



# Royal Orchid Hotels: On The Cusp of Graduation



## Regenta Inn Kolkata

Regenta Inn is located 10 minutes away from both the International & Domestic airport offering premium accommodations, all-day dining and MICE meeting spaces beside the hotel.

## Regenta Inn Bangalore

Regenta Inn is the latest brand to be part of the following offering budget friendly accommodations, all day dining options and shuttle services to the airport for complete convenience and traffic free commute.



## Regenta Resort Vanyamahall, Ranthambore

Regenta Resort, is an ideal destination for special occasion like Weddings, Conferences & Events and it's architecture complements the beauty of the event. The resort has abundant lawns to accommodate 3000 guests. The resort also offers continental, muglia and Rajasthani cuisine.

## Regenta Inn Vadodara

The hotel is located inside the Grand VED Transcube Bus Terminal and close to the airport. The campus consists of PVR, Multiplex, shopping centres, a flea market, kids Zone and a thematic Food court.



**August 18<sup>th</sup>, 2017**

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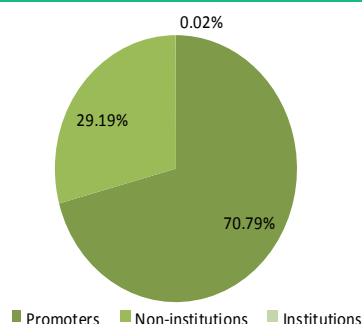
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# Royal Orchid Hotels Ltd: On the cusp of graduation

## Market Data

Current market price (INR):	109
52-week high/low (INR)	60.40-127.55
Target price (INR)	161
Upside potential	48%
Market Capitalization (INR-Cr)	296.85
Recommendation	<b>Strong Buy</b>

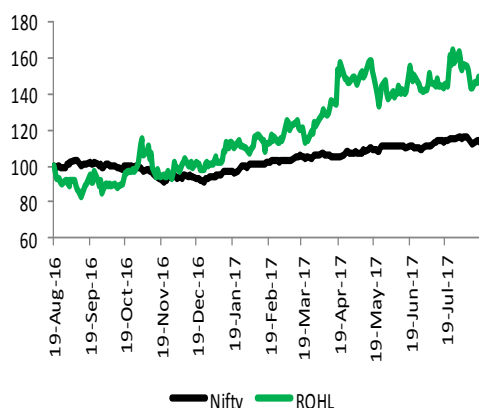
## Shareholding Pattern



## Stock Scan

BSE Code	532699
NSE Code	ROHLTD
Bloomberg Ticker	ROHL.IN
Reuters Tickers	ROHL.BO
Face Value (INR)	10
Diluted EPS FY17 (INR)	0.91
Current P/E	119x
Average P/E	N/A
Beta vs Sensex	1.66
Debt/Equity	0.55
Average Daily Volumes	62,596

## Stock Return Vs. Nifty Return Chart



## Royal Orchid Hotels Limited (ROHL) – On the cusp of graduation

We initiate coverage on Royal Orchid Hotels (ROHL) with a **Strong Buy** rating. Our rating underpins the company's rapid expansion in the hospitality space, its rich property portfolio, new hotel launches and strong management bandwidth.

## Investment highlights

### Diversified portfolio across categories and locations:

The Company has 42 operational properties with a collective inventory of 3,159 rooms spread over 28 cities. The properties are spread across wide price categories ranging from 5-star to budget category rooms targeting leisure as well as business travelers. ROHL is all set to reach to 50 properties by the end of FY18.

### Clear focus on management contracts implying asset light strategy:

The Company started its operations through the ownership model by setting up two hotels in Bangalore. However, over the past 3-4 years, it is increasingly focusing on expanding operations through management contracts and leasing rather than owning the properties. Under management contract, the company charges 2-3% of the revenue as management fees and an incentive fee which varies from 6%-8% of the gross operating profit. ROHL bears no expenses and even the onus of renovation of the property is on the property owner. Out of the 3,159 room keys, 2,112 rooms are under management contracts.

### Reduction in GST rate to positively impact the Company:

Royal Orchid Hotels used to pay 21% tax under the pre-GST regime. The GST council has reduced the GST rate on restaurants in five-star and luxury hotels (room rent up to INR7,500) from 28% to 18%, bringing it on par with standalone air-conditioned restaurants. This move is expected to benefit the Company as a majority of Royal Orchid's rooms fall under this bracket.

## Exhibit: Financial Performance at a glance (consolidated)

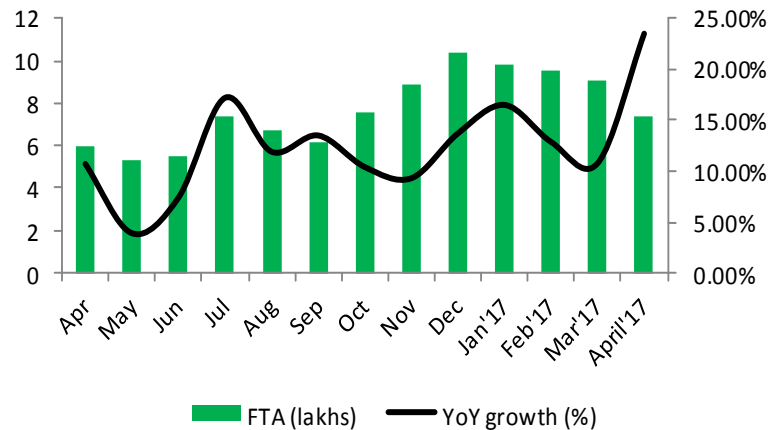
Particulars (INR Cr)	FY 2015	FY 2016	FY 2017	FY 2018E	FY 2019E
Revenue from operations	147.75	158.53	162.53	175.53	193.09
Growth (%)	4.02%	7.30%	2.52%	8.00%	10.00%
EBITDA (inc. other income)	22.41	24.70	27.47	29.82	34.03
EBITDA Margins (%)	15.17%	15.58%	16.90%	16.99%	17.63%
Net Profit	-6.77	-3.63	1.44	3.94	9.74
Net Profit Margins (%)	-4.58%	-2.29%	0.89%	2.24%	5.04%
Net Profit Growth (%)	N/A	N/A	-60.33%	173.61%	147.21%
EPS	-1.42	-0.47	0.92	1.82	3.95
BVPS	57.42	57.42	59.28	60.20	62.34
P/E	N/A	N/A	124.00	59.89	27.60
P/BV	0.67	1.20	1.84	1.81	1.75
EV/EBITDA	8.03	9.93	13.24	11.69	8.18
ROE (%)	N/A	N/A	0.90%	2.46%	6.10%

Source: Bloomberg, SMIFS Research

# Hospitality Industry: Third largest forex earner in India

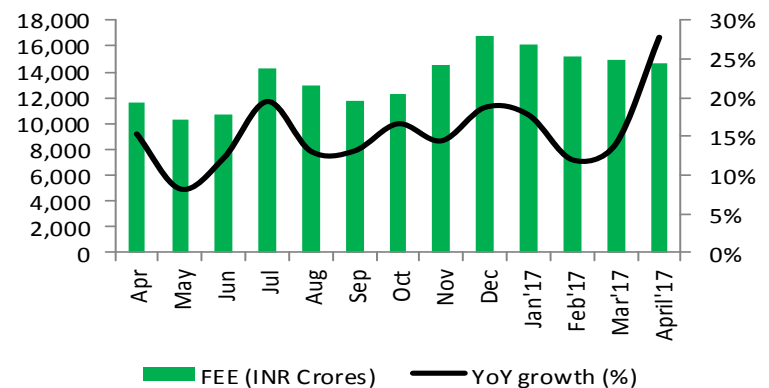
- The Indian travel and tourism industry is one of the most flourishing industry in India. For India, travel and tourism is the third largest foreign exchange earner. As per the World Travel and Tourism Council's (WTTC) Economic Impact Report (India), 2016, the total contribution of travel & tourism to the Indian GDP was INR83,090 Crore (6.3% of GDP) in 2015; this is predicted to rise to INR1,83,000 crore (7.2% of GDP) by 2026. The reason behind the rapid growth of hotels and restaurant is the ever rising foreign tourist arrival, greater spending power and changing demographics within the country.
- With the increasing number of working women, double-income households are on the rise. This has further led to an increase in disposable income. The increased propensity to spend by the middle class and the growing affluence of the India's upper middle and high income classes have led to growth in the tourism sector in India.
- The Government has also played a pivotal role in making India an attractive tourist destination through visa on-arrival enabled electronic travel authorization for 43 countries, which is expected to be extended to 150 countries in a phased manner. The government allocated INR1,840.77 crore to the tourism ministry in the budget for 2017-18, vis-à-vis the revised estimates of INR1,590.32 crore for the previous fiscal.
- On top of foreign tourist arrival, domestic tourism is also showing robust trends. Indian states reported 161.35 Crore visits in 2016, a growth of 12.68%, year over year.

## Foreign Tourist Arrival grew by 11% YoY in March 2017



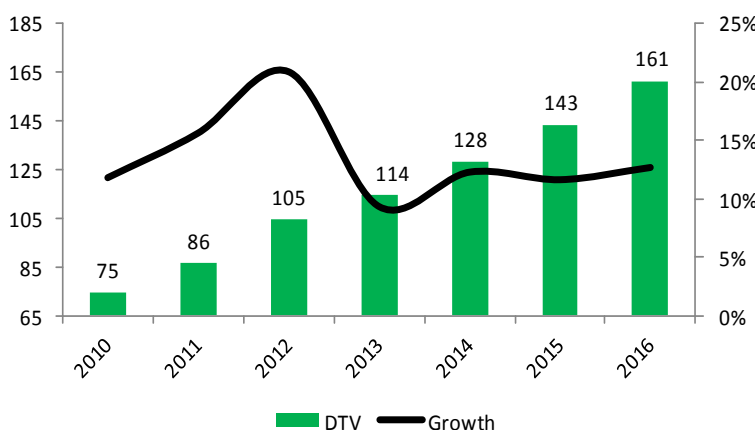
Source: Ministry of Tourism

## Foreign exchange earnings continues to improve



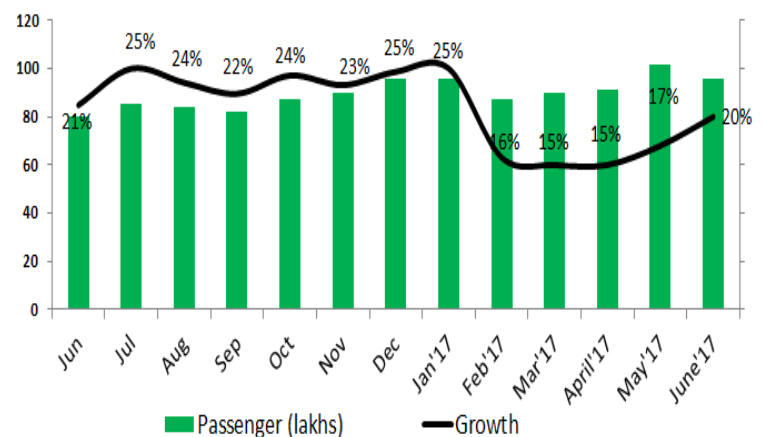
Source: Ministry of Tourism

## Domestic Tourists Visits (Crores)



Source: Ministry of Tourism

## Air passenger traffic grew by 17.36% YoY in May 2017



Source: DGCA

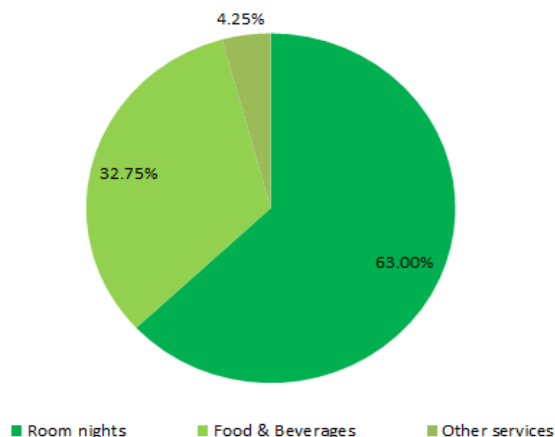
# Royal Orchid: Company Overview

- Royal Orchid Hotel Limited (ROHL) is the flagship company of the Royal Orchid Group of Hotels. The hotel chain has been in the business since the past 30 years, it comprises 5 and 4 star properties for business and leisure travellers and has an inventory of 3,159 rooms spread across 38 operational properties pan India. The asset value of the current hotels including (joint ventures) stands at INR500 Crore approximately.
- The company operates through mix of owned & leased properties, management contracts and JVs with recently focus more shifting towards asset light management contract model.
- It is present across all the major business destinations in the country and has strategy to explore tier II and pilgrimage destinations. It operates under two brands: Royal Orchid and Regenta with presence across categories of 5-star business and leisure hotels, 4-star and long stay hotels, resorts and heritage hotels etc.
- The Company's sales offices are spread across India and the pan India sales team comprises of 100 executives. ROHL also provides training to its employees through its school of hotel management. Thereby ensuring quality service throughout its properties
- Royal Orchid has a frequent 'Guest Loyalty Program' under which it rewards long time guests across India, with a range of exciting offers and special privileges. Membership of the Royal Rewards program comes in 3 tiers; Silver, Gold & Platinum. The Company currently has over 1,20,000 loyalty members, in addition to the loyalty program, ROHL also has bookers program for representatives booking hotels on behalf of corporate clients. It has 3,500 bookers under this program.

## The value of the hotels stands at INR500 Crore

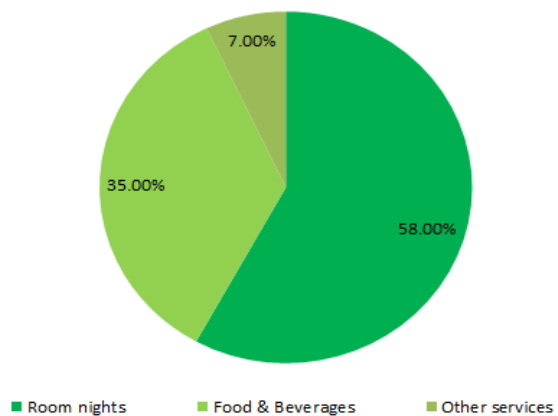
Business Model	MC	JV	Owned	Leased	Total Keys
5-star Royal Orchid	129	139	195	-	463
4-Star central	1,431	130	-	268	1,829
Resort/Heritage	393	73	-	188	654
Convention/MICE	-	54	-	-	54
Serviced Apartments	159	-	-	-	159
<b>Total keys</b>	<b>2,112</b>	<b>396</b>	<b>195</b>	<b>456</b>	<b>3,159</b>

Revenue breakdown by segments (2010)



Source: Company

Revenue breakdown by segments (2017)



Source: Company

## Royal Orchid: Company Overview (Cont'd)



**Mr C K Baljee (Chairman and M.D.)** – An MBA from IIM, Ahmedabad, Chender Kamal Baljee is the Founder and Managing Director of Royal Orchid Hotels. He has over four decades of experience in hospitality and he is known to be very responsive and promptly replies to customer feedbacks. Chender has been recently featured in the IIM Ahmedabad book "**Stay Hungry Stay Foolish**" which chronicles the rise of 25 entrepreneurs. He is an active member of the All India Management Association, the Greater Mysore Chamber of Commerce and Industry, and the Confederation of Indian Industry. He is a certified Hotel Administrator from American Hotel and Lodging Association (AH & LA).

**Mr Amit Jaiswal (CFO)** – Mr Jaiswal is serving ROHL for more than 8 years and has risen through the ranks to be the CFO since 2015. He has vast experience of over two decades in industries like finance, manufacturing, Hotel etc.



## Guest Feedbacks



Trip Advisor has given Royal Orchid Hotels (Bangalore) a "**Certificate of Excellence**", which is given to accommodations, attractions and restaurants that consistently earn great reviews from travellers. It had a rating of 4 out of 5. Out of 881 reviews, 75% of the guests had given either 'Excellent' or 'Very Good' rating.



Make my Trip has given Royal Orchid Central Grazia (Mumbai) a rating of 4.2 out of 5. Out of 314 reviews, 70% of the guests had given either 'Excellent' or 'Very Good' rating.



Yatra.com, the Indian online travel agency has given Royal Orchid Central, Shimoga a rating of 4 out of 5.



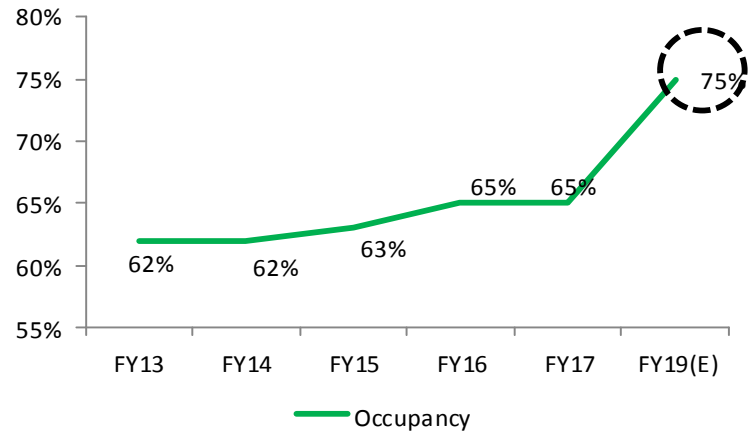
Trivago, the top hotel price comparison site has given Royal Orchid Brindavan Garden, Mysore a rating of 79 out of 100.



# Operational Highlights: Turned around, now ready for take off!

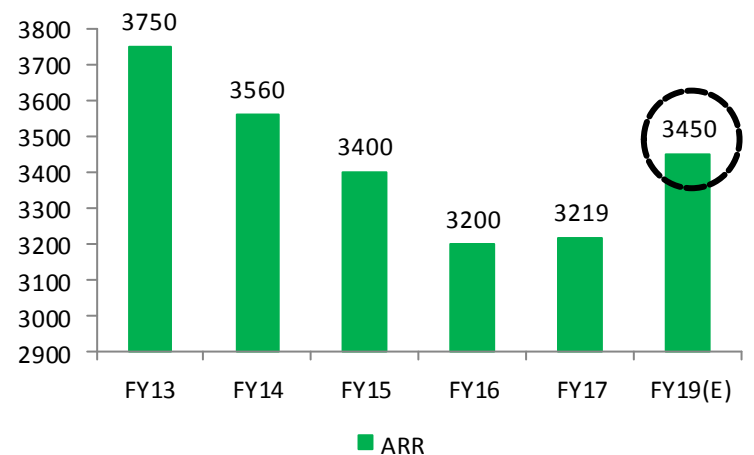
- The business was struggling since FY12 primarily due to the combined effect of increased number of room availability, economic downturn and higher finance costs. It filed for **Corporate Debt Restructuring (CDR)** in FY13.
- The combined effect of economic downturn, lower business sentiments, coupled with delayed project implementation and high borrowing costs had an impact on financials of the Company.
- However, the management decided to sell its 159 room Hyderabad Hotel- Regenta One for a consideration of INR180 Crore during October, 2013. This helped it pare 80% of debt under CDR in FY14 itself and came out of CDR in FY15 by repaying the balance outstanding debt.
- Over the past one year, the management has been concentrating on reorganizing the Company's debt. The management has swapped the debts of the parent company for long-term debts with Tourism Finance Corporation. As a result, its debt have gone from a five-year to 10-year repayment period. The interest rate have also come down from about 16% to 13.50%, as a result the interest expense has come down from INR14.92 Crore in 2015 to INR12.15 Crore in 2016. The management has confirmed in the Q1 FY18 conference call that ROHL is in the process of negotiations to further reduce the interest rates.
- Business has shown a marginal turnaround in FY17 and the Company has turned profitable (at consolidated level) after five years. The business is expected to perk up from FY18 considering improving occupancy, insignificant Capex and lower finance costs. The management has set a robust target of 50 properties by the end of FY18.

## Occupancy above 70% would yield higher room rents



Source: Company, S&M Research

## Average room is inching up after bottoming out in FY16



Source: Company, S&M Research

## High Growth – Focusing on Management Contracts

Adding Noof Keys	FY16	FY17
Management Contracts	1738	2112
JV	396	396
Owned (Domestic)	195	195
Owned (Owned)	-	-
Leased	456	456
<b>Total KEYS</b>	<b>2785</b>	<b>3159</b>

Source: Company

# The business is expected to perk up from FY18

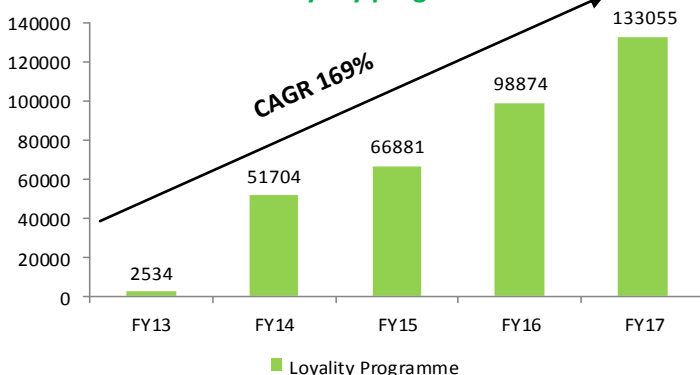
- Asset Light Business Model (insignificant Capex):** The Company started its operations through the ownership model by setting up two hotels in Bangalore. However, over the past 3-4 years, it is increasingly focusing on expanding operations through management contracts and leasing rather than owning the properties. Under management contract, the company charges 2-3% of the revenue as management fees and an incentive fee which varies from 6%-8% of the gross operating profit. Out of the 3,159 room keys 2,112 rooms are under management contracts. Under this model, ROHL bears no expenses and even the onus of renovation of the property is on the property owner. In FY17, its consolidated revenues stood at INR162 Crores, apart from this, its revenues from managed properties stood at INR128 Crore. This is expected to go up significantly in the near future as all the 12 properties which it plans to add this fiscal would be under management contracts.
- Improving Occupancy:** Currently, ROHL is sitting at an occupancy of 69% across all of its hotels. However, some of its hotels such as Royal Orchid Central Pune and Royal Orchid Central Grazia, Navi Mumbai, the occupancy is close to 85%. Some of the new properties which have been added during the past two years haven't achieved high occupancy which is averaging out the total group occupancies. This is poised to turnaround in the coming year when the occupancy goes up and reaches an optimum level. The company is planning to develop its land in Powai (Mumbai) under a joint development model (no upfront capex). Looking at the current occupancy rate of its property in Mumbai, this seems to be a prudent decision, especially considering the fact that the hospitality industry is going through an up cycle.
- Lower Finance Costs:** 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. The interest rates have also come down from about 16% to 13.50%, as a result the interest expense has come down from INR14.92 Crore in 2015 to INR12.15 Crore in 2016.

## Pan India Presence



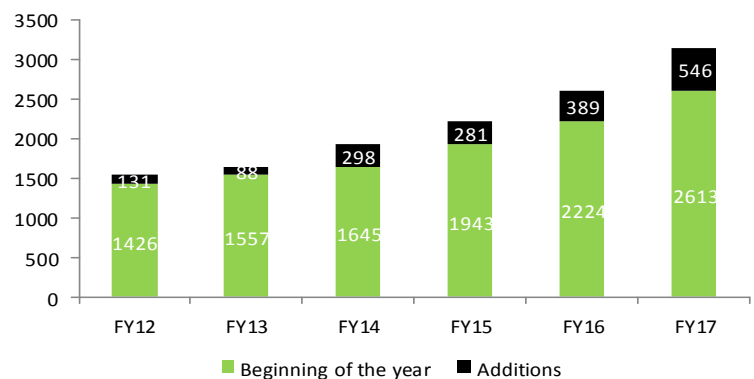
Present in **28** cities **10** states with **3,159** no of Keys **1.33** Lakh Royal reward members.

## ROHL has build a good base of loyal customers through its loyalty program



Source: Company

## Growth – Rooms & Properties



Source: Company



## Financial analysis (historical)

Consolidated (INR Crore)	2010	2011	2012	2013	2014	2015	2016	2017
Revenues from operations	119.27	152.13	160.56	160.30	142.04	147.75	158.53	162.53
Other Income	3.52	2.61	1.86	2.64	5.90	3.30	4.36	7.06
EBITDA (Excl OI)	25.30	39.46	26.15	18.10	21.99	19.09	20.34	20.40
EBITDA Margin	21.21%	25.94%	16.28%	11.29%	15.48%	12.92%	12.83%	12.55%
PAT	6.98	12.22	-2.63	-7.75	-37.49	-3.87	-1.30	2.47
Net profit margin	5.85%	8.03%	-1.64%	-4.83%	-26.40%	-2.62%	-0.82%	1.52%

Source: Company

### Observations:

#### 1. Revenue & Profitability: Subdued performance over the past seven years

Over the past seven years, Royal orchid's revenues and EBITDA have grown at a CAGR of 4.5% and -4.13%. The Company witnessed a turnaround in FY17, as it reported a consolidated profit of INR2.47 crore, after bleeding for the past five years.

#### 2. Significant surge in other income: CAGR of 10.5%

Although the top-line growth has been subdued but the Company's other income has more than doubled over the past three years. Over the past seven years, its other income has grown at a CAGR of 10.5%. We asked the management about the composition and the sustainability of the other income. The biggest component in the other income is the debenture interest received from subsidiary (INR3.5 crore) and dividend income (INR1 crore). The Company also receives interest on fixed deposits (INR68 lacs) and it also has earns miscellaneous income (INR2 crore).

The management clarified that the growth in other income is sustainable as a significant portion of the Company's investment in its subsidiary has been converted into debentures, so the interest on these debentures will continue to accrue in the future and its subsidiaries are becoming profitable, so it is able to get its return on investment from the subsidiaries in the form of the dividend income.

## Financial analysis (historical)

### Taxes paid

INR Crore	2010	2011	2012	2013	2014	2015	2016	2017
PBT (A)	8.86	17.08	-2.43	-12.96	-6.45	-5.79	-2.80	2.19
Tax paid (B)	3.93	5.61	2.51	-0.06	-3.84	0.99	0.84	0.78
Tax rate (B/A)	44.36%	32.85%	N/A	N/A	N/A	N/A	N/A	35.62%

### Interest coverage

INR Crore	2010	2011	2012	2013	2014	2015	2016	2017
EBITDA (Excl OI)	25.30	39.46	26.15	18.10	21.99	19.09	20.34	20.40
Interest expense	7.59	11.28	16.29	17.23	20.50	15.57	14.92	12.15
Interest Coverage	3.33	3.50	1.61	1.05	1.07	1.23	1.36	1.68

### Comparative Analysis

Company (Consolidated)	Revenue CAGR (2010-17)	EBITDA CAGR (2010-17)	PAT Margin	D/E ratio
Royal Orchid Hotels	4.50%	-4.13%	1.52%	0.55
Kamat Hotels	9.00%	9.00%	24.00%	6.00
The Byke Hospitality (about 50% of the top-line is derived from room chartering business)	51.00%	60.00%	11.73%	0.05

- In January 2017, Louvre Hotels Group, the second-largest in the hospitality industry in Europe, bought a majority stake (75%) in Sarovar Hotels for around INR336 Crore (this puts the valuation of Sarovar Hotels at INR448 Crores). Currently, the hotel chain has about 6,000 rooms in over 50 cities across India.
- Another hospitality chain, Lemon Tree Hotel has entered into the upscale extended stay segment. It is planning to add up to 15 hotels with over 1,200 rooms across India by the end of next fiscal. Lemon Tree, which has 40 hotels with 4,300 rooms in 24 cities across India, is looking to expand to Siliguri, Mumbai, Patna, Amritsar, Gangtok, Jammu, Lucknow, Kolkata and Coimbatore for its new properties.

## Financial analysis (historical)

### Debt/Equity Ratio

INR Crore	2010	2011	2012	2013	2014	2015	2016	2017
Long-term Debt	225.92	226.66	224.58	227.58	81.594	69.97	64.52	89.61
Total Equity	210.51	218.17	238.38	207.90	171.42	162.67	159.82	163.58
D/E	1.03	1.08	1.34	1.24	0.78	0.56	0.52	0.55

### Current Ratio

INR Crore	2010	2011	2012	2013	2014	2015	2016	2017
Current Assets	111.83	36.52	41.60	40.93	62.47	39.00	36.57	49.65
Current Liabilities	24.67	55.69	141.68	106.92	106.93	78.56	81.27	71.64
Current ratio	4.53	0.66	0.29	0.38	0.58	0.50	0.45	0.69

The Company's Debt/Equity ratio has been reducing consistently from 1.34 in 2012 to 0.55 in 2017. However, during the same period (2012-17), the net profit margins of the Company worsened from -1.62% to -3.87% in 2015.

## Financial analysis (historical)

### Cash Flow Statement

INR Crore	2010	2011	2012	2013	2014	2015	2016	Total
Cash flow from operating activity	33.65	43.91	25.32	48.86	15.00	26.08	23.30	216.12
Cash flow from investing activity	-98.42	-92.31	-57.03	0.96	165.39	-3.54	-7.21	-92.16
Cash flow from financing activity	100.20	6.48	31.23	-59.12	-154.83	-45.62	-16.36	-138.03
Net cash flow	35.43	-41.92	-0.48	-9.31	25.56	-23.08	-0.27	-14.07

### Cumulative PAT Vs Cumulative CFO

INR Crore	2010	2011	2012	2013	2014	2015	2016	Total
Cash flow from operations	33.65	43.91	25.32	48.86	15.00	26.08	23.30	216.12
PAT	6.98	12.22	-2.63	-7.75	-37.49	-3.87	-1.30	-33.84

- Historically, ROHL has been incurring net losses (past five years), but if we consider its cash flow from operations (cash profits), we see that its cash profits are higher than the accounting profits (PAT). This is a good sign as this implies that the company is actually generating more money than what is being reported as PAT in the P&L.
- During 2010-2013, the company was on an investment phase, which actually impacted its net cash flows, however, deleveraging began from FY2014 onwards. Going ahead, we do not expect ROHL to go for any significant capex and at the same time cash flow from operating activity is expected to perk-up. We estimate that the company would generate a cash flow from operations of INR38-42 Crores by FY19. This level of cash flows from operations would enable the company to reduce its debt burden significantly.

## On The Cusp of Graduation: Increasing occupancy and ARR coupled with new GST rate bodes well for the company.

### **Reduction in GST rate to positively impact the Company:**

Royal Orchid Hotels used to pay 21% tax under the pre-GST regime. The GST council has reduced the GST rate on restaurants in five-star and luxury hotels (room rent up to INR7,500) from 28% to 18%, bringing it on par with standalone air-conditioned restaurants. This move is expected to benefit the Company as a majority of Royal Orchid's rooms fall under this bracket.

### **Re-opening of the old airport in Bangalore to immensely benefit ROHL:**

The Karnataka government has sought the Centre's nod to allow short-haul flights within Karnataka from the old Airport to facilitate tourism in the State. This move is expected to benefit Royal Orchid as its flagship hotel, Hotel Royal Orchid, Bangalore is located in close proximity to the HAL Airport. Pawan Hans has already started a helicopter service from the Bangalore airport to the old HAL airport.

### **Joint development of Mumbai Land and sale of Tanzania land parcel to boost the bottom line:**

The company is planning to develop its land in Powai, Mumbai under a joint development model (no upfront capex). Looking at the current occupancy rate of its property in Mumbai (85%). This seems to be a prudent decision, especially considering the fact that this is an up cycle for the hospitality industry.

Apart from this, it has a land parcel in Tanzania bought a few years ago. This non-core asset has the potential to garner INR25-30 Crore. With current debt of INR90 crore, disposal of the non-core asset will de-leverage the Company's balance sheet and could boost the earnings as finance cost of INR12.15 crore per annum would come down substantially.

### **Recommendation:**

Asset light business model, rapid expansion of properties, favorable taxation structure under GST, turnaround in business operations coupled with ever increasing foreign tourist arrival and robust air passenger traffic bodes well for the company. We take into consideration the fact that the asset value of the current properties including (joint ventures) stands at INR500 Crore approximately. We estimate that ROHL would generate a cash flow from operations of INR40 Crores by FY19. We value the company based on the above two facts and arrive at a target price of INR161 i.e of 48% upside from the CMP of INR109.

# Financials (All numbers in INR Crores unless specified)

## Q1 FY18 Conference call highlights

### On operational front

The supply side has stabilized and the demand is picking up in all the markets where ROHL is operating. Hence, the management expects the occupancy levels to inch up.

### Debt

The management is negotiating with the Tourism Finance Corporation to further reduce the interest rates.

### New additions

Added a hotel in Dehradun last month. It has a capacity of 75 rooms. The Company will add 8 properties by this fiscal, taking the total to 50 properties.

### Subsidiaries

Subsidiaries are becoming profitable. Goa property is debt free.

### Land parcels in Mumbai and Tanzania

Tanzania- Talks are going on but it might take some more time.

Mumbai (Powai): Not planning an outright sale. Looking at developing a property jointly.

### On GST

Almost all the hotels are subject to 18% tax rate (21% previously).

Income Statement	FY 2015	FY 2016	FY 2017	FY 2018E	FY 2019E
<b>Net Revenue</b>	147.75	158.53	162.53	175.53	193.09
Expenses	19.09	20.75	20.23	22.82	25.10
<b>Gross Profit</b>	128.66	137.78	142.3	152.71	167.98
Employee Cost	35.24	36.77	38.65	40.37	42.48
Other Expenses	74.31	80.67	83.24	89.52	98.47
<b>EBITDA</b>	19.11	20.34	20.41	22.82	27.03
Depreciation	14.62	13.89	13.10	13.87	13.87
Interest Expense	15.57	14.92	12.15	10.07	5.62
Other Income	3.30	4.36	7.06	7.00	7.00
<b>Profit before exceptional item</b>	-7.78	-4.11	2.22	5.88	14.54
Exceptional item	2	1.32	N/A	N/A	N/A
Profit before tax & exceptional item	-5.78	-2.79	2.22	5.88	14.54
Total Tax	0.99	0.84	0.78	1.94	4.80
<b>Profit after tax</b>	-6.77	-3.63	1.44	3.94	9.74
Minority interest	2.92	2.34	1.05	1.00	1.00
<b>Adj Profit after tax</b>	-3.85	-1.29	2.49	4.94	10.74
Outstanding shares	2.72	2.72	2.72	2.72	2.72
<b>EPS</b>	-1.42	-0.47	0.92	1.82	3.95

Balance Sheet	FY 2015	FY 2016	FY 2017	FY 2018E	FY 2019E
<b>Equity &amp; Liabilities</b>					
<i>Shareholder's Funds</i>	162.67	159.82	163.58	163.58	163.58
Minority interest	34.43	36.55	27.98	27.98	27.98
Non-current liabilities	69.97	64.53	89.62	74.62	41.62
Current liabilities	78.56	81.27	71.64	71.64	71.64
<i>Total Liabilities</i>	345.63	342.17	352.82	337.82	304.82
<b>Assets</b>					
<b>Non-current assets</b>					
Fixed Assets	250.17	242.35	237.51	237.51	217.51
Goodwill	17.74	17.74	17.74	17.74	17.74
Investments	0.02	0.02	0.02	0.02	0.02
Other non-current assets	38.70	45.49	47.90	47.90	47.90
<b>Current Assets</b>	39.00	36.57	49.65	34.65	21.65
<i>Total Assets</i>	345.63	342.17	352.82	337.82	304.82



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

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CIN : L55101KA1986PLC007392  
email : investors@royalorchidhotels.com

**11.08.2017**

To,  
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Listing Compliance,  
Department of Corporate Services,  
BSE Limited,  
Floor 25, P. J. Towers,  
Dalal Street,  
Mumbai – 400 001  
BSE Scrip Code: 532699

To,  
The Manager,  
Listing Compliance,  
Department of Corporate Services,  
National Stock Exchange of India Limited,  
Exchange Plaza, Plot no. C/1, G Block  
Bandra Kurla Complex, Bandra (E)  
Mumbai – 400 051  
NSE Scrip Symbol: ROHLTD

Dear Sir/Madam,

***Subject: Intimation of Conference Call***

Please find enclosed herewith the presentation presented to the Analysts in the Analyst Meeting which has been held as per intimation given by our letter dated August 08, 2017.

This is for the information and records of the Exchanges.

For **ROYAL ORCHID HOTELS LIMITED**

**RANABIR SANYAL**  
**COMPANY SECRETARY & COMPLIANCE OFFICER**

Encl: a/a

# **Royal Orchid Hotels Ltd**

## **Q1FY18**

### **Results Presentation**



**1 in every 11 people worldwide are  
employed by  
TOURISM SECTOR**



**High Employment Potential Sector**

**Rs 10 Lakhs of Investment creates  
90 Jobs**



**HOSPITALITY & TOURISM**  
**is the largest contributor to GDP in**  
**service sector**





# *ROYAL ORCHID HOTELS LTD*

*Investor Presentation*  
*Q1FY18 Results*

# Discussion Outline

1

## THE TOURISM & HOSPITALITY INDUSTRY

- Size, Opportunity,
- Challenges

2

## ROHL BUSINESS CARD

- Background, Management
- Competitive Advantages

3

## BUSINESS MODEL

- Asset Light Model,
- Generate FCF, High Growth

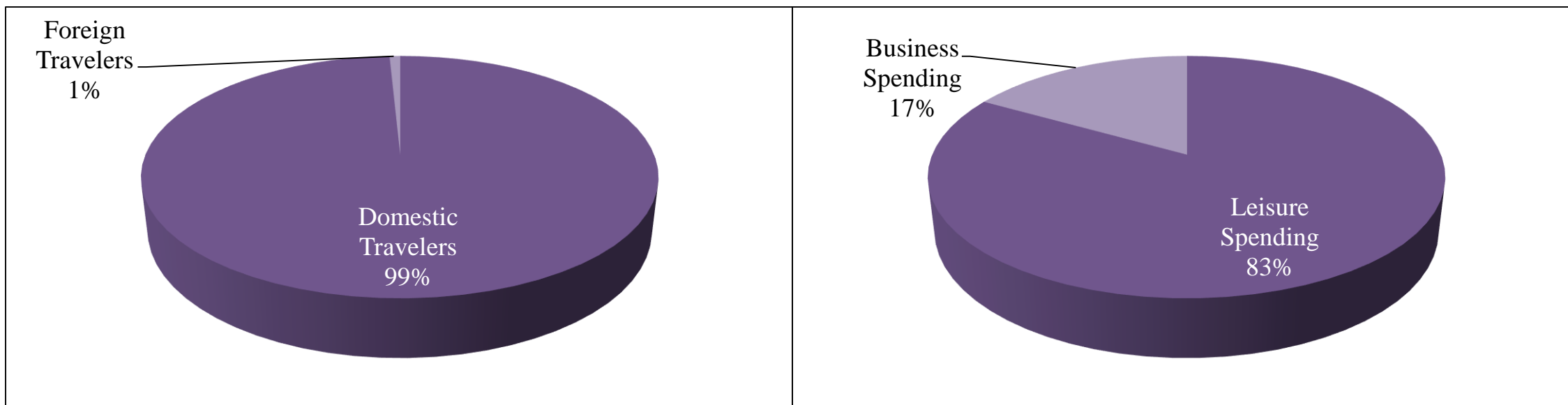
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## FINANCIAL NUMBERS

- Q4 FY17 Results
- Performance Highlights
- FY17 Balance sheet and P & L statements

# Indian Tourism Sector

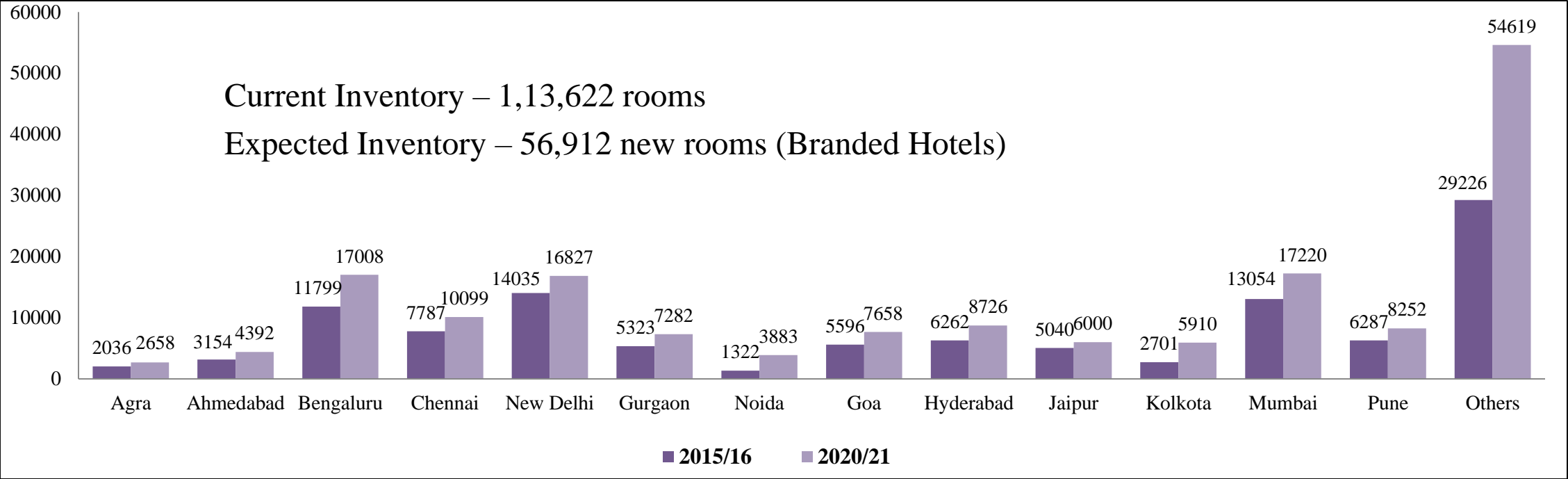
According to the World Travel & Tourism Council's Economic Impact 2017 – India's direct contribution of Travel & Tourism to GDP was INR4,809.8bn (USD71.7bn), 3.3% of total GDP in 2016 and is forecast to rise by 6.9% in 2017, and to rise by 6.8% pa, from 2017-2027, to INR9,948.5bn (USD148.2bn), 3.5% of total GDP in 2027.



Source: Company

**In 2016 India was ranked 3<sup>rd</sup> amongst 184 countries in terms of travel and tourism's total contribution to GDP**

# Huge Opportunity for Branded Hotels



Source: Company

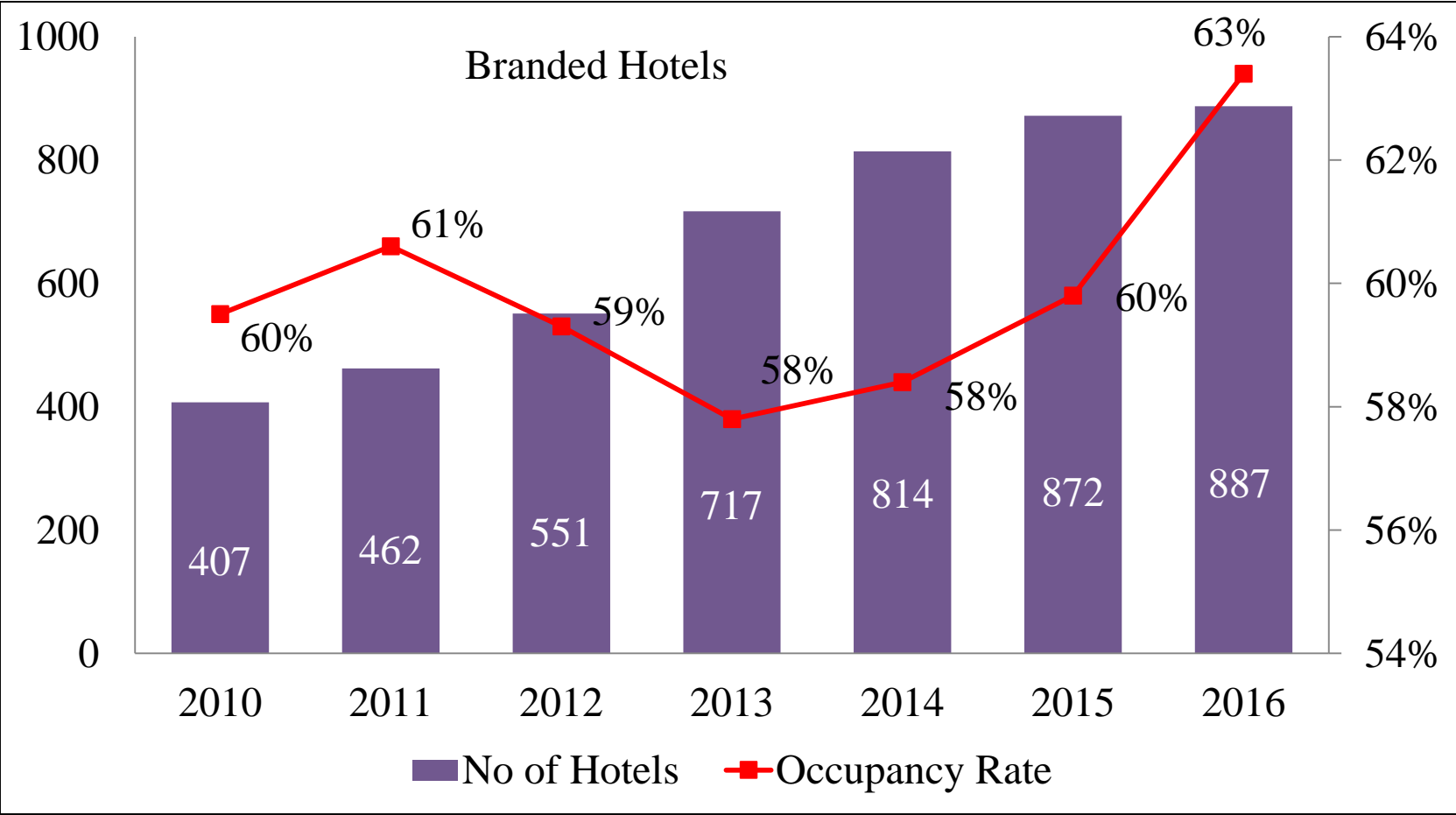
- The E – Tourist Visa launched by the government has seen an increase in the number of tourist visa issued, there were about 10,79,696 tourists visiting India in 2016
- As per Ministry of Tourism, foreign tourist arrivals (FTAs) in India increased 19.5 per cent year-on-year to 630,000 in May 2017
- As per data from Ministry of Tourism, Government of India India's foreign exchange earnings through tourism increased by 32% year-on-year to reach US\$ 2.278 billion in April 2017

## Factors Driving Growth

- Government Spending on Infra
- E- VISA facility
- Raising Middle Class Income
- Growth in Business Travelers
- Booking convenience by Aggregators
- Growth in Low cost Airlines



# Supply Exceeded Demand



Supply	↑
Demand	↓
Occupancy	↓
ARR	↓

Supply exceeded demand leading to drop in occupancy and lower room rates

Source: HVS research

# Hotel Industry – Scalability Issues

## BRAND

- Brand drives Loyal customers membership which is key to profits
- Strong brand spends, need scale to justify. Scale needs a strong brand
- Quality of management at the hotel also a brand differentiator



## CAPITAL INTENSIVE

- High Capital intensive business
- A typical 70 rooms hotel requires min cap-ex of Rs 675 mn– Rs 950 mn for refurbishment/interiors
- Op-ex includes establishment, employee and food & beverages, all upfront costs



## ARR & OCCUPANCY

- Given the nature of business, it is still price sensitive
- Pricing and Quality of service a key driver for loyal customers
- All the other hotels give similar look and feel and service quality. This is where brand plays an important role
- Strong brand along with competitive room rates leads to higher occupancy



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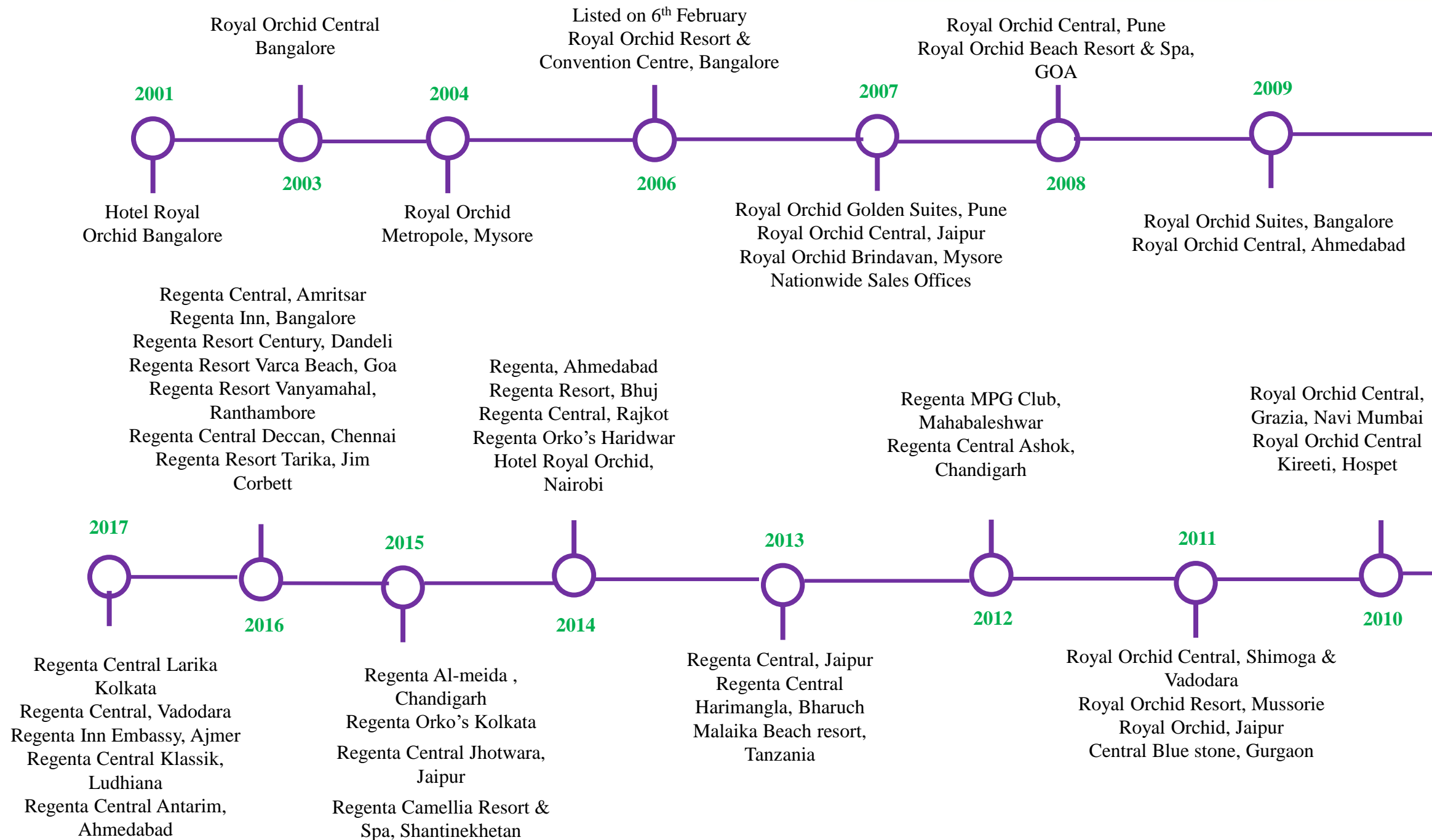
# ROHL – Business Card

- Royal Orchid Hotel Ltd was incorporated in 1986 under the name of Universal Resorts Ltd.
- Promoted by Mr. Chander Baljee, Managing Director
- Engaged in business of Managing Hotels with turnover of Rs 162 crs as on FY17 and Rs 39 crs in Q1FY18. The total turnover including the managed properties turnover is Rs 290 crs as on FY17 and Rs 67 crs in Q1FY18.
- Operates under flagship brands – Royal Orchid, Royal Orchid Central, Royal orchid Suites, Regenta Hotel & Royal Orchid Inn

As on 01 <sup>st</sup> Aug 2017	Units
CMP (Rs)	118.50
Market Cap (Rs cr)	322.72
MCap Free Float (Rs cr)	93.59
52 week high (Rs)	127.10
52 week low (Rs)	60.75
Face Value (Rs)	10
Promoter Holding	70.80%

5 Star	4 Star	Service Apartment	Budget Hotel
<b>Hotel Royal Orchid</b>	<ul style="list-style-type: none"> <li>• <b>Royal Orchid Central</b></li> <li>• <b>Regenta Hotels</b> <ul style="list-style-type: none"> <li>- Regenta Central</li> <li>- Regenta Resorts</li> </ul> </li> </ul>	<b>Royal Orchid Suites</b>	<b>Regenta Inn</b>

# Journey so far...





# Management Team

## Mr. Chander Baljee, Managing Director

Royal Orchid Hotels is promoted by **Mr. Chander Baljee**, a P.G Graduate from **Indian Institute of Management (Ahmedabad)** with over 4 decades of experience in the hospitality industry.

## Mr. Amit Jaiswal, Chief Financial Officer

Mr. Amit Jaiswal is a Bachelor of Commerce Graduate from Calcutta University and an MBA. He has vast experience of 24 years in different industries including Finance, Manufacturing and Hotels.

## Mr. Pushpinder Kumar, Executive Director

A graduate from IHM, Mumbai and OCLD (Gold medalist) with 28+ years of experience with Marriott Renaissance, Oberoi hotels & Park Plaza Hotels. Previously recognized as the CEO for Fern Hotels and Resorts.

## Mr. Vikas Passi, Vice President Operations

A Hotel Management graduate from Mangalore University and MBA in Sales & Marketing from Pune University, having 16+ years of vast experience in hotel operations and sales.

## Mr. Vijay G, Vice President Operations (South)

Over 30+ years of rich experience in Hospitality Industry. Beginning his career with IHG and has thereafter worked in various capacities at IHG, Starwood Hotels & Hiltons. He holds a diploma in hospitality management, a Bachelor's Degree in Accounting and a certificate holder of Advanced Management Program from Cornell Hotel School and General Managers Training Program from Holiday Inn Worldwide, Bangkok.

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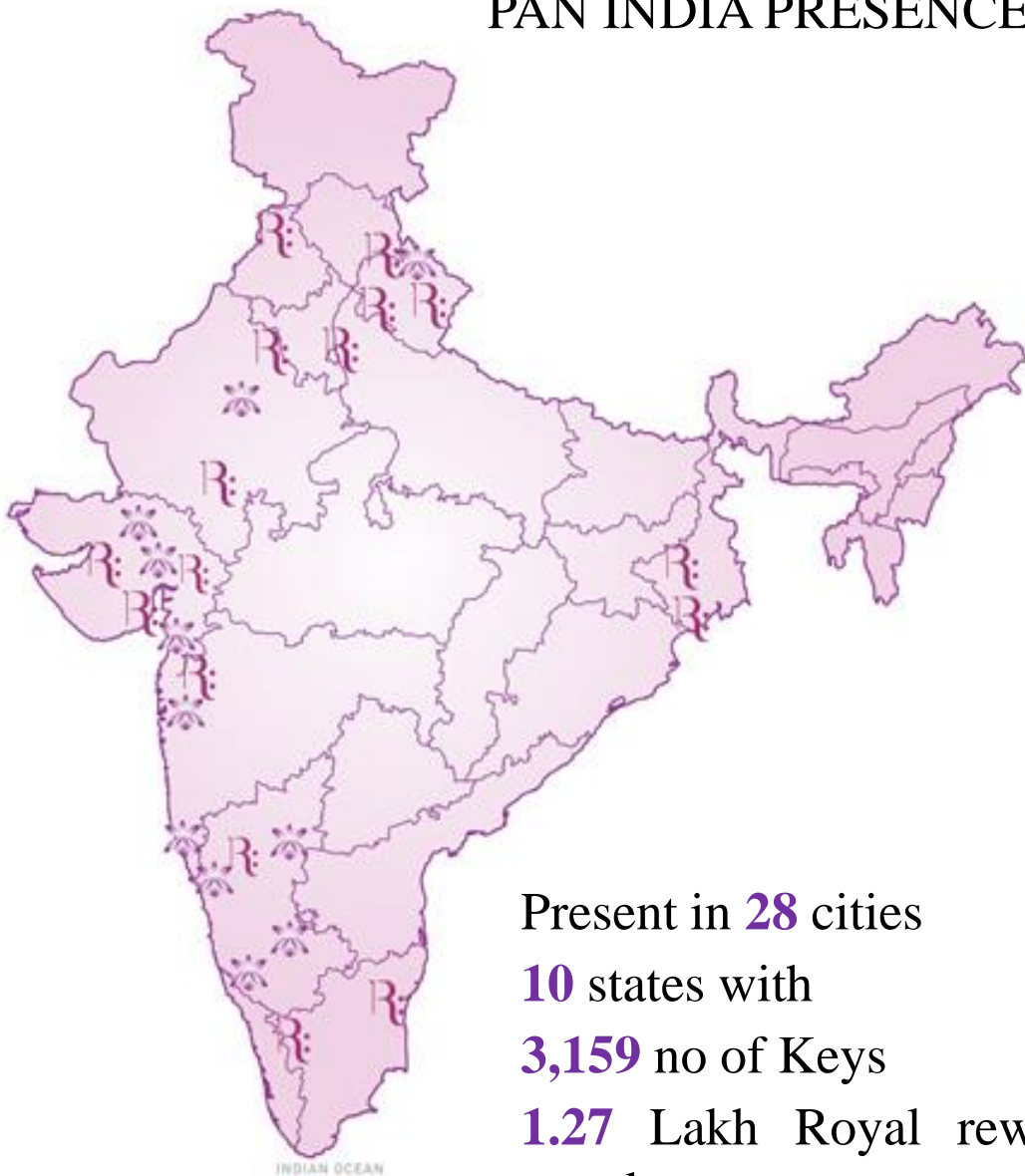
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## FINANCIAL NUMBERS

- Q2 FY17 Results
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# Asset Light Model – Generate FCF

## PAN INDIA PRESENCE



Present in **28** cities  
**10** states with  
**3,159** no of Keys  
**1.27** Lakh Royal reward  
members.

Business Model	MC	JV	Owned	Leased	Total
5-Star Royal Orchid	129	139	195	-	463
4-Star Central	1,501	130	-	198	1,829
Resort/ Heritage	393	73	-	188	654
Convention /MICE	-	54	-	-	54
Serviced Apartments	159	-	-	-	159
Total Keys	2,182	396	195	386	3,159

## ROYAL ORCHID BUSINESS MODEL VALIDATION

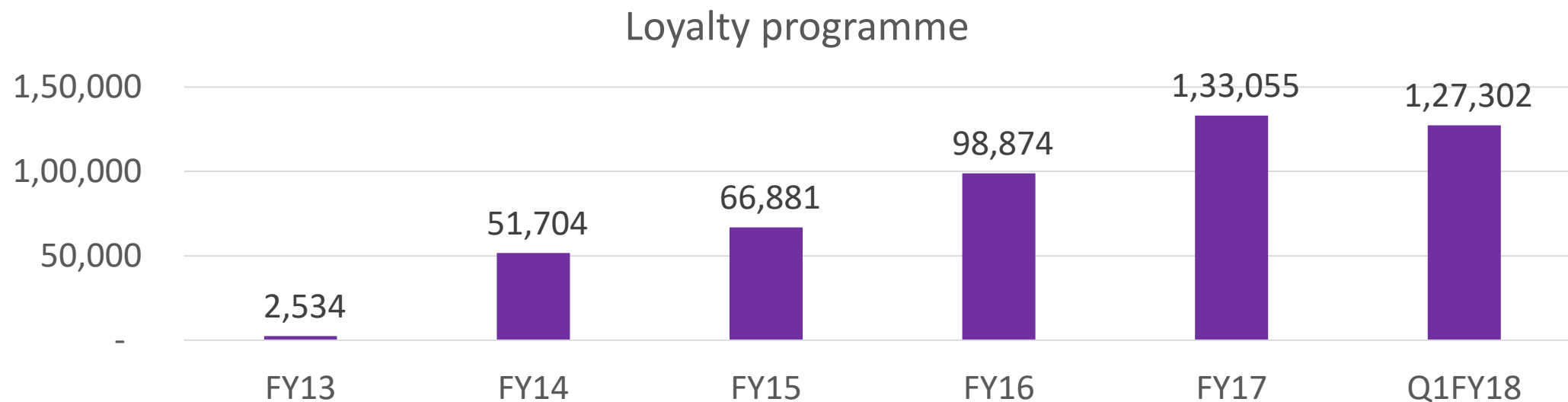
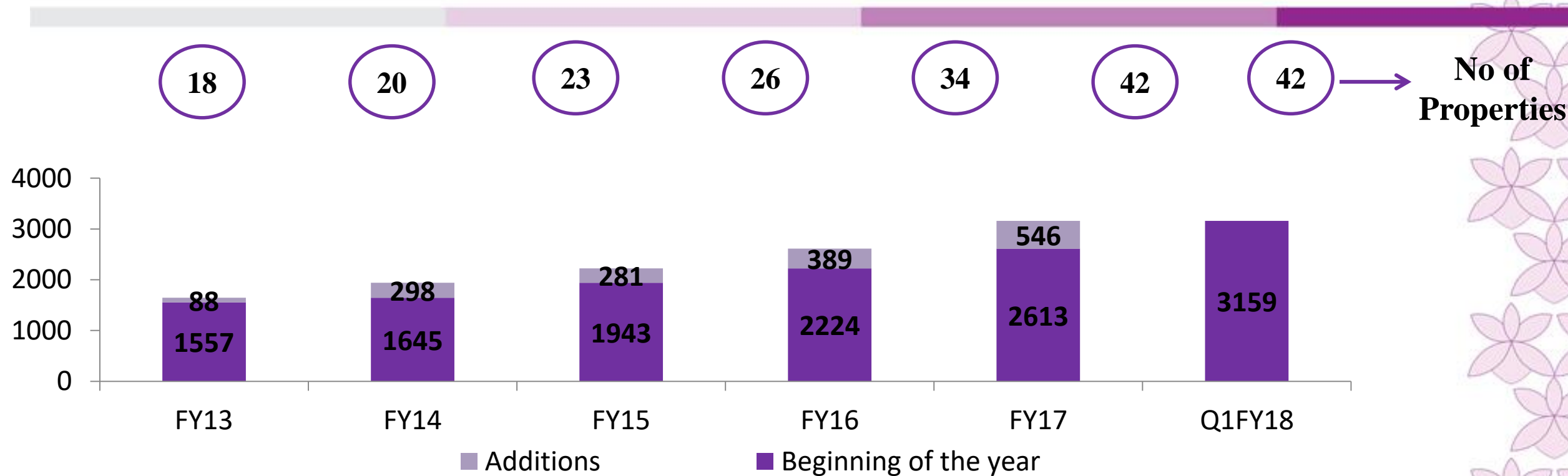
- Most of the other hotels are present in Metro cities.
- ROHL has demonstrated the scalability of keys by establishing its presence in Tier I & Tier II cities.
- ROHL will continue to bring Luxury rooms at lower rates across country.



# Details of Properties

Category	Owned		JV		Leased		Managed Properties		Total Keys
	Location	Keys	Location	Keys	Location	Keys	Location	Keys	
5-Star Hotel Royal Orchid	Bangalore	195	Jaipur (50%)	139			Ahmedabad	129	463
4-Star Royal Orchid Central			Bangalore (51%)	130	Pune	115	Vashi	67	1,829
					Bangalore	83	Shimoga	108	
							Vadodara	81	
							Jaipur	70	
							Gurgaon	50	
							Chandigarh	75	
							Jaipur	57	
							Bharuch	104	
							Rajkot	60	
							Haridwar	56	
							Kolkata	69	
							Nairobi	165	
							Amritsar	38	
							Chennai	93	
							Bangalore	40	
							Kolkata	45	
							Vadodara	94	
							Ajmer	38	
							Dehradun	75	
							Ahmedabad	72	
							Jaipur	44	
Resort/ Heritage			Goa (50%)	73	Mysore	30	Mahabaleshwar	32	654
					B.Garden	24	Dandeli	17	
					Hospet	134	Mussoorie	58	
							Jim Corbett	45	
							Varca Beach, Goa	48	
							Ranthambore	70	
							Shantiniketan	58	
							Bhuj	65	
Convention MICE Hotel			Bangalore (65%)	54					54
Serviced Apartment							Pune	71	159
							Bangalore	88	
Total Keys	1	195	4	396	5	386	32	2,182	3,159

# Growth – Rooms & Members



# High Growth – Focusing on Management Contracts

<b>Adding No of Keys</b>	<b>Q1FY17</b>	<b>Q1FY18</b>
Management Contracts	1,768	2,112
JV	396	396
Owned (Domestic)	195	195
Owned (Overseas)	-	-
Leased	456	456
<b>Total KEYS</b>	<b>2,815</b>	<b>3,159</b>
<b>Average Occupancy rate (JLO)</b>	<b>69%</b>	<b>76%</b>
<b>Average Room Rate (JLO) (Rs)</b>	<b>3,493</b>	<b>3,394</b>
<b>Average Occupancy rate (Managed)</b>	<b>66%</b>	<b>63%</b>
<b>Average Room Rate (Managed) (Rs)</b>	<b>2,931</b>	<b>2,817</b>

- **No up front Capex required for Management Contracts model**
- **Maintenance Capex required – Rs 1.5 to 2 crores**
- **Break even of Operating profit in just 1 year**

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# Standalone Results – Q1 FY18

Financial results are presented in Ind AS

Particulars (Rs in crs)	Q1 FY 18	Q1 FY17	Y-oY %
Income from Operations	21.59	19.38	11%
Other Income	2.06	1.09	89%
<b>Total Income</b>	<b>23.65</b>	<b>20.47</b>	<b>16%</b>
Cost of Material Consumed	2.43	2.67	-9%
Employee Benefits Expense	5.13	4.17	23%
Rent Expense	2.69	2.35	14%
Power & Fuel	2.89	2.23	30%
Other Expenses	6.34	6.99	-9%
<b>Total Expense</b>	<b>19.48</b>	<b>18.41</b>	<b>6%</b>
<b>EBITDA</b>	<b>4.17</b>	<b>2.06</b>	<b>102%</b>
<i>EBITDA Margin (%)</i>	18%	10%	75%
Depreciation	1.06	1.18	-10%
<b>EBIT</b>	<b>3.11</b>	<b>0.88</b>	<b>253%</b>
Finance Cost	1.53	1.42	8%
<b>PBT</b>	<b>1.58</b>	<b>-0.54</b>	<b>-393%</b>
Tax	0.43	-	0%
<b>Net Profit/(Loss )</b>	<b>1.15</b>	<b>-0.54</b>	<b>-313%</b>
<i>NPM (%)</i>	5%	-3%	-284%

# Consolidated Results – Q4 FY17

Particulars (Rs in crs)	Q4 FY17	Q3 FY17	Q-o-Q %	Q4 FY16	Y-o-Y %
Income from Operations	44.23	42.33	4%	41.68	6%
Other Income	2.06	2.57	-25%	3.60	-43%
<b>Total Income</b>	<b>46.29</b>	<b>44.90</b>	<b>3%</b>	<b>45.28</b>	<b>2%</b>
Cost of Material Consumed	5.14	5.11	1%	5.37	-4%
Employee Benefits Expense	10.38	8.88	14%	7.47	39%
Rent Expense	3.12	3.45	-11%	3.87	-20%
Power & Fuel	3.87	3.41	12%	4.30	-10%
Other Expenses	15.40	12.32	20%	14.51	6%
<b>Total Expense</b>	<b>37.91</b>	<b>33.17</b>	<b>13%</b>	<b>35.52</b>	<b>7%</b>
<b>EBITDA</b>	<b>8.38</b>	<b>11.73</b>	<b>-40%</b>	<b>9.76</b>	<b>-14%</b>
<i>EBITDA Margin (%)</i>	<i>18%</i>	<i>26%</i>	<i>-44%</i>	<i>22%</i>	<i>-16%</i>
Depreciation	3.21	3.38	-5%	3.85	-16%
<b>EBIT</b>	<b>5.17</b>	<b>8.35</b>	<b>-62%</b>	<b>5.91</b>	<b>-13%</b>
Finance Cost	3.21	3.54	-10%	4.01	-20%
<b>PBT</b>	<b>1.96</b>	<b>4.81</b>	<b>-145%</b>	<b>1.90</b>	<b>3%</b>
Tax	0.06	0.48	-706%	0.30	-80%
<b>Net Profit/Loss</b>	<b>1.90</b>	<b>4.33</b>	<b>-128%</b>	<b>1.60</b>	<b>19%</b>
Minority Interest	0.05	0.01	79%	0.12	-61%
<b>Net Profit/Loss After Minority Interest</b>	<b>1.85</b>	<b>4.32</b>	<b>-133%</b>	<b>1.48</b>	<b>25%</b>

# Consolidated Results – FY17

Particulars (Rs in crs)	FY17	FY16	% Change
Income from Operations	162.53	158.53	3%
Other Income	7.06	5.68	24%
<b>Total Income</b>	<b>169.59</b>	<b>164.21</b>	<b>3%</b>
Cost of Material Consumed	20.23	20.75	-2%
Employee Benefits Expense	38.66	36.77	5%
Rent Expense	14.59	15.15	-4%
Power & Fuel	15.99	15.38	4%
Other Expenses	52.66	50.14	5%
<b>Total Expense</b>	<b>142.13</b>	<b>138.19</b>	<b>3%</b>
<b>EBITDA</b>	<b>27.46</b>	<b>26.02</b>	<b>6%</b>
<i>EBITDA Margin (%)</i>	16%	16%	2%
Depreciation	13.11	13.90	-6%
<b>EBIT</b>	<b>14.35</b>	<b>12.12</b>	<b>18%</b>
Finance Cost	12.16	14.92	-19%
<b>PBT</b>	<b>2.19</b>	<b>-2.80</b>	<b>-178%</b>
Tax	0.78	0.84	-7%
<b>Net Profit/Loss</b>	<b>1.41</b>	<b>-3.64</b>	<b>-139%</b>
Minority Interest	-1.05	-2.34	-55%
<b>Net Profit/Loss After Minority Interest</b>	<b>2.46</b>	<b>-1.30</b>	<b>-289%</b>



# Consolidated Balance Sheet

Particulars (Rs in crs)	FY17	FY16	FY15
<b>Sources of Funds</b>			
Share Capital	27.23	27.23	27.23
Reserves & Surplus	136.35	132.59	135.44
<b>Total Networth</b>	<b>163.58</b>	<b>159.82</b>	<b>162.67</b>
Minority Interest	27.98	36.55	34.43
Secured Loan and other non current liabilities	89.61	69.73	74.48
<b>Total Non-current liabilities</b>	<b>89.61</b>	<b>106.28</b>	<b>108.91</b>
Current Liabilities	71.65	76.27	74.19
<b>Total Sources of Funds</b>	<b>352.82</b>	<b>342.37</b>	<b>345.77</b>
<b>Application of Funds</b>			
<b>Fixed Assets</b>			
Tangible Assets	213.49	220.33	230.41
Intangible Assets	0.88	0.05	0.09
CWIP	24.02	21.98	19.68
Goodwill (on consolidation)	17.74	17.75	17.75
Loans & Advances	47.89	45.47	38.68
Non Current Investments	2.25	0.02	0.02
<b>Total Current Assets</b>	<b>49.66</b>	<b>36.77</b>	<b>39.14</b>
<b>Total Application of Funds</b>	<b>352.82</b>	<b>342.37</b>	<b>345.77</b>

# Thank You



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