

January 31, 2020

Royal Orchid Hotels Limited: Ratings Re-affirmed

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Term loan	46.0	46.0	[ICRA]BBB (Stable); Rating Re-affirmed
Total	46.0	46.0	

*Instrument details are provided in Annexure-1

Rationale

The rating re-affirmation factors in the extensive experience of the company's promoter in the hotel industry supported by a professional management team, its well-diversified hotel portfolio spread across various price-points (5/4-star, budget and resorts) in key markets in India and its asset light model of operations, involving operations through leased properties and management contracts.

In FY2019 and H1FY2020, ROHL added two and six properties respectively taking the total number of properties to 55. Majority of the additions were through management contracts and leasing, building up its portfolio to 3,783 keys (and 55 properties). The company will continue its asset light model of expansion over the medium term through management contracts and leasing.

Although the company's performance had deteriorated in H1FY2020, primarily on account of economic slowdown with stagnant revenue per available room (RevPAR) the performance is expected to improve in H2FY2020 supported by the GST rate cuts in the industry during October 2019. Also, the absence of any large debt funded capex plans over the medium term supports the overall financial risk profile of the company.

The rating is constrained by the high concentration of the company's revenues on the Bengaluru region (>50% of revenues in FY2019) and the high dependence on online travel agencies (OTA) (~30% contribution in FY2019) for sourcing room nights. While the expected expansion into other regions is expected to provide revenue diversification to some extent, with key properties located in Bengaluru, Bengaluru will continue contributing sizably to revenues. As with any player in the industry, ROHL is also exposed to seasonality and cyclicality; and is vulnerability to risks such as geopolitical disturbances, disease outbreaks and consequent travel advisories, inherent to the industry.

Key rating drivers

Credit strengths

Experienced promoters and professional management team with more than four decades of experience: ROHL is supported by its experienced promoters with more than four decades of experience in the hotel industry. With the company aggressively expanding through its asset light model, guidance from the promoters and professional management has aided the company in swift stabilization of operations of newly added properties.

Asset light model of expansion using management contracts and leased property: Given its past experience with building capex intensive properties, over the last 4-5 years ROHL has followed an asset light model of expansion, using leased properties, and management contracts. Of the group's 55 operational properties, only one hotel is fully owned,

four are held under subsidiaries, five are leased from local builders / Government, seven are under franchise agreements and 38 are under management contracts. As on September 30, 2019 more than 70% of the company's portfolio was held through management contracts. Going forward also the company will continue to expand exclusively through management contracts and leases.

Portfolio comprising of a wide range of hotels across price points: ROHL has a healthy mix of brands catering to various segments of customers, which helps it to reduce the impact of industry cyclicality to an extent. Going forward, the company is expected to expand under its budget brand, Regenta Inn, in tier II cities, focusing on the midscale business traveller.

Financial profile characterized by low gearing and adequate coverage indicators; absence of debt funded capex plans provides further comfort: The company's total debt/net worth stood at 0.4 times as on September 30, 2019 and 0.5 times as on March 31, 2019. Coverage indicators stood at: total debt/ OPBITDA and interest coverage at 3.9 times and 1.4 times respectively as on September 30, 2019; and at 2.6 times and 3.2 times respectively as on 31, March 2019. With improving cash accruals supported by growing top line and expanding margins, total debt/ net worth and total debt/ OPBITDA is expected to moderate over the next two-three years.

Credit challenges

High revenue (more than 50% for H1FY2020) concentration on the Bengaluru market: With its key revenue generating properties located in Bengaluru, ROHL derives more than 50% of its revenues from the city. While healthy demand is expected to support its occupancy, high competition will constraint Average room rate (ARR) growth opportunities. However, ROHL's diversification into new locations to broaden revenue mix is expected to mitigate the same to an extent going forward.

High revenue contribution from OTA caps margin expansion: While the revenue contribution from OTA was low at 14% and 18% in FY2016 and FY2017 respectively, it increased sharply to 30% in FY2019. The company pays upto ~20% as commission for bookings done through the OTAs, thereby capping effective net rates and margins. Going forward, the company is expected to cap its revenues from OTAs at 30% and focus on expansion through other lower cost channels such as the ROHL website, loyalty program, etc.

Cyclical industry, vulnerable to general economic slowdown and exogenous factors: The company is exposed to inherent cyclicality of the hotel industry and exogenous factors such as geo-political crisis, terrorist attacks, disease outbreak, etc.

Liquidity

Liquidity of the company is adequate with net cash accruals expected to range around Rs. 28 crores-Rs.35 crores as against the repayments of Rs. 10.5 crores in FY20 and Rs.11.2 crore in FY21. The company will continue to pay out dividends over the medium term and the same will remain in the range of range of 15%-20% of the net profit. With no major debt funded capex plans the liquidity is expected to remain adequate over the medium term

Rating Sensitivity factors

Positive Triggers

- Consistent improvement in the occupancy and ARRs leading to higher revenues on a sustained basis coupled with sustenance of healthy capital structure.

Negative Triggers

- Decline in the occupancy or ARR's leading to an overall decline in the company's operating income or deterioration in the company's capital structure on account of any large debt funded capex

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry
Parent/Group Support	-
Consolidation/Standalone	The ratings are based on the consolidated financial statements of Royal Orchid Hotels Limited as on March 31, 2019

About the company

The Royal Orchid Group of Hotels has a portfolio of 55 operating hotels with a collective inventory of 3,783 rooms located in various cities (~29 cities) spread across the country, as of September 2019. Of this portfolio, 195 rooms (5.9%) are owned (building is owned, land is on lease); 433 rooms (11%) are leased (warm shell in most cases) by ROHL; 2,758 rooms (73%) operated as managed hotels; and 396 rooms (11%) are under joint venture. Standalone accounted for 56.3% of the revenues and 39.5% of the debt in Q2FY2020. The company has two key subsidiaries namely Icon Hospitality Private Limited and Ksheer Sagar Developers Private Limited which house the 134- and 129-room hotels in Bangalore And Jaipur. respectively. ROHL has extended corporate guarantees for the debt in its subsidiaries. Other key subsidiaries and joint ventures are captured in Annexure 2.

Key financial indicators (Consolidated, audited)

Standalone	FY2018	FY2019
Operating Income (Rs. crore)	196.2	213.0
PAT (Rs. crore)	2.4	13.1
OPBDIT/OI (%)	19.0%	20.9%
RoCE (%)	8.1%	11.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.5
Total Debt/OPBDITA (times)	3.2	2.6
Interest Coverage (times)	2.4	3.2
DSCR	1.5	2.0

Source: company

Status of non-cooperation with previous CRA CARE Ratings in its rationale published on September 13, 2019 stated the following: -

“CARE has been seeking information from Royal Orchid Hotels limited to monitor the ratings vide email communications/letters dated May 31, 2019, July 15, 2019 etc however despite of the repeated attempts the company did not provide the requisite information. CARE has revised the rating on the best available information, which however in CARE's opinion is not sufficient to arrive at the fair rating. The rating of Royal Orchid Hotels Limited on the bank facilities is now denoted as CARE BBB 'Issuer Not Co-operating'”

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on 31, March 2019 (Rs. crore)	Date & Rating 31-Jan 2020	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1	Term Loan	46.0	37.96	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	March 21, 2018	NA	2030	46.0	[ICRA]BBB (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation approach
Icon Hospitality Private Limited	51.07%	Full consolidation
Maruthi 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
River Shore Developers 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
Ksheer Sagar Developers 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

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