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The Hospitality Industry's most comprehensive platform for customised advisory solutions

elevation through innovation

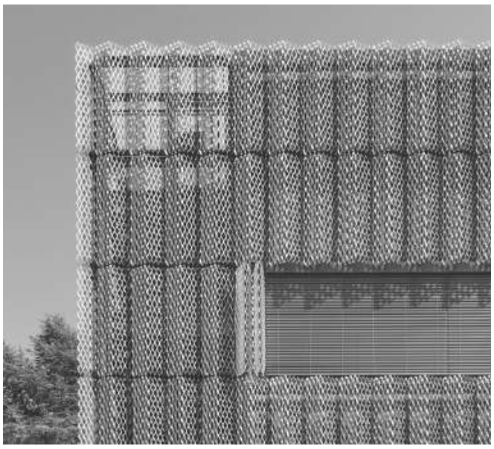
IN THIS ISSUE

HOTELIVATE
Elevation Through Innovation

Welcome
to Hotelivate

Hotelivate is the hospitality industry's most comprehensive platform for customised professional solutions. We bring the ability for you to receive personalised, specific, efficient and curated solutions for your hospitality businesses. Our founding partners are renowned and sought after professionals, who have nurtured and helped hundreds of clients over the past twenty plus years in South Asia. Eliminating the need for several different consultants, advisers and vendors, we aim to truly assist you across the entire spectrum of your business life cycle by offering diverse solutions, including Professional Skills Development, Project Execution Planning & Advisory and Debt Advisory Services. Hotelivate's strategic alliances that address all facets of a hotel make for a unique firm that can deliver tailored solutions to all things hospitality!

Our Services



Project Execution Planning & Advisory

Hotelivate and Ascentis jointly offer Project Execution Planning & Advisory (PEPA) services that provide strategic guidance and leadership throughout the initial development stages of a hotel project.

Professional Skills Development

Hotelivate Professional Skills Development is committed to the overall learning and development of professionals and endeavours to prepare them to be successful in their respective areas of work.

Debt Advisory

Hotelivate and Pankti Management Consultancy are part of an exclusive partnership which is focused towards debt syndication for Real Estate, Hospitality and Infrastructure projects.

Strategic Alliances

Ascentis

TEMPLATOLIO
smart platform for marketing creatives

Ascentis was founded in 2006 and is today the region's leading project management firm, most notably in the hospitality sector for having built some of the region's most remarkable hotels.

Templatolio helps brands communicate, engage, drive traffic and measure footfalls to build sustainable brand loyalty and revenues both offline and online.

ELEVATION THROUGH INNOVATION: WHY HOTELIVATE?

By Manav Thadani
Co-founder & Chairman, Hotelivate

As an entrepreneur, one needs to learn to adapt and innovate fairly quickly. Twenty years is a long time and I have had the good fortune to be able to experiment with and establish several new services and businesses in these past two decades. The phrase 'ease of doing business' refers to a fairly recent phenomenon in state and government circles. Back in 1997, when we started as HVS, the exact opposite was in place and every hurdle that was available was thrown at us. It took me months to set up a simple business entity and at least two months to get a simple phone landline. Fortunately, mobile phones had just arrived. And, although the cost was a formidable INR 16 per minute, the facility was at least available, allowing my entrepreneurship to be open for business and grateful for the small mercies of the great Indian bureaucracy.

Fast forward to the present. So much has changed in all spheres of the hospitality industry across the globe. In India, we moved ahead from 120 branded hotels in 1997 to approximately 800 branded hotels today. Words and phrases unheard of back then are now our day-to-day vocabulary and part of our survival kit. Imagine today not knowing the phrases or words below because they simply did not exist as related to hospitality.

Iphone Social Media **OTAs**
Fusion Food Airbnb **Tablets**
Disruptors
Degustation Menus **Aggregators**
Couch Surfing
Whatsapp **Uber**
TripAdvisor **Digitisation**
GrevPAR Wire Transfer

One thing that came to me early on in my career was that one must learn to specialise to increase one's success quotient. Globally, HVS was (and is) the largest hospitality consulting firm specialising in hotel valuations and we wanted to replicate its success in India. However,we soon felt the need to dig deeper: HVS started Executive Search in hospitality; then started conferences and suddenly HICSA was born; and Marketing & Communications followed shortly thereafter. Clients started coming to us for things we had never done elsewhere globally. So much so, that an organisation even approached us for a feasibility study for a hospital. When we wanted to turn it down, their management responded saying we had the right credentials and even the right name: "Hospital Valuation Services", and that was as good as Hospitality because there were no other specialised or reputable consultants in that field.

Today, we see an opportunity to become a 360-degree solutions provider for the hospitality sector. At Hotelivate, we want to provide the best of service: if not in-house then in a tie-up with the best in class. We call this elevation through innovation. At the core of this is our existing relationship with HVS and its current service offerings, namely Feasibility studies, Valuations, Management & Operator Searches, Asset Management and Executive Search.

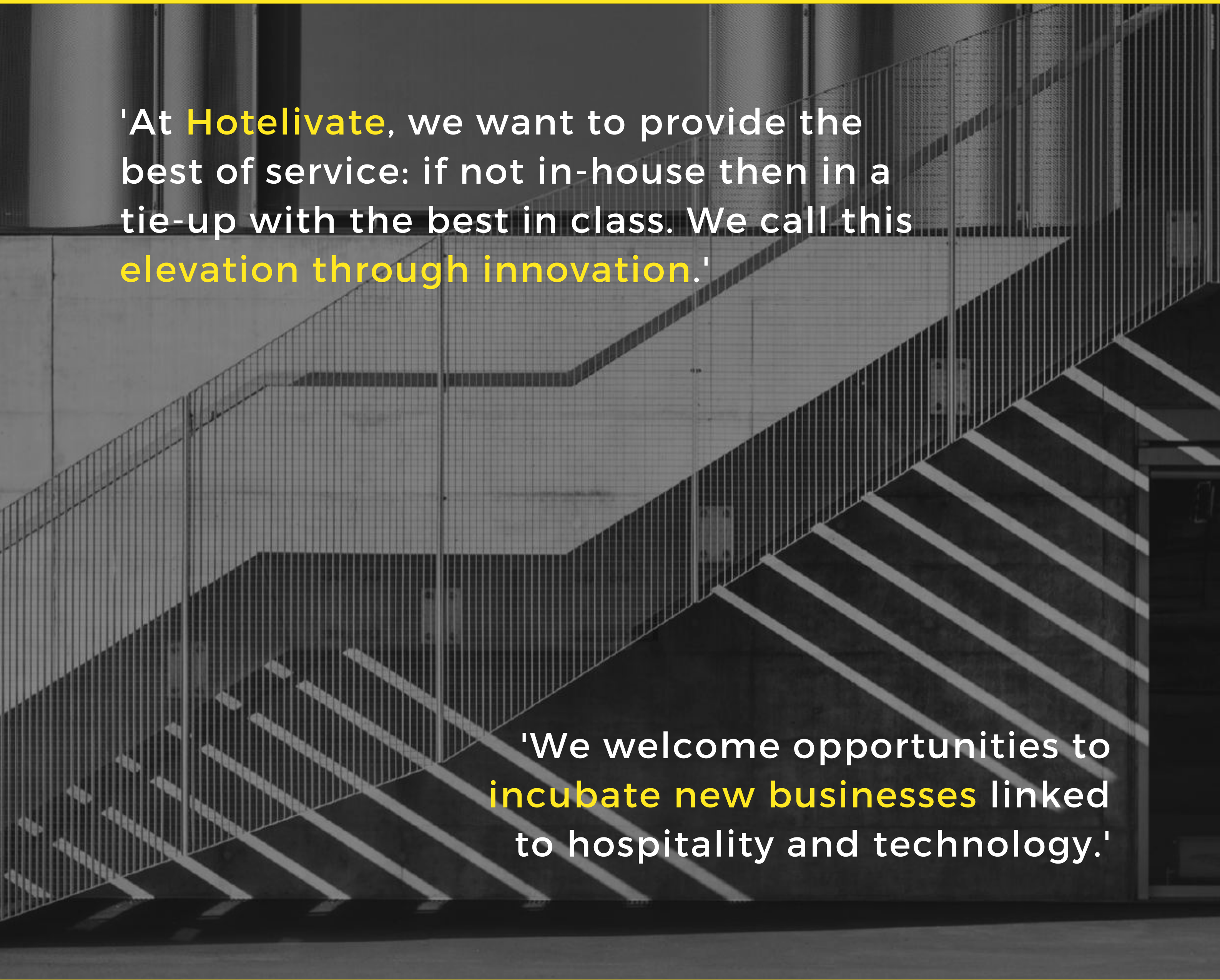
However, we see scope to do a lot more, as demonstrated by our successful innings with the HOSI and HICSA conferences in India and the THINC conferences in Bali, Colombo and Cape Town.

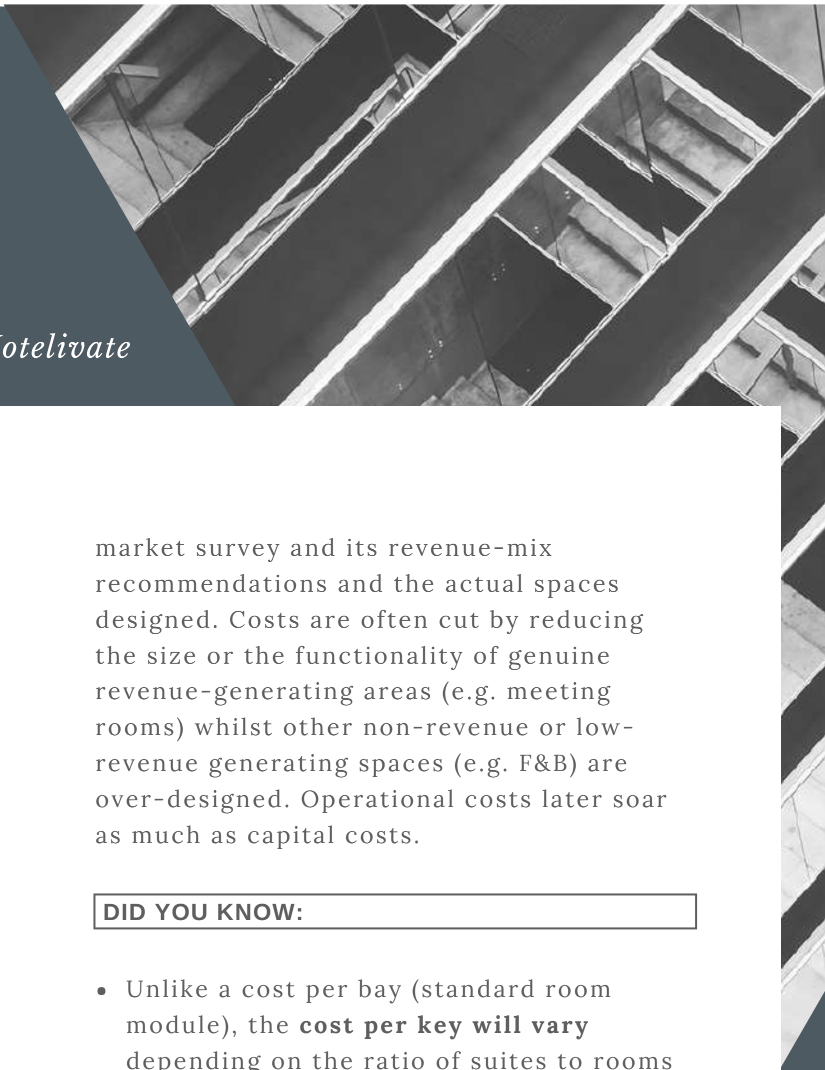
We recently also launched **Professional Skills Development** where we may be joining hands with a well-known international partner. Hotelivate has also tied up with two other partners for the following services:

The first: **Hotelivate's Project Execution Planning & Advisory (PEPA)** service is in partnership with **Ascentis** to provide strategic guidance and leadership throughout the initial development stages of a hotel project. A unique partnership that brings to fore the experience of professionals in the spheres of area & space configuration, design planning, capital budgeting and pre-construction planning. The PEPA service plays a critical role in the timely and cost-efficient completion of hotel projects.

The second: **Hotelivate's Debt Syndication** is in partnership with **Pankti Management Consultancy** and is focused on debt syndication for Real Estate, Hospitality and Infrastructure projects. The scope of the debt syndication practice includes project finance, working capital finance, mezzanine finance, refinancing and recapitalisation activities. Loans are designed and structured to meet the cash flows of the company and the debt servicing capacity of the investor company.

Additionally Hotelivate's partners are looking to explore opportunities for us to potentially become incubators of new businesses linked to hospitality and technology; where we step in to help 'elevate' through innovative ideas and team support.





GETTING THE PROJECT RIGHT FROM THE START

By Cyril Jacob
MD, Project Execution Planning & Advisory, Hotelivate

Cost over-runs on hotel projects have been common across the region. However, a look at cost data collected from various hotels built in India over the years reveals a certain homogeneity in construction costs for similar hotel products. Rather than cost over-runs, this points indeed to a poor budgeting process in the initial conceptual and design phase of hotel projects, over-optimistic cost projections, and over-designed hotels.

Under-budgeting leads to lower return on equity than originally thought and difficulty to service debt. Evidence shows that it also leads to construction delays and poor quality, all further contributing to higher IDC and eventually a Non-Performing Asset or even financial distress. Indeed, with the current practice of starting works before the design is complete, the reckoning of 'cost over-runs' only comes late in the construction process when, in fact, most of the costs have already been built into the areas constructed. This late 'wake-up call' typically leads to hurried re-design of interior spaces, delays in award of works, idle contractors for lack of drawings, purchase of sub-standard materials and, most importantly, award of works to unqualified contractors at unsustainable rates. Poor quality will affect not only the guest experience and the hotel revenues, but can also drive the hotel energy bill and maintenance costs to unsustainable levels.

Our survey has also revealed another hidden cost in poor hotel planning. Very often, there is a disconnect between the initial market survey and its revenue-mix recommendations and the actual spaces designed. Costs are often cut by reducing the size or the functionality of genuine revenue-generating areas (e.g. meeting rooms) whilst other non-revenue or low-revenue generating spaces (e.g. F&B) are over-designed. Operational costs later soar as much as capital costs.

DID YOU KNOW:

- Unlike a cost per bay (standard room module), the **cost per key will vary** depending on the ratio of suites to rooms even though the overall hotel cost remains unchanged.
- The **cost per bay can vary by up to 30%** depending on the number of rooms, the size of F&B and public areas, the shape of the land, the local by-laws, and soil conditions.
- **70% of construction costs** lie in the total area built and hence can't be reduced after the concept design is finalised.

Then, one might wonder, why are so many hotels planned and designed on the simplistic and false principle of a cost per key, which has not been under-written by anyone or confirmed by any technical feasibility study? If the hotel operator is on board early enough, its technical services team will surely draw the owner's attention to the risk of over-building–however, the operator's attention is on GOP whilst the owner's incentive is ROE. A fancy specialty restaurant may marginally improve GOP and the hotel brand, but damage ROE.

Case Study

One and a half years into planning a hotel project, our client came to us with approved plans and drawings. The hotel operator had just come on board and given its mandated checklist of minimum requirements for its mid-market hotel brand. A renowned architect was on the team and the project was primed to go into design development. We were brought in as project advisors and our findings were as below:

- A gross area per room of 134 sq. m. while mid-market hotels are in the range of 65-75 sq. m. per room;
- 46% of non-revenue generating areas in the approved plans and designs;
- Estimated cost per bay of INR 1.1 Cr. whereas a typical mid-market hotel should be around INR 0.60 Cr. per bay;
- Several functional issues, that include restaurant layout in relation to number of rooms and expected house count, lack of elevators near key outlets, inadequate storage space, and guest and service crossings.

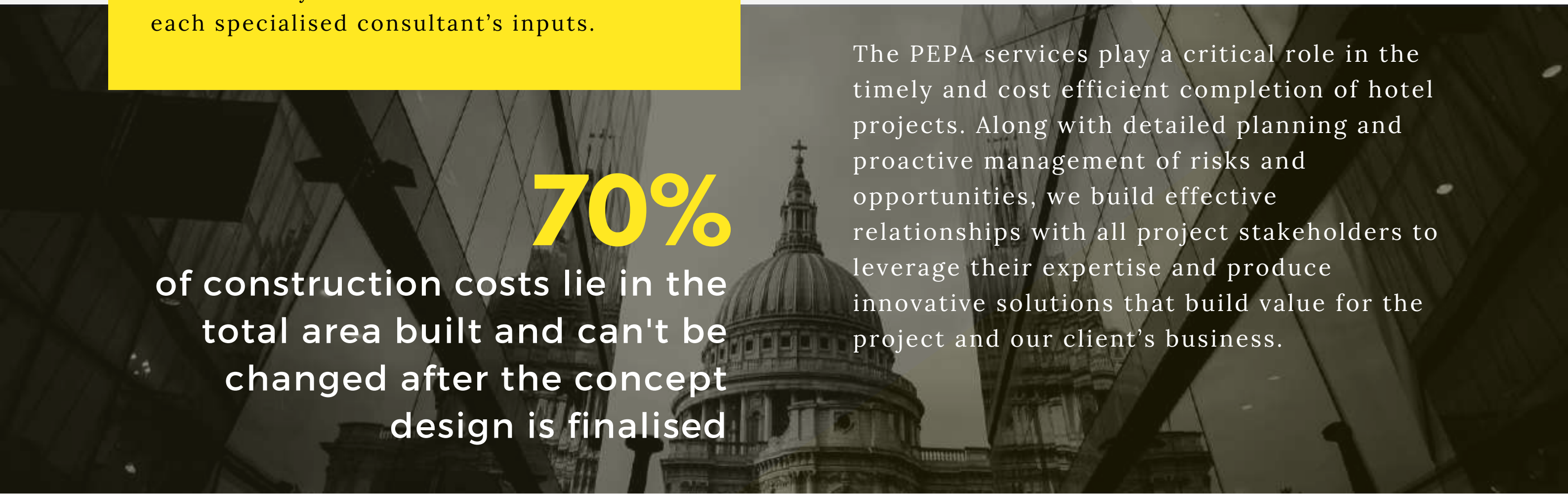
Ultimately, the plans had to be completed redesigned with a fresh and clear project brief in order to make the project feasible. The results were:

- Public areas were reduced to increase the overall efficiencies in the design. The gross area per bay was reduced to 72 sq. m.
- Revenue generating areas were increased by 11% by adding meeting rooms and additional grab-and-go F&B options.
- Budgeted cost per bay was frozen at INR 0.70 Cr. (due to a low room inventory) as a result of reduced public areas. A cost saving of 25% was achieved just by rethinking the area allocation.
- Functionality issues were corrected based on each specialised consultant's inputs.

Planning and designing the right hotel is difficult enough for a green-field development but it becomes particularly complex for a brown-field or a conversion project. Estimating the cost of works to complete a partly-built hotel or the cost of works associated with the Property Improvement Plan (PIP) of a running property requires a thorough technical due diligence. It is a complex balancing act of the building's technical limitations and the new owner's business objectives.

Hotel development is complex in nature and solid expertise is needed, most of all in the early stages of planning and development, the lack of which will most definitely result in cost over-runs and ultimately poor financial returns for the project. With this in mind, **HOTELIVATE and ASCENTIS** have brought together their respective business and technical expertise to offer advice to prospective hotel owners in those critical first months of development, with four major objectives:

- To confirm the technical feasibility of the hotel programme envisaged in the marketing feasibility and ensure its cost meets the ROI objectives of the business plan;
- To get the right team of consultants on board to design the hotel;
- To lead the concept design phase to develop a hotel that not only meets all the objectives of the business plan for costs and revenue-generating areas, but also outperforms its competitors with a superior guest-experience and higher RevPAR;
- To prepare a Project Execution Plan which will form the baseline for costs, timelines, and quality.



70%

of construction costs lie in the total area built and can't be changed after the concept design is finalised

The PEPA services play a critical role in the timely and cost efficient completion of hotel projects. Along with detailed planning and proactive management of risks and opportunities, we build effective relationships with all project stakeholders to leverage their expertise and produce innovative solutions that build value for the project and our client's business.

OF COURSE, YOUR LOAN NEEDS TO BE REFINANCED!

By Saurabh Gupta, MD, Debt Advisory, Hotelivate & Ashwin Mehta, MD, Pankti Management Consultancy

Much has been said and written about the negativity around stressed hotel assets and delinquent term loans for the hospitality sector in India. Hindsight has made developers reduce exposure to hotels as an investment class while lenders are careful to the point of being comatose. But what about existing hotel investors who have already weathered the turmoil of construction and now have operating hotels with delinquency? This article suggest ways in which re-financing of existing debt can help an investor manage the systemic issues of hotel debt-capital structure in India.

The Imperfect Past

Hotels today are associated with unmanageable levels of debt, often leading to an NPA (non-performing asset) classification. The following causes stand out:

- **Supply glut** – Over the last ten years, branded hotel supply in India grew from 39,285 rooms in 2006/07 to 1,13,622 rooms in 2015/16; at a CAGR of 12.5%;
- **Weak demand patterns** – For the same period, RevPAR saw a de-growth from Rs.5,049 in 2006/07 to Rs.3,512 in 2015/16; at a CAGR of -3.95%;
- **Project cost overruns** – while the first two are macro factors, there are a significant number of loans that have turned bad because of internal issues like inadequate planning and inefficient project execution, leading to project delays and cost overruns.

The Future: A Perfect Antidote

Increased scrutiny and tighter lending norms have brought the focus to merit-based lending for hotel projects. Our interaction with investors and lenders that are currently active in the hospitality space points to the following factors fueling their interest:

- Business risk has replaced construction risk;
- Muted supply growth in most markets;
- Perceived upcycle for hotel industry.

Essentially, what this means is that selected lenders do share the general optimism surrounding hotels in India and are willing to listen to your point of view and win your business.

Why Should One Refinance Existing Loans?

Simply put, refinancing can help correct the dichotomy of financing a high capital, high gestation business (like hotels) with a short loan term. The refinancing exercise can improve cash flows and push back the cost of capital as well as principal repayment to a time when the business has stabilised. It can also free up valuable equity for investors who want to deploy funds into other uses rather than filling up the gap in debt service.

I. To claim benefits without re-structuring:

According to the circular released by RBI in 2014 on '*Framework for Revitalising Distressed Assets in the Economy - Refinancing of Project Loans, Sale of NPA and Other Regulatory Measures*', the holder of an existing loan can apply for seeking a longer repayment tenure with certain caveats. However, the exercise will be termed as refinancing and not as a restructuring exercise only if:

- It is a standard loan on the books of the bank;
- 50% or more of the loan has been taken over by a new financial institution;
- The repayment period is in congruence with the project life cycle.

Clearly, this means that the promoter/ borrower must approach a new bank to refinance the transaction and the existing lender cannot be of much assistance.

II. For additional leveraging of assets:
As explained above, reduced risk on existing hotel brings in additional bargaining power for the borrower. Based on the payment history, the borrower can enhance her/his existing loan. The reasons to seek this additional leveraging might be numerous:

- Funds could be used for general corporate purposes, as permitted by the lender;
- There might be bullet payments due and the hotel might not have sufficient cash flows to honour those;
- The borrower might be looking for a cash-out refinance to free up some funds for repair or renovation.

The key is to put together a case which presents to the lender a transaction with high financial potential and relatively lower investment risk.

III. For reduction in the cost of borrowing:
The existing lender may not be willing to reduce the Rate of Interest (RoI) by lowering the spread on the Prime Lending Rate (PLR). However, another lender might value the diminished risk on the asset and offer a reduced RoI.

Case Study
A project loan was sanctioned in the year 2012 on the following basis:
Tenure: 15 years
ROI = Prime Lending Rate (PLR) + Applicable Spread
ROI = 10.0% + 3.5% = 13.5%

If we assume that the hotel became operational in 2015 and the PLR also dropped to 9.0%, the new RoI would be set to 12.5%. The borrower requests the existing lender to reduce the RoI by lowering the spread. On being denied that advantage, the borrower may approach another bank which might be more than willing to refinance the loan at PLR + 2.0%, i.e. at 11.0%.

	Bank PLR %	Spread %	Total ROI %
Old Bank - Year 2012	10.0	3.5	13.5
Old Bank - Year 2015	9.0	3.5	12.5
New Bank - Year 2016	9.0	2.0	11.0

IV. For increasing the loan tenure:
A stabilised hotel with consistent cash-flows may also be in the risk of defaulting on existing loan repayment. The key issue here is the relatively shorter amortisation tenure for an industry that is characterised by high capital stock and the cyclicality of business. Hotels in India have historically seen a door-to-door lending period of 10-12 years. Of this time period, 30% is typically spent in construction and another 30% in the ramping-up phase. A balance of 5-6 years is just not sufficient for interest and principal repayment.

A stable hotel is a superior candidate for refinancing loans for a longer tenure. The dynamics of lending to an operational hotel are different because of its proven track record, which in turn reduces the risk outlook and makes the entire refinancing exercise possible. A twelve-to-fifteen-year refinance programme along with an additional disbursement (at higher LTV) can be procured at a reasonable rate of interest. This exercise may provide huge relief to the promoters who are not keen to infuse more equity to service shortfall in repayment.

Exhibit 1 illustrates two scenarios for a 300-room hotel. This is the actual example of a refinance assignment recently undertaken by us. In the first case, the hotel may service the debt for the balance five years (from the original ten-year sanction) but, with a gross deficit of INR 176 crore, would need equity infusion by the promoter. In the second case, the promoter opted for a refinancing scenario with a longer tenure (15 years). We have illustrated the impact of this exercise without changing RoI or any key commercial term. Though the net outflow is higher to the bank, it frees up equity for the promoter and makes the asset debt-free in a reasonable time frame.

SCENARIO 1 - REVENUE PROJECTIONS AS PER EXISTING REPAYMENT SCHEDULE - (IN INR CR.)

Original Term **10 years**
Balance Term **5 years**

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
Expected Occupancy	70%	72%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Average Room Rates (ARR)	7,500	8,000	8,400	8,700	9,135	9,5921	10,071	10,575	11,104	11,659	12,242	12,854	13,497	14,171	14,880
Gross Revenue	124	138	149	156	163	171	180	188	202	211	222	233	244	256	268
Total Expenses	83	88	92	97	102	107	112	118	125	130	136	143	150	158	166
Gross Operating Profit (GOP)	40	50	57	59	62	64	68	71	76	81	85	89	94	98	103
Net Operating Profit (NOP)	34	43	49	49	51	53	55	58	62	65	68	71	74	78	81
Net Profit After Tax	(49)	(32)	(19)	(11)	(1)	3	5	8	12	15	16	17	20	22	25
Total Cash Inflow	**34**	**43**	**49**	**49**	**51**	**53**	**55**	**58**	**62**	**65**	**66**	**67**	**70**	**72**	**75**
Repayment of Term Loan	63	75	73	71	33										
Payment of Interest	33	25	17	9	1										
Total Cash Outflow	**96**	**100**	**91**	**80**	**34**										
Cumulative Cash Inflow	34	77	126	174	225										
Cumulative Cash Outflow	96	196	287	367	401										
Net Deficit (Equity Infusion)	**62**	**119**	**161**	**193**	**176**										

SCENARIO 2 - REVENUE PROJECTIONS AS PER REVISED REPAYMENT SCHEDULE - (IN INR CR.)

Tenure for Refinance **15 years**

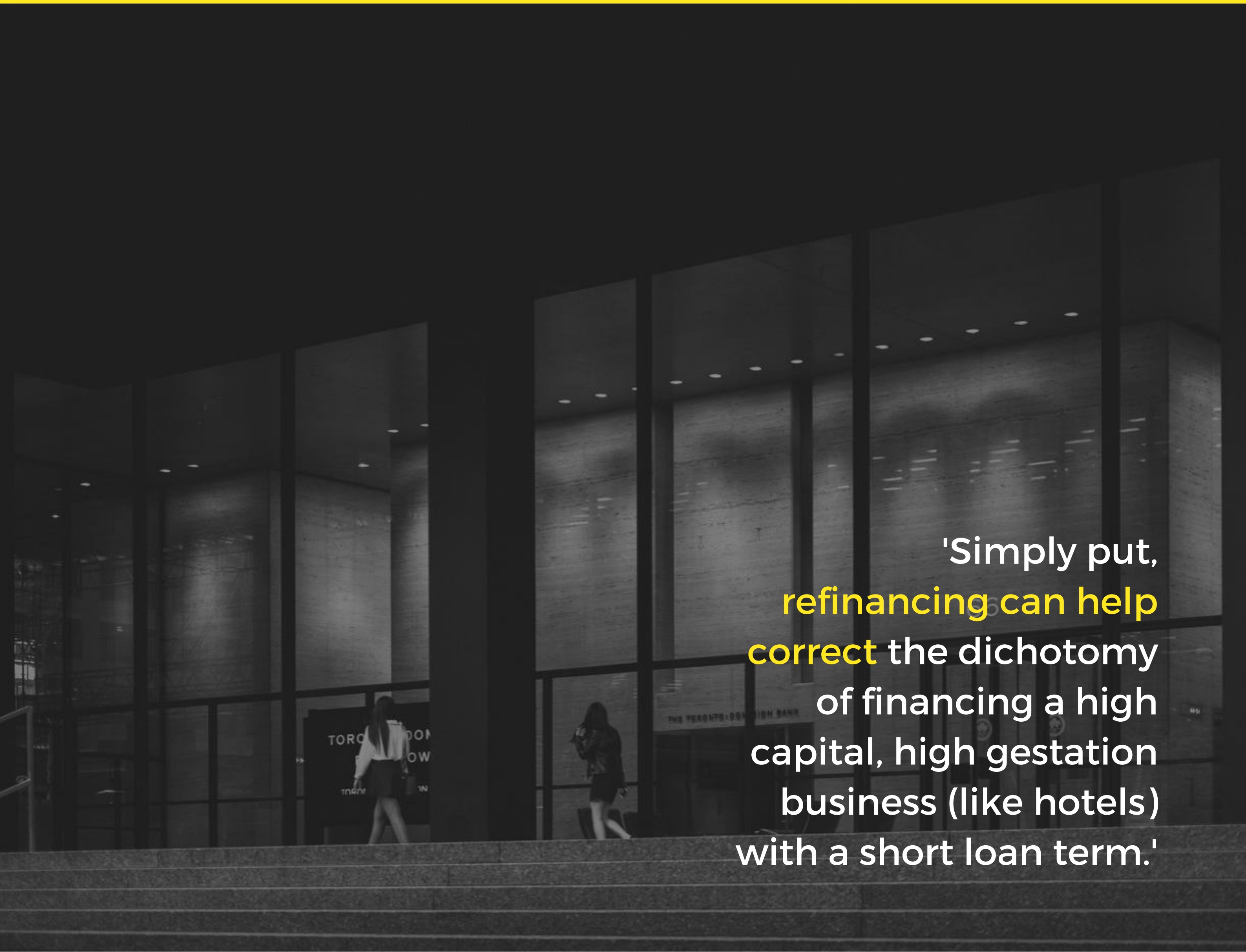
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
Expected Occupancy	70%	72%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Average Room Rates (ARR)	7,500	8,000	8,400	8,700	9,135	9,5921	10,071	10,575	11,104	11,659	12,242	12,854	13,497	14,171	14,880
Gross Revenue	124	138	149	156	163	171	180	188	202	211	222	233	244	256	268
Total Expenses	83	88	92	97	102	107	112	118	125	130	136	143	150	158	166
Gross Operating Profit (GOP)	40	50	57	59	62	64	68	71	76	81	85	89	94	98	103
Net Operating Profit (NOP)	34	43	49	49	51	53	55	58	62	65	68	71	74	78	81
Net Profit After Tax	(61)	(52)	(45)	(45)	(41)	(38)	(34)	(29)	(21)	(15)	(7)	0	9	13	26
Total Cash Inflow	**34**	**43**	**49**	**49**	**51**	**53**	**55**	**58**	**62**	**65**	**68**	**71**	**74**	**78**	**81**
Repayment of Term Loan	2	3	4	8	11	11	19	26	30	34	38	41	47	49	53
Payment of Interest	45	45	44	43	42	41	39	37	33	29	25	20	15	15	6
Total Cash Outflow	**45**	**46**	**46**	**49**	**51**	**51**	**56**	**61**	**62**	**62**	**62**	**61**	**61**	**63**	**59**
Cumulative Cash Inflow	34	77	126	174	225	279	334	391	453	518	586	656	731	809	890
Cumulative Cash Outflow	45	91	137	186	238	288	345	406	468	530	591	652	713	776	835
Net Deficit (Equity Infusion)	**(11)**	**(14)**	**(11)**	**(12)**	**(12)**	**(10)**	**(11)**	**(14)**	**(14)**	**(12)**	**(6)**	**5**	**18**	**32**	**55**

V. Changes in the scope or specification of the project:
There are cases when, after receiving debt capital, the scale or quality of the hotel project had to be altered. Clearly, a higher project cost will most often necessitate a larger debt capital outlay. In most cases, existing lenders are averse to enhancing loan amounts and, therefore, the need to approach a new lender for take-over and enhancement of the loan amount.

Existing relationships with banks are a huge support system. Yet your regular banking network with years of relationships might be falling short of your expectations. They may be unable to lend enough or offer satisfactory terms. At the same time, many hotel projects are vying for the attention of a few willing lenders. In this rather unique credit market, three factors are essential to get ahead in the queue:

- A worthy project with rational cash flow projections;
- Excellent relationship with banks, based on mutual respect;
- High quality data presented proficiently.

Hotelivate believes that hotel development and acquisition financing needs specialised solutions and good projects certainly benefit from expert guidance. Over the next two years, we anticipate laws related to bankruptcy getting strengthened to penalise the laggards. If you are still deciding on the 'hows' and 'whens' of refinancing your existing loans, you are leaving money on the table and also treading on thin ice.



'Simply put, refinancing can help correct the dichotomy of financing a high capital, high gestation business (like hotels) with a short loan term.'

Meet the
Hotelivate Team

Manav Thadani, Co-founder & Chairman

Serial entrepreneur, trusted advisor, foodie and a passionate hotelier, Manav brought HVS to South Asia in 1997. He grew HVS South Asia into a formidable consulting, valuation and executive search firm before launching the now-highly acclaimed Hotel Investment Conference South Asia (HICSA) in 2005. Manav forayed into the world of hotel ownership on behalf of foreign institutional capital a few years ago. Hotelivate is the next step in his vision to provide one-stop-shop solutions to the hospitality sector with an eye on curating customised solutions by partnering with best-in-class firms that can assist hotel industry stakeholders throughout the life-cycle of a hotel.

Megha Tuli, Co-founder & Executive Director

A graduate of Ecole Hoteliere de Lausanne, Megha chose HVS South Asia as the starting point in her career. Megha grew through the ranks at HVS quickly and was the youngest Associate Director of Consulting & Valuation before choosing to launch Gurgaon's best known Indian Home Delivery business – Leaping Caravan. Now as Co-founder & Executive Director of Hotelivate, Megha is responsible for the overall planning and execution of the business, fostering relationships with strategic alliance partners that and ensuring the ongoing growth strategy of the firm

Saurabh Gupta, Managing Director, Debt Advisory

History buff, fitness focused, food lover and travel crazy... just some of the many ways Saurabh describes himself. Saurabh leads the Investment Advisory practice HVS in South Asia. He brings in two decades of extensive experience in the hotel industry, of which more than a decade was in corporate, strategic and advisory roles with companies like HVS, AccorHotels, Whitbread, and Taj Hotels. Throughout his career, he has performed diverse roles in hotel business development, strategic planning, hotel acquisitions, hotel operations, contract negotiations, asset management and transaction advisory.

Milan Mookerjee, Director, Professional Skills Development

A thorough human resources professional and a seasoned trainer, Milan has more than 20 years of hotel industry experience and has worked in some of India's best hotels. His interest in teaching and training led him to the field of learning and development, where he spent a sizable number of years working as a Training Manager in the Taj and Oberoi groups. Between 2008 and 2014, Milan worked with IHHR Hospitality and Hotel Leela Venture Ltd as Corporate Head of Learning and Development. During these years, Milan also worked closely with the Human Resources department to assist in rolling out strategic companywide initiatives.

Cyril Jacob, Managing Director, Project Execution Planning & Advisory

Cyril Jacob heads the international project development firm ASCENTIS, which has been operating in the region for the past ten years and has built an extensive track-record in the hospitality segment. By combining world-class project management standards with strong local execution capabilities, ASCENTIS brings end-to-end project solutions to the marketplace from design and build construction to integrated development services and ultimately deliver exceptional value for projects and clients' businesses. Cyril's valuable practice and his sound understanding of the development process of a hotel asset, makes him a preferred alliance for Hotelivate's PEPA vertical.

Mansi Bhatnagar, Managing Director, Templatolio

A Les Roches & SHA alumni as well as the brand master of HVS, a leading hospitality consulting company, Mansi runs lifeline operations for Templatolio. Having worked in India, Americas & Europe, she brings over 24 years of international hospitality operations, pre-opening, training, marketing and communications experience. She has worked with renowned hospitality brands like the Oberoi's, Starwood, IHG and Carlson Rezidor and her global experience enables her to provide essential brand strategies to domestic and international hotel operators and owners.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