November 06, 2023

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/The company) factors in its healthy operating and financial performance in FY2023 and YTD FY2024, and anticipated sustenance of the same going forward given the healthy demand outlook for the hospitality industry in FY2024. The ratings also consider RCL's strong parentage 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 over 35 cities/towns and its asset-light model of operations, which limits capex requirements and project execution risks.

RCL's operating income improved to Rs. 304.5 crore in FY2023, higher by ~45% over pre-Covid levels and by 78.2% on YoY basis, supported by improved demand. The demand momentum sustained in Q1 FY2024 as well, and RCL reported an operating income of Rs. 77.5 crore, a 11.3% YoY increase over Q1 FY2023. Further, benefits from improved operating leverage and sustenance of cost optimisation measures undertaken in the last two years have resulted in healthy improvement in operating margins and accruals. RCL reported operating profit margins of 37.0% in FY2023 and 33.9% in Q1 FY2024, significantly higher than pre-Covid margins of 22.9% (FY2020). 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.

Key rating drivers and their description

Credit strengths

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 has 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 in India – RCL operates 59 hotels under the Ginger brand with a total inventory of 4,992 rooms as of June 30, 2023, and has its presence in over 35 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, 35 out of its 59 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. Further, RCL has over 20 new properties in pipeline, which will commence operations over the next 4-5 years. The company has also undertaken several initiatives for increasing its Food & Beverage (F&B) revenues, including Qminisation of Ginger and conversion of outsourced F&B outlets to in-house. These factors, along with industry growth, would aid revenue improvement over the medium term. Sustenance of cost optimisation initiatives implemented by RCL during the Covid period, benefits from operating leverage and improvement in management contract income are likely to support healthy margins going forward.

Healthy capital structure and coverage metrics; portfolio expansion through asset-light strategy limits capex requirement – The company has remained conservative on borrowings in the last one year. It does not have any debt except lease liabilities in its books. This has resulted in healthy capital structure and coverage metrics as on June 30, 2023. 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. It 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 as well.

Credit challenges

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

Moderate scale of operations; susceptibility of revenues to competition – RCL has moderate scale, with an operating income of Rs. 304.5 crore in FY2023. 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 witnesses 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 the company 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 did not have any bank borrowings as on June 30, 2023. Further, RCL had cash and liquid investments of around 11.0 crore and undrawn working capital lines of Rs. 28.0 crore as on June 30, 2023. As against these sources of cash, the company has capex plans of around Rs. 60.0 crore per annum in FY2024-FY2026 towards renovation, upgrade of some existing properties to lean luxury hotels and regular maintenance, to be funded through internal accruals. 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 rating.

Negative factors – Negative pressure on RCL's ratings could arise if the company witnesses pressure on earnings or weakening of debt metrics and liquidity position. Weakening in the 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 became a wholly owned subsidiary of Indian Hotels Corporation Limited (IHCL) since Q1 FY2023 post the purchase of 39.8% stake from other Tata Group companies. 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 June 30, 2023, RCL operated 59 hotels under the 'Ginger' brand in over 35 cities/down across the country with a total inventory of 4,992 rooms.

Key financial indicators (audited)

RCL Standalone	FY2022	FY2023
Operating income	170.9	304.5
PAT	-33.9	71.1
OPBDIT/OI	20.5%	37.0%
PAT/OI	-19.8%	23.4%
Total outside liabilities/Tangible net worth (times)	4.9	1.7
Total debt/OPBDIT (times)	13.5	3.3
Interest coverage (times)	0.8	2.8

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 (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of September 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					06-Nov-23	10-Oct-22	26-Nov-21	01-Apr-21	15-Apr-20
1	**Term Loan- Fund Based**	Long term	0.00	-	-	-	**[ICRA]A (Stable)**	**[ICRA]A (Negative)**	**[ICRA]A (Negative)**
2	**Fund Based**	Short Term	0.00	-	-	-	**[ICRA]A2+**	**[ICRA]A2+**	-
3	**Fund Based/ CC**	Long Term	28.00	-	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Negative)**	**[ICRA]A (Negative)**
4	**Unallocated**	Long Term	0.00	-	-	-	**[ICRA]A (Stable)**	**[ICRA]A (Negative)**	**[ICRA]A (Negative)**
5	**Long Term/Short Term - Unallocated**	Long term and short term	122.00	--	**[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	7.50%	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

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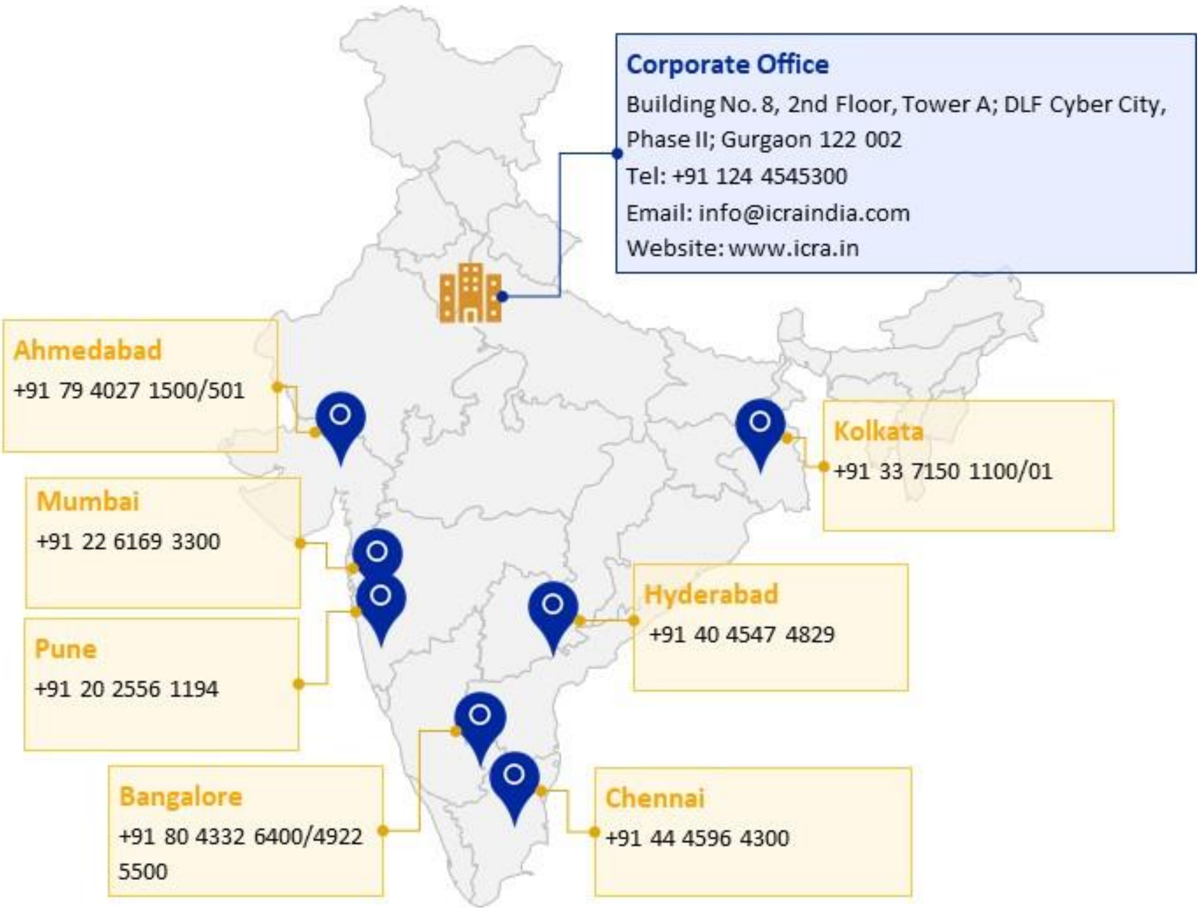

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