

Roots Corporation Limited

Instrument	Amount (Rs. Crore)	Rating Action
Long-term, Term Loans	150.00	[ICRA]A reaffirmed; outlook revised to 'Positive'

ICRA has reaffirmed the long-term rating of [ICRA]A (pronounced ICRA A) to the Rs. 150.00 crore¹ term loan facilities of Root Corporation Limited ('RCL' or 'the company')². The outlook on the long-term rating has been revised to 'Positive' from 'Stable'.

The revision in the outlook to 'Positive' reflects an expected improvement in operating profitability and cash accruals over the medium term due to scale up in its operations and aided by an anticipated recovery in the business environment. The rating continues to factor in the company's strong parentage in the form of The Indian Hotels Company Limited {rated [ICRA]AA (stable)}, the diversified presence of 'Ginger' hotels across ~30 locations in the country, adoption of asset-light strategy for future growth, and the comfortable financial profile of the company characterised by healthy cash accruals, comfortable capital structure and adequate debt coverage indicators. The rating favourably factors in the company's thrust on opening new hotels primarily in metro and tier-I cities, while also targeting the top leisure and religious destinations, which in our view could boost the revenues and profitability over the long term.

The rating is, however, constrained by the moderate scale of operations of the company, which has been constraining the profitability (RoCE of 2.7% in FY2016; adjusted for exceptional items); considerable increase in scale is warranted for the company to be able to comfortably absorb the fixed corporate overheads. The competitive intensity in the Indian budget/economy hotel segment – which remains largely unorganized, characterized by relatively low entry barriers – has been intensifying over the years with the aggressive growth of certain brands such as Formule1, RedFox, Keys, and Ibis in the segment. Although 'Ginger' has been a first mover in the branded budget hotel segment, the expansion of its brand presence across the country has only been gradual. Further, despite the company having adopted an asset-light strategy for growth, the company has sizeable capital expenditure (capex) requirements in the future to increase its footprint across the nation; the funding mix for these project capex would have a bearing on the credit profile of the company and hence remains a key rating sensitivity. Though the existing private equity partner has an option to invest additional equity funds into the company to meet the funding requirements for capex, the timelines and materialisation of the same remain uncertain at this point in time.

Company Profile

Roots Corporation Limited (RCL) is a 59.33% subsidiary of The Indian Hotels Company Limited (IHCL; rated [ICRA]AA(stable)), India's largest hospitality company. RCL operates a chain of economy segment hotels across the country under the brand 'Ginger Hotels'. RCL's first hotel was launched in Bangalore in 2004 and was called IndiOne; the hotel was subsequently rebranded to Ginger Hotel. RCL, as of August 31, 2016, operates 36 hotels (including one TCS guest house at Pune) under the 'Ginger Hotels' brand across the country with a total inventory of 3,424 rooms. The Ginger Hotels together with other hotels owned by IHCL comprise the 'Taj Hotels, Resorts and Palaces'.

Recent Results

During FY2016, the company reported a net loss of Rs. 11.90 crore on an operating income of Rs. 142.40 crore as against a net profit (profit after tax) of Rs. 1.40 crore on an operating income of Rs. 127.13 crore during FY2015.

October 2016

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications



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