Sector: Hotels & Resorts **RESULT REVIEW Q1FY25** **Declared On: 14 August 2024**

Royal Orchid Hotels Limited

RECOMMENDATION SNAPSHOT				
*CMP	MCap (Rsbn)	Recommendation	Target	Potential Upside
Rs351	9.6	Accumulate	Rs420	20%

**as on 21st August, 2024*

About the Company:

Royal Orchid Hotels Limited (ROHL) was incorporated in Bangalore in January, 1986 as a public limited company under the name and style of University Resorts Ltd, later renamed to ROHL. The company is engaged in the business of managing hotels under flagship brands such as Royal Orchid, Royal Orchid Central, Royal Orchid Suites, Regenta Central, Regenta Resort, Regenta Place & Regenta Inn to name a few. The company primarily operates 5 and 4-star hotels, enabling it to target discerning business and leisure travelers. As of date, there are 107+ hotels across India. With multiple hotel brands, ROHL has successfully captured the attention of the most judicious and demanding clientele in terms of luxury, comfort and value for money. It has received accolades by the Indian National Trust for Art and Cultural Heritage (INTACH), Best Oriental Restaurant 2006 by the Times Food Guide for Ginseng and Galileo Express Travel Award in 2008. The company is managed by a team of experienced and professional managers in the field of hospitality industry and currently Mr.Chander Baljee is the Managing Director and the Chairman of the company.

Results: Quick Glance:

- The net sales for the quarter grew by 6.0% to Rs730mn as compared to Rs689mn in the same quarter last year
- The Ebitda margins for the quarter under review stood at 22.8% as compared to 26.3% in Q1FY24
- The net profit came in at Rs87mn as against Rs107mn in the comparative quarter
- The EPS for the quarter ending June, 2024 stands at Rs3.21 as against Rs3.53 in the comparative quarter

Conference Call Highlights:

- The key count as on June, 2024 stood at 6,395+ and the company presently operates 107+ hotels. ROHL added 469 keys with 5 hotels in Q1FY25. The Management has indicated of opening ~24+ hotels with a key count of ~1,900+ in FY25. Majority of these are managed hotels, except Gurgaon which is under revenue share (has 124 keys, 3 banquets and 2 F&B outlets, revenue generation is expected to be ~Rs250-300mn) and Mumbai (lease based) which is currently on hold
- The consolidated revenue breakup stands for Q1FY25 stood as: Owned: Rs267mn, Lease/Revenue share: Rs303mn, JV/ Associates: Rs137mn and Managed hotels: Rs87mn. The Management expects the revenue share from managed hotels to increase to ~Rs1,000-1,500mn (from current levels of ~Rs86mn in Q1FY25) by 2025-2026. ROHL garners margins of ~45% from managed hotels
- For Q1FY25, the average occupancy for JLO stood at: 70% while that for managed: 62%; the average room rate for JLO came in at Rs5,168 while that for managed properties stood at Rs3,823. In terms of city wise statistics for the quarter under review; the occupancy for Kolkata stood strong at ~79%, followed by Goa at ~77%, Bangalore at ~73%, Mumbai at ~67%, Jaipur at ~57% and Chennai at ~36%. The ARRs for these respective cities came in at Rs3,507, Rs4,886, Rs4,615, Rs5,445, Rs3,375 and Rs3,368. Q1 generally is not great in Chennai given the excess heat which drives down the overall occupancy and the ARR in this region
- The room revenue breakup (inclusive of managed hotels) for Q1FY25 came in as: ROHL website at ~4%, Online Travel Agents (OTAs) at ~29%, regional sales office at ~24%, direct at ~43% and others at ~1%. The segment wise room revenue (inclusive of managed hotels) for Q1FY25 came in as: business at ~55%, leisure at ~36%, bleisure at ~5% and pilgrimage at ~5%
- The overall drag on the Ebitda margins and profitability was on account of the increased employee expenses (~Rs7.2mn) and refurbishment (repairs & maintenance) charges (~Rs7.5mn) undertaken by ROHL. The Management expects the impact of refurbishments to continue for the next 2 quarters as well
- In terms of the expansion on the Bangalore and Goa properties; the company intends to add additional 28 rooms at its Bangalore property which is expected to be operational from Nov, 2024, while for Goa (addition of 50 rooms at a project cost of ~Rs250-300mn), the company is waiting for the plan to get sanctioned post which the Management expects the yields to be generated towards the end of FY26E
- The company is attempting stake sale in Multi Hotels Ltd (Tanzania); the Management had undertaken discussions on the same with a prospective buyer in Nairobi but on account of the geopolitical issues the same got deferred with no concrete closure on the same

Conference Call Highlights (contd.):

- As far as the Mumbai property is concerned, the rooms are currently under development and is expected to be ready by Oct, 2024, with operations available to the public by end of Dec/early Jan 2025. The property is expected to generate revenues worth ~Rs1,000-1,100mn in its 1st year of operation thereafter the revenues are expected to scale up in a gradual manner after the stabilisation phase. The ARR from the Mumbai property is expected to be ~Rs9,000-11,000. ROHL is working on the development of brand name which is expected to be announced over the next couple of months. As the Mumbai property is on a lease agreement, the Management expects the lease rental to be ~Rs70-80mn on an annual basis (~Rs25-30mn on a per quarter basis)

Financials:

Performance (Q1FY25)							
Q1FY25 Result (Rs mn)	**Jun-24**	**Jun-23**	**y-o-y**	**Mar-24**	**q-o-q**	**FY24**	**FY25E**
Total Revenue	730	689	6.0%	762	(4.2%)	2936	3334
EBITDA	166	181	(8.0%)	178	(6.4%)	761	783
Other Income	47	48	(3.7%)	61	(23.6%)	191	202
Interest	43	46	(7.5%)	44	(3.9%)	183	180
Depreciation	53	48	11.7%	52	1.6%	199	215
Exceptional Items	0	0	-	0	-	0	0
Tax	32	33	(5.0%)	(10)	-	97	106
Net Profit	**87**	**107**	**(18.7%)**	**167**	**(47.8%)**	**508**	**519**

Outlook and Recommendations:

The company has reported moderate growth of 6% on a y-o-y basis on the topline in the quarter under reference. Disruptions pertaining to elections (led by low business meetings) and heatwaves impacted the overall industry during Q1FY25. As mentioned in our earlier quarterly updates; in order to maintain the standards and remain competitive, ROHL had undertaken certain refurbishment/repairs & maintenance related expenses in a phased manner while at the same time increased the workforce in different regions which led to a drag on the Ebitda margins and the profitability for the quarter. The Management expects the impact of refurbishments to continue for the next 2 quarters as well. The ARR and the occupancy stood strong for Goa and Kolkata respectively. Going forward, on the whole the Management expects the ARR to increase in the range of ~6-8%. ROHL intends to add ~1,900+ in FY25 which majorly constitutes managed hotels (the share of managed hotels is expected to be ~80-85% over the next couple of years). After having breached the earlier threshold of 100 hotel mark; the Management expects to scale this up further to ~200 hotels by 01st Feb, 2026. This clearly indicates that the growth plans are intact over the next couple of years. The company is witnessing good opportunities from the banqueting space as well with current focus relying on ~20 hotels; apart from this good traction is observed from Baroda and Mumbai which will add to the overall growth in this segment in the near term. The Mumbai property is expected to contribute significantly in terms of ARR once its operational with further scale up post the stabilisation phase. The Ebitda margins would continue to observe some drag over the next couple of quarters attributed to the minimal refurbishment expenses; however, from a long term perspective brand building, expanding its reach and scalability, and addition of new hotels positions the company for a sustained expansion the effect of which are expected to fructify to the PnL in a gradual and phased manner. We thus continue to maintain an Accumulate on the stock for a target of Rs420.

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