January 31, 2025

Roots Corporation Limited: Ratings reaffirmed

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	28.00	28.00	[ICRA]AA- (Stable); reaffirmed
Long-term/Short-term – Unallocated	122.00	122.00	[ICRA]AA-(Stable)/[ICRA]A1+; reaffirmed
Total	**150.00**	**150.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings for the bank lines of Roots Corporation Limited (RCL) factors in its healthy operating and financial performances in FY2024 and 9M FY2025, and anticipated sustenance of the same, going forward, given the healthy demand outlook for the hospitality industry. The ratings also consider RCL's strong parentage by virtue of it being a wholly-owned subsidiary of The Indian Hotels Company Limited (IHCL/rated [ICRA]AA+ (Stable)/[ICRA]A1+) and strong financial flexibility / lender comfort arising from its parentage. IHCL is committed to extending timely and adequate financial support to RCL in future, if required. The ratings also positively factor in the strong equity of RCL's 'Ginger' brand, its pan-India presence in 46 cities/towns and its asset-light model of operations, which limits capex requirements and project execution risks.

RCL's operating income improved to Rs. 371.3 crore in FY2024, up 21.9% on a YoY basis, supported by higher demand. The demand momentum sustained in 9M FY2025 as well, and RCL reported an operating income of Rs. 340.6 crore, a 28.9% YoY increase over 9M FY2024. Further, benefits from improved operating leverage and sustenance of cost optimisation measures undertaken in the last few years have resulted in healthy operating margins and higher accruals. RCL's operating margins remained healthy at 36.1% in FY2024 (previous year [PY]: 37.0%) and 34.2% in 9M FY2025 (9M FY2024: 35.5%). The margins have moderated slightly due to higher employee cost and other operating costs incurred by the company for conversion of existing properties into lean luxury hotels. ICRA expects RCL's revenue growth and margins to remain healthy going forward, albeit risk of vulnerability to exogenous shocks and competition. The company's capital structure and coverage metrics continue to be comfortable and are likely to remain so over the medium term, in the absence of incremental borrowings.

The 'Stable' outlook on the long-term rating reflects ICRA's expectation that the company's credit profile will remain strong, supported by its healthy market position, cash accruals and adequate liquidity position, amid favourable outlook for the industry.

Key rating drivers and their description

Credit strengths

Benefits arising from strong parentage – RCL is a wholly-owned subsidiary of IHCL. ICRA draws comfort from RCL's strong operational and financial linkages with IHCL and financial flexibility/lender comfort arising from its parentage. Further, RCL has access to IHCL's central treasury, which led to temporary liquidity support, as and when required, through interest-bearing inter corporate deposits. There have also been equity infusions in the past from IHCL to financially support RCL, and IHCL remains committed to extending timely and adequate financial support to RCL, if required.

Well-recognised brand in the mid-scale segment; pan-India presence – RCL operates 72 hotels under the Ginger brand with a total inventory of 6,398 rooms as of December 31, 2024, and has its presence in 46 Indian cities/towns. While the strong brand equity aids in commanding competitive ARRs, the presence of hotels across the country reduces the vulnerability of its revenues to any localised downturn/unforeseen events to an extent and aids in capitalising on demand growth across regions.

Healthy revenue growth and margins anticipated over the medium term – Since FY2019, RCL has been repositioning its 'Ginger' brand from economy to lean luxury. As on date, 52 out of its 72 properties belong to the lean luxury category and other properties are likely to be gradually upgraded to lean luxury hotel standards over the near-to-medium term. With the lean luxury being higher on the branding scale, its ARR is higher than the economy hotels. RCL has around 30 new properties in the pipeline, which will commence operations over the next 4-5 years. The company has also undertaken several initiatives for increasing its food & beverages (F&B) revenues, including Qminisation of Ginger and conversion of outsourced F&B outlets to in-house. These factors, along with the industry growth, would aid in revenue improvement over the medium term. Sustenance of cost optimisation initiatives implemented by RCL in the last few years, benefits from operating leverage and improvement in management contract income are likely to support healthy margins, going forward.

Comfortable capital structure and coverage metrics; portfolio expansion through asset-light strategy limits capex requirements – The company has remained conservative on borrowings in the last two years. It does not have any debt except lease liabilities in its books. This has resulted in healthy capital structure and coverage metrics as on December 31, 2024. RCL has strategically shifted towards asset-light model with majority of the incremental properties being added through variable share model and management contracts. This has limited capex/investments and project implementation risk for the company. RCL's capex plan over the near-to-medium term is primarily towards renovation, upgradation of some existing properties to lean luxury hotels and regular maintenance, except for its upcoming greenfield property in Goa. The same is likely to be funded through internal accruals. In the absence of incremental borrowings, the company's capital structure and coverage metrics are likely to remain comfortable, going forward.

Credit challenges

Vulnerability of revenues to the inherent industry cyclicality, economic cycles and exogenous factors – The operating performances of RCL's properties remain vulnerable to industry cyclicality/seasonality, macro-economic cycles and exogenous factors (geo-political crisis, terrorist attacks, disease outbreaks, etc). Nonetheless, the risk is partially mitigated by RCL's geographically diversified portfolio, which allows it to withstand any demand vulnerability related to a micro market or specific town/city to an extent.

Moderate scale of operations; susceptibility of revenues to competition – RCL has a moderate scale, with an operating income of Rs. 371.3 crore in FY2024 and Rs. 340.6 crore in 9M FY2025. While the operating income is expected to improve at a healthy rate, aided by RevPAR growth, property additions and higher F&B income, its scale is likely to remain moderate over the medium term. RCL faces competition from brands such as Keys, Red Fox, Sarovar and Ibis, and from the unbranded/room aggregator segment. However, its strong brand equity has benefitted RCL and mitigated competitive risks to an extent.

Liquidity position: Adequate

RCL's liquidity is expected to remain adequate, supported by its anticipated healthy fund flow from operations. The company does not have any bank borrowing and has free cash and bank balances of Rs. 8.3 crore, liquid investments of Rs. 51.9 crore and undrawn working capital limits of Rs. 28.0 crore as on December 31, 2024. Against these sources of cash, it does not have any repayment obligations, and this is likely to remain so, going forward. RCL has capex plans of ~Rs. 60.0 crore per annum between FY2025 and FY2027, primarily towards renovation, upgradation of some existing properties to lean luxury hotels and regular maintenance. Further, RCL would also incur incremental capex for its upcoming greenfield hotel in Goa. The existing cash balances and internal accruals are likely to be sufficient to fund its capex plans in the medium term. ICRA also expects IHCL to extend timely and adequate financial support to RCL, if required.

Rating sensitivities

Positive factors – Significant improvement in RCL's scale and accruals, while maintaining its conservative debt metrics, or improvement in IHCL's credit profile could accelerate the transition to a higher long-term rating.

Negative factors – RCL's ratings could be downgraded if the company witnesses pressure on earnings or in case of weakening of debt metrics and liquidity position. Weakening in IHCL's credit profile/RCL's linkages with IHCL or absence of timely and adequate financial support from IHCL, when required, would also be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry
Parent/Group support	**Parent company:** The Indian Hotels Company Limited (rated [ICRA]AA+ (Stable)/[ICRA]A1+); ICRA expects IHCL to extend timely and adequate financial support to RCL, should there be a need.
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

RCL operates a chain of lean luxury/mid-scale segment hotels across the country under the brand, Ginger. RCL's first hotel was launched in Bangalore in 2004 and was called 'IndiOne'. The hotel was subsequently rebranded as 'Ginger Hotel' in 2006. As on December 31, 2024, RCL operated 72 hotels under the 'Ginger' brand in 46 cities/towns across the country with a total inventory of 6,398 rooms. RCL became a wholly-owned subsidiary of Indian Hotels Corporation Limited (IHCL) in Q1 FY2023, post the purchase of a 39.8% stake from other Tata Group companies.

Key financial indicators (audited)

RCL Standalone	FY2023	FY2024
Operating income	304.5	371.3
PAT	71.1	43.9
OPBDIT/OI	37.0%	36.1%
PAT/OI	23.4%	11.8%
Total outside liabilities/Tangible net worth (times)	1.7	1.6
Total debt/OPBDIT (times)	3.3	3.1
Interest coverage (times)	2.8	3.4

Amount in Rs crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with numbers reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
				Jan 31, 2025	Nov 06, 2023	Oct 10, 2022	Nov 26, 2021	Apr 01, 2021
1	Fund Based – Term Loan	Long term	-	-	-	-	[ICRA]A (Stable)	[ICRA]A (Negative)
2	Fund Based	Short term	-	-	-	-	[ICRA]A2+	[ICRA]A2+
3	Fund Based/CC	Long term	28.0	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)
4	Unallocated	Long term	-	-	-	-	[ICRA]A (Stable)	[ICRA]A (Negative)
5	Long Term/Short Term - Unallocated	Long term /Short term	122.0	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – CC	Simple
Long-term/ Short -term – Unallocated	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	**Fund-based Limits**	NA	NA	NA	28.00	[ICRA]AA-(Stable)
NA	**Unallocated Limits**	NA	NA	NA	122.00	[ICRA]AA-(Stable)/ [ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Vinutaa S
+91 44 4596 4305
vinutaa.s@icraindia.com

K. Srikumar
+91 44 4596 4318
ksrikumar@icraindia.com

Nilesh Kumar Jain
+91 44 4596 4312
nilesh.jain2@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches