm not saying that, I am not saying that we have a guaranteed 15% rate growth for the next five years. One needs to be cautious. I absolutely respect what you're saying. One needs to be cautious about, what is the true price elasticity of demand and beyond which you will kind of dispossess your customer to a different segment altogether, homestays and stuff like that. But I think let's understand where we are today.

And also often we think when we look at India, we look at two extremes. We look at the total size of the population, which often excite many companies about the potential of growing their business in India, they are disappointed. And then they look at the other extreme of two and a half thousand dollars per capita income. And again, there's a disappointment there because how many of those people can really afford to check into a hotel where the average room rate is INR4,000. I will repeat that for us, the compelling story is Tier 1 office airline markets. And I'll explain the reason for that.

We realize that India behaves like a developing country, like you mentioned, at the top of the pyramid. And by that, do we sell a Four Seasons Hotel for $600 in India? Not yet. Can we have five Louis Vuitton stores in a single city? Not yet. So at the top of the pyramid, we do kind of exhibit signs of being a developing country. At the bottom of the pyramid also, we, exhibit signs of being a developing country where you can get a meal in Bombay for INR10, right? You can get a great Vada Pav for INR10- INR20, right? It's the middle where there is a massive demand bulge.

So if you go to a mall in India, the shirts that you buy, the cars that we all buy, the travel that we are undertaking today, we all understand the price that we are paying is almost reflecting the price that we would have paid for those services and products in a developed country. And that's just because the urban India, both the size and the paying capacity is not diminished relative to many other markets that we talk about. So that's really a more philosophical long-term view.

But our rates are not high today. If you see in a market like Bangalore, which is clearly a lead market for hotel performance, driven by the fact it has 200 million square feet of occupied office

space. In a market with 200 million square feet of occupied office space, I feel elated to sell a Holiday Inn Express for INR4,000, which is barely $50, right?

If I travel to Sydney, and please forgive me here for comparing a developed to a developing country. If I go to Sydney, where there is 60 million square feet of occupied office space, nobody thinks twice about buying a Holiday Inn Express for $135. And we are not saying $50 is going to become $135 tomorrow, day after tomorrow, or in three years or four years. All we are saying is, demand supply, the fact that the headroom for growth is for many years to come.

Now, whether we can get to a 15% CAGR for five years, I would not necessarily give any guidance as far as that's concerned. But we do feel there is little resistance and a lot of headroom for growth for hotel rates in India, especially in large markets with urban customers who have the ability to pay comparable prices for other products and services.

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 Jhakanwala for closing comments.

Ashish Jakhanwala: So thank you so much. You know, it indeed is a pleasure to be in the public space. Thank you so much for taking out time to talk to us. We feel really, really excited. And our excitement does not have a very high degree of, you know, beta with the market. We are excited about the business that we've created. We are excited about the fact that the locations and the products and the brands that we operate in key markets have a lot long headroom to grow. We're very excited about the fact that with very little effort in capital expenditure, this company will see almost 17% of its inventory, about 900 rooms, performing to a very different level in the next few quarters.

We're also very excited about the fact that we don't need to look outwards to acquire anything, to add 600 rooms to a portfolio, to go to about 5,500 room company. So I think with all of that and the fact that the company will start producing free cash from quarter three onward, we are very excited about the future prospects of SAMHI. Thank you so much for joining the call today. And if you have any further questions, please get in touch with us or with Strategic Growth Advisors who support us on investor relations.

Moderator: Thank you.

Ashish Jakhanwala: Thank you.

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