Q3FY24 Result Update
Royal Orchid Hotels

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In line profit on strong margin; inventory pipeline strong

Revenue for Royal Orchid Hotels (ROHL) grew 13% YoY to INR82cr in Q3FY24 on sharp room additions and higher F&B income. ARR fell 4% YoY to INR5,656, while occupancy was strong at 76% (JLO rooms). EBITDA grew 4% YoY to INR25cr. However, margin contracted by 251bp YoY to 30.2% on lower ARR and higher fixed cost due to rapid room additions. PAT grew 6% YoY to INR15cr on higher other income and steady depreciation. Revenue/EBITDA/PAT grew 23%/60%/125% QoQ on a seasonal improvement in RevPAR.
To capitalise on favourable industry dynamics, it added 990 rooms (JLO/managed: 114/876) in the last one year, taking the total inventory to 5,795 (JLO/managed: 1,279/4,516). It crossed the 100-hotel mark in Q3FY24. By FY25-end, it aims to add ~2,300 rooms across 38–40 hotels, of which it has already signed 1,600 rooms. Given the traction from domestic demand, revival in MICE activity, and constrained supply additions in the industry, we expect ARR to trend upwards, with occupancy at near-optimal levels.
We see ROHL as one of the key beneficiaries of the sectoral tailwinds. We expect a revenue /EBITDA/PAT CAGR of 21%/16%/20% over FY23–26. We roll over our valuation to FY26E and revise our TP to INR535 (earlier INR498, 11x FY26E EV/EBITDA). Maintain 'BUY'.

Revenue missed our estimate on lower ARR, EBITDA and PAT in line

Revenue grew 13% YoY to INR82cr on strong room additions and higher income from F&B and other services. Revenue from room rent/F&B/other services grew 6%/16%/52% YoY to INR41cr/ INR30cr/INR13cr. ARR for JLO rooms fell 4% YoY to INR5,656 (against a 10% growth estimate) due to change in the product mix and higher revenue from immature properties. Occupancy was robust at 76% (Q3FY23/Q2FY24: 76%/73%). Despite lower revenue, EBITDA was in line at INR25cr, up 4% YoY, on margin outperformance (30.2% versus our estimate of 25.8%) led by cost rationalisation. PAT grew 6% YoY to INR15cr (est. INR16cr) on higher other income and steady depreciation. Revenue/EBITDA/PAT grew 23%/60%/125% QoQ on seasonal improvement in ARR (up 11%) and cost rationalisation.

Strong room addition pipeline one of the key growth drivers

As of December 2023, ROHL operated 5,795 rooms (own/JV/leased/managed: 398/193/688/ 4,516 rooms) across more than 100 hotels. It added 990/162 rooms in the last one-year/Q3FY24. By FY25-end, it plans to add 2,300 rooms across 38–40 hotels (1,600 are already signed), which will take its total room inventory to ~8,100. We conservatively estimate a total of 6,841 rooms by FY25-end. Nearly 80%/20% of expected additions will be under management contracts/ revenue sharing leases. The strong front-ended room addition pipeline will place ROHL ahead of the curve and will act as a key driver of growth ahead.

Expect revenue/EBITDA/PAT to clock 21%/16%/21% CAGR over FY23–26

We expect 21% revenue CAGR over FY23–26 on: i) 9% ARR CAGR, with strong occupancy (led by favourable demand-supply dynamics and robust demand from local tourists); ii) addition of over 2,300 rooms over FY23–26; iii) strong growth in F&B income, with a revival in large-scale weddings, expansion in its restaurant and banquet portfolio, and improving MICE activity; and iv) boost in-resort spends by offering value-add services. We expect EBITDA margin to settle at a sustainable 27% in FY26 given: i) the rise in fixed cost on strong room additions which will impact unit profitability as new properties take three-to-four quarters to ramp up, and ii) the higher revenue share from leased hotels, which earn a lower margin. We expect 21% PAT CAGR over FY23–26, aided by lower interest cost.

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 (12% CAGR over FY23–26). We expect a cumulative OCF of INR286cr in FY24, FY25, and FY26, of which ~INR180cr will be used for room additions and maintenance capex. The balance will aid deleveraging. We expect the net D/E ratio to improve to -0.29x in FY26 from 0.02x in FY23. With a large part of room additions under the asset light model, we expect RoCE to improve to 28.8% in FY26 from 25.6% in FY23.

Maintain 'BUY' with a TP of INR535

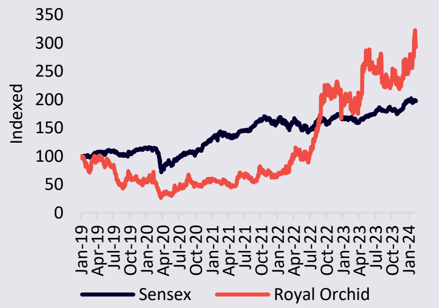
We are positive on the sector due to the favourable industry dynamics in the near-to-medium term. A lower base, an extensive room addition pipeline, and better brand recognition will help narrow the valuation gap with its peers. We roll over our valuation to FY26 and assign an 11x EV/EBITDA multiple. We upgrade our TP to INR535 from INR498 earlier. Maintain 'BUY'.

Key financials

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Revenue (INR cr)	139	264	305	420	466
Revenue growth (%)	71	90	16	38	11
EBITDA (INR cr)	23	82	84	117	127
Net profit (INR cr)	7	49	48	78	85
P/E ratio (x)	11.4	13.6	21.7	13.4	12.2
EV/EBITDA ratio (x)	16.1	8.2	12.5	8.7	7.4
RoACE (%)	1.5	28	24.8	33.4	31.7
RoAE (%)	5.2	33	25.1	32.5	27.8

CMP: INR378
Rating: BUY
Target price: INR535
Upside: 42%
Date: February 14, 2024

Bloomberg:	ROHL.IN
52-week range (INR):	219/444
Shares in issue (mn):	27
M-cap (INR cr):	1,037
Promoter holding (%)	63.6



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Quarterly Income Statement

Particulars	Q3FY24	Q3FY23	YoY	Q2FY24	QoQ
Net sales	82	72	13%	67	23%
Operating expenses	57	49	17%	51	12%
EBITDA	25	24	4%	15	60%
Depreciation	5	5	3%	5	2%
EBIT	20	19	5%	11	87%
Interest	5	4	27%	5	3%
Other income	5	4	16%	3	35%
PBT	20	19	3%	10	108%
Tax	5	5	1%	2	156%
PAT	15	14	4%	7	94%
Minority interest after net profit	0	1	(48%)	1	(56%)
P&L from an associate company	1	1	-	0	503%
PAT after minority interest and the share of associates	15	14	6%	7	125%
Exceptional items	-	-	-	-	-
RPAT	15	14	6%	7	125%
EPS	5.6	5.3	6%	2.5	125%
EBITDA margin	30.2%	32.7%		23.2%	
PAT margin	18.7%	20%		10.2%	
Tax rate	26.6%	27.2%		21.6%	

Operating parameters

	Q3FY24	Q3FY23	YoY	Q2FY24	QoQ
JLO rooms					
– Occupancy	76%	76%		73%	
– ARR	5,656	5,914	(4%)	5,087	11%
– RevPAR	4,299	4,495	(4%)	3,714	16%
– Room count	1,238	1,238	0	1,238	0
Managed rooms					
– Occupancy	63%	67%		54%	
– ARR	4,184	4,106	2%	3,747	12%
– RevPAR	2,636	2,751	(4%)	2,023	30%
– Room count	4,516	3,640	24%	4,395	3%

Key takeaways from the management interaction

- Several branded players announced capacity expansion after FY22 which will start coming 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 recovery in foreign tourist arrivals. With demand gathering pace, we feel that ROHL is ahead of the curve given its front-ended room addition pipeline and see it benefiting immensely from the up cycle. We see a healthy expansion in ARR, with robust occupancy ahead.
- ROHL's room addition pipeline is one of the strongest in the industry (990 rooms added in the last one-year). It crossed the 100-hotel milestone in Q3FY24. To ensure a quick turnaround and capital efficiency, ~88% of room additions are under management contracts. While this strategy ensures a quicker expansion, the potential for revenue growth is limited as only 5–6% of topline comes to its books. However, it is margin accretive, as ~50% of the revenue flows through as EBITDA.
- ROHL has signed 28 hotels with 1,600 rooms. It plans to sign another 700 rooms, which will come on stream in FY25. Of the signed 28 hotels, three are under a revenue sharing lease.
- From FY25, ROHL plans to foray into large-scale hotels under the leased model. It aims to boost its presence in upmarket hotels and plans to introduce a new brand for the same in the near future.
- The management has revised its FY24 revenue guidance to INR340cr from INR375cr earlier. The guidance includes revenue from one of its associates, Ksheer Sagar Developers, which runs the Jaipur hotel. Excluding this associate, it expects to clock a revenue of INR300–310cr in FY24. It is targeting a revenue of INR350cr in FY25 (excluding the associate company), with an EBITDA of INR110cr.
- In FY25, it expects an ARR growth of 8%/6% for its JLO/managed rooms.
- It is not looking to invest in any greenfield projects at spiritual destinations.

Revenue mix

Year to March	Q1FY24	Q1FY23	YoY	Q4FY23	QoQ
Segmental revenue mix*					
– Room rent	46.2	43.1	7%	38.7	19%
– F&B	32.8	28.9	14%	25.5	29%
– Management fees	8.1	6	35%	6.4	28%
– Other services	3.6	2.9	34%	2.3	(76%)
Asset-wise revenue mix*					
- Owned	30.1	24	25%	18.9	59%
- Fixed and revenue share lease	34.1	27.7	23%	27.4	24%
- JV/associates	18.5	23.1	(20%)	20.2	(8%)
- Management contracts	8.1	6	35%	6.4	28%

*includes revenue from associate companies

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Valuation

We roll over our valuation to FY26E and assign 11x FY26E EV/EBITDA to arrive at the TP of INR535 (earlier INR498). Since FY16, its one-year forward EV/EBITDA ratio has been in the 4–20x range. The stock trades at 7.4x FY26E EV/EBITDA. During FY16–20 (i.e., in years with healthy industry performance), the stock traded at 12–17x one-year forward EV/EBITDA. We expect the re-rating to continue and value the stock at 11x FY26E 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 11x FY26E EV/EBITDA	1,394
Less: Net debt as of FY26E	(97)
Less: Minority interest as of FY26E	24
Total	**1,467**
Number of outstanding shares (cr)	3
Target price (INR)	**535**
CMP (INR)	**378**
Upside	**42%**

Revision in estimates

Particulars	Earlier estimates		Revised estimates	
	FY24	FY25	FY24	FY25
Revenue	319	437	305	420
EBITDA	81	113	84	117
EBITDA margin	25.4%	25.9%	27.7%	27.8%
PAT	54	78	45	75
EPS	20	28	17	28

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Financials

Income Statement (INR cr)

Year to March	FY23	FY24E	FY25E	FY26E
Income from operations	264	305	420	466
F&B consumed	27	29	41	45
Employee cost	56	70	101	114
Other expenses	99	121	161	180
Total operating expenses	182	221	303	339
EBITDA	82	84	117	127
Depreciation and amortisation	18	20	22	23
EBIT	64	65	95	104
Interest expense	16	20	10	10
Other income	16	16	16	16
Exceptional item	-	-	-	-
Profit before tax	64	61	101	110
Provision for tax	17	15	25	28
Profit after tax	47	45	75	83
Share of minority shareholders in profit	-	-	-	-
Adjusted profit after tax	49	48	78	85
Shares outstanding	3	3	3	3
Adjusted EPS	18	17	28	31

Common size metrics as a percentage of net revenue

Year to March	FY23	FY24E	FY25E	FY26E
Operating expenses	69	72	72	73
Depreciation	7	6	5	5
Interest expenditure	6	7	2	2
EBITDA margin	31	28	28	27
Net profit margin	19	16	18	18

Growth metrics (%)

Year to March	FY23	FY24E	FY25E	FY26E
Revenue	90	16	38	11
EBITDA	257	3	38	9
PBT	1,220	(5)	66	10
Net profit	613	(3)	63	10
EPS	613	(3)	63	10

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Balance Sheet (INR cr)

As of March 31	FY23	FY24E	FY25E	FY26E
Equity share capital	27	27	27	27
Reserves and surplus	146	180	243	312
Shareholders' funds	173	207	271	339
Total debt	75	66	24	22
Other long-term liabilities	81	113	113	111
Deferred tax liabilities	(7)	(7)	(7)	(7)
Minority interest	24	24	24	24
Sources of funds	**347**	**403**	**425**	**490**
Gross block	421	535	586	600
Depreciation	215	235	257	279
Net block	206	300	329	321
Capital work in progress	1	1	1	1
Total fixed assets	207	301	330	322
Investments	27	27	27	27
Inventories	2	3	5	5
Sundry debtors	32	41	55	57
Cash and equivalents	71	46	41	119
Loans and advances	11	11	11	11
Total current assets	143	127	138	219
Sundry creditors and others	68	89	106	114
Provisions	2	3	4	5
Total current liabilities and provisions	70	92	110	118
Net current assets	73	35	28	100
Other assets	67	67	67	67
Uses of funds	**347**	**403**	**425**	**490**

Ratios

Year to March	FY23	FY24E	FY25E	FY26E
RoAE (%)	33	25.1	32.5	27.8
RoACE (%)	28	24.8	33.4	31.7
Inventory days	3	4	4	4
Receivable days	44	49	48	45
Payable days	51	70	65	65
Cash conversion cycle (days)	(4)	(17)	(13)	(16)
Debt/equity ratio	0.4	0.3	0.1	0.1
Debt/EBITDA ratio	0.9	0.8	0.2	0.2
Adjusted debt/equity ratio	0	0.1	(0.1)	(0.3)

Valuation parameters

Year to March	FY23	FY24E	FY25E	FY26E
Diluted EPS (INR)	13.6	21.7	13.4	12.2
Diluted P/E ratio (x)	6	5	3.8	3.1
Price/BV ratio (x)	2.6	3.5	2.4	2
EV/EBITDA ratio (x)	8.2	12.5	8.7	7.4

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