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WORLD EXCLUSIVE

Marriott in the bag

*Samhi CEO Ashish Jakhanwala
tells us how developing 2500
Fairfield keys could see the hotel
chain turn No.1*



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A new joint venture, between the Marriott and newly launched hotel development company Samhi, could see the Marriott become the biggest foreign hotel operator in the country. *Hotelier India* brings to you a world exclusive with company bosses Ashish Jakhanwala and the Marriott's Navjit Ahluwalia to get a better understanding of the new joint venture

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Cover story

Marriott in the bag

As news of the joint venture between the Marriott and newly launched hotel development firm Samhi gradually seeps out, *Conrad Egbert* catches up with company boss *Ashish Jakhanwala* and Marriott senior VP for development *Neeraj Ahluwalia* to get a better understanding of the new company, the joint venture and how this alliance could see the hotel company become the biggest foreign hotel operator in India

If one was to disregard home-grown hotel giant the Indian Hotels Company Limited (IHCL), which holds the majority of the Indian hotel market share with some 10,000 hotel rooms across 89 hotels, the next two operators in line are foreign firms Starwood and the Marriott.

Of the two, Starwood clinches the larger share operating close to 7000 rooms across 30 properties, while the Marriott follows at quite a distant second with 2800 keys across 11 hotels. But this is just the current scenario, which could see tables turn very soon.

It is likely that the new venture between the Marriott and newly launched hotel development company Samhi, will see the US-based hotel major, pull out all stops in a bid to aggressively increase its market share, which could very well make it the top foreign hotel operator in India, within a matter of a few years.

According to research gathered in November last year, Starwood is projected to add 2800 keys through 15 hotels bringing the total number of hotel rooms to 9800 and 45 hotels in the next four years. These, of course, are not exact figures but industry estimates.

The Marriott on the other hand, which has been around for only 10 years is expected to bring in 7500 rooms through 32 new properties taking the total number of keys up to 10,300 with 43 hotels, in the same amount of time. Add to this Marriott kingpin Arne Sorenson's announcement of 100 hotels by 2015 and the end figure takes the Marriott to the top spot in India.

Out of these rooms, at least 2500 of them are set to be delivered in partnership with Samhi.

"We're looking at delivering around 2500 keys with the Fairfield brand alone," says Samhi MD and CEO Ashish Jakhanwala. "And I'm sure they're planning on adding more rooms on their own or with other partners too."

The Marriott already has three hotels in Mumbai, four if one includes the hotel apartments in Renaissance, and is the largest operator of hotel rooms in Mumbai.

Speaking to *Hotelier India* in an exclusive interview in December last year, Sorenson spoke of the new tie-up and the aggressive expansion

strategy in not quite so many words.

The Marriott works with a number of partners throughout India; in some places with real estate developers, in others with independent hotel owners who make investments. Marriott is now being seen in new emerging markets in India, in secondary cities where big branded properties wouldn't have worked earlier.

"I think the first stage for Marriott in India was that to get the Marriott flag on the map, to get the Renaissance flag on the map and provide a place for our global travelers; that was the first toe in water in this place and now we are growing that portfolio of brands," revealed Sorenson not so long ago.

"We do everything with local partners. We look at real estate development. We are good at providing management expertise. Thus far we have real estate partners in India who are clearing the cost of real estate development. I suspect that as we grow forward we will put some equity stake but we expect most of it to be locally driven, locally owned," he said.

Four months down the line and Sorenson's words ring out like a prophecy.

The Fairfield brand is part of "growing the portfolio of brands" while Samhi seems to be the "local partner" that the Marriott is putting "some equity stake" into.

The Deal

The new JV does not restrict either the Marriott or Samhi to work with each other exclusively. An MoU between the two companies has already been signed and the first

Letter Of Intent has been closed on. The deal is initially expected to see both parties build and operate between 2000 to 3000 keys of the Fairfield brand in India.

"Samhi is a brand independent company. We ensure our investors that we will create assets in the best markets, which we think will give us the highest deal. After that we will choose who the best operator or brand is for that site, with no exclusivity," says Jakhanwala.

"For the first six or seven assets, we are actually speaking to two or three large operators, but yes we have the bulk of these going to the Fairfield brand. We've also spoken to the Hyatt and the Hilton. Having evaluated the brands and the products that we'd like to work with, these are the three or four operators that we're closer to at this stage," he reveals.

But if hotel development is the core business of Samhi and own-

COMPANY STRUCTURE

Ashish Jakhanwala explains Samhi

"The financial structuring of the company is divided into two series. One has already started and will end in December 2011. Our plan is to raise anywhere between US \$100 million to \$150 million, while the second series will be after that until the same time next year, and will see us complete between \$280 million to \$300 million equity capital. We've already begun getting commitments on financing.

Capital is the most important factor for a hotel development company like us, as that is what defines our growth. So what we did is we tied up with a company called GTI Capital Group. They have partnered with us to make sure we have capital today and for all times to come.

The minimum hotel development size that we undertake is 125 rooms. Typical plot sizes vary between 3000 sqm to two acres. There are two distinct parts of value creation, especially in India. The first part is called the development cycle, which includes market selection, acquisition and construction. It's full of risk but at the same time, if you've got a management team that knows how to do their job, there's a huge upside for the company and investors in taking that development risk.

The second part of the business is the business risk where you're in a hotel in Mumbai or Bengaluru or Chennai and you have to compete with the other hotels and undertake the whole market risk or operations risk.

Samhi takes the whole risk on the development cycle and then we give it to the best operator for that particular property.

Our fundamental guiding principal is that we have no special love for any brand, we only love our assets and the markets that we feel will have the best returns for us and our investors. When we started, we made it very clear that we only wanted to focus on economy and midscale hotels. The highest we will go at this stage include brands like Courtyard by Marriott, Novotel, Four points by Sheraton, Hilton Garden Inn and the Hyatt Place. That is midscale. On the lower end side we are comfortable with the Ibis, Fairfield, Hampton Inn and the Premier Travel Inn. So that is really our playground to develop assets. Eventually, if we are going to be asset owners of about 25 hotels on a very back of the envelope calculation, I see about 18 of them being in the economy space and about 5 to 7 of them being in the midscale space."

New Fairfield plots

Chennai
OMR
Sriperumbudur

Bangalore
Marathali

Hyderabad
Gachibowli

Coimbatore
Avinashi Road

ing hotels is the end-goal, why has the Marriott been allowed to have a stake in the company?

Jakhanwala offers a candid view. "Our starting relationship with any operator is as, an operator. That's what we want from a hotel company. We have the expertise of market selection, deal origination, deal closing, construction, development and owning. We do not need anyone to augment that capacity into Samhi, so when we go to an operator, whether it's a Marriott, a Hyatt, an Intercontinental or a Hilton, we're really looking at them bringing in the brand and the expertise to operate the hotel. But on a case-to-case basis, operators may feel that they want to invest alongside us on an asset level and that's great, but it is not really important for us nor is it part of our strategy."

The Marriott is looking at investing anywhere between 10% and 30% in the joint venture. "We're looking at putting in about US \$30 million in Samhi," confirms Navjit Ahluwalia, senior vice president for development, Marriott International India and Sub Continent.

"This is the first time Fairfield is launching outside the US and because we believe in the brand so much, we're putting Marriott equity behind it. We want to roll out this brand in India to get traction and to fuel this aggressive expansion we're using the Marriott balance sheet."

So if such an aggressive expansion is desired by the Marriott, are the other brands in its portfolio not good enough? Or is it that the Marriott does not want to introduce any more hotels in the midscale segment? Jakhanwala confirms it.

"They've been very clear that they don't want to take any equity exposure in the midscale segment and any commitment that comes from them will be restricted to the economy segment, which is the Fairfield brand. So whichever hotel we do in this segment with the Marriott, they can invest with us," he adds.

And investing with Samhi is exactly what the Marriott plans to do according to Ahluwalia. The company is already looking at seven sites across metros including Delhi, Mumbai, Chennai and Hyderabad and some tier II cities as well.

Sites that have already been iden-

SAMHI INVESTORS

INVESTORS	AMOUNT (US \$)
Steve Rushmore - Co-founder and Advisor	
Ashish Jakhanwala - Managing director and CEO	1.5 million (seed)
Manav Thadani - Co-founder and director	
GTI	5 million
Gaurav Barman of the Dabur family; private equity professional	
Gaurav Dalmia of the Dalmia family; private equity professional	
Madhav Dhar who was handling the emerging market business at Morgan Stanley	
Jonathan Schulhof who was the original GTI founder	
Marriott	30 million



“We’re looking at putting in US \$30 million into Samhi”

Navjit Ahluwalia,
Sr VP Development, Marriott

tified by Samhi and the Marriott include two in Chennai, one in Bangalore and one in Hyderabad. Coimbatore, Mumbai and Gurgaon are also in early stages of procurement.

"We will actually acquire the real estate three months from now [July]," confirms Jakhanwala. "We already have an LOI for the real estate at this stage. Typically the period required for due diligence is between 90 to 120 days so once that is done, Samhi will then acquire it. We will then take anywhere between six months to a year for planning and



“They’ve [Marriott] got great assets and a huge brand recall”

Manav Thadani,
Co-founder & Director, Samhi

approvals and that's when you actually begin to see equipment on site. And these are anywhere between four and six sites," he adds.

Why Marriott?

With Samhi claiming to be an independent hotel developer without a preference for any particular operator, it's a little strange why it would risk seeming biased towards the company with this JV. Does the Marriott bring to the table what another operator cannot? And if so, what is that special element?

"If I want to tie-up with a brand, I would like to do at least 10 properties with them," says Jakhanwala. "Because then I can do mass procurement and the construction team gets a learning curve of building better. Given the focus on economy, we started looking for brands available in that space and today there are a lot of companies doing extremely good work there. You've got the Ibis, which is a market leader, but unfortunately unavailable since Accor is in a joint venture to develop hotels with InterGlobe; there is the Premier Travel Inn, the Hilton with Hampton Inn and then the Marriott with Fairfield. We were keen on all of them, but we realised that for the first few hotels we got a little more comfy with the Marriott," he adds.

Manav Thadani, co-founder and director at Samhi and also the chairman of HVS India, feels that the Marriott's credentials as an operator in the country are unsurpassed.

"They've been in the country for a long time; they've got great assets and a huge brand recall in the consumer market. But what really was the deciding factor for us, was the fact that the Marriott has put in a most two years of research into understanding the Fairfield consumer in India before deciding to take action. That to us, as an owner, is

GTI

It is a private equity firm based out of Singapore, which has been set up on the lines of the old merchant banks like Rothschild and JP Morgan. The founding members of GTI include Gaurav Barman of the Dabur family - a private equity professional; Gaurav Dalmia of the Dalmia family - a private equity professional; Madhav Dhar who was handling the emerging market business at Morgan Stanley and Jonathan Schulhof who is the original GTI founder

CURRENT & FUTURE PROJECTIONS

Current Rooms and Hotels (Nov 2010)				Projected Rooms and hotels (Nov 2010)			
Rank	Company	Rooms	Hotels	Rank	Company	Rooms	Hotels
1	IHCL	10,000	89	1	IHCL	16,000	128
2	Starwood	7000	30	2	Accor	11500	56
3	Marriott	2800	11	3	Intercon	11400	56
4	Fortune	2700	35	4	Hyatt	10900	42
5	Carlson	2600	31	5	Marriott	10,300	43
6	Intercon	2100	12	6	Carlson	10,000	90
7	Choice	1689	26	7	Starwood	9800	45
8	Accor	1523	8	8	Fortune	4,800	60
9	Lemon Tree	1400	15	9	Hilton	4200	22
				10	Lemon Tree	2900	23

very comforting factor," he says.

Jakhanwala adds a few more reasons why the Marriott came out with top honours.

"It's good for us because it shows a tremendous amount of commitment from Marriott in the Samhi brand and it really helps us as a company, because a lot of our shareholders take huge comfort in the fact that we have such a significant operator as an investor," he says.

"From our perspective it also allows us to multiply our capital. So for example, if I was raising \$100 million and doing 10 hotels, now with Marriott's participation, my capital gets saved to the extent that I can probably do 11 hotels," he adds.

Why Samhi?

According to both Ahluwalia and Jakhanwala, the deciding factor for the Marriott to commit to the joint venture was the team behind Samhi.

Samhi Hotels, with a focus on high growth economy and mid-scale segment in the Indian sub-continent has been co-founded by Steve Rushmore, founder and president of international hotel consulting firm HVS, Ashish Jakhanwala, who was part of the core team at Accor India or InterGlobe Hotels and Manav Thadani, chairman and founder of HVS India. The outfit is also backed financially by GTI Capital Group, an India-focused private investment and advisory firm.

"With its expertise and relationships in the Indian market, plus the strong track record of its seasoned hospitality executives, Samhi Hotels is an excellent partner for this

venture," says Ahluwalia.

Jakhanwala serves it straight up. "The way we've structured the company is that Samhi takes the whole risk in the development cycle," he says. "We buy the land, develop it and then we actually give it to the best operator we think can run that particular property. It could be anyone within our practical range, not necessarily a Marriott."

Why Fairfield?

Currently in India, 35% of Marriott's portfolio is the Courtyard, 28% of that portfolio is JW Marriott. The mother brand is expected to be there in most cities, but the Courtyard and Fairfield are capturing customer demand for business related travel at a certain price level.

Mid-market and budget segments are the biggest gaps in India and elsewhere. "Certainly, if you look at the global perspective, Fairfield has grown most in the last five years, in markets that include the US and many others around the globe," adds Sorenson.

"And we think we can have dozens, if not more, of Fairfield hotels [in India] in the next five years."

Marriott is looking at some 75 Fairfield hotels in the country in the next 10 years. Major metros will be home to more than one property. Despite not having a firm Fairfield yet, Marriott has identified 90 cities in India that have strong business activities to justify their presence.

And with a focus on moderate-tier hotels, Fairfield by Marriott fits into the core strategy for Samhi says Jakhanwala. ■

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