

April 18, 2018



Direct
Instinct

Key risks to investing in I-direct Instinct

- It is a quick pitch note, which captures the essence of an idea in brief
- Instinct idea may be based on management interaction or some immediate triggers that may have a positive impact on the future of the company
- Target price is based on forward estimates, which will be published along with Detailed Coverage Report or Nano Nivesh report as the case may be
- The intent is to capture price action by coming out with a gist, which may or may not be an interim report between management interaction and publication of the final report
- The fair value of I-direct Instinct stocks is subject to expected growth potential in the future. Though due diligence has been done to a fair extent, the actualisation of growth still has a degree of uncertainty attached to it. Customers are advised to allocate a small proportion of their investible income to these stocks and diversify well

Royal Orchid Hotel (ROYORC)

₹ 232

Valuations indicate further room for upside

We had come out with an I-direct Instinct on Royal Orchid Hotel (ROHL) in September, 2017. In a recent development, the hotel industry occupancy has reached an inflection point that may trigger a sharp rise in ARR and EBITDA margin in FY19E. Further, the company expects to clock EBITDA of ~₹ 50 crore on a consolidated basis in FY19E. Based on this, the stock is available at EV/EBITDA of 14x (vs. industry average of 25x). Hence, we note that despite the recent run up, the company is still available at attractive valuations. On an EV/room basis, the stock is trading at ₹ 1.7 crore/room (below industry average of ₹ 2.5-3.0 crore/room). Given this, we arrive at a target price of ₹ 300-305/share (i.e. EV/adjusted room of ₹ 2.2 crore/room).

Triggers

- **Asset light strategy:** In FY09-13, the company aggressively expanded its room count from 900 to 1,885 by incurring heavy capex of over ₹ 265 crore, primarily financed through debt. Post FY13, ROHL adopted an asset light model and sold off loss making properties that helped it to pare down its debt burden significantly to ₹ 88 crore in FY17. Since FY14, it has added ~1200 rooms all under management contract. As of Q3FY18, 70% of total rooms are under management contract
- **Sale of non-core assets key trigger for debt reduction:** The company owns two land parcels: one in Mumbai (of 1.15 acre) another in Tanzania. The Mumbai land parcel is in Powai and was earlier under a JV with Amar Tara hospitality Pvt Ltd, in which ROHL had 75% share. In January 2017, the company bought the entire 25% stake from its JV partner and became sole owner. The combined value of Mumbai, Tanzania properties is upwards of ₹ 80-90 crore. Sale of these properties may make the company debt-free and lead to a significant increase in earnings per share
- **New GST rate to make Royal Orchid more competitive:** In the pre-GST regime, the company used to pay 21.3%. However, the same has come down to 18% under GST. We believe this will enable ROHL to effectively compete against unorganised segment

Valuation & Outlook

The company's ability to rapidly scale up through management contracts augurs well in improving demand dynamics. Further, comfortable debt levels and favourable tax rate are key positives. ROHL's five star property at Bengaluru (195 rooms) is worth over ₹ 600 crore vs. current EV of ₹ 703 crore. Hence, we arrive at a target price of ₹ 300-305/share.

Exhibit 1: Financial Performance

(Year-end March)	FY13	FY14	FY15	FY16	FY17
Revenues (₹ crore)	160.3	142.0	147.8	158.5	162.5
EBITDA (₹ crore)	22.0	(17.1)	19.9	20.6	20.4
Net Profit (₹ crore)	(7.8)	(37.5)	(3.9)	(1.3)	2.5
Balance Sheet					
Equity (₹ crore)	27.2	27.2	27.2	27.2	27.2
Net worth (₹ crore)	207.9	171.4	162.7	159.8	163.5
Debt (₹ crore)	256.9	133.1	90.6	83.2	88.5
Ratios					
RoNW (%)	(3.7)	(21.9)	(2.4)	(0.8)	1.5
RoCE (%)	1.6	(7.4)	3.7	4.4	2.9
Asset turnover (x)	0.3	0.4	0.5	0.6	0.6
Earnings per share (₹)	(2.8)	(13.8)	(1.4)	(0.5)	0.9
Adj. earning/share (₹)	(3.8)	(15.9)	(3.4)	(2.6)	0.9
EV/EBITDA (x)	32.2	(41.4)	35.6	34.4	34.7

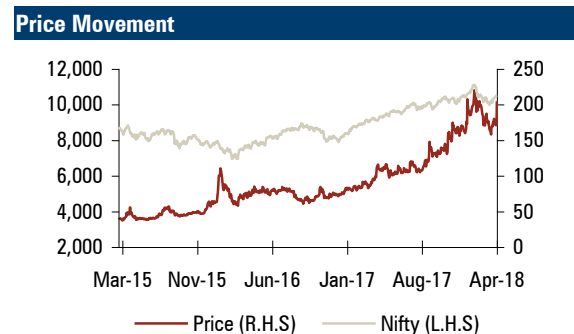
Source: Capitaline, ICICIdirect.com Research

Rating Matrix		
Rating	:	Buy
Target	:	₹ 300-305
Target Period	:	12 months
Potential Upside	:	29-31%

Stock Data	
Particular	Amount
Market Capitalization (₹ crore)	637.0
Total Debt (FY17) (₹ crore)	88.5
Cash (FY17) (₹ crore)	23.0
EV (₹ crore)	702.5
52 week H/L (₹)	239/96
Equity capital (₹ crore)	27.2
Face value (₹)	10.0

Shareholding Pattern	
Particulars	March 2018 (%)
Promoter Holding	69.5
DII	0.9
FII	6.0
Public	23.5

Properties break up					
Category	Owned	JV	Leased	Managed	Total
5-Star	195	139	-	-	334
4-Star	-	130	198	1,562	1,890
Resort /Heritage Convention MICE	-	73	188	571	832
Hotel	-	54	-	-	54
Serviced	-	-	-	159	159
Apartment	-	-	-	159	159
Total Keys	195	396	386	2,292	3,269



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Buy: > 10%/15% for large caps/midcaps, respectively;

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