# Q2FY24 Result Update
# Royal Orchid Hotels

nuvama professional clients group

## Heavy expansion impacts margin, outlook strong

**Revenue grew 15% YoY to INR67cr in Q2FY24 on healthy room additions and higher income from F&B and other services. ARR grew 7% YoY, but fell 3% QoQ, to INR5,087 (JLO rooms) in Q2FY24, with an occupancy of 73% (Q2FY23/Q1FY24: 75%/78%). EBITDA grew 1% YoY to INR15cr. However, margin contracted by 318bp YoY to 23.2% on higher fixed cost led by rapid room additions. PAT fell 20% YoY to INR7cr on lower other income, with higher interest and depreciation (with the addition of leased rooms). Sequentially, revenue/EBITDA/PAT fell 3%/15%/30% on a seasonal decline in RevPAR and higher staff cost.**

**To capitalise on favourable industry dynamics, it ramped up expansion, adding 692 keys (JLO/managed: 72/620) in H1FY24, taking the total inventory to 5,633 (JLO/managed: 1,238/4,395). In H2FY24, we expect ROHL to add another 408 rooms. Given the traction from domestic demand, constrained supply additions in the industry, and line up of key global events in H2FY24, we expect ARR to trend upwards. With an elaborate expansion plan in place, we expect ROHL to benefit from macro tailwinds. We expect a revenue /EBITDA/PAT CAGR of 29%/18%/27% over FY23–25. We downgrade our FY25 EBITDA estimate by 9% to account for near-term margin pressures owing to higher fixed costs for supporting the rapid portfolio expansion. We revise our TP to INR498 (earlier INR549, 12x FY25E EV/EBITDA) and maintain 'BUY'.**

### Revenue in line on strong room additions, higher fixed costs hit margin

Revenue grew 15% YoY to INR67cr on strong room additions and a growth in income from F&B and other services. Revenue from room rent/F&B/other services grew 9%/19%/34% YoY to INR35cr/INR23cr/INR9cr. ARR for JLO rooms grew 7% YoY to INR5,087 on strong domestic demand and constrained supply in the industry. Occupancy stood at 73% (Q2FY23/Q1FY24: 75%/78%). While EBITDA grew 1% YoY on higher revenue, EBITDA margin contracted by 318bp YoY on: i) higher staff cost owing to the hike in the minimum wage rate and hiring for new hotels (employee cost rose 34%), ii) elevated spending on renovation and maintenance of rooms (~INR2cr), iii) increased fixed operating cost such as power and fuel (up 21%) and other overheads (other expenses up 15%) on major room additions. PAT fell 23% YoY to INR7cr on lower other income and higher interest and depreciation (146 rooms were added on lease in the last 12 months). Revenue/EBITDA/PAT fell 3%/15%/30% QoQ on seasonality (Q2 is the weakest) and higher staff cost.

### Strong room addition pipeline one of the key growth drivers

As of September, ROHL operated 5,633 rooms (own/JV/leased/managed: 398/193/647/4,395 rooms) across ~95 hotels, catering to leisure, business, and the wedding segment. In H1, it added 692 rooms and intends to add another ~900 rooms by FY24-end. We conservatively estimate a total of 6,841 rooms by FY25-end against the management's guidance of 8,000 rooms. Nearly 80%/20% of expected additions will be under management contracts/revenue sharing leases.

### Expect revenue/EBITDA to clock 29%/18% CAGR over FY23–25

We expect 29% revenue CAGR over FY23-25 on: i) a 14% ARR CAGR, with strong occupancy levels, leading to 10% RevPAR CAGR, driven by favourable demand-supply dynamics and strong demand from local tourist; ii) its elaborate expansion plan of adding over 2,300 rooms in two years; iii) strong growth in F&B income, with a revival in large-scale weddings after the lifting of COVID-related restrictions and the expansion of the restaurant and banquet portfolio; and iv) its focus on boosting in-resort spends by offering value-add services. EBITDA margin is expected to settle at a sustainable 26% in FY25 as: i) the strong room additions will entail higher fixed costs (employee, power and fuel, and maintenance), which will impact unit profitability as new properties will take three-to-four quarters to ramp up, and ii) share of revenue from leased hotels, which earn a lower margin, is expected to increase. We expect 27% PAT CAGR over FY23–25, aided by lower interest cost.

### Higher EBITDA to drive cash flows and deleveraging

With working capital cycle stable ~23 days, we expect a major portion of EBIT to flow down to OCF (10% CAGR over FY23–25). We expect a cumulative OCF of INR171cr in FY24 and FY25, of which ~INR83cr will be used for room additions and maintenance capex. The balance will aid deleveraging. We expect the net D/E ratio to improve to -0.11x in FY25 from 0.02x in FY23. With a large part of room additions under the asset light model, we expect RoCE to improve to 29.6% in FY25 from 25.6% in FY23.

### Maintain 'BUY' with a TP of INR498

We remain positive on the industry given the favourable demand-supply dynamics in the near-to-medium term. We expect growth for ROHL to outpace peers, given its lower base, extensive room addition pipeline, and improving brand recognition, which will help to narrow the valuation gap with its peers. We maintain 'BUY' with a revised TP of INR498 (INR549 earlier) based on 12x FY25E EV/EBITDA.

**Key financials**

| Year to March | FY21 | FY22 | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| Revenue (INR cr) | 81 | 139 | 264 | 319 | 437 |
| Revenue growth (%) | -61 | 71 | 90 | 21 | 37 |
| EBITDA (INR cr) | -11 | 23 | 82 | 81 | 113 |
| Net profit (INR cr) | -26 | 7 | 49 | 54 | 78 |
| P/E ratio (x) | -5.3 | 11.4 | 13.6 | 14.5 | 10 |
| EV/EBITDA ratio (x) | -21.5 | 16.1 | 8.2 | 9.7 | 6.6 |
| RoACE (%) | -11.7 | 1.5 | 28 | 23.5 | 32.5 |
| RoAE (%) | -16.7 | 5.2 | 33 | 27.9 | 31.7 |

**CMP: INR282**
**Rating: BUY**
**Target price: INR498**
**Upside: 76%**
Date: November 14, 2023

| Bloomberg: | ROHL.IN |
|---|---|
| 52-week range (INR): | 206/384 |
| Shares in issue (mn): | 27 |
| M-cap (INR cr): | 774 |
| Promoter holding (%) | 63.6 |


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## Quarterly Income Statement

| Particulars | Q1FY24 | Q1FY23 | YoY | Q4FY23 | QoQ |
|---|---|---|---|---|---|
| Net sales | 67 | 58 | 15% | 69 | -3% |
| Operating expenses | 51 | 43 | 20% | 51 | 1% |
| EBITDA | 15 | 15 | 1% | 18 | -15% |
| Depreciation | 5 | 4 | 12% | 5 | 3% |
| EBIT | 11 | 11 | -4% | 13 | -21% |
| Interest | 5 | 4 | 26% | 5 | -2% |
| Other income | 3 | 5 | -32% | 5 | -28% |
| PBT | 10 | 13 | -24% | 14 | -30% |
| Tax | 2 | 3 | -36% | 3 | -38% |
| PAT | 7 | 9 | -20% | 10 | -27% |
| Minority interest after net profit | 1 | 1 | 58% | 1 | -18% |
| P&L from an associate company | 0 | 0 | - | 1 | -62% |
| PAT after minority interest and share of associates | 7 | 9 | -23% | 10 | -30% |
| Exceptional items | - | - | - | - | - |
| RPAT | 7 | 9 | -23% | 10 | -30% |
| EPS | 2.5 | 3.2 | -23% | 3.5 | -30% |
| EBITDA margin | 23.2% | 26.4% | | 26.3% | |
| PAT margin | 10.2% | 15.2% | | 14.1% | |
| Tax rate | 21.6% | 25.8% | | 24.7% | |

### Operating parameters

| | Q1FY24 | Q1FY23 | YoY | Q4FY23 | QoQ |
|---|---|---|---|---|---|
| **JLO rooms** | | | | | |
| – Occupancy | 73% | 75% | | 78% | |
| – ARR | 5,087 | 4,769 | 7% | 5,227 | -3% |
| – RevPAR | 3,714 | 3,577 | 4% | 4,077 | -9% |
| – Room count | 1,238 | 1,092 | 13% | 1,238 | 0% |
| **Managed rooms** | | | | | |
| – Occupancy | 54% | 56% | | 64% | |
| – ARR | 3,747 | 3,619 | 4% | 3,941 | -5% |
| – RevPAR | 2,023 | 2,027 | 0% | 2,522 | -20% |
| – Room count | 4,395 | 3,454 | 27% | 4,388 | 0% |

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## Key takeaways from the management interaction

- Several branded players have started adding greenfield capacities after FY22, and these capacities will come on stream after FY25. Demand remains strong on robust domestic leisure travel, gradual growth in MICE demand, resumption of larger-scale weddings after the lifting of COVID-related restrictions, and upcoming international events. Given the favourable demand-supply dynamics for another two years, ARR will grow on robust occupancy levels.
- The management expects to see a 10% YoY growth in ARR in H2FY24.
- To capitalise on sectoral tailwinds, it is planning to add another ~600 rooms by FY24-end, which will take total inventory to ~6,200 rooms. By FY25-end, it plans to boost inventory to ~8,000 rooms. We conservatively estimate ~7,000 rooms by FY25-end. Around 80%/20% of the additions will be under management contracts/revenue sharing leases.
- ROHL has signed 25 hotels and is targeting another 25 signings, all of which will come on stream in FY25. This will augment inventory by ~2,000 rooms.
- A part of the inventory at ROHL's Mysuru hotel was under renovation in Q2FY24, which impacted revenue by ~INR3cr. ROHL incurred ~INR2cr for renovating these rooms, which was booked in Q2FY24 itself. In all, renovations impacted profit by ~INR5cr in Q2FY24. The management expects improved ARR for the renovated inventory post re-opening.
- The jump in employee cost is largely on account of minimum wage correction across the industry. Additionally, it hired staff to cater to growing room inventory. We expect staff costs to stay elevated.
- The management has revised its revenue guidance for FY24 to INR375cr from INR400cr stated earlier. The guidance includes revenue from one of its associates, Ksheer Sagar Developers, which runs the Jaipur hotel. Excluding the associate, it expects to clock a revenue of INR340cr in FY24.
- Managed rooms saw lower occupancy levels vis-à-vis JLO rooms as ROHL is aggressively signing hotels under management contracts. Newly added hotels typically require six-to-nine months to reach healthy occupancy levels. Mature hotels (~2,500 rooms) are enjoying over 75% occupancy.
- The management has guided at a capex of ~INR45cr for FY25 (Goa hotel expansion/maintenance: INR25cr/INR20cr).
- ROHL is actively looking out for buyers to sell its stake in Multihotels. It expects to realise ~INR20cr out of this sale. It had invested ~INR8cr to acquire the company in 2008.
- In Q2FY24, ROHL purchased the shares of its JV partner in Icon Hospitality Pvt. Ltd., which houses the Central Bengaluru hotel, as the operations are now turning profitable. As a result, we see a shift of 130 rooms from JV to owned in Q2FY24.

## Revenue mix

| Year to March | Q1FY24 | Q1FY23 | YoY | Q4FY23 | QoQ |
|---|---|---|---|---|---|
| **Segmental revenue mix *** | | | | | |
| – Room rent | 39 | 36 | 8% | 38 | 1% |
| – F&B | 25 | 21 | 21% | 24 | 6% |
| – Management fees | 6 | 5 | 34% | 7 | -14% |
| – Other services | 2 | 2 | 34% | 10 | -76% |
| **Asset-wise revenue mix *** | | | | | |
| - Owned | 19 | 20 | 4.7% | 20 | -6.9% |
| - Fixed and revenue share lease | 27 | 20 | -25.3% | 28 | -2.2% |
| - JV/Associate | 20 | 18 | -9% | 21 | -3.9% |
| - Management contracts | 6 | 5 | -25.3% | 7 | -5.6% |

*includes revenue from associate companies

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## Valuation

We value ROHL at 12x FY25E EV/EBITDA to arrive at our TP of INR498 (earlier INR549). Since FY16, its one-year forward EV/EBITDA ratio has been in the 4–20x range. The stock trades at 6.6x FY25E EV/EBITDA. During FY16–20 (i.e., in years with healthy industry performance), the stock traded in the 12–17x one-year forward EV/EBITDA. We expect the re-rating to continue and value the stock at 12x one-year forward EV/EBITDA (at the lower end of its historical trading range in an upcycle). Our optimism on the stock is driven by: i) favourable demand-supply dynamics, ii) healthy EBITDA growth, iii) strong cash flow, iv) strategic expansion of its product portfolio, and v) a sizeable valuation gap against its peers.

| Particulars | Amount (INR cr) |
|---|---|
| EV based on 12x FY25E EV/EBITDA | 1,359 |
| Less: Net debt as of FY25E | -32 |
| Less: Minority interest as of FY25E | 24 |
| **Total** | **1,366** |
| Number of outstanding shares (cr) | 3 |
| **Target price (INR)** | **498** |
| **CMP (INR)** | **282** |
| **Upside** | **76%** |

## Revision in estimates

| Particulars | Earlier estimates | | Revised estimates | |
|---|---|---|---|---|
| | FY24 | FY25 | FY24 | FY25 |
| Revenue | 319 | 437 | 319 | 437 |
| EBITDA | 87 | 124 | 81 | 113 |
| EBITDA margin | 27.2% | 28.4% | 25.4% | 25.9% |
| PAT | 56 | 84 | 51 | 76 |
| EPS | 21 | 31 | 20 | 28 |

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## Financials

**Income Statement** (INR cr)

| Year to March | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|
| Income from operations | 139 | 264 | 319 | 437 |
| F&B consumed | 17 | 27 | 26 | 43 |
| Employee cost | 35 | 56 | 78 | 101 |
| Other expenses | 64 | 99 | 134 | 180 |
| Total operating expenses | 116 | 182 | 238 | 323 |
| **EBITDA** | 23 | 82 | 81 | 113 |
| Depreciation and amortisation | 19 | 18 | 23 | 25 |
| EBIT | 4 | 64 | 58 | 88 |
| Interest expenses | 16 | 16 | 5 | 4 |
| Other income | 17 | 16 | 16 | 16 |
| Exceptional item | 25 | - | - | - |
| Profit before tax | 30 | 64 | 69 | 101 |
| Provision for tax | 3 | 17 | 17 | 25 |
| Profit after tax | 27 | 47 | 51 | 76 |
| Share of minority shareholders in profit | 3 | - | - | - |
| **Adjusted profit after tax** | 7 | 49 | 54 | 78 |
| Shares outstanding | 3 | 3 | 3 | 3 |
| Adjusted EPS | 3 | 18 | 20 | 28 |

**Common size metrics as a percentage of net revenue**

| Year to March | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|
| Operating expenses | 83 | 69 | 75 | 74 |
| Depreciation | 14 | 7 | 7 | 6 |
| Interest expenditure | 12 | 6 | 2 | 1 |
| EBITDA margin | 17 | 31 | 25 | 26 |
| Net profit margin | 5 | 19 | 17 | 18 |

**Growth metrics (%)**

| Year to March | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|
| Revenue | 71 | 90 | 21 | 37 |
| EBITDA | 307 | 257 | -1 | 40 |
| PBT | 112 | 1,220 | 8 | 47 |
| Net profit | 126 | 613 | 9 | 45 |
| EPS | 126 | 613 | 9 | 45 |

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**Balance Sheet** (INR cr)

| As of March 31 | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|
| Equity share capital | 27 | 27 | 27 | 27 |
| Reserves and surplus | 98 | 146 | 186 | 250 |
| Shareholders' funds | 125 | 173 | 213 | 277 |
| Total debt | 80 | 75 | 33 | 21 |
| Other long-term liabilities | 66 | 81 | 32 | 32 |
| Deferred tax liabilities | -8 | -7 | -7 | -7 |
| Minority interest | 22 | 24 | 24 | 24 |
| **Sources of funds** | **285** | **347** | **296** | **348** |
| Gross block | 385 | 421 | 452 | 503 |
| Depreciation | 193 | 215 | 238 | 263 |
| Net block | 193 | 206 | 214 | 241 |
| Capital work in progress | 0 | 1 | 1 | 1 |
| Total fixed assets | 193 | 207 | 215 | 241 |
| Investments | 24 | 27 | 27 | 27 |
| Inventories | 2 | 2 | 3 | 5 |
| Sundry debtors | 19 | 32 | 43 | 57 |
| Cash and equivalents | 47 | 71 | 26 | 53 |
| Loans and advances | 31 | 11 | 11 | 11 |
| Total current assets | 123 | 143 | 109 | 152 |
| Sundry creditors and others | 67 | 68 | 92 | 109 |
| Provisions | 2 | 2 | 3 | 4 |
| Total current liabilities and provisions | 69 | 70 | 95 | 113 |
| Net current assets | 54 | 73 | 13 | 39 |
| Other assets | 38 | 67 | 67 | 67 |
| **Uses of funds** | **285** | **347** | **296** | **348** |

**Ratios**

| Year to March | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|
| RoAE (%) | 5.2 | 33 | 27.9 | 31.7 |
| RoACE (%) | 1.5 | 28 | 23.5 | 32.5 |
| Inventory days | 5 | 3 | 3 | 4 |
| Receivable days | 50 | 44 | 49 | 48 |
| Payable days | 101 | 51 | 70 | 65 |
| Cash conversion cycle (days) | -46 | -4 | -18 | -13 |
| Debt/equity ratio | 0.6 | 0.4 | 0.2 | 0.1 |
| Debt/EBITDA ratio | 3.5 | 0.9 | 0.4 | 0.2 |
| Adjusted debt/equity ratio | 0.3 | 0 | 0 | -0.1 |

**Valuation parameters**

| Year to March | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|
| Diluted EPS (INR) | 10.7 | 17.9 | 19.6 | 28.4 |
| Diluted P/E ratio (x) | 27.6 | 16.5 | 14 | 9.4 |
| Price/BV ratio (x) | 6.2 | 4.5 | 3.6 | 2.8 |
| EV/EBITDA ratio (x) | 16.1 | 8.2 | 9.7 | 6.6 |

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