

Royal Orchid Hotels

17 June 2019

Reuters: ROYL.NS; Bloomberg: ROHL IN

Strong YoY ARR growth will continue

The management of Royal Orchid Hotels (ROH) sounded sanguine on the growth of hotel sector in India. Few points were: 1) Favorable shift in demand-supply balance will continue for another three years. 2) Occupancy rose strongly and will continue to rise 3) The management expects the ARR growth of 10% YoY for the next three years.

Favorable demand-supply gap to continue for the next three years: The management is confident about the favorable demand-supply gap for another three years. The management explained that to build any hotel property takes three-four years hence if the construction were to initiate now it would take a similar period. In our view, it will enhance persistent growth in occupancy to abet in improving pricing power. Thus, ARR is expected to improve sharply from the current levels in the next few years.

Sturdy growth to boost occupancy further: ROH had occupancy of 74% for owned rooms for FY19. A sharp rise compared to occupancy of 70% in FY17. Albeit the occupancy levels dropped from the 78% achieved in FY18. With occupancy hovering around 75%, in our view the pricing power has returned to ROH, leading spike in ARR.

Strong occupancy abetted strong growth in ARR: An occupancy levels of approximately 75% have abetted the company to increase ARR by 10% YoY in FY19 from Rs3,853 for owned rooms in FY18 to Rs4,204 in FY19. In FY18, the ARR growth was mere 4% YoY.

Stable growth in rooms over the past seven years: Loyalty members also grew strongly: The company steadily added rooms in the past seven years from 1,426 in FY12 to 3,385 in FY19. The breakdown of the rooms as in FY19 are: a) Management contract (2,361 rooms) b) Joint Venture (396 rooms) c) Owned rooms (195 rooms) d) Leased rooms (433 rooms). This depicts the company is following an asset-light model for growth with 70% of the rooms are from the management contract. The loyalty members grew sharply from 2,534 in FY13 to 223,694 in FY19 which clearly shows the rising acceptability of the brand.

Strong growth in financial performance over the past three years: While the revenues grew from Rs1,629mn in FY16 to Rs2,190mn in FY19 (growth of 35% in the past three years), the EBITDA grew at a faster pace from Rs247mn in FY16 to Rs488mn in FY19 (in 3 years grew by 2x) owing to the sharp rise in EBITDA margin from 15% in FY16 to 22% in FY19. The cash profits for the period FY16-FY19 rose from Rs102mn to Rs274mn. The balance sheet strength improved with a decline in net D/E from 0.63x in FY16 to 0.57x in FY19.

Exhibit 1: Key financials

Y/E March (Rsmn)	FY15	FY16	FY17	FY18	FY19
Revenues	1,478	1,585	1,749	1,895	2,038
YoY (%)	4.0	7.3	10.3	8.3	7.6
EBITDA	199	205	193	291	336
EBITDA Margin (%)	13.5	12.9	11.0	15.4	16.5
PAT	(68)	(36)	(46)	24	131
YoY (%)	NA	(46.3)	25.1	NA	443.5
EPS (Rs)	(2.5)	(1.0)	(1.7)	0.9	4.8
RoE (%)	(4.2)	(2.3)	(2.7)	1.4	7.4
EV/EBITDA (x)	8.7	8.1	6.5	5.4	0.2
P/E (x)	NA	NA	NA	45.55	8.41

Source: Company, Nirmal Bang Institutional Equities Research

Not Rated

Sector: Hotel

CMP: Rs107

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Key Data

Current Shares O/S (mn)	27.4
Mkt Cap (Rsbn/US\$mn)	2.9/41.8
52 Wk H / L (Rs)	179/90
Daily Vol. (3M NSE Avg.)	35,531

Price Performance (%)

	1 M	6 M	1 Yr
Royal Orchid Hotels	1.9	(11.9)	(37.5)
Nifty Index	3.6	8.6	9.3

Source: Bloomberg

Financial statement

Exhibit 2: Income statement

Y/E March (Rsmn)	FY15	FY16	FY17	FY18	FY19
Net sales	1,478	1,585	1,749	1,895	2,038
Growth YoY (%)	4.0	7.3	10.3	8.3	7.6
Operating costs	692	719	830	838	905
Other expenses	587	661	725	765	797
EBITDA	199	205	193	291	336
EBITDA growth (%)	(216.4)	3.2	(5.9)	50.7	15.4
EBITDA margin (%)	13.5	12.9	11.0	15.4	16.5
Depreciation	146	139	161	158	143
EBIT	53	66	32	133	193
EBIT (%)	3.6	4.2	1.8	7.0	9.5
Interest expense	164	151	158	157	132
Other income	33	44	128	102	152
Others	20	13	-	15	-
Earnings before tax	(58)	(28)	1	92	213
Tax- total	10	8	47	68	82
Rate of tax (%)	(17.2)	(30.1)	4,146.1	73.9	38.4
Net profit	(68)	(36)	(46)	24	131
% growth	N/A	46.3	25.1	NA	443.5
EPS (FD)	(2.49)	(1.04)	(1.67)	0.88	4.78
% growth	N/A	58.3	60.8	NA	441.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Balance sheet

Y/E March (Rsmn)	FY15	FY16	FY17	FY18	FY19
Equity Share capital	272	272	272	273	274
Preference Share Capital	-	-	-	-	-
Reserves and surplus	1,354	1,326	1,391	1,418	1,501
Net worth	1,627	1,598	1,664	1,691	1,775
Minority Interest	344	366	480	448	442
Loans	649	595	1,009	961	887
Other Financial Liabilities:	18	20	33	32	11
Provisions	16	24	30	38	34
Deferred tax liability	17	6	(65)	(51)	(33)
Other non-current liability	-	-	37	11	11
Total capital employed	2,671	2,609	3,188	3,129	3,126
Goodwill	177	177	177	177	177
Property, plant and equipment	2,502	2,424	2,902	2,762	2,673
Non Current Investments	0	0	0	0	0
Other non-current assets	387	455	316	337	422
Total non-current assets	3,066	3,056	3,396	3,276	3,273
Trade payables	261	299	325	318	352
Other current liabilities	508	502	486	493	510
Provisions (current)	16	12	13	25	11
Total current liabilities	786	813	825	836	874
Inventories	20	22	22	23	24
Trade receivables	155	152	188	233	186
Cash and bank balance	141	136	225	264	415
Loans and advances	45	20	30	48	32
Other current assets	29	35	151	121	71
Total current assets	390	366	617	689	727
Net current assets	(396)	(447)	(208)	(147)	(147)
Total capital employed	2,671	2,609	3,188	3,129	3,126

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Cash flow

Y/E March (Rsmn)	FY15	FY16	FY17	FY18	FY19
PBT	(57.9)	(28)	1	92	213
Depreciation	146	139	161	158	143
Finance costs	156	149	2	3	132
Other income	(2)	(6)	138	133	(152)
Others	(4)	(16)	(28)	20	207
Working capital changes	59	40	34	(98)	(1)
Tax Paid	(36)	(46)	(43)	(59)	(82)
Operating cash flow	261	233	267	249	461
Capital expenditure	(57)	(81)	(78)	(35)	3
Cash Flow from Investments	-	-	-	-	-
Other income	22	9	(11)	28	(86)
Net cash after capex	225	161	177	242	379
Issue/(buyback of equity)	-	-	-	0	0
Proceeds/repayment of borrowings	(249)	(24)	69	(51)	(74)
Finance costs	(167)	(134)	(147)	(134)	(132)
Others	(41)	(6)	(34)	1	(21)
Cash flow from financing	(456)	(164)	(112)	(185)	(227)
Total cash generation	(231)	(3)	65	58	151
Opening cash balance	349	118	88	153	264
Closing cash & bank balance	141	136	225	264	415

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Key ratios

Y/E March	FY15	FY16	FY17	FY18	FY19
Profitability and return ratios					
EBITDA margin (%)	13.5	12.9	11.0	15.4	16.5
EBIT margin (%)	3.6	4.2	1.8	7.0	9.5
Net profit margin (%)	(4.6)	(2.3)	(2.6)	1.3	6.4
RoE (%)	(4.2)	(2.3)	(2.7)	1.4	7.4
RoCE (%)	2.3	3.0	1.2	5.0	7.2
Working capital & liquidity ratios					
Receivable (days)	35.1	39.3	44.9	21.5	21.0
Inventory (days)	5.0	4.7	4.6	4.4	5.0
Payable (days)	79.2	76.4	68.3	130.0	128.0
Current ratio (x)	0.5	0.5	0.7	0.8	0.8
Valuation ratios					
EV/sales (x)	2.3	2.1	2.1	1.9	1.7
EV/EBITDA (x)	17.2	16.4	19.1	12.4	10.1
P/E (x)	NA	NA	NA	121.0	22.4
P/BV (x)	1.8	1.8	1.8	1.7	1.7

Source: Company, Nirmal Bang Institutional Equities Research

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