



# ROYAL ORCHID HOTELS LTD.,

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CIN : L55101KA1986PLC007392

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Date: March 24, 2023

To,  
The Manager,  
Listing Compliance,  
Department of Corporate Services,  
BSE Limited,  
Floor 25, P. J. Towers,  
Dalal Street,  
Mumbai – 400 001  
BSE Scrip Code: 532699  
Dear Sir/Madam,

To,  
The Manager,  
Listing Compliance,  
Department of Corporate Services,  
National Stock Exchange of India Limited,  
Exchange Plaza, Plot no. C/1, G Block  
Bandra Kurla Complex, Bandra (E)  
Mumbai – 400 051  
NSE Scrip Symbol: ROHLTD

## Sub: Intimation of Revision in Credit Rating

Pursuant to Regulation 30(6) of SEBI (Listing Obligations and Disclosure Requirements) Regulations and In continuation to our letter dated 20<sup>th</sup> March, 2023, we wish to inform that we have received another from ICRA Limited ("ICRA"), as follows:

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	37.92	37.92	[ICRA]A- (Stable); reaffirmed
Proposed Non-convertible debentures	-	100.00	[ICRA]A- (Stable); assigned
Unallocated Facilities	8.08	8.08	[ICRA]A- (Stable); reaffirmed
<b>Total</b>	<b>46.00</b>	<b>146.00</b>	

The details are given in the letter from ICRA enclosed herewith. You are requested to take the above on record.

Thanking You.

For Royal Orchid Hotels Limited

  
Amit Jaiswal  
Chief Financial Officer

Encl: As Above

March 24, 2023

## Royal Orchid Hotels Limited: [ICRA]A- (Stable) assigned to Proposed Non-convertible debentures of Rs. 100.00 crore; ratings reaffirmed for bank facilities of Rs. 46.00 crore

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	37.92	37.92	[ICRA]A- (Stable); reaffirmed
Proposed Non-convertible debentures	-	100.00	[ICRA]A- (Stable); assigned
Unallocated Facilities	8.08	8.08	[ICRA]A- (Stable); reaffirmed
<b>Total</b>	<b>46.00</b>	<b>146.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating for Royal Orchid Hotels Limited (ROHL/the company) factors its strong operating and financial performance during 9M FY2023 and anticipated sustenance of the same given the healthy demand outlook for hotel industry in the next 12-18 months. Further, improved operating leverage and sustenance of cost-optimisation measures undertaken by the company during the pandemic period have resulted in healthy improvement in margins and consequent strengthening of the company's debt metrics and liquidity profile. ICRA expects ROHL's capital structure and coverage metrics to remain comfortable over the medium term, despite the incremental debt anticipated in FY2024 for supporting expansion plans.

The company has reported healthy uptick in revenues in 9M FY2023, with demand stemming from leisure, social MICE / weddings and pickup in business travel and FTAs (foreign tourist arrivals). ROHL reported consolidated revenues of Rs. 215.9 crore in 9M FY2023, 37.7% higher than the pre-Covid revenues, supported by both improvement in occupancy and Average Room Rate (ARR). The benefits from operating leverage and sustenance of cost optimisation measures undertaken during the pandemic, resulted in an improvement in operating margins to 33.6% in 9M FY2023, compared to 17.0% in 9M FY2020. As a result of its healthy accruals, ROHL's coverage metrics have improved, with consolidated Net debt/OPBITDA of 1.3 times as on December 31, 2022 and interest coverage of 5.4 times for 9M FY2023, as against Net debt/OPBITDA of 4.4 times and interest coverage of 1.7 times pre-Covid (in FY2020). ROHL's liquidity position has also strengthened and the company had free cash of Rs. 73.3 crore as of December 31, 2022, at the consolidated level. The favourable demand outlook for the industry and expansion of ROHL's hotel portfolio are likely to support revenues in FY2024. While profit margins could moderate from the current levels, they are likely to remain healthy going forward as well. The company is looking at raising Rs. 100 crore in H1 FY2024, for funding its hotel expansion plans, and this would increase net debt from current levels. Nevertheless, the debt metrics are likely to remain comfortable, supported by the anticipated healthy accruals.

The rating also positively factors in the company's asset-light model of operations (over 76% of rooms operated under management contracts/franchise), which limits capex requirements and project execution risks. Further, ROHL has a well-diversified hotel portfolio across segments (five-star, four-star, economy hotels, resorts and service apartments) and has witnessed healthy inventory growth to 4,805 keys as on December 31, 2022 from 1,944 keys in FY2014. The rating, is however, constrained by ROHL's inventory concentration in the Karnataka and Gujarat regions (42% of keys). While ICRA notes that the company has recently increased its presence in other regions such as Punjab, Odisha, Haryana and Himachal Pradesh, the ability to achieve material geographical diversification over the medium term remains to be seen. Further ROHL's revenues are vulnerable to the inherent cyclicality of the hospitality industry, economic cycles and exogenous events.

## Key rating drivers and their description

### Credit strengths

**Asset-light model of operation with 76% of inventory under management contracts/franchise limits capex and project implementation risk** - Over the past six to seven years, the company has primarily been expanding its footprint through an asset-light model that involves leasing of properties or entering into management contract with property owners or franchise. The same is likely to continue going forward as well. The proportion of managed/franchised hotels has gradually increased from 47% in FY2014 to 76% of the total inventory as on December 31, 2022. This is expected to provide long-term operational benefits to ROHL, with relatively less capex requirements and limited project implementation risk.

**Segmental diversification with presence across price points helps capture a wide range of customers** – ROHL owns five properties (in Bangalore, Goa and Jaipur), eight leased properties (in Bangalore, Mysore, Pune, Gurgaon, Hospet, Nagpur and Goa), while 65 hotels/resorts are on a management contract basis. ROHL's portfolio comprises a wide range of hotels with a healthy mix of brands across segments. The five-star hotels (Royal Orchid brand) constitute 8% of keys, the four-star hotels (Royal Orchid Central/Regenta Central) constitute 49%, 22% is in the economy/budget hotels (Regenta Inn) and the remaining 21% are resorts and service apartments. This helps the company capture a wide range of customers, including those travelling for business and leisure, and those preferring different price points.

**Healthy recovery in revenues and accruals in 9M FY2023; favourable demand outlook** – The company has reported healthy uptick in revenues in 9M FY2023, with demand stemming from leisure, social MICE/weddings and pickup in business travel and FTAs (foreign tourist arrivals). ROHL reported consolidated revenues of Rs. 215.9 crore in 9M FY2023, 37.7% higher than the pre-Covid revenues, supported by both improvement in occupancy and Average Room Rate (ARR). The benefits from operating leverage and sustenance of cost optimisation measures undertaken during the pandemic, resulted in an improvement in operating margins to 33.6% in 9M FY2023, compared to 17.0% in 9M FY2020. The favourable demand outlook for the industry and expansion of ROHL's hotel portfolio are likely to support revenues in FY2024. While profit margins could moderate from the current levels, they are likely to remain healthy going forward as well.

**Comfortable capitalisation structure and coverage indicators** – ROHL's net debt was relatively low at Rs. 123.2 crore as on December 31, 2022, supported by its healthy accruals and asset-light mode of expansion. Its debt metrics were comfortable with consolidated Net debt/OPBITDA of 1.3 times as on December 31, 2022 and interest coverage of 5.4 times for 9M FY2023, as against Net debt/OPBITDA of 4.4 times and interest coverage of 1.7 times pre-Covid (in FY2020). The company is looking at raising Rs. 100 crore in H1 FY2024, for funding its hotel expansion plans, and this would increase net debt from current levels. Nevertheless, the debt metrics are likely to remain comfortable, supported by the anticipated healthy accruals.

### Credit challenges

**High geographical concentration with 42% of keys in Karnataka and Gujarat** – ROHL has significant geographical concentration with around 42% of the inventory is in Karnataka (cities such as Bangalore, Mysore, Hospet, Belgaum and Shimoga) and Gujarat (Vadodara, Ahmedabad, Vapi, Rajkot, Bharuch, Dahej, Somnath, Morbi and Bhuj) as on December 31, 2022. Rajasthan (Jaipur, Pushkar, Udaipur, Ajmer, Bharatpur and Ranthambore) and Maharashtra (Mumbai, Pune, Mahabaleshwar, Nagpur, Nashik and Lonavala), with 13% and 11% of the total keys, respectively, also add to the geographical concentration risk. This exposes the company to revenue declines due to regional lockdowns and city-specific risks. While ROHL has diversified its portfolio across 49 locations with recent additions, the ability to achieve material geographical diversification over the medium term remains to be seen.

**Vulnerability of revenues to the inherent cyclicity of the hospitality industry, economic cycles and exogenous events** – Akin to other players in the industry, the company is exposed to industry cyclicity/seasonality, macroeconomic cycles and exogenous factors (geopolitical crises, terrorist attacks, disease outbreaks, etc). This was witnessed in FY2021 and FY2022, when ROHL's performance was significantly impacted by the pandemic.

## Environmental and Social Risks

**Environmental considerations** – ROHL, akin to other hotel players, is exposed to natural disasters (such as hurricanes and floods) and extreme weather conditions, which could interrupt operations or damage properties. However, the availability of insurance acts as a safeguard in these circumstances. The risk for ROHL is accentuated by its geographic concentration. The company has been taking measures to improve its environmental impact by reducing energy, water and plastic consumption, and increasing green initiatives, among others.

**Social considerations** – Akin to other hoteliers, the company would need to adapt to evolving social fabric (including changing consumer preferences and social trends) from time to time. It also relies heavily on human capital. ROHL is also vulnerable to data security and data privacy risks, like other hotels. Hence, there is moderate exposure to social risk.

## Liquidity position: Strong

ROHL's liquidity profile is strong, supported by favourable cash flow from operations and unencumbered cash and bank balances of Rs. 73.3 crore at the consolidated level as on December 31, 2022. As against this, ROHL has consolidated principal repayments of Rs.15.2 crore in FY2024 and Rs.16.2 crore in FY2025 on existing loans. Further, while ROHL has Board approval for raising upto Rs. 200 crore non-convertible debentures, it currently plans to raise only Rs. 100 crore in H1 FY2024, for funding its hotel expansion plans. The company has incremental capex requirements of Rs. 25-30 crore in FY2024 and Rs. 20-25 crore in FY2025 for brownfield expansions and maintenance capex requirements. This capex is expected to be funded through internal accruals. Overall, ICRA expects ROHL to be able to meet its medium-term commitments and yet be left with sufficient cash surplus.

## Rating sensitivities

**Positive factors** – Sustained improvement in operating metrics and profitability indicators leading to improvement in debt coverage indicators on a sustained basis could lead to a rating upgrade.

**Negative factors** – Negative pressure on ROHL's ratings could arise from any demand slowdown and weakening of operating metrics leading to sustained pressure on its earnings and profitability or significant capex, leading to weakening of debt coverage metrics and liquidity position. Specific credit metrics would include Net Debt<sup>1</sup>/OPBITDA over 2.3 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology - Hotels</a> <a href="#">Rating Approach - Consolidation</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of ROHL.

<sup>1</sup> Net debt = Total debt (including lease liabilities) minus cash and liquid investments

## About the company

The Royal Orchid Group of Hotels has a portfolio of 78 operating hotels across 49 locations in India as of December 31, 2022. The Group primarily operates on an asset-light model with over 76% properties under management contracts/franchise. While 42% of the inventory is in Karnataka and Gujarat, other areas of operation include Rajasthan (13% of keys) and Maharashtra (11%) and Goa, Tamil Nadu, Punjab and Uttarakhand to name a few. ROHL operates vide the following brands: Royal Orchid (five-star), Royal Orchid Central and Regenta Central (four-star), and Regenta Inn (economy hotels); as well as resorts and service apartments. Icon Hospitality Private Limited ([ICRA]BBB- (Stable)), one of the subsidiary companies and Ksheer Sagar Developers Private Limited ([ICRA]BBB- (Stable)), an associate company, operate one 130-room and 139-room hotel each in Bangalore and Jaipur, respectively. ROHL has extended corporate guarantees for the debt in these two entities.

## Key financial indicators (audited)

Consolidated*	FY2021	FY2022	9M FY2023 (unaudited)
Operating income	85.5	144.6	196.8
PAT	-40.0	26.8	34.9
OPBDIT/OI	-7.1%	20.6%	33.5%
PAT/OI	-46.8%	18.5%	17.7%
Total outside liabilities/Tangible net worth (times)	1.4	1.4	1.3
Total debt/OPBDIT (times)	-29.1	5.0	1.8
Interest coverage (times)	-0.4	1.8	5.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; \*The consolidated figures are as per published results with financial ratios adjusted for ICRA computation and may not be directly comparable with results reported by the company in some instances. The body of rationale includes the numbers and ratios considering consolidation of entities as per annexure II and hence are not comparable with the table in some instance.

## Status of non-cooperation with previous CRA: CARE Ratings in its rationale published on October 18, 2022 stated the following:

CARE had, vide its press release dated September 13, 2019, placed the rating of Royal Orchid Hotels Limited (ROHL) under the 'issuer non-cooperating' category as ROHL had failed to provide information for monitoring of the rating as agreed to in its Rating Agreement. ROHL continues to be non-cooperative despite repeated requests for submission of information through phone calls and emails dated June 12,2022, June 22,2022, June 26,2022, June 27,2022 and July 02,2022. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.

## Any other information: None

## Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Current rating (FY2023)			Chronology of rating history for the past 3 years					
			Amount outstanding as of Dec 31, 2022 (Rs. crore)	Date & rating in FY2023			Date & rating in FY2022		Date & rating in FY2021		Date & rating in FY2020
				Mar 24, 2023	Mar 20, 2023	Oct 20, 2022	Oct 04, 2021	Dec 07, 2020	Apr 13, 2020	Jan 31, 2020	
1 Term Loans	Long term	37.92	36.70	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	
2 Proposed Non-convertible debentures	Long term	100.00	-	[ICRA]A-(Stable)	-	-	-	-	-	-	
3 Unallocated	Long term	8.08	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB (Positive)	-	-	-	-	

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Proposed Non-convertible debentures	Very Simple
Unallocated Facilities	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2019	8.25%	FY2030	37.92	[ICRA]A- (Stable)
NA	Proposed Non-convertible debentures	NA	NA	NA	100.00	[ICRA]A- (Stable)
NA	Unallocated	NA	NA	NA	8.08	[ICRA]A- (Stable)

Source: Company;

### Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Icon Hospitality Private Limited	51.07%	Full consolidation
Maruti Comforts and Inn Private Limited	65.22%	Full consolidation
Royal Orchid Hyderabad Private Limited	100.00%	Full consolidation

Company Name	Ownership	Consolidation Approach
AB Holdings Private Limited	100.00%	Full consolidation
Royal Orchid Jaipur private Limited	100.00%	Full consolidation
Royal Orchid South Private Limited	100.00%	Full consolidation
Royal Orchid Associated Hotels Private Limited	100.00%	Full consolidation
Royal Orchid Shimla Private Limited	100.00%	Full consolidation
Royal Orchid Goa Private Limited	100.00%	Full consolidation
Royal Orchid Maharashtra Private Limited	100.00%	Full consolidation
Royal Orchid Mumbai Private Limited	100.00%	Full consolidation
Cosmos Premises Private Limited	100.00%	Full consolidation
Ksheer Sagar Buildcon Private Limited	50.00%	Full consolidation
Raj kamal Buildcon Private Limited	50.00%	Full consolidation
J.H Builders Private Limited	50.00%	Full consolidation
Multi Hotels limited	100.00%	Full consolidation
Ksheer Sagar Developers Private Limited	50.00%	Full consolidation

Source: ROHL annual report FY2022

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## ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)



## ICRA Limited



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### Branches



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