

March 28, 2024

Royal Orchid Hotels Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	37.92	31.83	[ICRA]A- (Stable); reaffirmed
Proposed Non-convertible debentures	100.00	100.00	[ICRA]A- (Stable); reaffirmed
Unallocated Facilities	8.08	14.17	[ICRA]A- (Stable); reaffirmed
Total	146.00	146.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation in rating of Royal Orchid Hotels Limited (ROHL/the company) factors its healthy operating and financial performance during 9M FY2024 and anticipated sustenance of the same given the favourable demand outlook for hotel industry in FY2025. The company has reported healthy uptick in revenues in 9M FY2024, with demand stemming from leisure, social meetings, incentives, conferences and exhibitions (MICE) / weddings and pickup in business travel and FTAs (foreign tourist arrivals). ROHL reported consolidated revenues of Rs. 239.8 crore in 9M FY2024, 11.1% higher than 9M FY2023 revenues, supported by both improvement in occupancy and Average Room Rate (ARR). The benefits from operating leverage and sustenance of cost optimisation measures, resulted in healthy operating margins of 27.9% in 9M FY2024, albeit lower than the 9M FY2023 levels of 33.6% due to sub-optimal occupancy in newly opened hotels, higher employee costs and renovations in hotels. As a result of its healthy accruals, ROHL's coverage metrics remain comfortable, with consolidated Net debt/OPBITDA of 2.1 times as on December 31, 2023 and interest coverage of 4.2 times for 9M FY2024, as against Net debt/OPBITDA of 4.4 times and interest coverage of 1.7 times pre-Covid (in FY2020). ROHL's liquidity position also remains strong and the company had free cash of Rs. 48.2 crore as of December 31, 2023, at the consolidated level. The favourable demand outlook for the industry and expansion of ROHL's hotel portfolio are likely to support revenues and accruals in FY2025. The debt metrics are likely to remain comfortable, supported by the anticipated healthy accruals, despite the proposed debt-funded capex.

The rating also positively factors in the company's asset-light model of operations (over 79% of rooms operated under management contracts/franchise), which limits capex requirements and project execution risks. Further, ROHL has a well-diversified hotel portfolio across segments (five-star, four-star, economy hotels, resorts and service apartments) and has witnessed healthy inventory growth to 5,765 keys as on December 31, 2023 from 1,944 keys in FY2014. The rating, is however, constrained by ROHL's inventory concentration in the Karnataka and Gujarat regions (over 40% of keys). While ICRA notes that the company has recently increased its presence in other regions such as Punjab, Odisha, Haryana and Himachal Pradesh, the ability to achieve material geographical diversification over the medium term remains to be seen. Further ROHL's revenues are vulnerable to the inherent cyclicity of the hospitality industry, economic cycles and exogenous events.

On April 01, 2023, Royal Orchid Hotels Limited (ROHL/the company) informed the stock exchange that it had received an 'Interim Order cum Show Cause Notice' ('order') from SEBI dated March 31, 2023 against the company, promoters and Chief Financial Officer. This order was following a complaint received by SEBI against ROHL that despite having control over Ksheer Sagar Developers Private Limited (Ksheer Sagar; rated [ICRA]BBB- (Stable)), it did not consolidate Ksheer Sagar as subsidiary but rather consolidated it as an associate (following appointment of 2 independent directors in FY2022), thus resulting in overstatement of consolidated profits for the FY2022 and consequent increase in share price. Further, the complaint also alleged that the promoters sold 4.08% stake between March 2022 and December 2022 gaining from share price increase. ICRA

understands that the company had taken legal recourse to the order in May 2023 and submitted its responses with SEBI. It is currently awaiting further communication from SEBI. ICRA will continue to monitor the developments in this regard.

Key rating drivers and their description

Credit strengths

Asset-light model of operation with 79% of inventory under management contracts/franchise limits capex and project implementation risk - Over the past six to seven years, the company has primarily been expanding its footprint through an asset-light model that involves leasing of properties or entering into management contract with property owners or franchise. The same is likely to continue going forward as well. The proportion of managed/franchised hotels has gradually increased from 47% in FY2014 to 79% of the total inventory as on December 31, 2023. This is expected to provide long-term operational benefits to ROHL, with relatively less capex requirements and limited project implementation risk.

Segmental diversification with presence across price points helps capture a wide range of customers – ROHL owns five properties (in Bangalore, Goa and Jaipur), ten leased properties (in Bangalore, Mysore, Pune, Gurgaon, Hospet, Nagpur, Sakleshpur and Goa), while 85 hotels/resorts are on a management contract basis. ROHL's portfolio comprises a wide range of hotels with a healthy mix of brands across segments. The five-star hotels (Royal Orchid brand) constitute 7% of keys, the four-star hotels (Royal Orchid Central/Regenta Central) constitute 46%, 28% is in the economy/budget hotels (Regenta Inn) and the remaining 18% are resorts and service apartments. This helps the company capture a wide range of customers, including those travelling for business and leisure, and those preferring different price points.

Healthy recovery in revenues and accruals in 9M FY2024; favourable demand outlook – The company has reported healthy uptick in revenues in 9M FY2024, with demand stemming from leisure, social MICE/weddings and pickup in business travel and FTAs (foreign tourist arrivals). ROHL reported consolidated revenues of Rs. 239.8 crore in 9M FY2024, 11.1% higher than 9M FY2023 revenues, supported by both improvement in occupancy and Average Room Rate (ARR). The benefits from operating leverage and sustenance of cost optimisation measures, resulted in healthy operating margins of 27.9% in 9M FY2024, albeit lower than the 9M FY2023 levels of 33.6% due to sub-optimal occupancy in newly opened hotels, higher employee costs and renovations in hotels. The favourable demand outlook for the industry and expansion of ROHL's hotel portfolio are likely to support revenues and accruals in FY2025.

Comfortable capitalisation structure and coverage indicators – ROHL's net debt was relatively low at Rs. 184.7 crore as on December 31, 2023, supported by its healthy accruals and asset-light mode of expansion. Its debt metrics were comfortable with consolidated Net debt/OPBITDA of 2.1 times as on December 31, 2023 and interest coverage of 4.2 times for 9M FY2024, as against Net debt/OPBITDA of 4.4 times and interest coverage of 1.7 times pre-Covid (in FY2020). The debt metrics are likely to remain comfortable, supported by the anticipated healthy accruals, despite the proposed debt-funded capex.

Credit challenges

High geographical concentration with over 40% of keys in Karnataka and Gujarat – ROHL has significant geographical concentration with over 40% of the inventory is in Karnataka (cities such as Bangalore, Mysore, Hospet, Belgaum, Shimoga and Sakleshpur) and Gujarat (Vadodara, Ahmedabad, Vapi, Rajkot, Bharuch, Dahej, Somnath, Morbi and Bhuj) as on December 31, 2023. Rajasthan (Jaipur, Pushkar, Udaipur, Ajmer, Bharatpur and Ranthambore) and Maharashtra (Mumbai, Pune, Mahabaleshwar, Nagpur, Nashik and Lonavala), with over 10% of the total keys, respectively, also add to the geographical concentration risk. This exposes the company to revenue declines due to regional lockdowns and city-specific risks. While ROHL has diversified its portfolio across 65 locations with recent additions, the ability to achieve material geographical diversification over the medium term remains to be seen.

Vulnerability of revenues to the inherent cyclicity of the hospitality industry, economic cycles and exogenous events – Akin to other players in the industry, the company is exposed to industry cyclicity/seasonality, macroeconomic cycles and

exogenous factors (geopolitical crises, terrorist attacks, disease outbreaks, etc). This was witnessed in FY2021 and FY2022, when ROHL’s performance was significantly impacted by the pandemic.

Environmental and Social Risks

Environmental considerations – ROHL, akin to other hotel players, is exposed to natural disasters (such as hurricanes and floods) and extreme weather conditions, which could interrupt operations or damage properties. However, the availability of insurance acts as a safeguard in these circumstances. The risk for ROHL is accentuated by its geographic concentration. The company has been taking measures to improve its environmental impact by reducing energy, water and plastic consumption, and increasing green initiatives, among others.

Social considerations – Akin to other hoteliers, the company would need to adapt to evolving social fabric (including changing consumer preferences and social trends) from time to time. It also relies heavily on human capital. ROHL is also vulnerable to data security and data privacy risks, like other hotels. Hence, there is moderate exposure to social risk.

Liquidity position: Strong

ROHL’s liquidity profile is strong, supported by favourable cash flow from operations and unencumbered cash and bank balances of Rs. 48.2 crore at the consolidated level as on December 31, 2023. As against this, ROHL has consolidated principal repayments of Rs. 16.3 crore in FY2025 and Rs. 14.6 crore in FY2026 on existing loans. The company has incremental capex requirements of Rs. 90 crore in FY2025 and Rs. 30 crore in FY2026 for brownfield expansions and maintenance capex requirements. This capex is expected to be funded by a combination of debt and internal accruals. Overall, ICRA expects ROHL to be able to meet its medium-term commitments and yet be left with sufficient cash surplus.

Rating sensitivities

Positive factors – Sustained improvement in operating metrics and profitability indicators leading to improvement in debt coverage indicators on a sustained basis could lead to a rating upgrade.

Negative factors – Negative pressure on ROHL’s ratings could arise from any demand slowdown and weakening of operating metrics leading to sustained pressure on its earnings and profitability or significant capex, leading to weakening of debt coverage metrics and liquidity position. Specific credit metrics would include Net Debt¹/OPBITDA over 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Hotels
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of ROHL.

¹ Net debt = Total debt (including lease liabilities) minus cash and liquid investments

About the company

The Royal Orchid Group of Hotels has a portfolio of 100 operating hotels across 65 locations in India as of December 31, 2023. The Group primarily operates on an asset-light model with over 79% properties under management contracts/franchise. While over 40% of the inventory is in Karnataka and Gujarat, other areas of operation include Rajasthan, Maharashtra, Goa, Tamil Nadu, Punjab and Uttarakhand to name a few. ROHL operates vide the following brands: Royal Orchid (five-star), Royal Orchid Central and Regenta Central (four-star), and Regenta Inn (economy hotels); as well as resorts and service apartments. Icon Hospitality Private Limited ([ICRA]BBB- (Stable)), one of the subsidiary companies and Ksheer Sagar Developers Private Limited ([ICRA]BBB- (Stable)), an associate company, operate one 130-room and 139-room hotel each in Bangalore and Jaipur, respectively.

Key financial indicators (audited)

Consolidated*	FY2022	FY2023	9M FY2024 (unaudited)
Operating income	144.6	271.6	217.4
PAT	26.8	46.9	32.2
OPBDIT/OI	20.6%	33.1%	26.8%
PAT/OI	18.5%	17.3%	14.8%
Total outside liabilities/Tangible net worth (times)	1.4	1.1	1.4
Total debt/OPBDIT (times)	5.0	1.8	2.6
Interest coverage (times)	1.8	5.6	4.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *The consolidated figures are as per published results with financial ratios adjusted for ICRA computation and may not be directly comparable with results reported by the company in some instances. The body of rationale includes the numbers and ratios considering consolidation of entities as per annexure II and hence are not comparable with the table in some instance.

Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
CARE	CARE B; Stable; ISSUER NOT COOPERATING	April 13, 2023

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years							
		Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021	
				Mar 28, 2024	Apr 12, 2023	Mar 27, 2023	Mar 20, 2023	Oct 20, 2022	Oct 04, 2021	Dec 07, 2020	Apr 13, 2020
1 Term Loans	Long term	31.83	31.83	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)
2 Proposed Non-convertible debentures	Long term	100.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-	-	-
3 Unallocated	Long term	14.17	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB (Positive)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Proposed Non-convertible debentures	Very Simple
Unallocated Facilities	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2019	8.25%	FY2030	31.83	[ICRA]A- (Stable)
NA	Proposed Non-convertible debentures	NA	NA	NA	100.00	[ICRA]A- (Stable)
NA	Unallocated	NA	NA	NA	14.17	[ICRA]A- (Stable)

Source: Company;

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Icon Hospitality Private Limited	100.00%	Full consolidation
Maruti Comforts and Inn Private Limited	65.22%	Full consolidation
Royal Orchid Hyderabad Private Limited	100.00%	Full consolidation
AB Holdings Private Limited	100.00%	Full consolidation
Royal Orchid Jaipur private Limited	100.00%	Full consolidation
Royal Orchid South Private Limited	100.00%	Full consolidation
Royal Orchid Associated Hotels Private Limited	100.00%	Full consolidation
Royal Orchid Shimla Private Limited	100.00%	Full consolidation
Royal Orchid Goa Private Limited	100.00%	Full consolidation
Royal Orchid Maharashtra Private Limited	100.00%	Full consolidation
Royal Orchid Mumbai Private Limited	100.00%	Full consolidation
Cosmos Premises Private Limited	100.00%	Full consolidation
Ksheer Sagar Buildcon Private Limited	50.00%	Full consolidation
Raj kamal Buildcon Private Limited	50.00%	Full consolidation
J.H Builders Private Limited	50.00%	Full consolidation
Multi Hotels limited	100.00%	Full consolidation
Ksheer Sagar Developers Private Limited	50.00%	Full consolidation

Source: BSE, Company, ROHL annual report FY2023; As per the published consolidated financial statements of ROHL, Ksheer Sagar Developers Private Limited has been consolidated as per the equity method, the entity being an associate. However, for analytical purposes, ICRA has fully consolidated these entities as ROHL is expected to extend all manner of financial support to them, if needed.

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