

CMP (INR) (As on 19th Nov, 2018)	116.55
Target Price (INR)	207.00
Upside(%)	77.6
Recommendation	Strong Buy

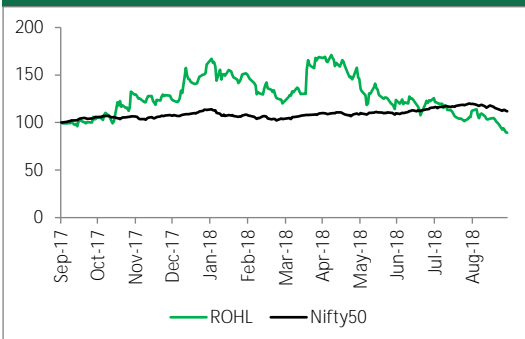
BSE Code	532699
NSE Code	ROHLTD
Reuters Ticker	ROHL.BO
Bloomberg Ticker	ROHL.IN

Stock Scan

Market cap (INR Cr.)	319.92
Outstanding Shares (Cr.)	2.74
Face Value (INR)	10.00
Dividend Yield(%)	1.29
TTM P/E (x)	27.02
Industry P/E (x)	61.19
Debt/Equity	0.66
Beta vs. Sensex	1.91
52 Week High/ Low (INR)	238.90/99.55
Avg. Daily Vol. (NSE)/1 yr.	108658

Shareholding Pattern (%)

	Sep-2018	Jun-2018	Mar-2018
Promoters	69.30	69.35	69.53
Institutions	7.20	7.20	6.96
Non-institutions	23.50	23.44	23.51

Stock vs. Nifty (Relative Returns)


Source: NSE

Company Overview

Royal Orchid Hotels is one of India's fastest growing hotel chains. It primarily operates 5 and 4 star hotels, service apartments and budget hotels enabling it to target the discerning business and leisure traveler. It currently operates 49 hotels across 35 locations in India.

The company operates under flagship brands – Royal Orchid, Royal Orchid Central, Royal Orchid Suites, Regenta Hotels & Regenta Inn. Royal Orchid has a total of 3414 rooms as on Q2FY19 and more than 2

Key Highlights

- Revenue from Operations went up by 9.1% y-o-y to INR26.96 crores. EBITDA for Q2 was at INR4.89 crores up by 20.2%.
- PAT was flat at INR3.03 crores as against INR3.2 crores primarily due to higher tax expenses which has gone up by ~100% y-o-y.
- EBITDA margin for the quarter was at 18.1% and the PAT margin was at 11.2%. The EBITDA margin improved by 168 basis points whereas PAT margin declined by ~150 bps.
- PBT for the period was at INR4.54 crores as against INR3.90 crores same period PY.
- Royal Orchid Hotels has opened its new hotel, Regenta Resort in Bharatpur, Rajasthan taking total number of properties to 49 in 35 regions.

Exhibit 1: Financial Performance at a glance (Consolidated)

Particulars (INR Cr)	FY 2016	FY 2017	FY 2018	FY 2019E	FY 2020E
Revenue from operations	158.53	174.87	190.90	222.40	261.32
Growth (%)	7.3%	10.3%	9.2%	16.5%	17.5%
EBITDA	24.70	31.70	39.73	45.92	61.63
EBITDA Margins (%)	15.6%	18.1%	20.8%	20.6%	23.6%
Net Profit	-1.29	-3.44	3.39	8.55	19.76
Net Profit Margins (%)	-0.8%	-2.0%	1.8%	3.8%	7.6%
EPS	-1.33	-1.68	0.89	2.80	6.92
BVPS	58.76	60.14	60.64	62.04	67.37
P/E (x)	N/A	N/A	133.74	42.32	17.12
P/BV (x)	2.02	1.97	1.95	1.91	1.76
EV/EBITDA (x)	17.64	20.77	13.15	9.77	6.34
ROE (%)	-2.3%	-2.8%	1.5%	4.5%	10.3%
ROCE (%)	5.9%	6.7%	8.7%	9.5%	10.8%

Source: Company Data, SMIFS Research

Research Analyst

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Exhibit 2: Financial Performance (Standalone)

Particulars (in INR Crore)	Quarter Ended (Standalone)			6 month ended				
	Q2 FY19	Q2 FY18	YoY %	Q1 FY19	QoQ %	H1FY19	H1FY18	YoY
Income from Operations	26.96	24.72	9.1%	25.50	5.7%	52.47	46.89	11.9%
Other Income	1.83	2.31	-20.9%	1.26	44.8%	3.09	4.37	-29.3%
Total Income	28.79	27.03	6.5%	26.77	7.6%	55.56	51.26	8.4%
Cost of Material Consumed	2.67	2.50	6.8%	2.51	6.4%	5.18	4.94	4.8%
Employee Benefits Expense	5.54	5.27	5.2%	5.33	4.1%	10.87	10.40	4.6%
Rent Expense	3.11	2.74	13.4%	3.01	3.2%	6.12	5.44	12.5%
Power & Fuel	2.95	2.60	13.3%	2.76	6.8%	5.70	5.49	4.0%
Other Expenses	7.80	7.54	3.5%	7.64	2.1%	15.44	14.45	6.9%
Total Expenses	22.07	20.65	6.9%	21.25	3.9%	43.32	40.71	6.4%
EBITDA	4.89	4.07	20.2%	4.26	14.9%	9.15	6.18	48.0%
EBITDA margin (%)	18.1%	16.5%	168bps	16.7%	146bps	17.4%	13.2%	426bps
Depreciation & ammortization	1.04	1.13	-8.4%	1.05	-1.2%	2.08	2.19	-4.7%
EBIT	3.86	2.94	31.2%	3.21	20.2%	7.07	3.99	76.9%
EBIT Margin (%)	14.3%	11.9%	241bps	12.6%	173bps	13.5%	8.5%	495bps
Interest cost	1.15	1.35	-15.1%	1.13	1.6%	2.27	2.88	-21.1%
Exceptional Item	0.00	0.00	N/A	0.00	N/A	0.00	0.00	N/A
Profit before tax	4.54	3.90	16.4%	3.34	35.8%	7.88	5.48	43.8%
PBT margin (%)	15.8%	14.4%	134bps	12.5%	328bps	14.2%	10.7%	350bps
Tax	1.51	0.75	101.1%	1.29	17.3%	2.79	1.18	136.9%
Profit after tax	3.03	3.15	-3.8%	2.06	47.4%	5.09	4.30	18.3%
PAT margin (%)	10.5%	11.7%	-112bps	7.7%	284bps	9.2%	8.4%	77bps
EPS	1.11	1.16	-4.3%	0.75	48.0%	1.86	1.58	17.7%

Source: Company Data, SMIFS Research

Exhibit 3: Portfolio

Particulars	FY18	Q2FY18	Q2FY19
Management Contracts	2,317	2,292	2,437
JV	396	396	396
Owned_Domestic	195	195	195
Owned_Overseas	-	-	-
Leased	386	386	386
Total Keys	3,294	3,269	3,414
Occupancy - JLO	78%	76%	75%
ARR - JLO	3853	3543	3869
Occupany - M.C	67%	62%	63%
ARR - M.C	2886	2682	2714

Source: Company Data

Exhibit 3: Actual vs Estimate

Standalone Nos	Actual Figs	SMIFS Estimates	Variance (%)
Revenue from Operation (INR Cr.)	26.96	27.69	-2.6%
EBITDA (INR Cr.)	4.89	4.76	2.7%
EBITDA Margin(%)	18.1%	17.2%	95bps
Net Profit(INR Cr.)	3.03	3.08	-1.6%
Net Profit Margin (%)	11.2%	11.1%	11bps

Con-Call Highlights

- The management expects a demand growth in the range of 10%-15% in the key markets. The Average Room Rates (ARR) is at INR3869 and is further going to increase as customers are willing to pay higher.
- The topline growth for the consolidated business has been around 15% and the profit after taxes as of H1FY19 is at INR6 crores.
- The ARR for the managed properties is flat at INR2714 as against INR2682 same period prior year. This is basically due to the introduction of new properties which muted the significant growth in ARR for older properties. The management has decided to post separate ARR for newer and older properties from the next quarter.
- There is not much impact from Oyo and Air BnB as they have their share of challenges. Oyo is more into lower budget segment and into franchisee operations where brand management and maintenance is not given much importance. On the other hand Air Bnb is more into holiday destinations primarily overseas.
- The subsidiary, Royal Orchid Associated Hotels which is into management contracts business is doing really well. During H1FY19 it has a revenue of around INR7 crores as against INR4.6 crores in the same period previous year.
- Corporate contracts are generally signed during the September, the management has been able to negotiate well as the corporates are willing to pay and could manage 10% increase in the corporate rates.
- Effective tax ratio will be high as loss from the Icon is not being optimized as they are separate entities.
- Development plan is pending for the Pawai property. Some more time might be required. Once the deal is complete, a portion will be utilized to reduce debt and a part of it will be utilized to take properties on lease.
- Icon Hospitality has almost halved its losses so we expect better consolidated figures in FY19.
- The advantages of Royal Orchid brand is that one gets better and trained staffs to work for the property. The company has a very good sales network. A lot of work is being done on social media and electronic media.
- The Srinagar (50 room) property was operational from April 1st 2018. There has been a lot of unrest in the state for the last few months, so the property is not performing that great. The management might sell it off in future if they come across a good deal.

Outlook & Valuation

Asset light business model, rapid expansion of properties, favorable taxation structure under GST, turnaround in business operations combined with lower operational and finance expenses is a boost to the company. The company's growth strategy is to expand via leased hotels in order to increase the topline and plans to have 75 properties by 2020. The management's efforts to reorganize the Company's debt are paying off. ROHL's debt have gone from a five-year to 10-year repayment period.

Ongoing tourist season to be continued till end of FY19 along with ever increasing foreign tourist arrival and robust air passenger traffic bodes well for the company. We maintain our Target Price of INR207.

Please find below the link of our previous reports:

Date: 1st Oct,2018

CMP: INR118.50

Target Price INR207.00

https://www.smifs.com/files/reports/636740277313612599_Update%20Report%20on%20SMIFS%20Recomandation.pdf

Date: 22nd Jan,2018

CMP: INR191.15

Target Price: INR275.00

https://www.smifs.com/files/reports/636522409103161259_SMIFS%20Research_Re-rating%20Royal%20Orchid.pdf

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Stock Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 12% and 20%
Accumulate	between 6% and 12%
Hold	between 0% and 6%
Sell	0 to < 10%
Neutral	No Rating
Stock Recommendation	Expected absolute returns (%) over 12 months

Bloomberg Ticker for Stewart & Mackertich Research: SMIF<Enter>

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