October 20, 2022

Royal Orchid Hotels Limited: Rating reaffirmed; outlook on long-term rating revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	46.00	37.92	[ICRA]BBB; reaffirmed; Outlook revised to Positive from Negative
Unallocated Facilities	0.00	8.08	[ICRA]BBB; reaffirmed; Outlook revised to Positive from Negative
Total	**46.00**	**46.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook to Positive factors in the expectations of sustained recovery in Royal Orchid Hotels Limited's (ROHL/the company) operating performance over the next few quarters and expected improvement in debt metrices and liquidity profile of the company, supported by its healthy accruals. The company reported consolidated revenues of Rs. 62.0 crore in Q1 FY2023, 27.6% higher than the pre-Covid revenues of Rs. 48.6 crore in Q1 FY2020, supported by leisure travel, social MICE/weddings and pick up in business travel. The benefits from operating leverage and sustenance of cost optimisation measures undertaken during the pandemic, resulted in an improvement in consolidated operating margins to 36.4% in Q1 FY2023, compared to 13.6% in Q1 FY2020. The healthy accruals have resulted in improvement in debt metrics, with consolidated interest coverage of 5.6 times in Q1 FY2023. Further, the company had unencumbered cash and bank balances of 22.4 crore as on June 30, 2022 at the standalone level and Rs. 45.4 crore as on the same date at the consolidated level. Going forward, the revenues and operating profits are likely to witness healthy improvement on full-year basis in FY2023, with sustained recovery in demand in the coming quarters. The healthy accruals are expected to translate into improvement in net debt and liquidity, in the absence of any major debt-funded capex plans. ICRA expects the company's FY2023 performance to be significantly better than earlier estimates.

The rating also positively factors in the company's asset-light model of operations (over 76% 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 4,546 keys as on June 30, 2022 from 1,944 keys in FY2014.

The rating, is however, constrained by ROHL's inventory concentration in the Karnataka and Gujarat regions (42% 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 cyclicality of the hospitality industry, economic cycles and exogenous events. While coverage metrics have witnessed significant improvement, they remain moderate.

Key rating drivers and their description

Credit strengths

Asset-light model of operation with 76% 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 increased from 47% in FY2014 to 76% of the total inventory as on June 30, 2022. 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), seven leased properties (in Bangalore, Mysore, Pune, Gurgaon, Hospet and Nagpur), while 61 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 8% of keys, the four-star hotels (Royal Orchid Central/Regenta Central) constitute 55%, 16% is in the economy/budget hotels (Regenta Inn) and the remaining 22% 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 in Q1 FY2023; to achieve healthy YoY growth on full year basis in FY2023 - The company has reported healthy demand uptick in Q1 FY2023, with demand stemming from leisure travel, social MICE/weddings and pick up in business travel. ROHL reported consolidated revenues of Rs. 62.0 crore in Q1 FY2023, 27.6% higher than the pre-Covid revenues of Rs. 48.6 crore in Q1 FY2020, supported by the demand uptick and consequent improvement in occupancy and ARRs. The benefits from operating leverage and sustenance of cost optimisation measures undertaken during the pandemic, resulted in an improvement in operating margins to 36.4% in Q1 FY2023, compared to 13.6% in Q1 FY2020. The pickup has been sharper than ICRA's earlier estimates. Going forward, the revenues and operating profits are likely to witness healthy improvement on full-year basis in FY2023.

Credit challenges

High geographical concentration with 42% of keys in Karnataka and Gujarat– ROHL has significant geographical concentration with around 42% of the inventory is in Karnataka (cities such as Bangalore, Mysore, Hospet, Belgaum and Shimoga) and Gujarat (Vadodara, Ahmedabad, Vapi, Rajkot, Bharuch, Dahej, Somnath, Morbi and Bhuj) as on June 30, 2022. Rajasthan (Jaipur, Pushkar, Udaipur, Ajmer, Bharatpur and Ranthambore) and Maharashtra (Mumbai, Pune, Mahabaleshwar, Nagpur, Nashik and Lonavala), with 13% and 11% 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 48 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 cyclicality of the hospitality industry, economic cycles and exogenous events – Akin to other players in the industry, the company is exposed to industry cyclicality/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.

Moderate coverage indicators – While the healthy accruals have resulted in improvement in ROHL's debt metrics, it remains moderate with consolidated interest coverage of 5.6 times in Q1 FY2023. ICRA expects the coverage metrics to remain moderate over the medium term, despite anticipated improvement in the same.

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 actively 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 profile remains adequate, supported by anticipated healthy cash flow from operations. Further, the company has unencumbered cash and bank balances of Rs. 22.4 crore at the standalone level, and Rs. 45.4 crore at the consolidated level as on June 30, 2022. As against this, ROHL has consolidated principal repayments of Rs 8.6 crore from July 2022 to March 2023, Rs. 18.7 crore for FY2024, and Rs. 17.9 crore for FY2025 on its existing loans. The company has capex commitments of Rs. 15.0 crore for FY2023 and Rs. 10 crore each for FY2024 and FY2025, to be funded through 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.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ROHL

About the company

The Royal Orchid Group of Hotels has a portfolio of 73 operating hotels across 48 locations in India as of June 30, 2022. The Group primarily operates on an asset-light model with over 76% properties under management contracts/franchise. While 42% of the inventory is in Karnataka and Gujarat, other areas of operation include Rajasthan (13% of keys) and Maharashtra (11%) and 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. ROHL has extended corporate guarantees for the debt in these two entities.

Key financial indicators (Audited)

Consolidated	FY2021	FY2022
Operating income	85.8	145.6
PAT	-40.0	26.8
OPBDIT/OI	-6.7%	21.2%
PAT/OI	-46.7%	18.4%
Total outside liabilities/Tangible net worth (times)	1.4	1.4
Total debt/OPBDIT (times)	-30.6	4.8
Interest coverage (times)	-0.4	1.8

Source: Company, Annual Report and ICRA Research; Amount in Rs crore; All ratios are as per ICRA's calculations; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA – CARE Ratings in its rationale published on October 18, 2022 stated the following:

CARE had, vide its press release dated September 13, 2019, placed the rating of Royal Orchid Hotels Limited (ROHL) under the 'issuer non-cooperating' category as ROHL had failed to provide information for monitoring of the rating as agreed to in its Rating Agreement. ROHL continues to be non-cooperative despite repeated requests for submission of information through phone calls and emails dated June 12,2022, June 22,2022, June 26,2022, June 27,2022 and July 02,2022. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.

Any other information – None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
					Oct 20, 2022	Oct 04, 2021	Dec 07, 2020	Apr 13, 2020	Jan 31, 2020
1	**Term Loans**	Long term	37.92	37.92	**[ICRA]BBB (Positive)**	**[ICRA]BBB (Negative)**	**[ICRA]BBB (Negative)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**
2	**Unallocated**	Long term	8.08	-	**[ICRA]BBB (Positive)**	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	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: www.icra.in

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	37.92	[ICRA]BBB (Positive)
NA	**Unallocated**	NA	NA	NA	8.08	[ICRA]BBB (Positive)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Icon Hospitality Private Limited	51.07%	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%	Equity method

Source: Company

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