Q2FY25 Result Update
Royal Orchid Hotels

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Profits miss our estimate; inventory pipeline strong

Revenue for Royal Orchid Hotels (ROHL) grew 5.7% YoY to INR70cr (est. INR75cr) in Q2FY25 on a 5.9%/3.3% growth in RevPAR/JLO inventory. Occupancy fell 2pp YoY due to renovations. ARR grew 9% YoY on healthy demand. Higher repairs and maintenance cost and manpower additions for the upcoming expansion impacted EBITDA (down 26% YoY), which stood at INR11cr (est. INR18cr). EBITDA margin contracted by 695bp. PAT grew 10% YoY. To capitalise on favourable industry dynamics, it added 923 rooms (JLO/managed: 41/882) in the last 12 months, taking its total inventory to 6,556 rooms (JLO/managed: 1,279/5,277).

It plans to add ~1,600 rooms across 21 hotels in the next 12 months. We see a 5% growth in ARR in FY25 on the back of healthy domestic demand, constrained supply in the industry, and likely improvement in the product mix. We see ROHL as one of the key beneficiaries of sectoral tailwinds. We downgrade our FY26 EBITDA/PAT estimate by 9%/10% to account for near term margin pressures due to refurbishment and renovations and a slightly lower-than-expected occupancy. We revise our TP to INR431 (12x FY26E EV/EBITDA). Maintain 'BUY'.

Higher staff and repair costs impacts profitability

Revenue from room rent/F&B grew 4.5%/12.8% YoY to INR37cr/INR26cr, while other services saw an 8.3% fall to INR8cr. Occupancy fell by ~2pp YoY to 70% due to room renovations and a high base. ARR (JLO rooms) grew 9% YoY to INR5,114 on healthy demand and constrained supply. EBITDA saw a sharp 25.9% YoY drop to INR11cr (est. INR18cr) on front-loading of staff cost and higher refurbishment expenses. EBITDA margin contracted by 695bp YoY to 16.3%. Supported by a one-off of ~INR3cr, PAT grew 10% YoY to INR8cr, still falling behind our estimate of INR10cr on lower EBITDA. Revenue fell 3.6% QoQ on a 1%/29.5% dip in ARR/other operating income. EBITDA fell 31.2% QoQ, with a 652bp margin contraction. PAT fell 14.8% QoQ on lower EBITDA.

Strong inventory addition pipeline with a tilt towards management contracts

By H1FY26-end, ROHL plans to add 1,600 rooms across 21 hotels which will take its room inventory to ~8,156. It will add ~1,176/424 rooms under management contracts/leases. We conservatively estimate 6,726 rooms by FY25-end. This strong front ended room additions will place the company ahead of the curve and will be a key growth driver.

Expect revenue/EBITDA/PAT CAGR of 15.1%/17.3%/17.8% over FY24–27

We expect 15.1% revenue CAGR over FY24–27 on: i) a 5% CAGR in ARR; ii) addition of over 1,450 rooms; iii) strong growth in F&B income on expansion in its restaurant and banquet portfolio, improving MICE activity, and a revival in weddings; and iv) higher in-resort spends. Margin will be under pressure in FY25 (21.6%) on: i) higher fixed costs to aid its quick-paced expansion (new properties need 9–12 months to ramp up), ii) elevated refurbishment costs, and iii) lower occupancy (over 100 rooms under refurbishment). We expect refurbishment cost to normalise from H2FY26 and see margin recovering thereon. We see EBITDA margin settling at 26.8% in FY27. Over FY24–27, we expect 17.3%/17.8% EBITDA/PAT CAGR.

Higher EBITDA to drive cash flows and deleveraging

We expect a cumulative OCF of INR265cr over FY25–27, of which ~INR149cr will be used for room additions and maintenance capex. The balance will aid deleveraging. We expect net D/E ratio to improve to -0.33x in FY27 from 0.08x in FY24. With a large part of the room additions under the asset light model, we expect RoCE to improve to 29.2% in FY27 from 21.8% in FY24.

Maintain 'BUY' with a revised TP of INR431

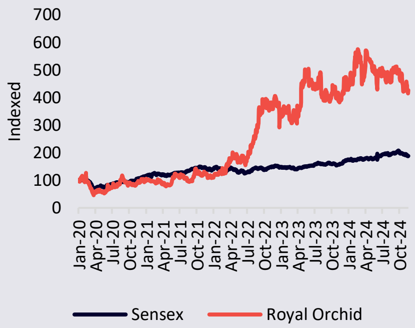
ROHL is going through an investment phase and is taking steps in the right direction by: i) refurbishing its existing inventory, ii) shifting its focus from volume to value (expansion in the five-star segment), and iii) hiring the right talent. These changes will help ROHL to immensely benefit from the current upcycle. We see the valuation gap with peers narrowing as the restructuring plays out. As we are cognizant of near-term margin pressures, we have revised our TP to INR431 (12x FY26E EV/EBITDA) from INR477 earlier. Maintain 'BUY'.

Key financials

Year to March	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR cr)	264	294	342	406	470
Revenue growth (%)	90	11	17	19	16
EBITDA (INR cr)	82	76	74	98	126
Net profit (INR cr)	47	48	40	60	81
P/E ratio (x)	14.2	17.8	21.6	14.5	10.7
EV/EBITDA ratio (x)	8.2	11.6	11.7	8.5	6
RoACE (%)	28	22.2	19.7	27	32.2
RoAE (%)	31.5	26.7	19.6	25	27.7

CMP: INR316
Rating: BUY
Target price: INR431
Upside: 37%
Date: November 21, 2024

Bloomberg:	ROHL.IN
52-week range (INR):	284/449
Shares in issue (cr):	2.7
M-cap (INR cr):	865
Promoter holding (%)	63.6



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Quarterly Income Statement

Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Net sales	70	67	6	73	(4)
Operating expenses	59	51	15	56	5
EBITDA	11	15	(26)	17	(31)
Depreciation	5	5	8	5	(1)
EBIT	6	11	(41)	11	(45)
Interest	4	5	(5)	4	0
Other income	8	3	128	5	70
PBT	10	10	3	12	(16)
Tax	3	2	46	3	6
PAT	7	7	(9)	9	(20)
Minority interest after net profit	0	1	-	0	-
P&L from an associate company	1	0	-	0	-
PAT after minority interest and the share of associates	7	7	10	9	(15)
Exceptional items	-	-	-	-	-
RPAT	7	7	10	9	(15)
EPS	2.7	2.5	10	3.2	(15)
EBITDA margin (%)	16.3	23.2		22.8	
PAT margin (%)	10.7	10.2		12.1	
Tax rate (%)	30.5	21.6		27.1	

Operating parameters

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
JLO rooms					
– Occupancy (%)	70	72		70	
– ARR	5,114	4,693	9	5,168	(1)
– RevPAR	3,580	3,379	6	3,618	(1)
– Room count	1,279	1,238	3	1,279	0
Managed rooms					
– Occupancy (%)	57	54		62	
– ARR	3,672	3,386	8	3,823	(4)
– RevPAR	2,093	1,828	14	2,370	(12)
– Room count	5,277	4,395	20	5,116	3

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Key takeaways from the management interaction

- With a shift in auspicious days from June to July this year, we expected a partial revenue spillover from Q1 to Q2FY25. We did not see the same panning out, and ROHL saw its revenue fall by 3.6% QoQ. A portion of this was on account of lower occupancy due to the ongoing refurbishment at four hotels. The management expects demand to pick up from Q3FY25 and a strong Q4.
- Several branded players announced capacity expansions after FY22 which will come on stream from FY26. ROHL is ahead of the curve given its front-ended room addition pipeline. We see it benefiting immensely from the up cycle. We expect a healthy expansion in ARR, with robust occupancy ahead.
- Its room addition pipeline is one of the strongest in the industry (923 rooms added in the last one-year). It crossed the 100-hotel milestone in FY24. To ensure a quick turnaround and capital efficiency, ~96% of room additions are under management contracts. While this strategy ensures quicker expansion, the potential for revenue growth is limited as it only receives 5–6% of the revenue. However, it is margin accretive as ~50% of the revenue flows through as EBITDA.
- It has signed 21 hotels with ~1,600 rooms, which are expected to come on stream before the end of H1FY25. Of this, ~424 rooms are JLO while the rest is under management contracts.
- We expect its 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) after which the lease will be paid as a share of revenue. It expects an ARR of INR9,000–11,000. At an occupancy of 80%, the management expects a revenue of ~INR120cr from this hotel.
- Its property in Surat (management contract) is being commissioned in a phased manner. As of date, 188 rooms are operational, with another 100 to be commissioned in the coming 12 months. Its Gurugram hotel (leased) will commence operations in Q1FY26.
- In H1FY25, ROHL incurred INR2cr on repairs and maintenance, which it booked in its Income Statement. It expects to spend another INR3–4cr on refurbishment in H2FY25.
- Other income in Q2FY25 includes a one-off of INR3cr.
- It did not revisit its FY25 revenue/EBITDA guidance of INR370–380cr/INR84–88cr (including revenue/EBITDA from an associate company). In FY26, it expects to achieve a revenue/PAT of INR500cr/INR100cr. About 15% of growth in FY26 will be derived from existing hotels while the balance will accrue from new hotels.

Revenue mix

Year to March	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Segmental revenue mix*					
– Room rent	41.1	38.7	6	41	0
– F&B	29	25.5	14	27.3	6
– Management fees	6	6.4	(5)	8.7	(31)
– Other services	2	2.3	(16)	2.5	(22)
Asset-wise revenue mix*					
- Owned	27	18.9	43	26.7	1
- Fixed and revenue share lease	29.7	27.4	8	30.3	(2)
- JV and associates	15.4	20.2	(24)	13.7	12
- Management contracts	6	6.4	(5)	8.7	(31)

*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 INR431. 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 with its peers. In the near future, we see margin under pressure 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	1,175
Less: Net debt as of FY26E	(29)
Less: Minority interest as of FY26E	22
Total	**1,182**
Number of outstanding shares (cr)	2.7
Target price (INR)	**431**
CMP (INR)	**316**
Upside (%)	**37**

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Financials

Income Statement (INR cr)

Year to March	FY24	FY25E	FY26E	FY27E
Income from operations	294	342	406	470
F&B consumed	29	33	39	46
Employee cost	73	95	110	123
Other expenses	116	140	159	176
Total operating expenses	218	269	308	344
EBITDA	76	74	98	126
Depreciation and amortisation	20	23	24	25
EBIT	56	51	74	101
Interest expense	18	17	14	13
Other income	19	19	19	19
Exceptional item	0	0	0	0
Profit before tax	57	53	78	107
Provision for tax	10	14	20	27
Profit after tax	47	39	59	80
Share of minority shareholders in profit	(2)	(2)	(2)	(2)
Adjusted profit after tax	48	40	60	81
Shares outstanding	3	3	3	3
Adjusted EPS	18	15	22	30

Common size metrics as a percentage of net revenue

Year to March	FY24	FY25E	FY26E	FY27E
Operating expenses	74	78	76	73
Depreciation	7	7	6	5
Interest expenditure	6	5	4	3
EBITDA margin	26	22	24	27
Net profit margin	17	12	15	17

Growth metrics (%)

Year to March	FY24	FY25E	FY26E	FY27E
Revenue	11	17	19	16
EBITDA	(7)	(3)	33	29
PBT	(10)	(7)	48	36
Net profit	3	(17)	49	36
EPS	3	(17)	49	36

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Balance Sheet (INR cr)

As of March 31	FY24	FY25E	FY26E	FY27E
Equity share capital	27	27	27	27
Reserves and surplus	163	190	233	297
Shareholders' funds	191	217	260	325
Total debt	67	44	22	21
Other long-term liabilities	126	173	166	159
Deferred tax liabilities	(13)	(13)	(13)	(13)
Minority interest	17	20	22	24
Sources of funds	**388**	**441**	**458**	**516**
Gross block	486	584	624	635
Depreciation	230	253	277	302
Net block	255	331	346	332
Capital work in progress	0	0	0	0
Total fixed assets	256	331	347	333
Investments	30	30	30	30
Inventories	3	4	4	5
Sundry debtors	33	45	50	58
Cash and equivalents	51	44	52	127
Loans and advances	14	14	14	14
Total current assets	131	137	151	234
Sundry creditors and others	66	94	106	117
Provisions	3	3	4	4
Total current liabilities and provisions	68	97	109	121
Net current assets	63	39	41	113
Other assets	70	70	70	70
Uses of funds	**388**	**441**	**458**	**516**

Ratios

Year to March	FY24	FY25E	FY26E	FY27E
RoAE (%)	26.7	19.6	25	27.7
RoACE (%)	22.2	19.7	27	32.2
Inventory days	3	4	4	4
Receivable days	41	48	45	45
Payable days	41	65	65	65
Cash conversion cycle (days)	3	(13)	(16)	(16)
Debt/equity ratio	0.4	0.2	0.1	0.1
Debt/EBITDA ratio	0.9	0.6	0.2	0.2
Adjusted debt/equity ratio	0.1	0	(0.1)	(0.3)

Valuation parameters

Year to March	FY24	FY25E	FY26E	FY27E
Diluted EPS (INR)	17.7	14.6	21.8	29.5
Diluted P/E ratio (x)	17.8	21.6	14.5	10.7
Price/BV ratio (x)	4.5	4	3.3	2.7
EV/EBITDA ratio (x)	11.6	11.7	8.5	6

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