

April 13, 2020

## Royal Orchid Hotels Limited: Rating Outstanding at [ICRA]BBB(Stable)

### 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 outstanding
<b>Total</b>	<b>46.0</b>	<b>46.0</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating update follows the impact of the novel coronavirus (COVID-19) outbreak on the global travel and tourism industry and is in line with ICRA's negative outlook for the sector. Since India reported its first coronavirus patient towards the end of January 2020, the impact on the Indian travel and tourism industry has been severe, more so during March 2020, as corporate action on localised containment was followed by pan-India Government clampdowns. Occupancies across most hotels, barring those corralled into supporting the Government's isolation and containment measure, and those being used for work-from-alternative office spaces have crashed across the country, following the pan India 21-day lockdown announced by the GoI on March 24, 2020. This is in line with the situation of the hospitality industry globally. ICRA also expects the hospitality industry to have one of the longest periods of recovery, contributed by widespread business slowdown over the next couple of quarters.

Given the discretionary nature of spend (especially leisure travel), the travel and tourism industry has always been highly susceptible to exogenous shocks like wars, terror attacks, diseases and meltdowns. COVID-19's impact is expected to be far more severe and broad-based than during previous instances. ICRA expects significant pressure on the revenue-per-available room (RevPARs), initially through occupancies, over the next two quarters. While some deferred travel, particularly for business, will eventually re-flow in following some semblance of normalcy, room nights are essentially perishable commodities. Business on the books for hotels, going into the summer months is low. This will severely hamper the industry's ability to support its rates.

Hotels have high operating and financial leverage, making them highly susceptible to any reduction in revenues. With sizeable leverage and debt-servicing requirements, the sharp contraction in revenues will have a detrimental impact on the industry's ability to service its debt. ICRA will continue to monitor the situation as it evolves in India and globally over the coming weeks and take appropriate rating action wherever required.

The ratings of the company were re-affirmed in January 2020. The link of the rating rationale is provided below: -

<https://www.icra.in/Rationale/ShowRationaleReport/?Id=92096>

Further, ROHL did not honour its interest payments to the bank falling due on March 31, 2020, pertaining to the ongoing term loan facilities rated, as it is seeking a moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the Reserve Bank of India (RBI) on March 27, 2020. However, despite the missed payment and despite the absence of a formal approval from the lenders allowing for a payment relief, ICRA has not recognized this instance as a Default as of now. This is based on ICRA's expectation that a formal approval for rescheduling the loan would be received soon, as permitted by the RBI as part of the relief measures announced recently. Non-recognition of

default in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020. It may however be noted that if the lenders do not approve of the moratorium in due course, ICRA would review the above stance on default recognition.

## Key rating drivers

<https://www.icra.in/Rationale/ShowRationaleReport/?Id=92096>

## Liquidity

<https://www.icra.in/Rationale/ShowRationaleReport/?Id=92096>

## Rating Sensitivity factors

### Positive Triggers

- An upgrade over the near term looks unlikely on account of negative outlook on the hotel sector following the recent outbreak of Covid-19. Consistent improvement in the occupancy and ARR leading to higher revenues on a sustained basis coupled with sustenance of healthy capital structure will remain key rating driver.

### Negative Triggers

- Longer than expected recovery or sharp decline in the occupancy or ARR leading to an overall decline in the company's operating income/ profitability or deterioration in the company's capital structure

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Hotel Industry</a>
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)

Consolidated	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	Amount	Date &	Date &	Date &	Date &	Date &
		Rated	Outstanding	Rating	Rating	Rating in	Rating in	Rating in
		(Rs. crore)	(Rs. crore)	13 Apr 2020	31 Jan 2020	FY2019 20 Aug 2018	FY2018	FY2017
1	Term Loan	46.0	81.4	[ICRA]BBB (Stable)	[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](http://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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## About ICRA Limited:

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