

February 11, 2025

Royal Orchid Hotels Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term fund based – Term loan	31.83	26.43	[ICRA]A- (Stable); reaffirmed
Long-term – Unallocated facilities	14.17	19.57	[ICRA]A- (Stable); reaffirmed
Total	46.00	46.00	

*Instrument details are provided in Annexure I

Rationale

The reaffirmation in rating for bank lines of Royal Orchid Hotels Limited (ROHL/the company) factors its healthy operating and financial performance during FY2024 and H1 FY2025 and anticipated sustenance of the same given the favourable demand outlook for hotel industry in the next 9-12 months. The company has reported healthy uptick in revenues in FY2024 and H1 FY2025, 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. 157.6 crore in H1 FY2025, 5.8% higher on YoY basis, supported by both improvement in occupancy and Average Room Rate (ARR). The growth was despite temporary lull in demand due to the General Elections in Q1 FY2025. The benefits from operating leverage and sustenance of cost optimisation measures, resulted in healthy operating margins of 20.7% in H1 FY2025, albeit lower than the H1 FY2024 levels of 26.0% due to sub-optimal occupancy in newly opened hotels, higher employee costs and renovations in hotels. As a result of its healthy accruals, its debt metrics remain comfortable with consolidated total debt/OPBITDA of 2.3x, Net debt/OPBITDA of 1.7x and interest coverage of 4.7x in FY2024. The favourable demand outlook for the industry and expansion of ROHL's hotel portfolio are likely to support revenues and accruals in FY2025 and FY2026. The debt metrics are likely to remain comfortable, supported by the anticipated healthy accruals over the medium term.

The rating remains supported by the company's asset-light model of operations (80% 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 6,556 keys as on September 30, 2024, 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 is 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 Securities and Exchange Board of India (SEBI) dated March 31, 2023, against the company, its promoters and Chief Financial Officer. This order was following a complaint received by SEBI against ROHL that it consolidated Ksheer Sagar Developers Private Limited (KSDPL) as an associate instead of a subsidiary despite having control. The order stated that this had resulted in an overstatement of ROHL's consolidated profits in FY2022, which led to an 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. The latter has been dropped in the final order while the former allegations pertaining to classification as an associate remains. Currently, there is a stay on the final order issued by SEBI, post

ROHL's appeal to Securities Appellate Tribunal (SAT), and further communication on this matter is awaited. ICRA has been fully consolidating KSDPL for analytical purpose. ICRA will continue to monitor the developments on this front.

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

Key rating drivers and their description

Credit strengths

Asset-light model of operation with 80% of inventory under management contracts/franchise limits capex and project implementation risk - Over the past decade, 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 80% of the total inventory as on September 30, 2024. 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 Bengaluru, Goa and Jaipur), ten leased properties (in Bengaluru, Mysore, Pune, Gurgaon, Hospet, Nagpur, Sakleshpur and Goa), while 94 hotels/resorts are on a management contract/franchise 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 6% of keys, the four-star hotels (Royal Orchid Central/Regenta Central) constitute 47%, 29% 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 H1 FY2025; favourable demand outlook – The company has reported healthy uptick in revenues in H1 FY2025, with demand stemming from leisure, social MICE/weddings and pickup in business travel and FTAs. ROHL reported consolidated revenues of Rs. 157.6 crore in H1 FY2025, 5.8% higher on YoY basis, supported by both improvement in occupancy and Average Room Rate (ARR). The growth was despite temporary lull in demand due to the General Elections in Q1 FY2025. The benefits from operating leverage and sustenance of cost optimisation measures, resulted in healthy operating margins of 20.7% in H1 FY2025, albeit lower than the H1 FY2024 levels of 26.0% 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 over the next 9-12 months.

Comfortable capitalisation structure and coverage indicators – ROHL's net debt has been relatively low for the last few years supported by its healthy accruals and asset-light mode of expansion. While the total debt stood at Rs. 236.5 crore as on September 30, 2024, it was Rs. 109.4 crore as on the same date excluding lease liabilities. Its debt metrics remain comfortable with consolidated total debt/OPBITDA of 2.3x, net debt/OPBITDA of 1.7x and interest coverage of 4.7x in FY2024. The debt metrics are likely to remain comfortable, supported by its anticipated healthy accruals.

Credit challenges

High geographical concentration with over 40% of inventory in Karnataka and Gujarat – ROHL has significant geographical concentration with over 40% of the inventory in Karnataka and Gujarat as on September 30, 2024. Rajasthan and Maharashtra with over 10% of the total keys respectively, also add to the geographical concentration risk. This exposes the company to revenue volatility due to city-specific risks. While ROHL has diversified its portfolio across 72 locations with recent additions, its 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 – The company, akin to other players in the industry, 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: Adequate

ROHL's liquidity position is adequate supported by its healthy anticipated cash flow from operations and unencumbered cash and bank balances of Rs. 56.5 crore as on September 30, 2024. It also had undrawn working capital facility of Rs. 3.0 crore as on the same date. As against these sources of cash, the company has debt repayment obligations of Rs. 9.0 crore in H2 FY2025, Rs. 20.4 crore in FY2026 and Rs. 14.3 crore in FY2027 on existing and sanctioned loans. Further, it has moderate capex plans of Rs. 25.0 crore in H2 FY2025, and Rs. 30 crore each in FY2026 and FY2027, for renovation and maintenance capex. The capex is expected to be funded primarily through internal accruals and debt, on need basis. 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 metric that could lead to a downgrade includes Total Debt/OPBITDA over 3.0 times on a sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies 9 Bold	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

About the company

Royal Orchid Hotels Limited, at the consolidated level, has a portfolio of 109 operating hotels across 72 locations in India (as on September 30, 2024). It primarily operates on an asset-light model with 80% properties under management contracts/franchise. While over 40% of the inventory is in Karnataka and Gujarat, other regions of presence include Rajasthan, Maharashtra, Goa, Tamil Nadu, Punjab and Uttarakhand to name a few. ROHL operates vide the following brands as on date: 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)), a subsidiary and Ksheer Sagar Developers Private Limited ([ICRA]BBB- (Stable)), an associate, operate one 130-room and 139-room hotel each in Bengaluru and Jaipur, respectively. ROHL is a listed company and the promoters hold 63.65% stake (as on December 31, 2024).

Key financial indicators (audited)

Consolidated#	FY2023	FY2024
Operating income	271.6	304.0
PAT	46.9	47.4
OPBDIT/OI	33.1%	28.4%
PAT/OI	17.3%	15.6%
Total outside liabilities/Tangible net worth (times)	1.1	1.2
Total debt/OPBDIT (times)	1.8	2.3
Interest coverage (times)	5.6	4.7

Source: Company, ICRA Research; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; #The consolidated figures are as per published results with financial ratios adjusted for ICRA's 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 is not comparable with the table in some instances.

Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
CARE	CARE C ; Stable; ISSUER NOT COOPERATING	September 10, 2024

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)	Feb 11, 2025	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023			Date & rating in FY2022
				May 29, 2024	Mar 28, 2024	Apr 12, 2023	Mar 27, 2023	Mar 20, 2023	Oct 20, 2022	Oct 04, 2021
1 Term Loans	Long term	26.43	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Negative)
2 Proposed Non-convertible debentures	Long term	-	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-
3 Unallocated	Long term	19.57	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB (Positive)	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term fund based – Term Loans	Simple
Long term – 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	26.43	[ICRA]A- (Stable)
NA	Unallocated	NA	NA	NA	19.57	[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 FY2024; As per the published consolidated financial statements of ROHL, Ksheer Sagar Developers Private Limited has been consolidated as per the equity method and has been classified as an associate. However, for analytical purposes, ICRA has fully consolidated this entity, as ROHL is expected to extend all forms of financial support to Ksheer Sagar Developers Private Limited, if needed.

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