Q4FY24 Result Update
Royal Orchid Hotels

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EBITDA misses our estimate; inventory pipeline strong

Revenue grew 5% YoY to INR76cr in Q4FY24 on room additions (up 19.9%) and higher ARR (up 6.5% to INR6,024). It missed our revenue estimate of INR87cr on lower occupancy (down ~5pp YoY to 72%) as ~30 rooms were refurbished in Q4FY24. EBITDA was impacted by higher repairs and maintenance cost and manpower addition for the upcoming expansion. EBITDA fell 18.4% YoY to INR18cr (est. INR26cr), with margin contracting 672bp to 23.3%. PAT grew 31.3% YoY to INR17cr (est. INR16cr) on a one-time tax adjustment. To capitalise on favourable industry dynamics, it added 985 rooms (JLO/managed: 113/872) in FY24, taking the total inventory to 5,926 (JLO/managed: 1,279/4,647). In FY25-end, it plans to add ~1,925 rooms (JLO/managed: 424/1,500) across 27–30 hotels. Given healthy domestic demand, with constrained supply in the industry, and likely improvement in the product mix, we see a 5% growth in ARR in FY25. We see ROHL as one of the key beneficiaries of sectoral tailwinds. We expect a revenue/EBITDA/PAT CAGR of 16.3%/18.7%/17.7% over FY24–26. We revise our TP to INR477 (earlier INR535, 12x FY26E EV/EBITDA) to account for near-term margin pressure. Maintain 'BUY'.

Higher staff and repair costs impacts EBITDA, PAT in line on lower tax expense

Revenue grew 5% YoY to INR76cr on room additions, better ARR, and higher income from F&B and other services. Revenue from room rent/F&B/other services grew 1.3%/6.9%/14.6% YoY to INR39cr/INR26cr/INR12cr. ARR for JLO rooms grew 6.5% YoY to INR6,024. Occupancy fell by ~5pp YoY to 72% as ~30 rooms were closed for refurbishment for a part of Q4FY24. EBITDA fell 18.4% YoY to INR18cr on front-loading of staff cost and higher repair cost (refurbishment). PAT grew 31.3% YoY to INR17cr on reversal of deferred tax assets. In FY24, revenue grew 11% YoY to INR294cr (est. INR305cr) on higher inventory; EBITDA fell 7% to INR76cr (est. INR84cr) on greater staff cost and lower fixed cost absorption; and PAT grew 1% to INR47cr.

Strong inventory addition pipeline with a tilt towards management contracts

In FY25, it plans to add 1,924 rooms across 27–30 hotels (1,900 signed), which will take its room inventory to ~7,850. It will add ~1,500/424 rooms under management contracts/ revenue sharing leases. We conservatively estimate 6,954 rooms by FY25-end. The strong front ended room addition pipeline will place ROHL ahead of the curve and will be a key growth driver.

Expect revenue/EBITDA/PAT CAGR of 16.3%/18.7%/17.7% over FY24–26

We expect 16.3% revenue CAGR over FY24–26 on: i) 5% ARR CAGR, with better occupancy on favourable demand-supply dynamics; ii) addition of over 1,833 rooms; iii) strong growth in F&B income due to expansion in its restaurant and banquet portfolio, improving MICE activity, and a revival in large-scale weddings; and iv) higher in-resort spends by offering value-add services. While margin will be under pressure in FY25 (23.8%) on: i) higher fixed costs, to aid the quick-paced expansion (new properties require three-to-four quarters to ramp up); and ii) occupancy loss (refurbishment of 100 rooms), we see it settling at a sustainable 27% from FY26. Over FY24 –26, we expect 18.7% EBITDA CAGR with PAT CAGR of 17.7% on higher tax and depreciation.

Higher EBITDA to drive cash flows and deleveraging

With a stable working capital cycle (~23 days), we expect the lion's share of EBITDA to flow to OCF (23% CAGR over FY24–26). We expect a cumulative OCF of INR175cr in FY25 and FY26, of which ~INR135cr will be used for room additions and maintenance capex. The balance will aid deleveraging. We expect net D/E ratio to improve to -0.16x in FY26 from 0.08x in FY24. With a large part of the room additions under the asset light model, we expect RoCE to improve to 27.9% in FY26 from 21.8% in FY24.

Maintain 'BUY' with a revised TP of INR477

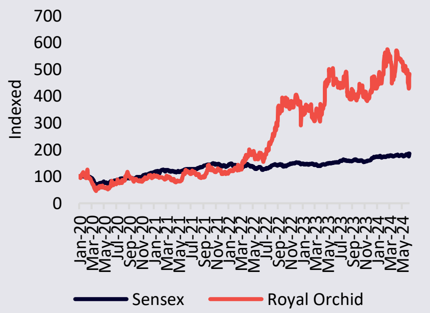
We are positive on the sector due to the favourable industry dynamics in the near-to-medium term. A lower base, an extensive room addition pipeline, and better brand recognition will help narrow the valuation gap with its peers. However, we downgrade our FY26 EBITDA/EPS estimate by 16%/22% to account for near term margin pressure on front loading of operating cost and lower fixed cost absorption given the rapid scale up in room inventory and higher repair cost. We revise our TP to INR477 from INR535 earlier, valuing ROHL at 12x FY26E EV/EBITDA. Maintain 'BUY'.

Key financials

Year to March	FY22	FY23	FY24	FY25E	FY26E
Revenue (INR cr)	139	264	294	342	397
Revenue growth (%)	71	90	11	17	16
EBITDA (INR cr)	23	82	76	82	107
Net profit (INR cr)	7	47	48	47	67
P/E ratio (x)	11.4	14.2	20	20.7	14.5
EV/EBITDA ratio (x)	16.1	8.2	13	11.8	8.6
RoACE (%)	1.5	28	22.2	22.7	29.6
RoAE (%)	5.2	31.5	26.7	22.7	26.8

CMP: INR354
Rating: BUY
Target price: INR477
Upside: 35%
Date: June 10, 2024

Bloomberg:	ROHL.IN
52-week range (INR):	280/448
M-cap (INR cr):	985
Promoter holding (%)	63.6



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Quarterly Income Statement

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Net sales	76	73	5	82	(7)
Operating expenses	58	51	15	57	2
EBITDA	18	22	(18)	25	(28)
Depreciation	5	5	8	5	5
EBIT	13	17	(26)	20	(36)
Interest	4	5	(7)	5	(5)
Other income	6	4	53	5	30
PBT	14	16	(12)	20	(28)
Tax	(1)	4	(124)	5	(119)
PAT	15	12	26	15	5
Minority interest after net profit	0	0	(85)	0	(82)
P&L from an associate company	2	1	-	1	24
PAT after minority interest and the share of associates	17	13	31	15	8
Exceptional items	-	-	-	-	-
RPAT	17	13	31	15	8
EPS	6.1	4.6	31	5.6	8
EBITDA margin (%)	23.3	30		30.2	
PAT margin (%)	21.8	17.5		18.7	
Tax rate (%)	(7)	25.8		26.6	

Operating parameters

	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
JLO rooms					
– Occupancy (%)	72	77		76	
– ARR	6,024	5,657	6	5,656	7
– RevPAR	4,337	4,356	0	4,299	1
– Room count	1,279	1,166	10	1,279	0
Managed rooms					
– Occupancy (%)	65	63		63	
– ARR	3,982	3,833	4	4,184	(5)
– RevPAR	2,588	2,415	7	2,636	(2)
– Room count	4,647	3,775	23	4,516	3

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Key takeaways from the management interaction

- Several branded players announced capacity expansion after FY22 which will come on stream from FY26. Demand stood strong on robust domestic leisure travel, gradual growth in MICE demand, resumption of larger-scale weddings after the lifting of COVID-related restrictions, and recovery in foreign tourist arrivals. With demand gathering pace and supply growth lagging, ROHL is ahead of the curve given its front-ended room addition pipeline. We see it benefiting immensely from the up cycle. We see a healthy expansion in ARR, with robust occupancy ahead.
- Its room addition pipeline is one of the strongest in the industry (985 rooms added in the last one-year). It crossed the 100-hotel milestone in FY24. To ensure a quick turnaround and capital efficiency, ~89% of room additions are under management contracts. While this strategy ensures quicker expansion, the potential for revenue growth is limited as only 5–6% of revenue accrues to its books. However, it is margin accretive, as over 50% of the revenue flows through as EBITDA.
- It has signed 27 hotels with ~1,900 rooms, which it expects to operationalise in FY25. It has guided at an additional 1,924 keys in FY25, of which ~1,500 will be under management contracts while the rest will be leased.
- We expect its newly added Mumbai hotel, with ~300 rooms, to commence operations under a new five-star brand offering in Q4FY25. The hotel is under a fixed lease model for the initial five years (~INR36cr/year), post which the lease will be paid as a share of revenue. At peak occupancy of 80%, the management expects a revenue of ~INR120cr from the hotel.
- The planned brownfield expansion of 25 rooms in Goa is facing delays in plan sanctioning. We now expect the commissioning in FY26 (from FY25 earlier). In Bengaluru, it plans to add 28 rooms to an existing property in FY25.
- In FY24, ROHL refurbished ~100 rooms (10–20 days for refurbishing a room), leading to a drop in occupancy. The exercise led to revenue loss of ~INR2.2cr. Incremental repair cost for the refurbishment was ~INR2.3cr. In all, the exercise impacted EBITDA by ~INR4.5cr (~1.5% of revenue). To aid the upcoming expansion, it raised manpower in certain locations, leading to an incremental employee cost of ~INR2.1cr (~0.7% of revenue). The management plans to refurbish ~100 rooms in FY25 at a cost of INR2–3cr.
- Domestic and MICE demand has been muted in Q4FY24 and Q1FY25 on reduced corporate travel due to the general elections. The management sees a recovery from Q2FY25.
- It has guided at a revenue of INR370–380cr in FY25, which includes revenue from an associate company (INR30–40cr). EBITDA guidance for FY25 stands at INR84–88cr.
- It expects an ARR growth of ~5% YoY in FY25.
- In FY24, ROHL acquired the entire stake in subsidiary Icon Hospitality Pvt. where it earlier held 51.07%. It also took on the accumulated losses of the acquired company, which were adjusted as deferred tax assets in Q4FY24.

Revenue mix

Year to March	Q4FY24	Q4FY23	YoY (%)	Q3FY23	QoQ (%)
Segmental revenue mix*					
– Room rent	44.7	40.5	10	46.2	(3)
– F&B	28.9	30.1	(4)	32.8	(12)
– Management fees	10	7.4	36	8.1	23
– Other services	3.5	2.9	34	3.6	(76)
Asset-wise revenue mix*					
- Owned	27.9	23.9	17	30.1	(7)
- Fixed and revenue share lease	31.7	27.7	14	34.1	(7)
- JV/associates	16.9	21.8	(23)	18.5	(9)
- Management contracts	9	7.4	22	8.1	11

*includes revenue from associate companies

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Valuation and view

We assign 12x FY26E EV/EBITDA to arrive at our revised TP of INR477 (earlier INR535). Since FY16, its one-year forward EV/EBITDA ratio has been in the 4–20x range. The stock trades at 8.6x FY26E EV/EBITDA. During FY16–20 (i.e., in years with healthy industry performance), it traded at 12–17x one-year forward EV/EBITDA. We expect the re-rating to continue and value the stock at 12x FY26E EV/EBITDA (at the lower end of its historical trading range in an upcycle). Our optimism 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. We see margin under pressure in the near future on: i) revenue and occupancy loss as ~100 rooms are expected to be refurbished in FY25, ii) front-loading of manpower and indirect fixed cost to aid inventory additions, and iii) rising share of revenue from relatively lower margin (~25%) leased hotels.

Particulars	Amount (INR cr)
EV based on 12x FY26E EV/EBITDA	1,286
Less: Net debt as of FY26E	(45)
Less: Minority interest as of FY26E	22
Total	**1,309**
Number of outstanding shares (cr)	2.7
Target price (INR)	**477**
CMP (INR)	**354**
Upside	**35%**

Revision in estimates

Particulars	Earlier estimates		Revised estimates	
	FY25	FY26	FY25	FY26
Revenue	420	466	342	397
EBITDA	117	127	82	107
EBITDA margin (%)	27.8	27.3	23.8	27
PAT	75	83	46	66
EPS	28	31	17	24

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Financials

Income Statement (INR cr)

Year to March	FY23	FY24	FY25E	FY26E
Income from operations	264	294	342	397
F&B consumed	27	29	31	35
Employee cost	56	73	91	103
Other expenses	99	116	139	151
Total operating expenses	182	218	261	290
EBITDA	82	76	82	107
Depreciation and amortisation	18	20	23	24
EBIT	64	56	59	83
Interest expense	16	18	17	14
Other income	16	19	19	19
Exceptional item	0	0	0	0
Profit before tax	64	57	61	88
Provision for tax	17	10	15	22
Profit after tax	47	47	46	66
Share of minority shareholders in profit	(2)	(2)	(2)	(2)
Adjusted profit after tax	47	48	47	67
Shares outstanding	3	3	3	3
Adjusted EPS	17	18	17	24

Common size metrics as a percentage of net revenue

Year to March	FY23	FY24	FY25E	FY26E
Operating expenses	69	74	76	73
Depreciation	7	7	7	6
Interest expenditure	6	6	5	4
EBITDA margin	31	26	24	27
Net profit margin	18	17	14	17

Growth metrics (%)

Year to March	FY23	FY24	FY25E	FY26E
Revenue	90	11	17	16
EBITDA	257	(7)	7	31
PBT	1,220	(10)	7	43
Net profit	581	3	(3)	42
EPS	581	3	(3)	42

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Balance Sheet (INR cr)

As of March 31	FY23	FY24	FY25E	FY26E
Equity share capital	27	27	27	27
Reserves and surplus	146	163	197	247
Shareholders' funds	173	191	224	274
Total debt	75	67	39	22
Other long-term liabilities	81	126	172	165
Deferred tax liabilities	(7)	(13)	(13)	(13)
Minority interest	24	17	20	22
Sources of funds	**347**	**388**	**442**	**471**
Gross block	416	486	584	621
Depreciation	211	230	253	277
Net block	206	255	331	343
Capital work in progress	1	0	0	0
Total fixed assets	207	256	331	344
Investments	27	30	30	30
Inventories	2	3	3	4
Sundry debtors	32	33	45	49
Cash and equivalents	71	51	45	67
Loans and advances	11	14	14	14
Total current assets	143	131	138	165
Sundry creditors and others	68	66	94	104
Provisions	2	3	3	4
Total current liabilities and provisions	70	68	97	107
Net current assets	73	63	41	57
Other assets	67	70	70	70
Uses of funds	**347**	**388**	**442**	**471**

Ratios

Year to March	FY23	FY24	FY25E	FY26E
RoAE (%)	31.5	26.7	22.7	26.8
RoACE (%)	28	22.2	22.7	29.6
Inventory days	3	3	4	4
Receivable days	44	41	48	45
Payable days	51	41	65	65
Cash conversion cycle (days)	(4)	3	(13)	(16)
Debt/equity ratio	0.4	0.4	0.2	0.1
Debt/EBITDA ratio	0.9	0.9	0.5	0.2
Adjusted debt/equity ratio	0	0.1	0	(0.2)

Valuation parameters

Year to March	FY23	FY24	FY25E	FY26E
Diluted EPS (INR)	17.1	17.7	17.1	24.3
Diluted P/E ratio (x)	14.2	20.0	20.7	14.5
Price/BV ratio (x)	5.6	5.1	4.3	3.5
EV/EBITDA ratio (x)	8.2	13.0	11.8	8.6

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