

Royal Orchid Hotels Limited

May 19, 2017

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	50	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Assigned
Total Facilities	50 (Rupees Fifty crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facility of Royal Orchid Hotels Limited (ROHL) derives strength from its experienced promoters and long track record of operations of company with well-spread market presence, turnaround in financial performance of the company in FY17 (Provisional; refers to the period April 1 to March 31) with the company posting net profit at consolidated level supported by improvement in operational performance observed in Icon Hospitality Private Limited (Icon) and Ksheersagar Developers P Ltd. (Ksheersagar) which were earlier dependent upon ROHL for financial support and growing focus on Management contract (MC) model which is margin accretive business proposition and requires minimum capital. These rating strengths are partially offset by delays in debt servicing by its JVs/ subsidiaries before refinancing of their loans, relatively low PBDIT margins of the company due to high operational costs and inherent cycle nature of industry. The rating also takes note of its plan to monetize the land parcel in Mumbai and Tanzania which could help improve the liquidity and debt coverage metrics.

Going forward, the ability of the group to improve the occupancy levels and ARR and to improve its operating margins will be the key rating sensitivities

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters and long track record of hotel operations: The promoter, Mr C K Baljee is an MBA from IIMA and has over three decades of experience in hospitality industry. The company, operating since 1986, has established market presence and over the years has expanded its base to 39 hotels with 2970 keys covering 25 cities.

Improved operational performance in key hotels: Group's flagship hotel, Hotel Royal Orchid Bengaluru (HRO, Bengaluru; which contributes around 25% of group's revenue) has recovered the occupancy level to above 60% levels during FY16-17 from 49-54% during FY13-15. Besides HRO Bengaluru, company's other hotels which were earlier dependent upon support from ROHL viz. Icon and Ksheersagar, have also seen increase in occupancy levels.

Turnaround of financial performance in FY17: Increase in RevPAR coupled with closure of loan in some of the subsidiaries (viz. Maruti and Cosmos) and group's ability to re-finance the loan for ROHL, Ksheersagar and Icon for longer tenor at reduced interest rates helped the company in posting net profit at consolidated level after period of 5 years and see improvement in its liquidity position. The performance improvement in owned/leased properties as discussed above, coupled with incremental revenue from the MC based hotels helped in improvement of overall cash accruals.

Increased focus on Asset light model: The company during the past 3-4 years has shifted its focus on Asset light model with addition of new hotels coming under only Management contract (MC) basis which required minimum capital requirement. Out of 39 hotels (2971 keys) being currently operated by the company, around 28 hotels (1940 keys) are under MC. Addition of new hotels under MC though do not help in increase in revenues significantly, however, the same is EBIDTA accretive to the company

Key Rating Weaknesses

Recent instances of delays in certain subsidiaries/JVs: Due to modest occupancy level and high interest cost, company's JV and subsidiary viz. Ksheersagar and Icon reported delays in debt repayments. However, post re-financing of loan, the debt servicing is regular.

²Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Low PBDIT margins: Company's PBDIT margins have been declining from 16.46% in FY14 to 13.62% in FY16 due to increase in employee expenses and other operational costs. During 9MFY17 (Prov.), company saw slight improvement in PBDIT margins due to higher income from MC-based hotels, which is margin accretive business for the company.

Analytical approach: Consolidated. Company's financial and operational performance along with its JVs and subsidiaries are considered for analysis due to strong financial, operational and management linkages between them. Furthermore, ROHL has extended unconditional and irrevocable corporate guarantee to secure the bank facilities of two of its subsidiaries/JVs (Icon and Ksheer Sagar).

Applicable Criteria

[Rating Methodology- Hotel Industry](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's policy on Default Recognition](#)

[Financial Ratios-Non Financial Sector](#)

About the Company

Royal Orchid Hotels Limited (ROHL) is promoted by Mr C K Baljee, to carry on the business and management of hotels/hospitality business. The group largely operates 5-Star/4-Star hotels under the brand name Royal Orchid and Regenta. As on March 31, 2017, on consolidated basis, ROHL along with its subsidiaries, associates and JVs, owns/operates 11 hotels (1031 keys) besides managing another 28 hotels (1940 keys) under management contract.

ROHL, on consolidated basis, posted net loss of Rs.3.6 crore in FY16 on a total operating income of Rs.160.0 crore as against net loss of Rs. 6.8 crore on a total operating income of Rs.149.4 crore in FY15.

Status of non-cooperation with previous CRA: ICRA suspended its rating in February 2014 due to its inability to carry out rating surveillance in the absence of the requisite information from the Company

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	July 31, 2024	50.00	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Term Loan-Long Term	LT	70.00	Suspended	-	-	-	1)Suspended (30-Mar-15) 2)CARE BB-(08-Apr-14)
2.	Fund-based - LT-Term Loan	LT	50.00	CARE BBB-; Stable	-	-	-	-

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