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Royal Orchid Hotels

Perfectly positioned to capture the upcycle



Amit Agarwal
Agarwal.amit@nuvama.com

Rishith Shah
rishith.shah@nuvama.com

Long Term Recommendation
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We initiate coverage on Royal Orchid Hotels (ROHL) with a 'BUY' rating and TP of INR433 (12x FY24E EV/EBITDA) implying a potential upside of 92%, driven by:

i. **Favorable demand-supply of rooms led by 7.8% CAGR in travel and tourism over FY22–32E (Source: World Travel & Tourism Council) against a supply of 4.6% (Source: Hotelivate) over FY22–27E. We expect strong ARR and industry occupancy;**
ii. **ROHL is likely to outclass peers, clocking a revenue CAGR of 45.9% over FY22–25E led by: a) additional rooms, b) strong and consistent occupancy, and c) robust ARR (currently 111% of pre-pandemic levels);**
iii. **EBITDA CAGR (FY22–25E) of 75.3% on: a) sturdy revenue growth, b) cost optimisation, c) focussed increase in growth through higher margin management contracts;**
iv. **Growth, via an asset light model, which will help maintain Balance Sheet health and improve net debt-to-equity ratio to -0.35x in FY25E from 0.27x in FY22; and**
v. **We reckon operating cash flow would treble to INR98cr in FY25E from INR39cr in FY22.**

Hospitality industry enjoying a multi-year upcycle

Oversupply and unfavourable macro events over FY08-14 had dragged sector-wide occupancy to 58% from 69%. With easing macro concerns, there was a gradual improvement in demand from FY15. Occupancy touched 66% in FY20, before being hit by the COVID-19 pandemic, which led to it plummeting to single digits. The imbalance has started reversing after the lifting of COVID-related restrictions on a strong demand recovery and short supply. Going forward, the influx of foreign travellers and growth in business and domestic leisure travel will aid the demand momentum. Over the next decade, demand CAGR is expected at 7.8% against a supply growth of 4.6% over FY22–27, resulting in a healthy RevPAR. An upcycle in the industry typically lasts for six years which bolsters our view of a structural upswing in the industry over FY22–25.

Strong room addition pipeline and healthy RevPAR to drive 45.9% revenue CAGR

We expect total revenue to grow to INR430cr in FY25 from INR139cr in FY22 (45.9% CAGR), driven by i) the addition of ~2,600 rooms over FY22–25, of which 2,575 would be under management contracts and revenue sharing leases; ii) favourable demand-supply dynamics [We expect 20.1% CAGR in ARR (JLO rooms) over FY22–25E]; iii) increase in occupancy to 72% in FY25 from 57% in FY22; iv) a 41.4% growth in revenue from management contracts on room additions and growth in realisation; and v) revenue CAGR of 42% from F&B and other services on value-add offerings and initiatives.

Revenue growth and margin expansion to spur EBITDA/APAT CAGR of 75.3%/132.7% over FY22–25E

We expect EBITDA growth to be driven by revenue growth and cost optimisation. With an improvement in efficiency, we expect the staff-to-room ratio to trend down over time. With a scale up in operations and an improvement in occupancy, other operating cost per room is seen declining. As against a 45.9% revenue CAGR, we estimate a 38.4% CAGR in operating cost over FY22–25. As a result, EBITDA margin will expand to 28.8% in FY25E from 16.6% in FY22, with EBITDA growing to INR124cr from INR23cr. Owing to steady depreciation and a falling net interest (led by a reduction in net debt), APAT margin is set to improve to 20.2% from 5% over FY22–25E, with APAT growing to INR87cr in FY25E from INR7cr in FY22.

Growth in EBITDA to bolster free cash flows and aid deleveraging; RoE likely to witness a 5x jump

ROHL operates on a negative working capital cycle. As a result, ~80% of EBITDA is expected to flow to operating cash flows, which will result in 36.2% CAGR over FY22–25 to INR98cr. With almost all future expansion being asset light, we expect ~75% of OCF to flow into FCF. With dividend payout limited to 20% of EPS, a higher FCF will result in a lower net debt. The company is likely to turn net cash positive, with a net D/E ratio of -0.35x in FY25E. RoE is set to expand to 29.7% in FY25E from 5.5% in FY22 on deleveraging, improving net margin, and rising asset turns.

Initiating coverage with a 'BUY' rating; potential upside of 92%

Considering the favourable industry dynamics, capacity expansion, strong growth in profitability, improving Balance Sheet strength and expanding return ratios, we are optimistic about ROHL turning in profitable growth. The stock trades at a significant discount to its peers, which will narrow on improving brand recognition and robust financial performance. At the CMP of INR226, the stock trades at 9.4x FY24E EPS and 5.9x FY24E EV/EBITDA. We value the stock at 12x FY24E EV/EBITDA — at the lower end of its historical trading range in an upcycle. We initiate coverage with a 'BUY' rating and TP of INR433.

Year to March	FY21	FY22	FY23E	FY24E	FY25E
Revenue (INR cr)	81	139	272	321	430
Revenue growth (%)	-61	71	96	18	34
EBITDA (INR cr)	-11	23	81	95	124
Net profit (INR cr)	-26	7	51	66	87
P/E ratio (x)	-19.1	21.1	12.3	9.4	7.1
EV/EBITDA ratio (x)	16.1	7.5	5.9	4.2	2.9
RoACE (%)	-11.7	1.5	27.4	30.5	35.8
RoAE (%)	-16.7	5.2	34.5	33.9	33.9

Amit Agarwal
Agarwal.amit@nuvama.com

Rishith Shah
Rishith.shah@nuvama.com

CMP: INR226

Rating: BUY

Target Price: INR433

Upside: 92%

Date: March 27, 2023

Bloomberg:	ROHL:IN
52-week range (INR):	113/317
Share in issue (cr):	2.74
M-cap (INR cr):	642.2
Promoter holding (%)	63.6

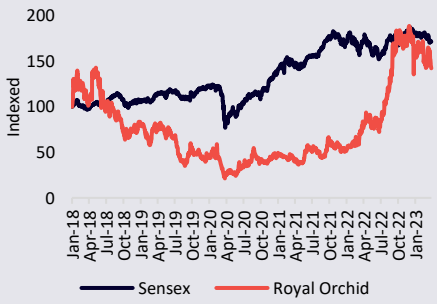


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Business structure

ROHL is one of the leading branded hotel chains in India with a presence across 49 locations in South, West, and North India. It operates 75 hotels, catering to business, leisure, and weddings segments. Its portfolio of 4,805 rooms is well-diversified across categories (five star – 407, four star – 2,348, resort/heritage/MICE – 786, three star/budget – 1,038, and service apartments – 226 rooms). A large part of its leisure portfolio is in non-metros (i.e. within 300kms from major cities). Over the years, it has adopted an asset light model for adding rooms, with a higher reliance on management contracts. We expect room additions under management contracts and revenue sharing leases as it establishes its presence in new regions as well as increases its penetration in its existing key locations.

We expect 45.9% sales CAGR over FY22–25, led by:

i. **The addition of ~2,600 rooms** across locations, of which 2,020/555 rooms are expected to be under management contracts/revenue sharing leases and 25 owned;
ii. **Near optimal occupancy of ~72% (across its portfolio)** led by strong demand traction and relatively slower supply across the industry;
iii. **A 20.1% ARR CAGR** on favourable demand-supply dynamics; and
iv. **Revenue CAGR of 42% from F&B and other services** on various initiatives and innovations.

We expect 75.3% EBITDA CAGR over FY22–25 on strong growth in realisation, increase in occupancy, and operational efficiency. EBITDA margin is set to expand to 28.8% in FY25E from 16.6% in FY22. We expect a decline in margin from 9MFY23 levels (31.5%) as the share of income from revenue share leases is set to increase (ROHL currently pays ~25% of revenue to hotel owners as rent, while bearing all operating expenses).

With a large part of the future expansion being asset light and a negative working capital cycle, we expect it to deliver healthy free cash flows over the next three years, which will significantly aid Balance Sheet strength. We expect the net D/E ratio to decline to -0.35x in FY25 from 0.27x in FY22, which will help amplify net profit, given the significant fall in net interest cost. We expect 132.7% CAGR in APAT over FY22–25.

We estimate an improvement in RoE/RoCE to 29.7%/32.3% in FY25 from 5.5%/1.7% in FY22 on higher asset turns and strong earnings growth.

Considering the favourable industry dynamics, strong growth in profitability, healthy Balance Sheet, and improving return ratios, we are optimistic about ROHL's growth prospects. At the CMP of INR226, the stock trades at 9.4x FY24E EPS and 5.9x FY24E EV/EBITDA.

We initiate coverage with a 'BUY' rating and a TP of INR433 per share, valuing the stock at 12x of FY24E EV/EBITDA.

Favourable industry dynamics after the lifting of COVID-related restrictions is driving strong growth in ARR and occupancy across the industry. We expect RevPAR to stay robust on strong demand. We expect the upcycle to continue over FY22–25

ROHL's strong room addition pipeline will help capture growth. With strong RevPAR and growth in inventory, we expect 45.9% revenue CAGR over FY22–25. We estimate 75.3% EBITDA CAGR over FY22–25 on revenue growth and cost efficiencies

We expect the net D/E ratio to improve to -0.35x in FY25 from 0.27x in FY22 on healthy FCF, led by strong EBITDA growth and minimal capex needs. We expect RoE to expand to 29.7% from 5.5% over FY22–25

INR cr	FY22	FY23E	FY24E	FY25E
Revenue	139	272	321	430
EBITDA	23	81	95	124
EBITDA margin (%)	17	30	30	29
PAT	7	51	66	87

INR cr	FY22	FY23E	FY24E	FY25E
RoACE (%)	1.5	27.4	30.5	35.8
OCF	39	67	75	98
Net D/E ratio (x)	0.3	-0.0	-0.3	-0.4

	FY24E	Target
EV/EBITDA ratio (x)	12x	433

EBITDA/PAT CAGR of 75.3%/132.7% + **FY25E RoE of 29.7%** + **Narrowing valuation gap v/s peers. Valuing at 12x FY24E EV/EBITDA (peak valuation has been higher)**

Upside: 92%

Focus charts

Exhibit 1: Keys portfolio (December 2022)

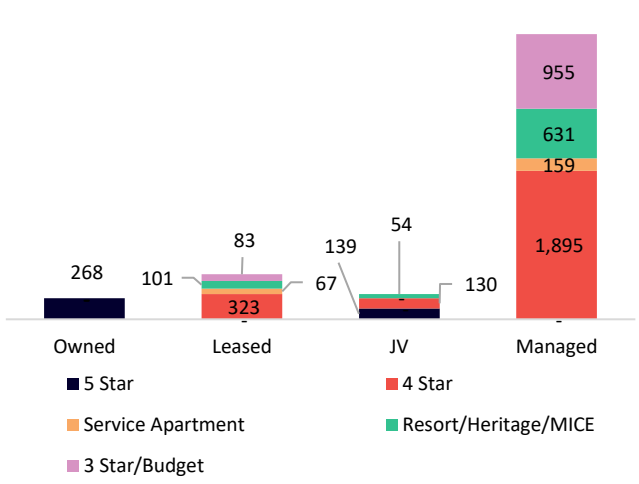


Exhibit 2: Room Inventory Build-up

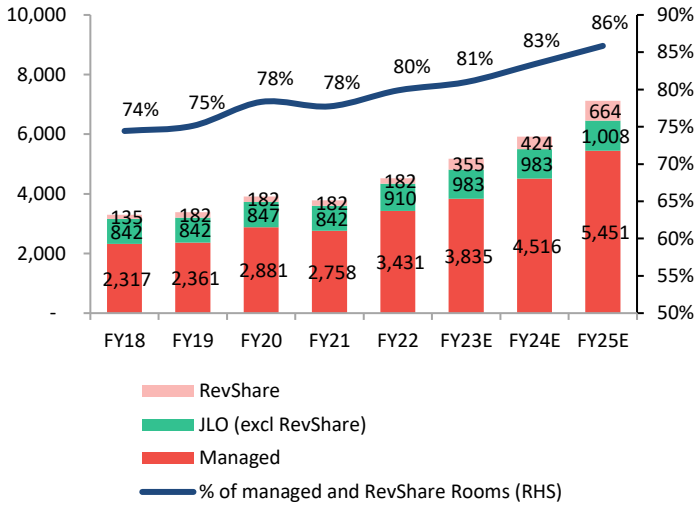


Exhibit 3: Growth in revenue from asset light portfolio led by room additions

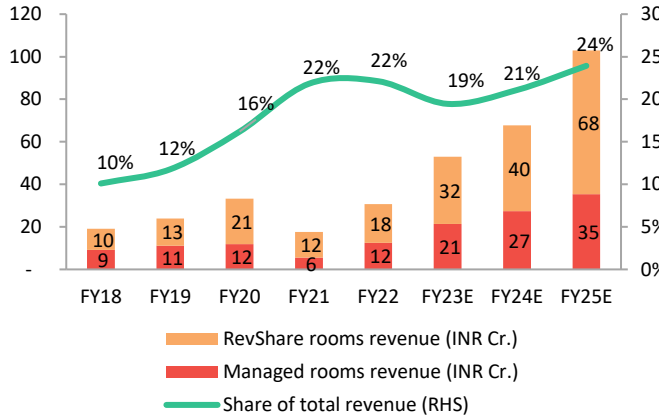


Exhibit 4: Revenue growth in JLO rooms led by ARR and occupancy

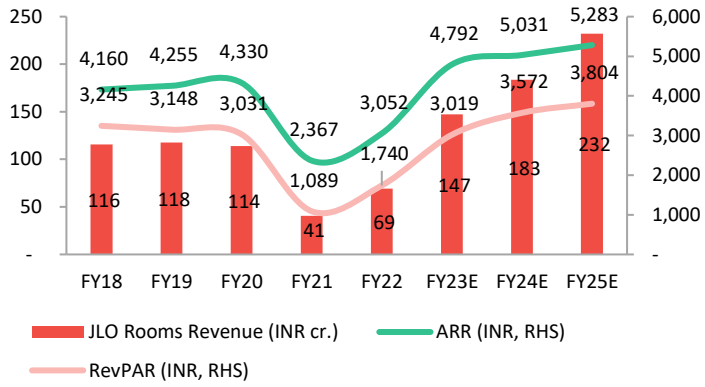


Exhibit 5: Expect 45.9% revenue CAGR over FY22-25 (INR cr)

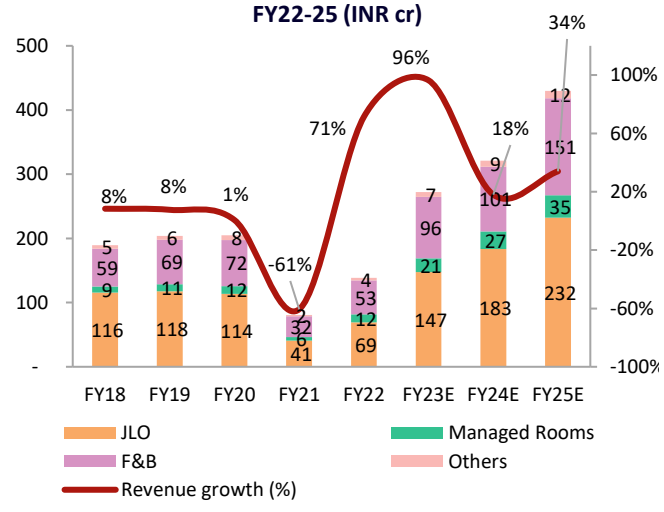
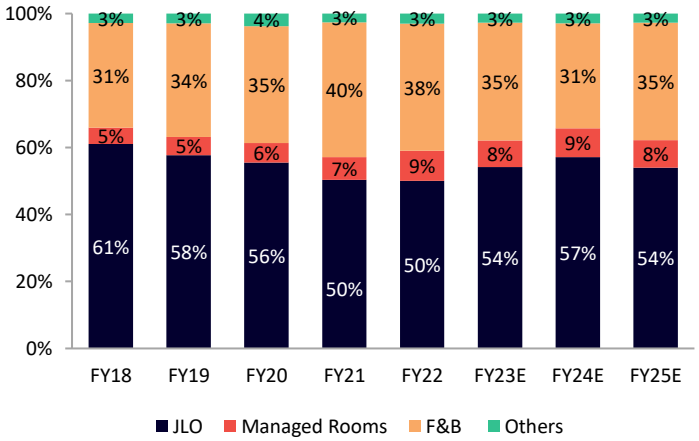


Exhibit 6: Revenue mix



Source: Company, Nuvama Wealth Research

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Exhibit 7: Expect 75.3% EBITDA CAGR over FY22–25 on room additions and RevPAR improvement

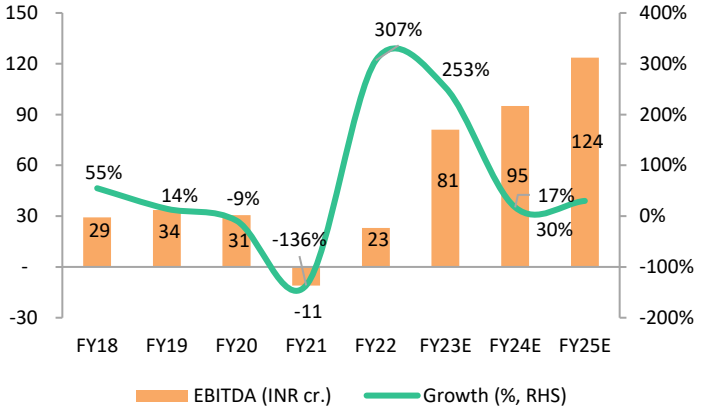


Exhibit 8: Expect 132.7% PAT CAGR over FY22–25 led by lower net interest cost and steady depreciation

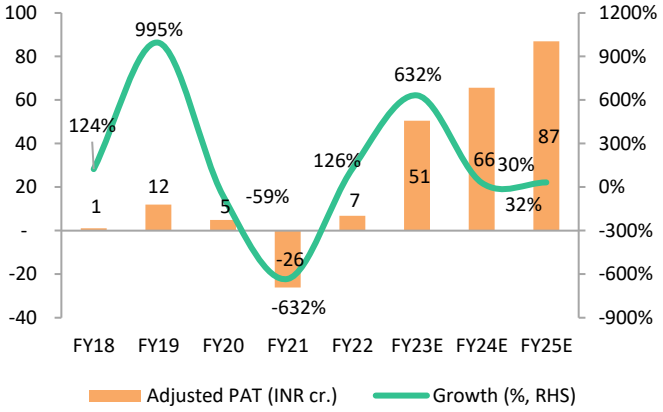


Exhibit 9: Increasing share of RevShare revenue to impact EBITDA margin going forward; PAT margin to expand

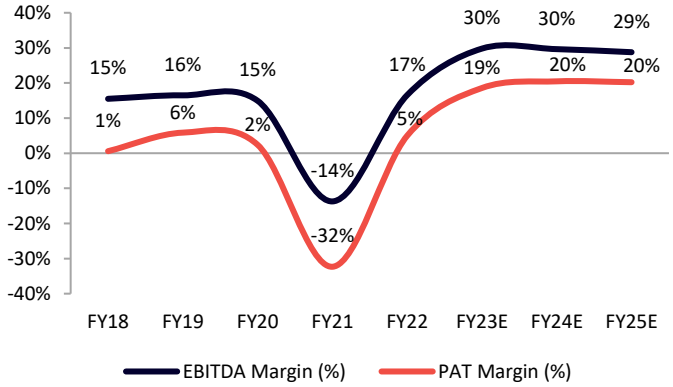


Exhibit 10: Incremental EBITDA to flow into OCF, asset light growth to ensure healthy FCF

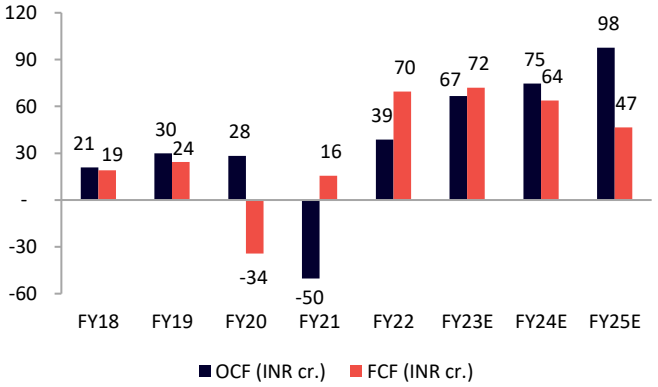


Exhibit 11: To turn net cash positive on strong FCF and no working capital requirement

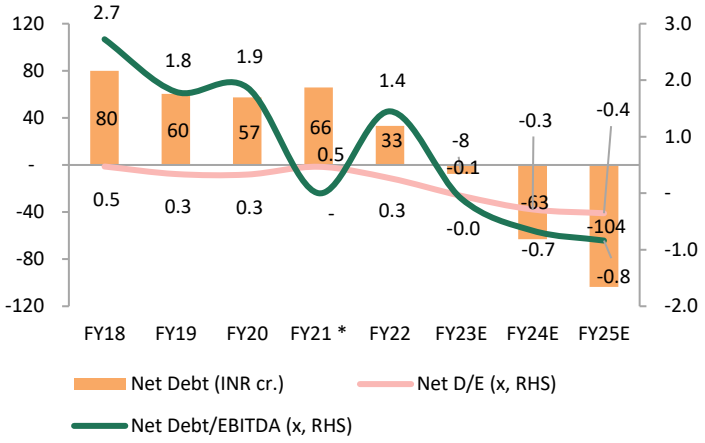
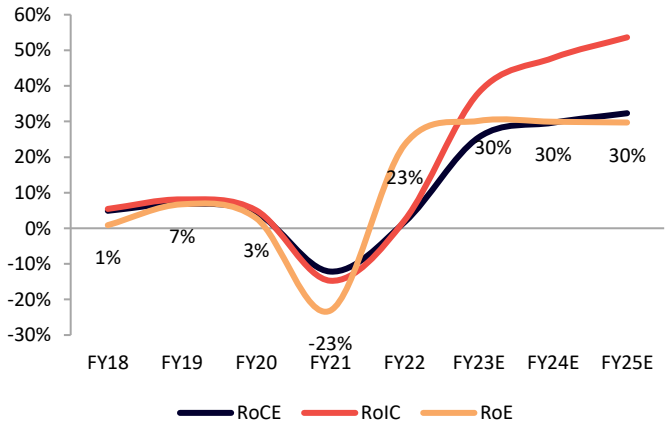


Exhibit 12: Return ratios set to improve on healthy PAT growth, improving asset turns and declining leverage



*FY21 net debt/EBITDA is NM as there was an operating loss
Source: Company, Nuvama Wealth Research

Investment Summary

We initiate coverage on ROHL with a **'BUY'** rating. Our optimism on the stock is driven by the following factors:

Cyclical upswing in the hotel industry to drive RevPAR: The Indian hotel industry is showing signs of a revival on favourable demand-supply dynamics. Owing to oversupply in the industry and unfavourable macro events during FY08–14, the sector saw occupancy slump to 58% from 69%. With macro concerns easing, demand gradually improved from FY15. Occupancy touched 66% in FY20, before being hit by the COVID-19 pandemic, which saw it plummet to single digits. The imbalance has started reversing after the lifting of COVID-related restrictions on strong demand and short supply. Going forward, the influx of foreign travellers and growth in business and domestic leisure travel will drive the demand momentum. Over the next decade, we expect a 7.8% CAGR in demand against a supply CAGR of 4.6% over FY22-27, resulting in a healthy RevPAR. If history is any indicator (upcycle of FY03-08), coming four to five years could see ARR CAGR of 20% with occupancy expanding by 400bp.

Strong focus on inventory additions under an asset light model: To capture the impending upcycle, ROHL is expected to add ~2,600 rooms, of which ~2,575 rooms will be under the asset light model. These planned additions will increase its inventory by 57.5%. Nearly 78%/21% of the rooms added will be under management contracts (no upfront capex)/revenue sharing leases (upfront capex of ~INR5lk per room). With strong demand and industry occupancy above 70%, the new properties should ramp up in a year. Over FY22–25, we expect room nights sold to clock 30.6% CAGR.

Inventory additions and growth in RevPAR to drive 45.9% revenue CAGR over FY22–25E: Owing to the favourable industry dynamics, JLO occupancy is set to expand to 72% in FY25E from 57% in FY22, with ARR improving to INR5,283 from INR3,052. We expect 49.6% CAGR in JLO revenue over FY22–25 on improving RevPAR and healthy RevShare room additions. Revenue growth from management contracts is pegged at 41.4% CAGR over FY22–25E, led by improving RevPAR and inventory additions. The management is taking initiatives like organising culture programmes, offering heritage menus, etc., to drive food and beverage and other income. We expect food and beverage and other income to clock 42% CAGR over FY22–25.

Revenue growth and margin expansion to spur EBITDA/APAT CAGR of 75.3%/132.7% over FY22–25E: Growth in EBITDA will be driven by revenue growth and cost optimisation. With an improvement in efficiency, we expect the staff-to-room ratio to trend down over time. With a scale up in operations and an improvement in occupancy, other operating cost per rupee earned is expected to decline. As against a 45.9% revenue CAGR, we estimate operating costs to clock 38.4% CAGR over FY22–25. As a result, we expect EBITDA margin to expand to 28.8% in FY25E from 16.6% in FY22, with EBITDA growing to INR124cr from INR23cr. Owing to a steady depreciation and declining net interest (led by a reduction in net debt), we see an improvement in APAT margin to 20.2% from 5%, with a growth in APAT to INR87cr in FY25 from INR7cr in FY22.

Negative working capital and asset light expansion to aid free cash flow generation: The hotel industry typically enjoys a negative working capital cycle, and ROHL is no different. We peg the cash conversion cycle in the -12 days to -21 days range during FY23–25. With a stable WCC, nearly 80% of EBITDA is expected to flow to OCF over the same period. Over FY23–25, we expect OCF to grow to INR98cr in FY25 from INR39cr in FY22 (36.2% CAGR), with a cumulative OCF of INR239cr. With capex limited to INR56cr (given its asset light expansion), we expect ROHL to generate a cumulative FCF of INR183cr over FY23–25.

Strong free cash flows to aid deleveraging, driving return ratios: Over FY23–25, we expect a dividend pay-out of nearly INR36cr, (~16% of earnings). The remaining FCF will help it turn net cash positive. We expect the net D/E ratio to improve to -0.35x in FY25 from 0.27x in FY22. With an improvement in net margin, the decline in net debt, and an improvement in asset turns, we expect RoE to expand to 29.7% in FY25 from 5.5% in FY22.

Valuation attractive given the strong anticipated growth and gap with peers: The TP of INR433 is based on 12x FY24E EV/EBITDA, aided by 75.3% EBITDA CAGR over FY22–25E. Our valuation is driven by a cyclical upswing in the hotel sector, with an improvement in RevPAR and an increase in the number of rooms driving higher revenue. The latter, coupled with a relatively muted increase in costs and higher operating leverage, is expected to lead to strong EBITDA growth. Our optimism is further bolstered by a healthy Balance Sheet, negative working capital, an improving net D/E ratio, and the fact that ROHL trades at a heavy discount to its peers. While the scale of operations warrants a discount vis-à-vis IH and EIH, we expect the gap to narrow as ROHL currently trades at a 70% discount, while its growth and margin are largely in line with peers like EIH, IH, and LEMONTRE.

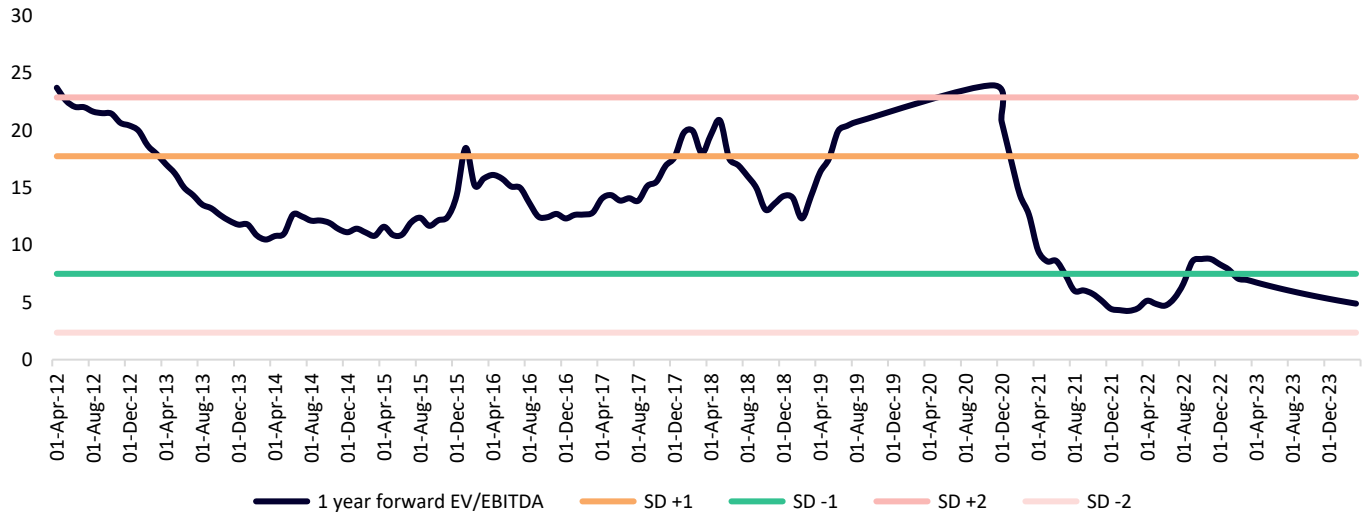
Valuation

We have valued ROHL based on 12x FY24E EV/EBITDA to arrive at a TP of INR433. Since FY16, its one-year forward EV/EBITDA ratio has been in the 4–20x range. The stock currently trades at 5.9x FY24E EV/EBITDA. The decline in the multiple is due to strong EBITDA growth on robust demand, but relatively lower growth in the stock price. During the years of healthy industry performance (FY16–20), the stock has traded in the 12–17x one-year forward EV/EBITDA ratio range. We expect a re-rating and value the stock at 12x one-year forward EV/EBITDA ratio (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) significant growth in EBITDA, iii) healthy cash flow generation, iv) strategic expansion of its product portfolio, and v) a sizeable valuation gap against its peers.

Valuation summary	Value (INR cr)
EV based on 12x FY24E EV/EBITDA ratio	1,141
Less: Net debt as of FY24E	-63
Less: Minority interest as of FY24E	18
Total	**1,187**
Number of shares outstanding (cr)	3
TP per share (INR)	**433**

The graph below (the 10-year one-year forward EV/EBITDA ratio) shows that the stock has traded in the 12–17x one-year forward EV/EBITDA ratio range during the pre-COVID period (FY16–20). The steep increase during May 2019 to December 2020 was due to a sharp slowdown in earnings due to the pandemic. Earnings have recovered after the lifting of COVID-related restrictions due to the over 40% RevPAR growth as compared to pre-COVID levels (FY19 JLO RevPAR: INR3,148), led by strong and sustained occupancy and higher ARR.

Exhibit 13: One-year forward EV/EBITDA ratio



Source: Bloomberg, Nuvama Wealth Research

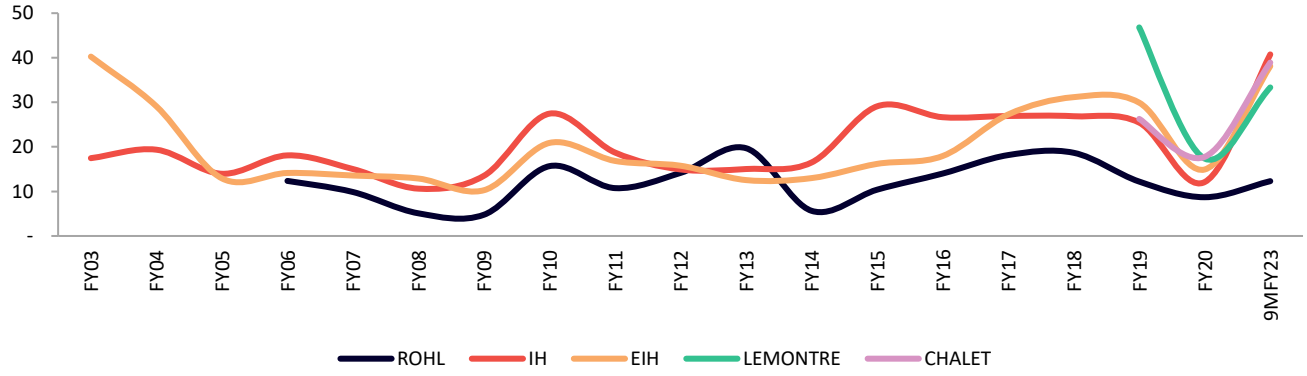
Valuation vis-à-vis its peers

ROHL is trading at a significant discount to its peers. While its competitors operate additional rooms, with a better product mix, margin and return profile are expected to be largely comparable going forward. We expect the company to be able to close the valuation gap as the current steep discount is unwarranted.

FY24E – peer overview (INR cr)	ROHL	IH	LEMONTRE	CHALET	EIH*
JV/leased/own room inventory (units)	1,407	14,000	5,759	2,810	2,124
Revenue	321	5,776	1,002	1,403	2,005
EBITDA margin	29.6%	32.0%	49.9%	42.7%	28.6%
APAT margin	19.8%	16.9%	13.6%	16.1%	16.4%
RoE	29.9%	12.4%	15.0%	13.7%	9.6%
Share price (INR)	226	315	78	364	158
Market capitalisation (m-cap)	642	44,736	6,206	7,457	9,881
One-year forward P/E ratio (x)	7.3	38.1	27.1	23.1	n/a
One-year forward EV/EBITDA ratio (x)	4.5	20.1	12.0	13.1	n/a
EV/room	0.4	3.1	1.4	3.4	4.7

*EIH – JLO rooms are roughly 50% of total rooms. Total rooms are pegged at 4,247 by March 2024. Consensus estimates for FY25E are not available
Source: Bloomberg, Nuvama Wealth Research

Exhibit 14: One-year forward EV/EBITDA ratio for ROHL vis-à-vis its peers



*Excluded FY21 and FY22 to eliminate the impact of the COVID-19 pandemic. EBITDA for 9MFY23 is on a TTM basis
Source: Bloomberg, Nuvama Wealth Research

Other factors aiding valuation:

1. We expect **revenue to clock 45.9% CAGR** over FY22–25, led by an increase in RevPAR and inventory additions.
2. The **hotel industry is heading into an upcycle** as demand growth is seen outpacing growth in supply. Industry ARR crossed pre-COVID levels in 9MFY23 and is not showing signs of a reversal. Occupancy is nearing pre-COVID levels and is pegged to cross the same by the end of FY23. Given the favourable demand-supply dynamics, strong RevPAR is expected ahead.
3. ROHL is focusing on **cost optimisation**. It is upskilling and redeploying its employees to improve its staff-to-room ratio. It is also rationalising fixed costs to maximise the benefits from operating leverage.
4. It is taking **initiatives to increase spends per guest,** with innovative meal programs, cultural and outdoor activities, value add services, etc. We expect income from F&B and other services to clock 42% CAGR over FY22–25.
5. More than 99% of **planned room additions are asset light**, which will help reduce capex per room. We expect revenue per room to trend upwards as RevPAR improves. As a result, we expect asset turns to improve to 0.97x in FY25 from 0.36x in FY22.
6. The company's **negative working capital** and healthy EBITDA will lead to **significant growth in operating cash flows**. Over FY22–25, we expect OCF to clock 36.2% CAGR.
7. The **net D/E ratio is expected to improve** to -0.35x in FY25 from 0.27x in FY22 on improved EBITDA and free cash flows.

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Sensitivity analysis

Our sensitivity analysis showcases the impact of volatility in ARR as well as occupancy on EBITDA, EBITDA margin, and the resultant TP. Our base projections consider an occupancy of 71%, with an ARR of INR5,031 for FY24E. In our analysis, we are considering a +/- two percentage point deviation in occupancy and a +/- 10% deviation in ARR for FY24.

EBITDA (INR cr)	Occupancy (%)				
ARR (INR)	69%	70%	71%	72%	73%
4,541	63	67	70	73	76
4,780	75	79	82	86	89
5,031	88	91	95	99	102
5,283	100	104	108	112	116
5,547	114	118	122	126	130

EBITDA margin (%)	Occupancy (%)				
ARR (INR)	69%	70%	71%	72%	73%
4,541	22.2	23.1	23.9	24.7	25.5
4,780	25.2	26.0	26.8	27.6	28.4
5,031	28.1	28.9	29.6	30.4	31.1
5,283	30.7	31.5	32.2	32.9	33.6
5,547	33.2	34.0	34.7	35.4	36.0

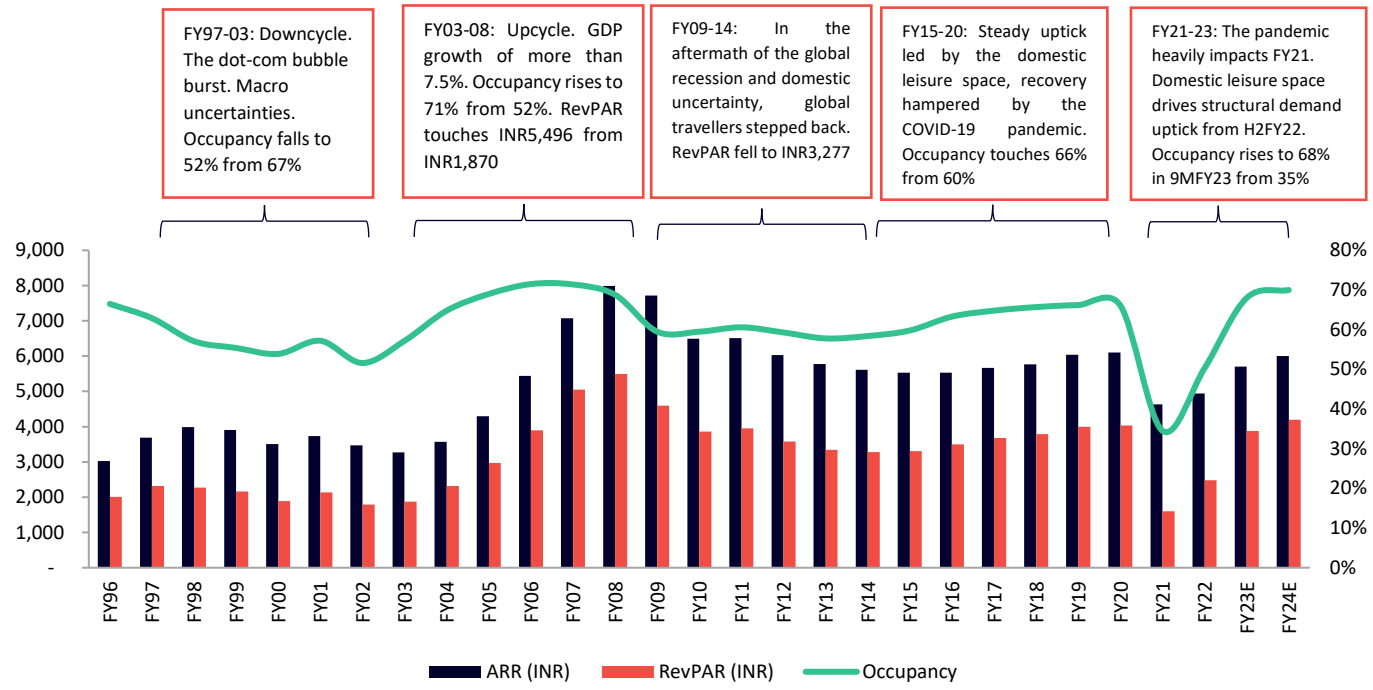
TP (INR)	Occupancy (%)				
ARR (INR)	69%	70%	71%	72%	73%
4,541	284	300	315	330	346
4,780	340	356	372	388	405
5,031	399	416	433	450	467
5,283	457	475	493	511	529
5,547	519	538	556	575	594

	Occupancy	ARR	EBITDA (INR cr)	EBITDA margin (%)	TP (INR)	Upside (%)
Base case	71%	5,031	95	29.6	433	92
Best case	73%	5,547	130	36.0	594	163
Worst case	69%	4,541	63	22	284	26

Source: Company, Nuvama Wealth Research

Investment rationale

I. Hospitality industry enjoying a multi-year upcycle



Source: HVS, Hotelivate

The Indian hospitality sector is highly cyclical in nature. A positive cycle is characterised by a sustained improvement in occupancy and a steady rise in ARR. The cycle typically lasts for five-to-six years. It attracts investments as brands as well as local players start to add capacities to capture growth. This tends to result in an oversupply as most players plan their expansion at a similar point of time, with capacities coming on stream in a short time frame, leading to a negative cycle, which typically lasts for four-to-five years. The negative cycle is further aggravated if it coincides with a downturn in the economy. Business hotels and destinations are greatly influenced by macroeconomic volatility, while leisure destinations are influenced by non-economic factors such as political stability, safety concerns, tourist infrastructure, etc. Demand in Tier I cities is affected by global macroeconomic factors such as GDP, inflation, etc., while demand in Tier II and III cities is driven by factors such as health concerns, safety, attractiveness of destinations, etc.

First cycle — FY97–03: The early years in the hospitality industry were dominated by non-branded and non-franchisee hotels, and the industry was largely fragmented. Branded hotels were concentrated in metros and a couple of prime tourist destinations such as Goa. The branded space was dominated by domestic players such as IH, ITC, Oberoi Hotels & Resorts, and India Tourism Development Corporation (ITDC). During the earlier part of the cycle (FY96–99), the industry saw healthy room additions from domestic brands due to the gap between demand and supply prior to FY96. With a growth in supply, occupancy fell to 55% in FY99 from 67% in FY96. This was followed by the dot-com crisis in FY2000 which impacted the inflow of international travellers. As most branded rooms catered to the business segment, occupancy plummeted to 52% in FY02. RevPAR declined to INR1,870 in FY03 from INR2,320 in FY97. This was against an average inflation rate of nearly 7% over FY96–03, thereby impacting the financials of most Indian hotel chains. Reflecting this underperformance, the stock price of EIH/IH fell by 7.2%/12.9% CAGR over FY99–03 against a 4.1% decline in the Sensex.

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Second cycle — FY03–08: The downturn in FY2000 resulted in a shift in strategies as international hotels realised they cannot depend heavily on larger, matured economies for growth. Brands set up properties and developed leisure destinations in India to attract travellers, which helped change the country's perception as a global tourist destination. International brands such as Hilton, Marriott, and Hyatt entered India. Domestic and international travellers increased their spending substantially over this period. Foreign tourist arrivals (FTA) rose substantially to 52.8lk in CY08 from 27.3lk in CY03 (14.1% CAGR). Domestic tourists touched 56.3cr in CY08 from 30.9cr in CY03 (12.7% CAGR). With a relatively slower growth in supply, occupancy expanded to 69% in FY08 from 57% in FY03. ARR grew to INR7,989 from INR3,269 led by favourable demand-supply dynamics, higher share of luxury inventory from international players, and increasing disposable income. Led by increased occupancy and growth in ARR, revenue/EBITDA for EIH, IH, and ROHL clocked a CAGR of 22.6%/63.1%, 28.3%/48.1%, and 32%/36.7% over FY03–08, respectively. EBITDA margin for EIH/IH/ROHL expanded to 37.5%/32.1%/38.7% in FY08 from 9%/15.6%/32.5% in FY03. RoE expanded to 18.9%/16.3%/18.1% in FY08 from -0.7%/2.7%/3.1% in FY03. M-cap of EIH/IH notched a CAGR of 46.2%/52.5% over the same period. Aided by healthy growth in EBITDA, EV/EBITDA ratio remained in the 12-15x/13-18x range for EIH/IH.

Exhibit 15: EBITDA margin (%)

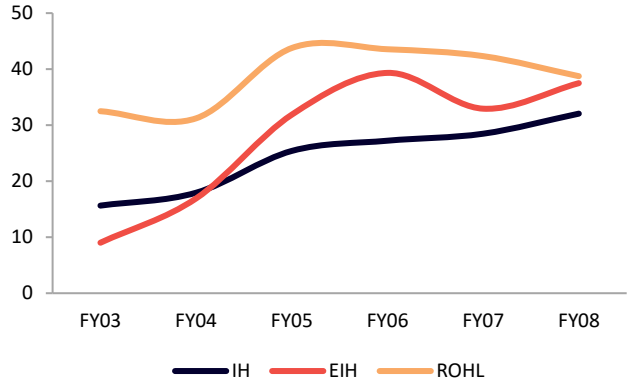


Exhibit 16: RoE (%)

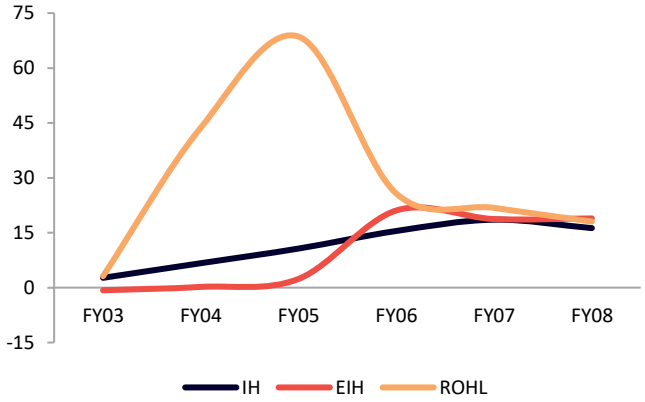


Exhibit 17: M-cap (INR cr)

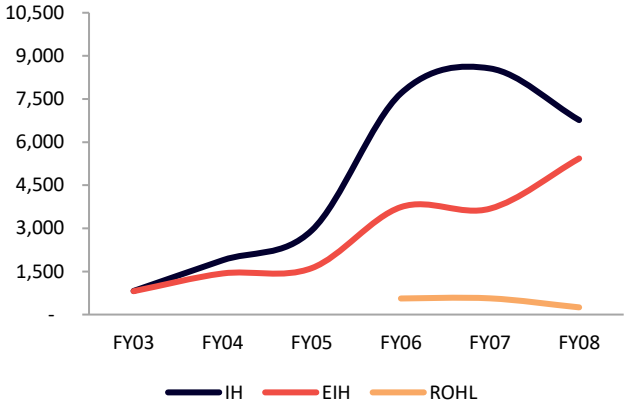
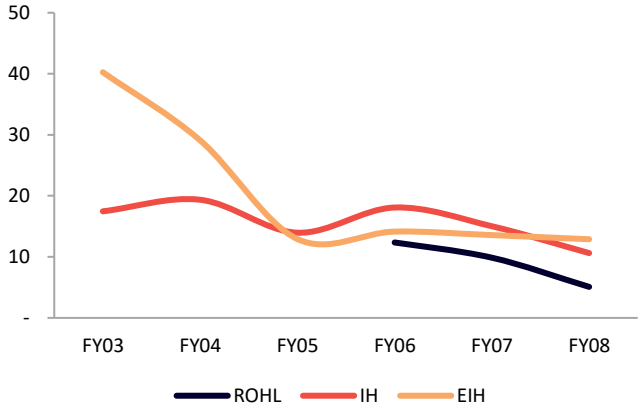


Exhibit 18: EV/EBITDA ratio (x)



Source: Bloomberg

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Third cycle — FY09–14: The Hospitality industry was impacted by a global recession (led by the subprime crisis) and the 26/11 attacks in Mumbai in FY09. Growth in FTA slowed down to 4% in CY08 from 14.2% in CY07. Tier II and III cities were relatively less impacted as domestic tourists continued to travel. Luxury business hotels were hit the most. Occupancy/RevPAR fell to 60%/INR4,595 in FY09 from 69%/INR5,496 in FY08. Tourist volumes started to recover from FY10, with a growth in FTA and domestic tourists. However, occupancy and ARR did not improve as: i) hotels offered discounts to attract tourists, ii) expansions planned in the previous upcycle started to come on stream, and iii) global macroeconomic concerns continued. Occupancy/ARR fell to 58%/INR5,611 in FY14 from 60%/INR 7,722 in FY09. Margin and return ratios for key players saw a similar decline, with growth slowing down. EBITDA margin/RoE for EIH, IH, and ROHL fell to 22.5%/4.1%, 14.3%/-19.7%, and 22.6%/-19.8% in FY14 from 37.5%/18.9%, 32.1%/16.3% and 38.7%/18.1% in FY08, respectively. Cumulative m-cap of these companies clocked a CAGR of -4.8% over the same period.

Exhibit 19: EBITDA margin (%)

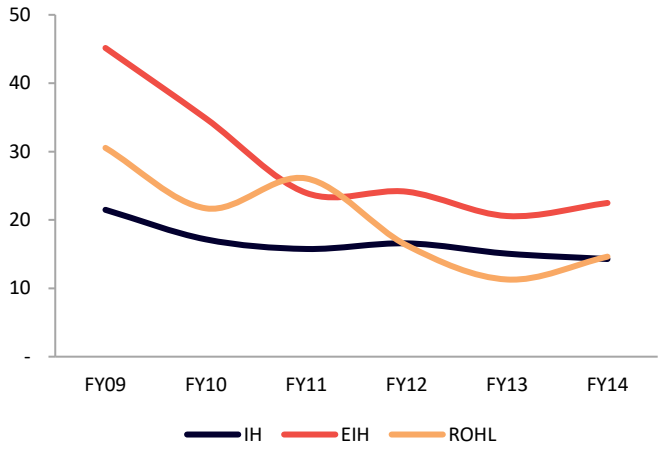


Exhibit 20: RoE (%)

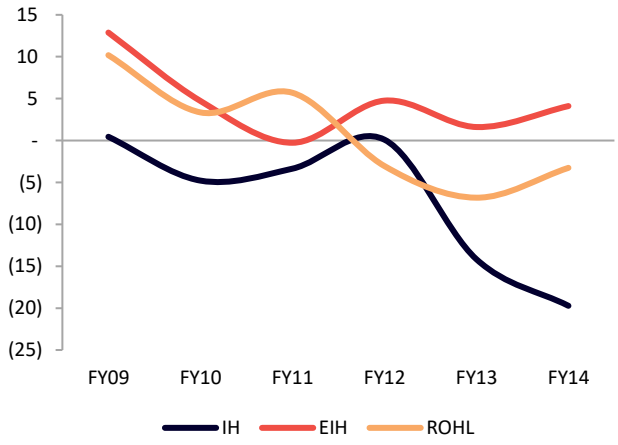


Exhibit 21: M-cap (INR cr)

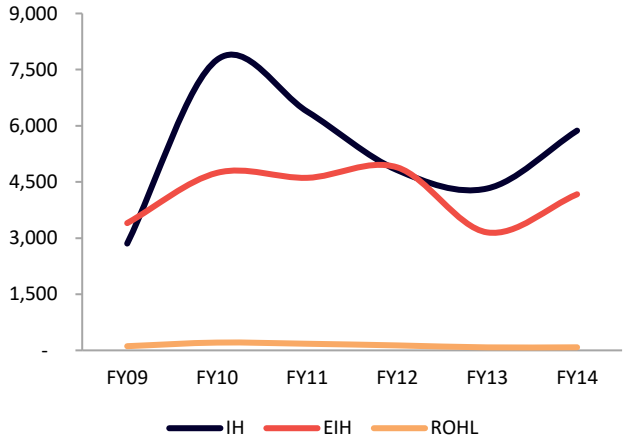
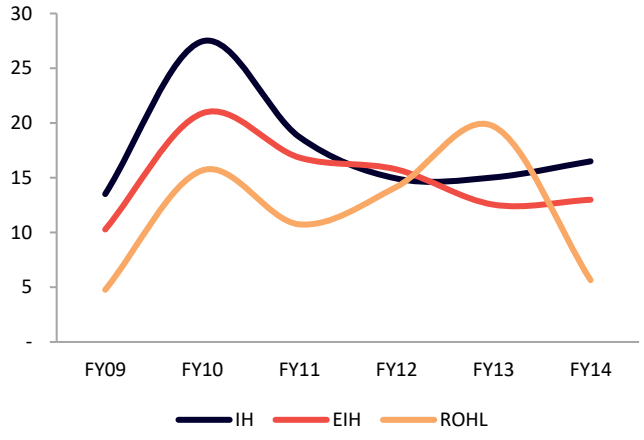


Exhibit 22: EV/EBITDA ratio (x)



Source: Bloomberg, Company

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Fourth cycle — FY15–20: The hotel industry steadily recovered across segments and categories from FY15. Owing to the overhang of the previous downcycle, supply additions slowed to an annual rate of ~6% during this period. Before being interrupted by the COVID-19 pandemic, demand saw a steady uptick with FTA rising to 109.3lk in CY19 from 80.3lk in CY15. During the same period, domestic tourists grew to 232.2cr from 143.2cr. As overall demand for rooms grew an estimated 8.5% over FY15–20, occupancy improved to 66% in FY20 from 60% in FY15. However, ARR growth moderated as hotels continued to offer promotional schemes to attract customers. RevPAR clocked 4.1% CAGR over FY15–20.

Driven by industry growth, RoE for EIH/IH/ROHL grew to 4.9%/8.1%/2.8% in FY20 from 2.4%/-15.5%/-6% in FY15. EBITDA for IH/ROHL clocked 23.3%/9% CAGR over FY15–20 versus a revenue growth of 1.2%/6.8% as a large part of the latter was driven by an increase in occupancy. While the financial performance of companies was on track till Q3FY20, m-cap for the industry was impacted over COVID-19 concerns. Over FY15–19, the m-cap of EIH/IH/ROHL clocked 17.7%/18.2%/29.7% CAGR, followed by a dip of 68.1%/51.6%/64.4% in FY20.

Exhibit 23: EBITDA margin (%)

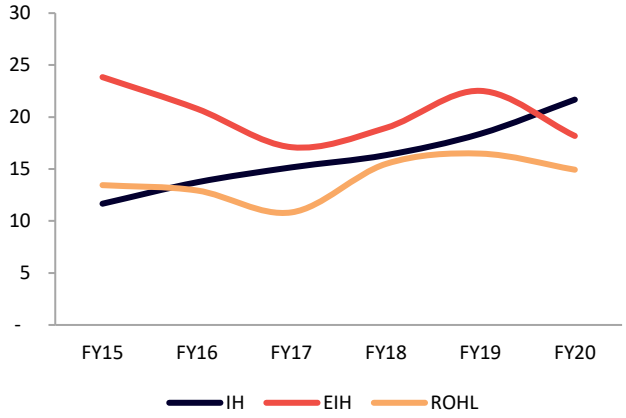


Exhibit 24: RoE (%)

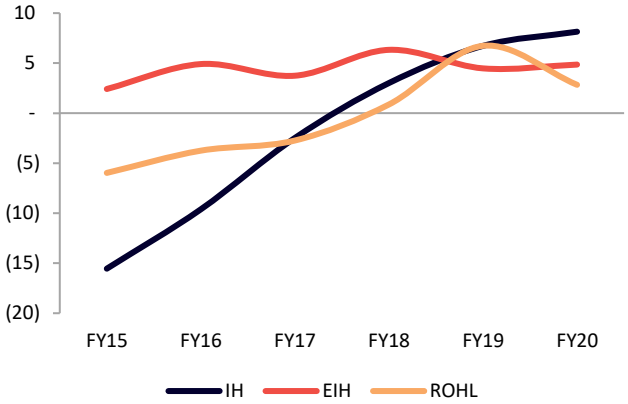


Exhibit 25: M-cap (INR cr)

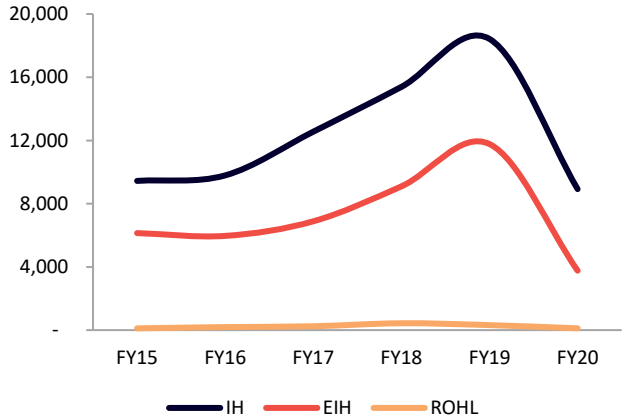
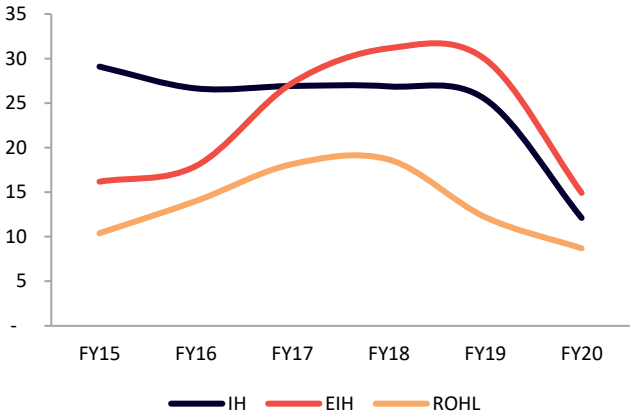


Exhibit 26: EV/EBITDA ratio (x)



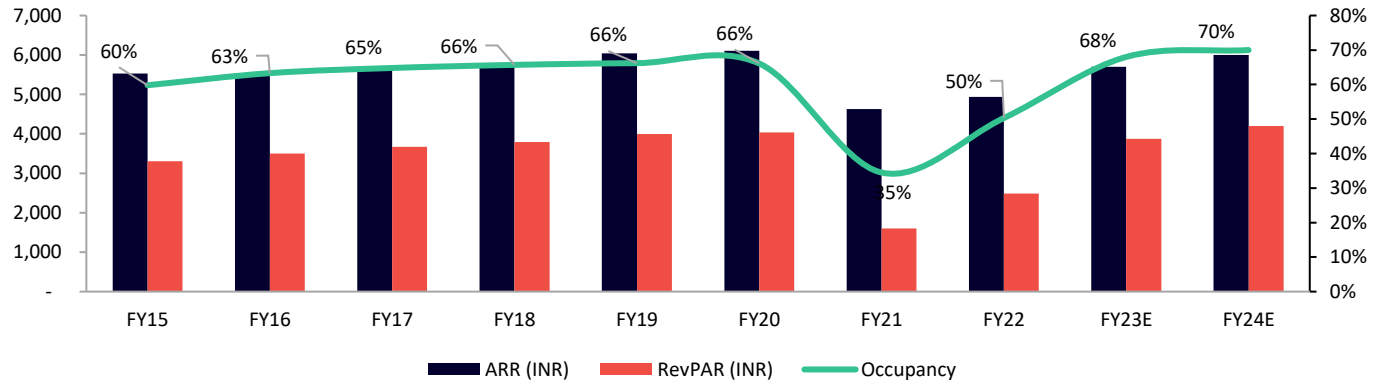
Source: Bloomberg, Company

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Fifth cycle — from FY22: The hotel sector was severely impacted during the COVID-19 pandemic, with industry occupancy levels dropping to 9% in H1FY21 from a multi-year high of 66.1% in FY20 – the highest since FY08. As restrictions began to subside, the sector saw a steady recovery in H2, driving average occupancy to 34.5% in FY21. FY22 witnessed a faster-than-expected recovery on the back of revenge travel and an aversion towards international destinations. Business travel started to pick up gradually in FY22. Occupancy improved dramatically to 50.3% in FY22 from 34.5% in FY21. Demand remained strong in H1FY23 as the trend of staycations and workations caught on. Business travel, MICE demand, and the wedding segment have seen a significant recovery in FY23 till date. As per CARE Ratings, occupancy inched back to pre-COVID levels, averaging 63–65%, despite a delayed recovery in the influx of international travellers. We expect the demand momentum to continue, given the: i) influx of foreign travellers, ii) continued growth in business travel and wedding demand, and iii) healthy growth in domestic leisure travel. Hotelivate expects industry occupancy levels to cross pre-COVID levels in FY23 at 68%, improving further to 70% in FY24. Over the next decade, industry body World Travel & Tourism Council expects the Indian hospitality sector to clock 7.8% CAGR.

On the supply side, capacity additions slowed after the pandemic as industry players turned cautious on a demand recovery. As a result, inventory additions slowed to 3.1% in FY21 versus an average inventory CAGR of 5.8% over FY13–20. With a significant recovery in demand, players started announcing their expansion plans from FY22. As a greenfield project typically takes three years to complete, current announcements will boost inventory from FY25. Over FY22–27, India's branded room supply is expected to clock 4.6% CAGR. With inventory additions lagging demand growth, ARR is expected to witness healthy growth ahead. As per Hotelivate, ARR is expected to reach pre-COVID levels in FY24. In FY23/FY24, ARR is expected to grow by 15.4%/5.3% to INR5,700/INR6,000.

Exhibit 27: Industry occupancy and RevPAR



Source: Hotelivate, Nuvama Wealth Research

If history is any precedent, an upcycle typically lasts an average five-to-six years. As the industry uptrend started from FY23, we expect it to continue till FY28. Driven by an improvement in RevPAR and inventory additions, revenue/EBITDA for IH and ROHL is expected to clock a CAGR of 28.3%/75.9% and 45.9%/75.3%, respectively, over FY22–25E. EBITDA margin/RoE for IH and ROHL can expand to 34.1%/13.6% and 28.8%/29.7% in FY25 from 13.2%/-4.6% and 16.6%/23.5% in FY22. During the previous two upcycles (second and fourth cycle), IH/EIH's m-cap clocked an average CAGR of 35.3%/31.9%. This further supports our theory and corroborates our optimism on ROHL.

II. Healthy room addition pipeline to capture the upcycle

As of December 2022, ROHL had an inventory of 4,805 rooms spread across 49 locations. A majority of its more than 78 hotels are spread across South, West, and North India, primarily in Tier II and III cities (located within 250–300kms from metros). Its offerings are spread across service categories, with 30 business hotels, 16 wedding destinations, over 20 leisure destinations, and four wildlife locations. It covers the entire budget spectrum with seven sub-brands offering five-star hotels, four-star hotels, service apartments, heritage resorts, MICE hotels, and budget/three-star hotels. It follows a hybrid model for operating its hotels, including complete ownership, joint ventures, leasing, management contracts, and franchising.

Exhibit 28: Room inventory as of December 2022

Category	Owned	Leased	JV	Managed	Total
Five star	268	-	139	-	**407**
Four star	-	323	130	1,895	**2,348**
Service apartment	-	67	-	159	**226**
Resort/heritage/MICE	-	101	54	631	**786**
Three star/budget	-	83	-	955	**1,038**
Total keys	**268**	**574**	**323**	**3,640**	**4,805**

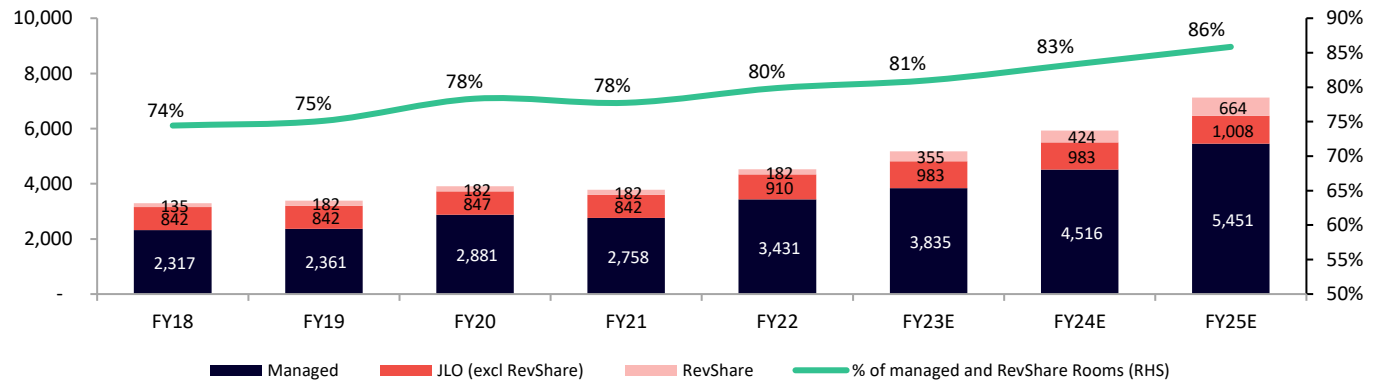
Source: Company, Nuvama Wealth Research

The company is relying off late on management contracts to expand its network as it does not require any upfront capex. It manages the hotel for the owner for a fee of 5.5–6.5%. Other than shared overheads and the manager's salary, all other expenses are borne by the hotel owner. It enjoys an EBITDA margin of ~80% in this model. As of December 2022, 76% of total rooms were under management contracts. Going forward, ~78% of planned room additions are expected to be under management contracts.

Under leasing, ROHL follows a fixed as well as revenue sharing (RevShare) model. As of December 2022, it operated 319/255 rooms under fixed/RevShare lease. The leases are largely long term (10–20 years) in nature. Under RevShare lease, the lessee charges an average 25% of hotel revenue. Operating expenses in case of leased hotels are completely borne by ROHL. The upfront capex requirement for these hotels average INR5lk per room as against INR1cr for a completely owned five-star room. Even as the leased model generates a relatively lower EBITDA margin, it offers a higher return on investment. Going forward, nearly 20% of total planned additions are expected to be under RevShare leases.

To capture the industry upcycle, ROHL has planned significant capacity expansion till FY25, a large part of which is expected to be asset light. It plans to expand its presence in existing high yielding destinations such as Goa and Bengaluru. It is also planning to establish its presence is the east and northeast, where it currently operates only three hotels. It is evaluating overseas locations such as Maldives, Sri Lanka, and Bali. Over FY22–25, ROHL is expected to add 2,600 rooms (57.5% of capacity as of March 2022), of which 2,020/555/25 rooms will be under management contracts/leased/completely owned. With these additions, the share of asset light rooms (managed and RevShare) is expected to touch 86% in FY25 (from 80% in FY22).

Exhibit 29: Build-up in room inventory, share of asset light rooms to grow



Source: Company, Nuvama Wealth Research

III. Revenue to clock 45.9% CAGR on strong occupancy, ARR, and inventory additions

We expect 45.9% CAGR in total revenue to INR430cr in FY25 from INR139cr in FY22, led by: i) strong industry occupancy with improving ARR, ii) significant growth in inventory of managed and revenue sharing rooms, and iii) focus on improving value add and F&B offerings. Growth in revenue from JLO rooms/F&B and other services/management contracts is set to drive 55.8%/36.3% /7.8% of total growth. Share of revenue from JLO rooms will grow to 54% in FY25 from 50% in FY22, led by growth in ARR and occupancy and addition of RevShare leases. We expect the share of revenue from F&B and other services/management contracts to decline to 38%/8% in FY25 from 41%/9% in FY22.

Exhibit 30: Revenue growth and build-up (INR Cr.)

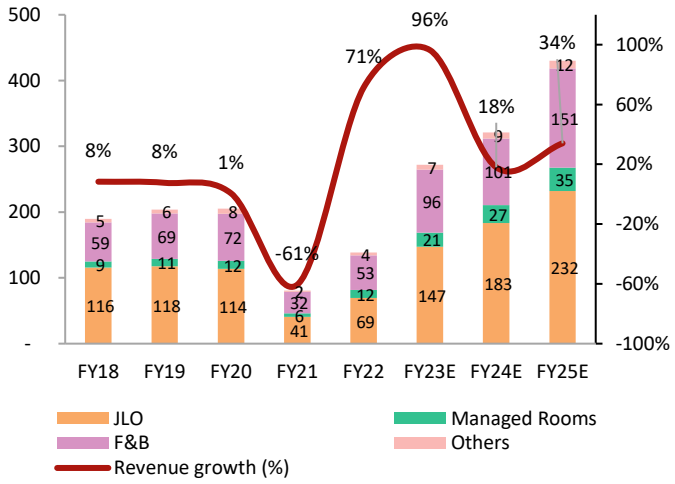
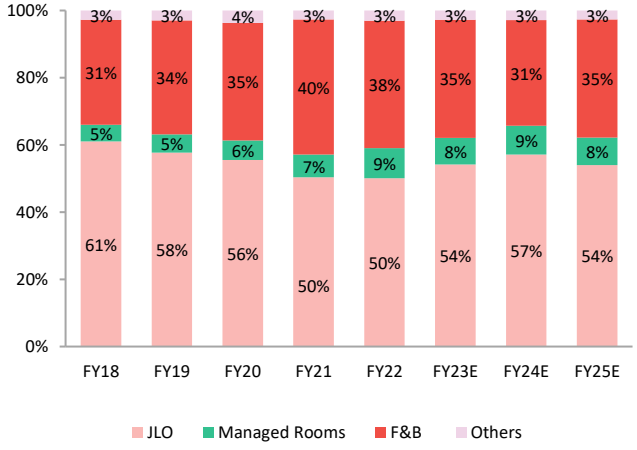


Exhibit 32: Revenue mix

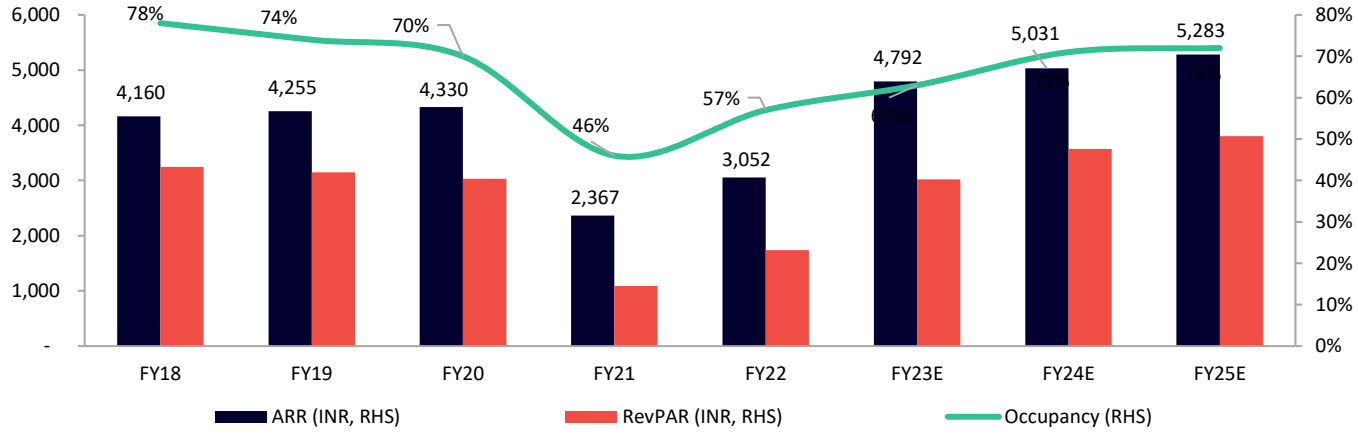


Source: Company, Nuvama Wealth Research

Strong occupancy and ARR trends

Owing to favourable demand-supply dynamics (refer Exhibit 27) and ROHL's prominent presence in the leisure segment in Tier II and III cities (which have seen a stronger recovery than Tier I cities after the lifting of COVID-related restrictions), we expect occupancy as well as ARR to register better-than-industry growth. From 57% in FY22, we expect JLO room occupancy to improve to 72% in FY25. Significant new capacity additions will restrict growth in occupancy as new rooms will require 8-12 months to ramp up. Over FY22–25, ARR is expected to clock 20.1% CAGR to INR5,283, with RevPAR growing at 29.8% CAGR to INR3,804.

Exhibit 34: Growth in JLO ARR and occupancy



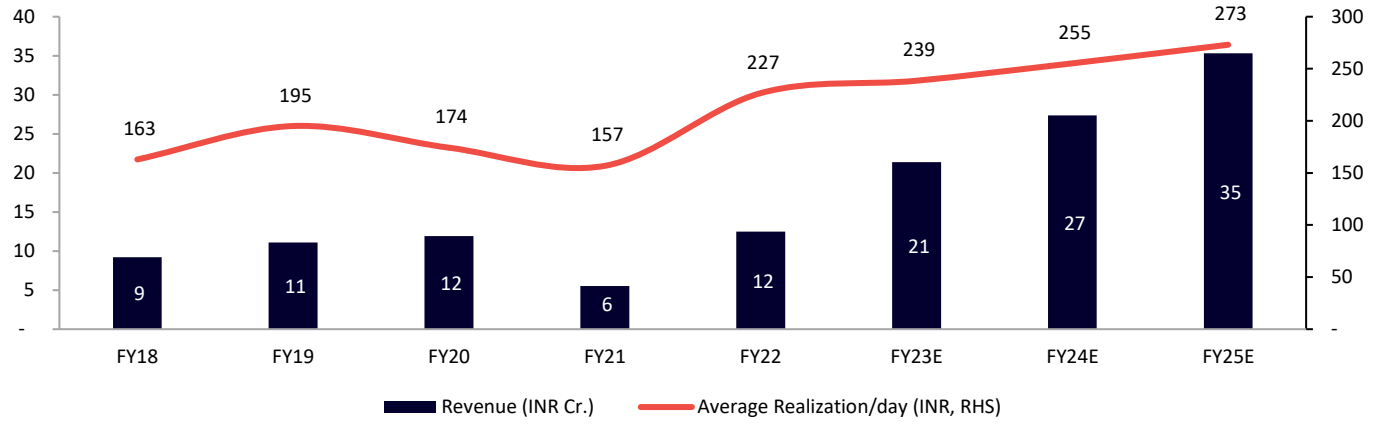
Source: Company, Nuvama Wealth Research

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Room additions to drive 41.4% revenue CAGR from management contracts over FY22–25

Of the planned 2,600 rooms to be added over FY22–25, 2,020 rooms are expected to be under management contracts. The number of managed rooms is set to rise to 5,451 in FY25 from 3,431 in FY22. Besides capacity addition, average realisation per day for managed rooms is set to increase to INR273 from INR226 over FY22–25E on improving ARR. We expect revenue from hotel management to touch INR35cr in FY25 from INR12cr in FY22 (41.4% CAGR).

Exhibit 35: Revenue from management contracts

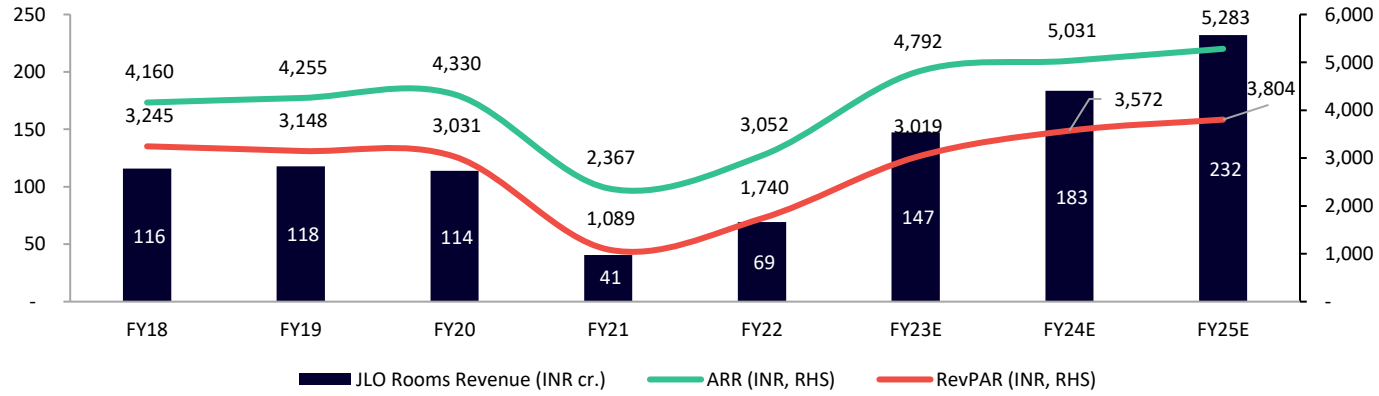


Source: Company, Nuvama Wealth Research

Revenue from JLO rooms recovers on inventory additions, ARR growth, and improving occupancy

Revenue from JLO rooms fell to INR41cr in FY21 from INR114cr in FY20, led by a 45.3% decline in ARR and a fall in occupancy to 46% in FY21 from 70% in FY20. Revenue bounced back to INR69cr/INR103cr in FY22/9MFY23 on a significant recovery in ARR and occupancy after the lifting of COVID-related restrictions. We expect RevPAR to grow to INR3,804 from INR1,740 over FY22–25, led by growth in ARR as well as occupancy. Room inventory is expected to rise to 1,672 in FY25 from 1,092 in FY22 due to the addition of RevShare leases. As a result, we expect revenue from JLO rooms to clock 49.6% CAGR over FY22–25.

Exhibit 36: Revenue from JLO rooms



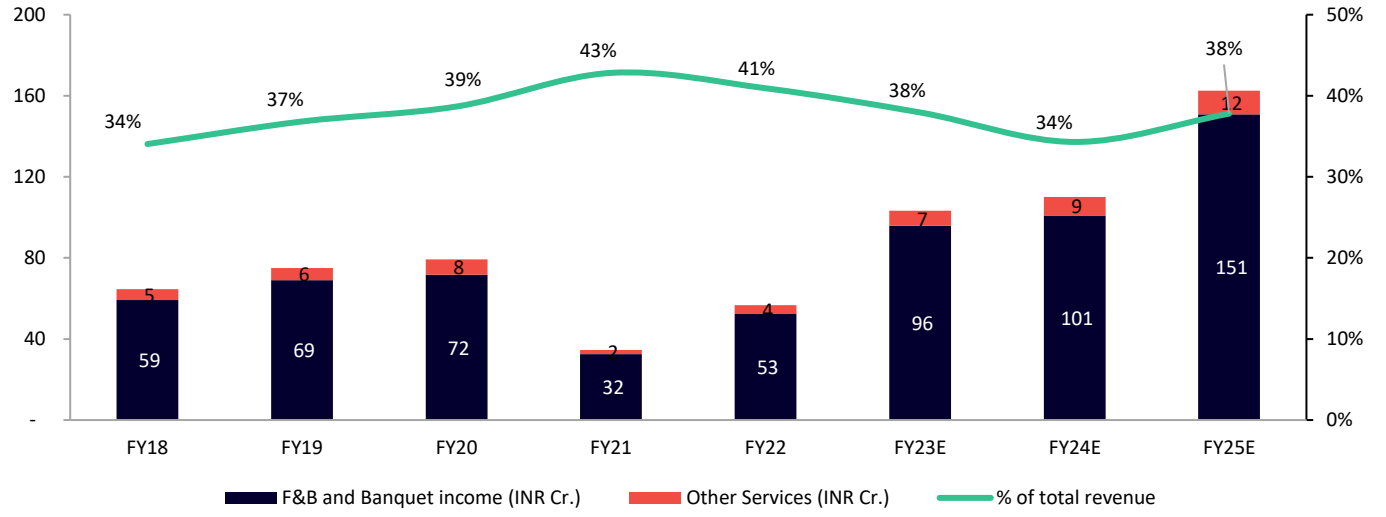
Source: Company, Nuvama Wealth Research

Perfectly positioned to capture the upcycle

Revenue from F&B and other services to clock 42% CAGR over FY22–25 on new initiatives and room additions

We expect F&B and banquet revenue to steam to INR151cr in FY25 from INR53cr in FY22, led by: i) initiatives like curated experiences, culture-based food menu, etc. to boost spends per guest, ii) greater room inventory, iii) addition of a banquet hall at Goa (FY25), and iv) higher average realisation. Revenue from value-add services is set to rise to INR12cr from INR4cr in FY22, led by: i) an improved bouquet of offerings and ii) higher room inventory.

Exhibit 37: Revenue from F&B, banquets, and other services



Source: Company, Nuvama Wealth Research

IV. Cost efficiency and RevPAR improvement to drive 75.3% EBITDA CAGR over FY22–25

We expect 75.3% EBITDA CAGR over FY22–25 to INR124cr, led by: i) revenue growth (refer Exhibit 30) and ii) margin expansion. From 16.6% in FY22, we expect EBITDA margin to improve to 28.8% in FY25 on: i) cost optimisation, ii) growth in RevPAR, and iii) higher share of revenue from management contracts. A lion's share of the expected margin expansion is seen in the financials of FY23 as RevPAR doubled to INR4,000 in 9MFY23 from ~INR2,000 in FY22. In FY23/FY24/FY25, we expect a margin of 29.8%/29.6%/ 28.8%. Cost efficiencies will drive margin growth in FY24. Thereafter, it will slightly contract as it adds over 480 rooms under the RevShare lease model, which carries a margin that is lower than the company average.

Exhibit 38: Higher revenue contribution from RevShare leases restricts EBITDA margin expansion

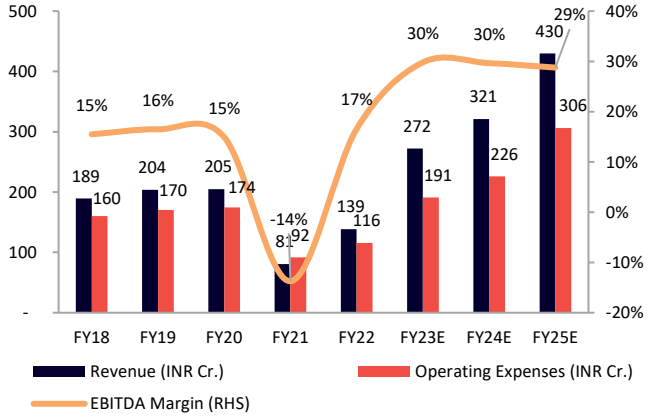
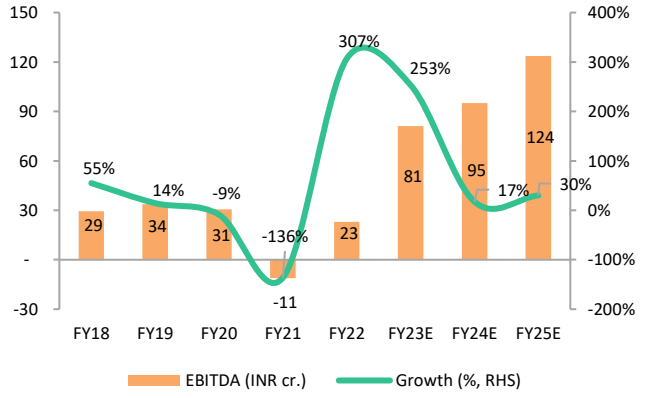


Exhibit 39: EBITDA growth led by operating leverage, cost optimisation, and RevPAR growth



Source: Company, Nuvama Wealth Research

Cost optimisation efforts

Improving employee efficiency

The management is focussed on rationalising employee cost, which accounts for nearly 25% of total revenue. After the lifting of COVID-related restrictions, it invested in upskilling and redeploying its workforce, which led to employee cost per JLO room falling to INR3.2lk in FY22 from INR5.3lk in FY20. Staff-to-room ratio fell to 1.2x in FY22 from 1.33x in FY20 on upskilling and optimisation. We expect this rationalisation to continue as existing hotels mature and upcoming hotels adopt past learnings. In FY25, we expect the staff-to-room ratio to decline to 1.1x. We expect employee cost per room to grow marginally as wage cost is likely to rise across the industry. However, with rising occupancy and higher ARR growth over FY22–25, benefits from operating leverage are expected to accrue, paring down employee costs to 16.6% of total revenue.

Exhibit 40: Efficiencies driving staff–to–room ratio

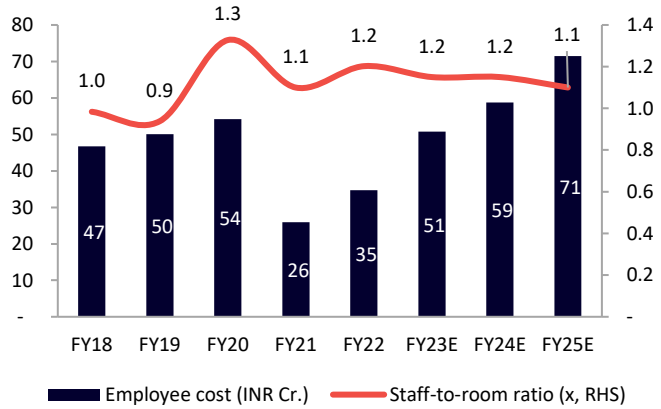
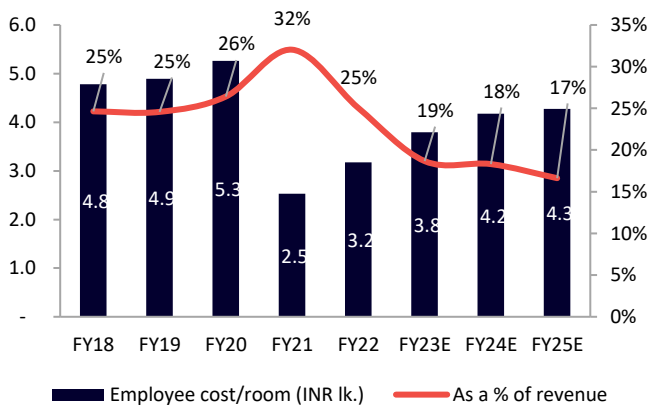


Exhibit 41: Operating leverage benefits kick in



Source: Company, Nuvama Wealth Research

Perfectly positioned to capture the upcycle

Fixed cost rationalisation and efficiencies drive operating leverage

ROHL's major costs — F&B consumed, employee cost, power and fuel, rent, and marketing — constitute nearly 70% of total operating costs.

Cost of F&B consumed stood in the 34–38% range of F&B revenue pre-COVID. During the pandemic, cost surged nearly 41% (as both volumes and selling prices shrunk), before falling back to 32.9% in FY22 as volumes expanded meaningfully. Over FY22–25, we expect it to stay in the 33–34% range on healthy demand and pass on of inflation to its customers.

Power and fuel expenses are partly fixed in nature. We expect it to decline per rupee earned as occupancy and ARR trend upward. As a percentage of revenue, power and fuel expense stood in the 9–10% range. Going forward, we expect the same to trend down to 8% by FY25.

ROHL stopped most promotional spends during the pandemic. From a pre-COVID average of INR1.3lk per room, spends plummeted to nearly INR55,000 per room. It is meaningfully scaling up its marketing spends. We expect it to touch INR1.5lk per room in FY25. However, spends per rupee earned the same and is expected to decline to 5.7% in FY25 from 5.9% in FY22.

While the above expenses are expected to decline, rent as a percentage of total revenue is seen rising to 10.7% in FY25 from 5.3% in FY22 as ROHL aggressively adds rooms under the RevShare lease model. From INR7.4cr, we expect rents to skyrocket to INR46cr in FY25.

Exhibit 42: Higher occupancy and ARR weigh on opex-to-revenue ratio

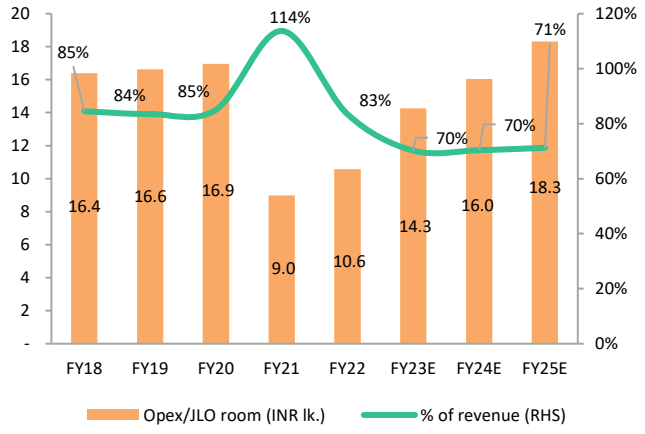
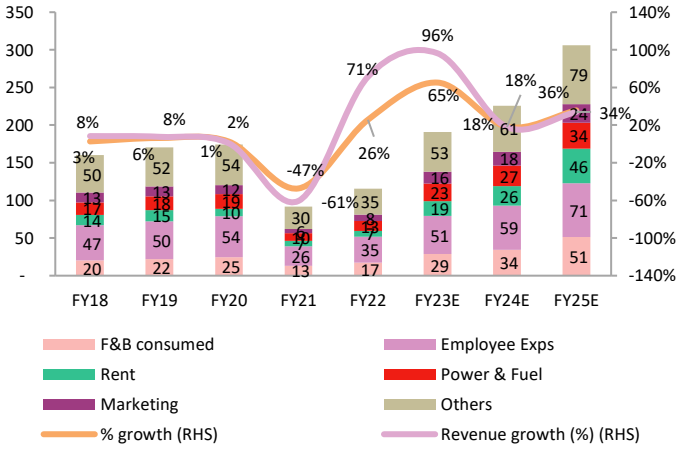


Exhibit 43: Build-up in operating expenses



Source: Company, Nuvama Wealth Research

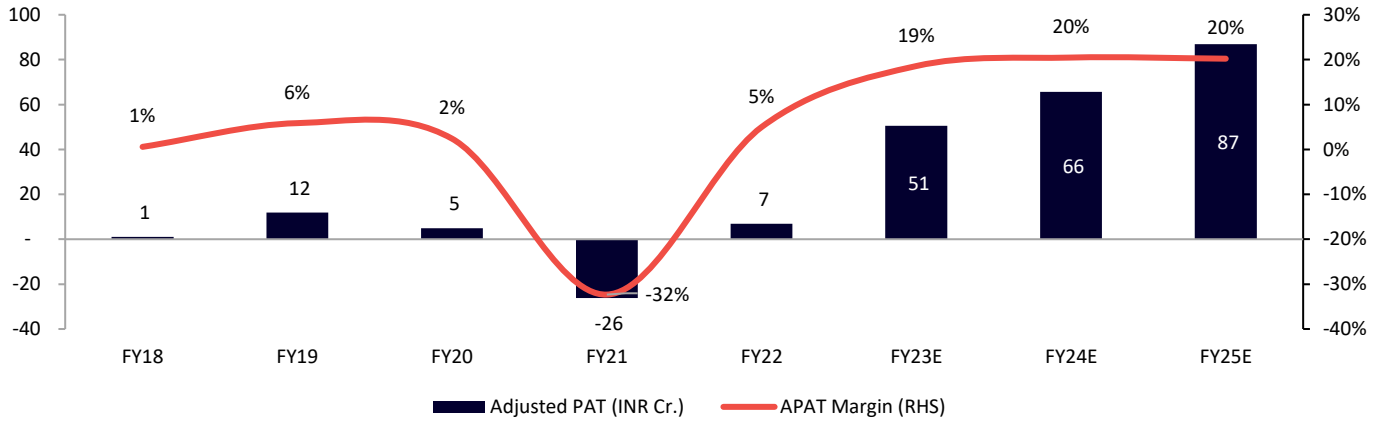
We expect a 38.4% CAGR in total operating expenses over FY22–25E against a revenue CAGR of 45.9%. This gap is attributable to the 29.8% CAGR in RevPAR over FY22–25E and operating leverage benefits as occupancy touches 72%. Growth in revenue from management contracts is widening the gap (management contracts enjoy an EBITDA margin of over 80%). EBITDA margin is expected to expand to 28.8% in FY25 from 16.6% in FY22. However, margin is expected to trend downward from 31.5% in 9MFY23 on rising rental expenses. Owing to a rise in ARRs, operating leverage benefits, effective cost rationalisation, and growth in revenue from managed properties, we expect 75.3% CAGR in EBITDA over FY22–25. EBITDA is set to grow to INR124cr in FY25E from INR23cr in FY22.

V. APAT set to deliver a 11x growth over FY22-25E

Driven by growth in EBITDA, declining interest cost and relatively steady depreciation, we expect adjusted PAT to register a CAGR of 132.7% over FY22-25E. APAT margin is expected expand from 5% in FY22 to 20.2% in FY25E with adjusted EPS growing from INR 2.5 to INR 31.7.

Owing to the decline in net leverage (refer exhibit 47), we expect ROHL's net interest cost to reduce significantly. Additionally, we believe the company would be able to reduce its average interest cost to 9.5-10% in FY25 from an average of 11% in FY22 on improved credit ratings (led by healthy cash flows and an industry revival) and plans to refinance its higher cost debt with five-year NCDs having a coupon of 9–9.5%. We expect interest expense to drop to INR4cr in FY25 from INR16cr in FY22. With limited incremental capex, depreciation is seen steady ahead. This will drive the 11x growth in APAT over FY22–25E.

Exhibit 44: Multi-fold jump in PAT on EBITDA growth and declining interest cost



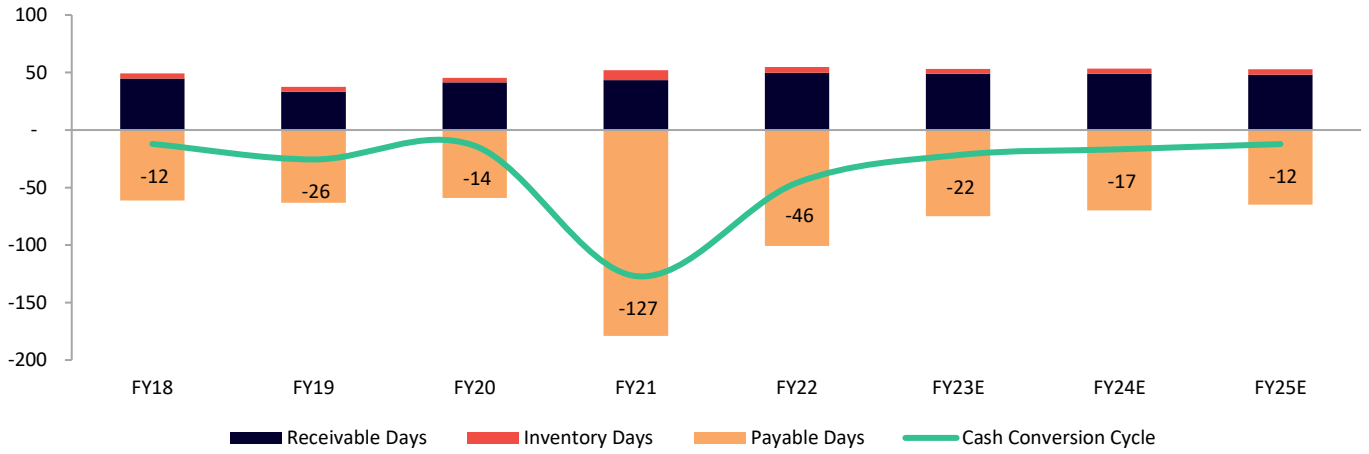
Source: Company, Nuvama Wealth Research

VI. EBITDA growth and working capital efficiency to drive 36.2% CAGR in OCF

Efficient working capital management

In line with the industry, ROHL enjoys a negative working capital cycle (WCC) which is expected to continue. Its creditors largely relate to payables for rent, consumables, and F&B supplies. Creditor days average 60–75 days, which showcases its control over the supply chain. Inventory consists of raw materials and finished products for F&B. Inventory days average around five days. Debtor days average 40–45 days and consists of receivables from corporates. Net cash conversion cycle ranges from -12 days to -20 days. We expect a similar WCC ahead as there is no apparent change in its business model. In FY25, we peg WCC at -12 days.

Exhibit 45: Negative cash conversion cycle to persist

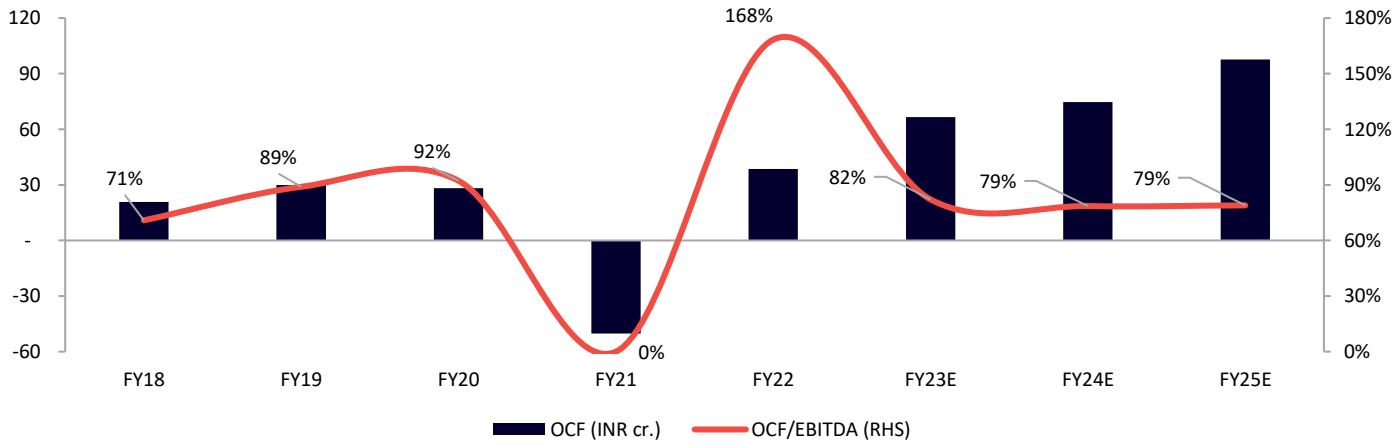


Source: Company, Nuvama Wealth Research

EBITDA growth to drive operating cash flows

We expect 75.3% EBITDA CAGR over FY22–25 at INR124cr. Owing to efficient cash flow management, we expect negligible investment in working capital ahead. As a result, 78–82% of EBITDA is expected to flow into OCF over FY22–25. From INR39cr in FY22, we expect OCF to reach INR98cr, a CAGR of 36.2%.

Exhibit 46: Strong OCF growth driven by EBITDA expansion and working capital management



*OCF/EBITDA not measured for FY21 as the figure is negative
Source: Company, Nuvama Wealth Research

VII. Strong OCF and asset light expansion to drive FCF; net D/E ratio to improve to -0.4x from 0.3x over FY22-25

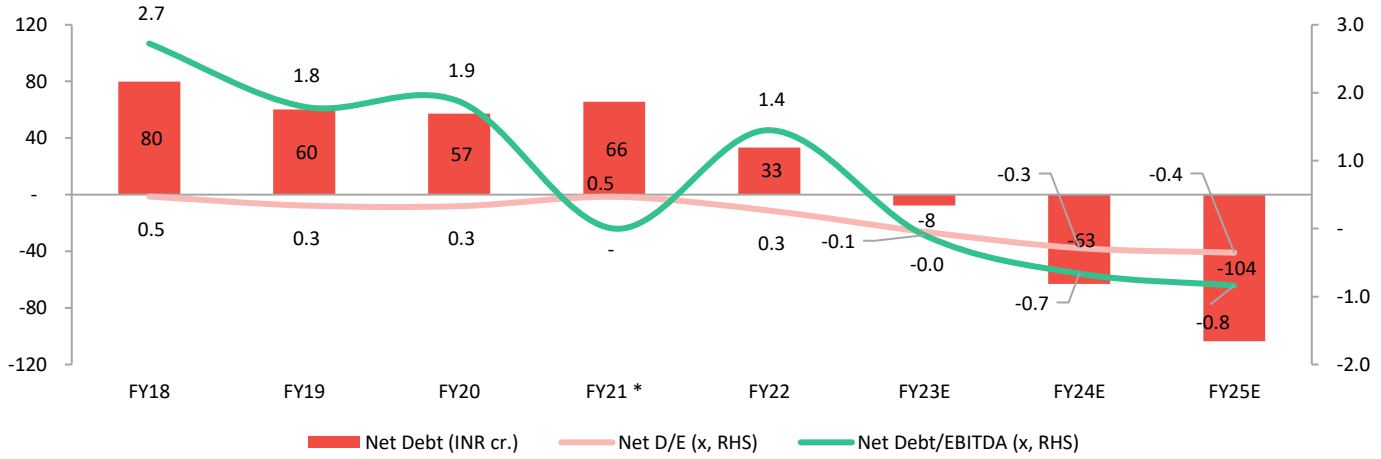
Asset light expansion ensuring minimal capex

Over FY22–25, we expect ROHL to add nearly 2,600 rooms, enhancing its capacity by 57.5%. It is adding 25 rooms at its completely owned Goa resort and is expected to come on stream in FY25. Since it is a brownfield project and the land parcel is already owned by it, we expect a capex of ~INR1cr per room, totalling INR26.5cr. We expect it to add 2,020 rooms under management contracts, as no upfront capex is required and the upkeep and refurbishment expenses are borne by the hotel owner. We expect 555 rooms to be leased out, with the company expected to incur ~INR5lk per room on maintenance, refurbishment, and modification, which will be capitalised. For maintenance and upkeep of its existing JLO properties, it incurs an average capex of 2% of total revenue. Over FY22–25, we expect the company to incur a cumulative capex of INR56cr.

Strong FCF, led by minimal capex requirement, to aid deleveraging

Over FY23–25E, we expect a cumulative OCF of INR239cr, of which nearly INR56cr is expected to be incurred on capex and the balance on reducing leverage and paying dividends. We expect ROHL to turn net cash positive, at INR 104cr, in FY25 from a net debt position of INR33cr in FY22. Net D/E ratio is expected to improve to -0.35x in FY25 from 0.27x in FY22. The company will resume dividend payout from FY23. We expect the dividend payout to be in the 15–20% range going forward.

Exhibit 47: Strong FCF driving deleveraging



*Net debt/EBITDA ratio for FY21 has not been measured
Source: Company, Nuvama Wealth Research

VIII. Adjusted RoE likely to jump 5x on PAT growth, deleveraging, and asset light expansion

Backed by healthy growth in PAT and FCF, improving asset turns, and deleveraging, we expect a meaningful improvement in return ratios going forward. We expect RoCE/RoE to expand to 32.3%/29.7% in FY25 from 1.7%/5.5% in FY22. RoIC is expected to expand to 53.6% in FY25 from 2.2% in FY22, led by healthy cash accumulation.

Exhibit 48: PAT and FCF drive return ratios

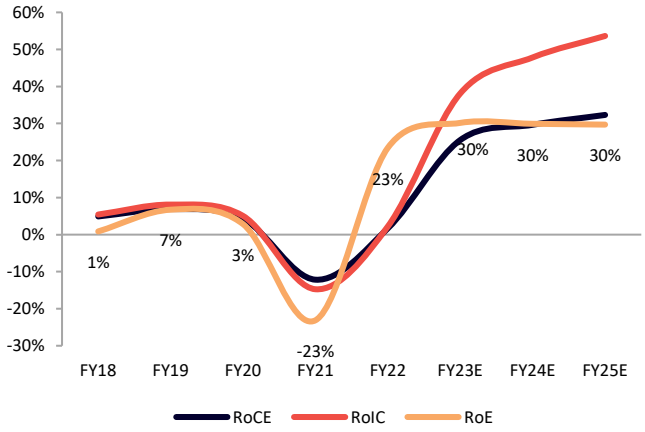
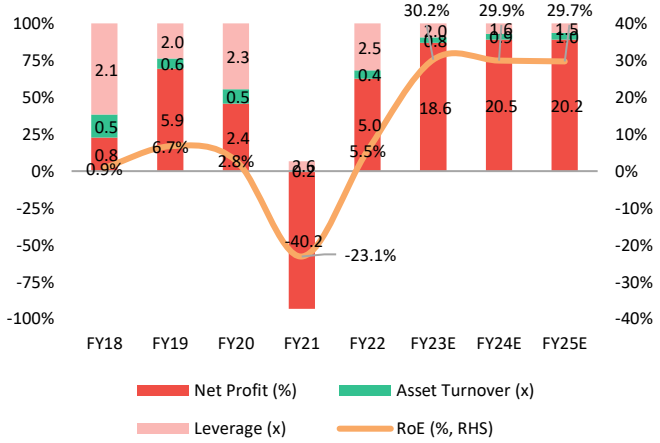


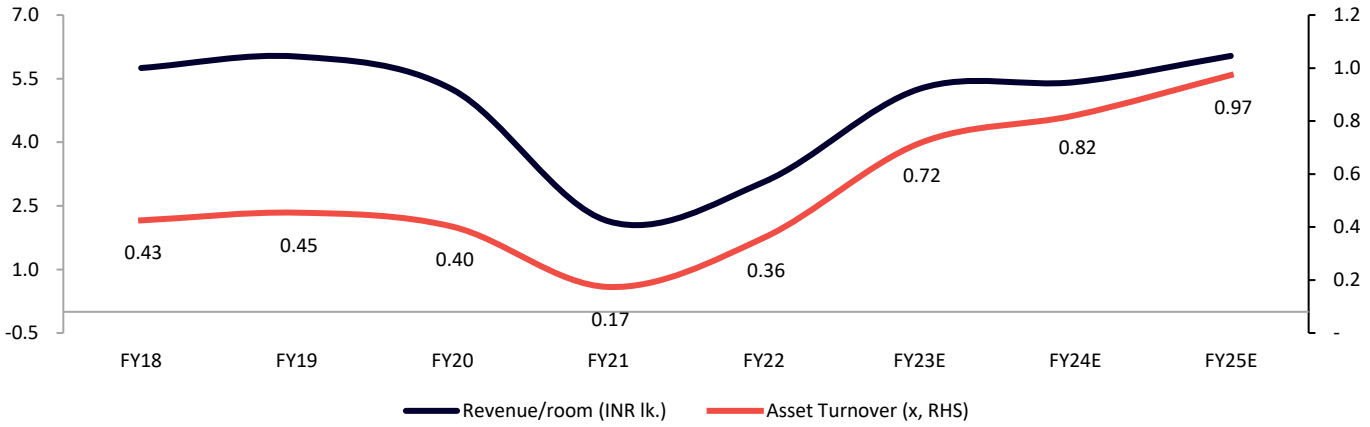
Exhibit 49: Dissecting RoE – DuPont Analysis



Source: Company, Nuvama Wealth Research

With occupancy sustaining at healthy levels and a meaningful improvement in ARR, we expect revenue per room to improve to INR6lk in FY25 from INR3.1lk in FY22. This, despite the steep room additions over the coming years, as fresh inventory is expected to ramp up relatively quickly. With an enhancement in margin, EBITDA/PAT per room is expected to improve to INR1.7lk/INR1.2lk in FY25 from INR0.5lk/INR0.2lk in FY22. We expect future inventory additions to be largely asset light, with capex per room in the INR2–4lk range. Asset turnover is expected to see a significant improvement (to 0.97x in FY25 from 0.36x in FY22) led by improving revenue per room and lower capex requirement per room.

Exhibit 50: Significant improvement in asset turnover on asset light growth and healthy occupancy



Source: Company, Nuvama Wealth Research

Key Risks

- Slower ramp of newly added properties
- Delay in room inventory addition by ROHL
- Quicker than expected addition in supply of rooms in the industry
- Global macroeconomic concerns

Key Managerial Personnel

Name	Designation	Experience	Education
Mr Chander K. Baljee	*Managing Director*	Founder of ROHL. Managed the company for more than 22 years	MBA from IIM Ahmedabad
Mr Amit Jaiswal	*Chief Financial Officer*	Career spans over 24 years, with the last 14 years at ROHL (eight years as CFO)	MBA, LLB
Mr Vikas Passi	*VP – Operations (West)*	Over 20 years of experience in the hospitality industry. Joined ROHL in FY08. Was previously a senior sales manager with Le Meridien	MBA in sales and marketing
Mr Perkin Rocha	*Sr. VP – Operations (North)*	Has more than 23 years of experience in the hospitality industry. Working with ROHL for the past four years. Previous experience includes an eight-year stint at LEMONTRE	NA
Mr Shiwam Verma	*AVP – Operations*	Over 30 years of experience in the hotel industry, with the last seven years at ROHL. Earlier was with Sarovar Hotels for seven years	Diploma in Hotel Management
Mr Sundeep Shenava	*AVP – Human Resources*	Handling HR function at marquee brands such as IH, EIH, Leela, etc. for more than 19 years. Working with ROHL since September 2021	NA
Mr Sandeep Rajput	*AVP – Sales (North)*	Has been part of the hotel industry since FY05. Heading sales for the northern region for ROHL since April 2021	PGDM
Mr Rajesh Kattakam	*AVP – Sales (South)*	Has been with ROHL for over than eight years. Was previously handling the sales function in the Accor group for eight years	MBA
Mr Selvaraj	*AVP – Engineering*	NA	NA
Ms Asma Begum	*Corporate General Manager*	Started her career with the company as a trainee and has been rising through the ranks over the last 19 years	MBA in Hospitality Administration
Dr Ranabir Sanyal	*CS and Compliance Officer*	For over 20 years, has served in the legal and secretarial function in various organisations. Joined ROHL in August 2016 as group CS	CS, LLB

Source: Company, LinkedIn, Nuvama Wealth Research

Appendix 1 – ROHL versus its peers

Exhibit 51: Abridged peer overview (projected)

Peer overview (INR cr)	ROHL				IH				LEMONTRE				CHALET			
	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
JLO room inventory (units)	1,092	1,338	1,407	1,092	13,142	13,001	14,000	14,404	5,192	5,090	5,759	5,828	2,554	2,642	2,810	2,810
Revenue	139	272	321	139	3,056	5,331	5,776	6,200	402	838	1,002	1,285	508	1,092	1,403	1,630
Revenue CAGR (FY22–25E)	45.9%				26.6%				47.3%				47.5%			
EBITDA	23	81	95	124	405	1,544	1,849	2,178	119	407	500	656	99	417	600	733
EBITDA CAGR (FY22–25E)	75.3%				75.2%				76.8%				95.3%			
EBITDA margin	16.6%	29.8%	29.6%	28.8%	13.2%	29.0%	32.0%	35.1%	29.5%	48.5%	49.9%	51.1%	19.4%	38.2%	42.7%	45.0%
APAT	4.3	48.5	63.6	84.9	-263	794	974	1,175	-133	95	136	229	-82	106	225	323
APAT margin	3.1%	17.8%	19.8%	19.7%	-8.6%	14.9%	16.9%	19.0%	-33.0%	11.3%	13.6%	17.8%	-16.1%	9.7%	16.1%	19.8%
RoE	3.5%	28.9%	29.0%	29.0%	-5.2%	10.6%	12.4%	13.6%	-15.2%	10.8%	15.0%	19.3%	-0.5%	8.1%	13.7%	17.1%
M-cap	642	642	642	642	45,112	45,112	45,112	45,112	6,084	6,084	6,084	6,084	7,760	7,457	7,457	7,457
One-year forward P/E ratio (x)	12.8	9.7	7.3	n.m.	56.8	46.3	38.4	NM	64.4	44.8	26.6	NM	72.9	33.1	23.1	NM
P/E ratio (x)	21.9	12.7	9.8	7.4	-167.2	56.6	42.4	34.2	-45.2	61.9	39.8	26.3	-95.1	73.1	34.5	24.0
One-year forward EV/EBITDA ratio (x)	9.1	7.3	5.2	n.m.	30.3	24.3	20.3	NM	19.0	15.5	11.9	NM	24.0	17.0	13.5	NM
EV/EBITDA ratio (x)	16.1	7.8	6.1	4.4	115.7	29.1	23.9	19.7	65.1	19.1	15.6	11.4	101.8	24.4	16.6	13.3
EV/room	0.3	0.5	0.4	0.3	3.6	3.5	3.2	3.0	1.5	1.5	1.4	1.3	3.9	3.9	3.5	3.5

*Consensus estimates for EIH not available for FY25. Share price data for all companies as of March 13, 2023
Source: Company, Bloomberg consensus estimates, Nuvama Wealth Research

A comparison in charts

We briefly compare the operations, financials, and valuations of ROHL with IH, CHALET, LEMONTRE, and EIH. We have covered the revenue build-up, profitability, balance sheet strength, and the valuation of companies since FY18.

Revenue build-up

IH is the largest domestic hotel chain with more than 13,000 JLO rooms, followed by LEMONTRE (~5,200 JLO rooms, refer Exhibit 52 and 53). IH and CHALET offer a superior product mix and charge a premium vis-à-vis ROHL and LEMONTRE (refer Exhibit 54). ROHL and LEMONTRE command a larger share of four star and budget hotels. ROHL is best in managing occupancy levels as demand for budget hotels is relatively less cyclical and its dependence on international travellers is negligible (refer Exhibit 55). While revenue is largely proportional to room inventory, ROHL transitioned through the COVID-19 pandemic the best, with the least decline in growth and was the fastest to recover (refer Exhibit 56 and 57).

Exhibit 52: IH leads the pack in JLO room inventory; LEMONTRE added inventory before the COVID-19 pandemic

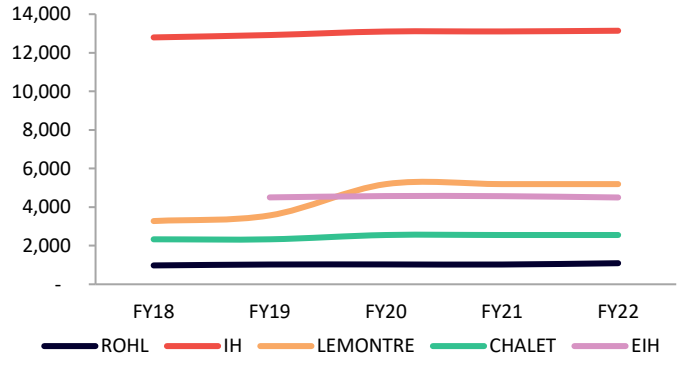
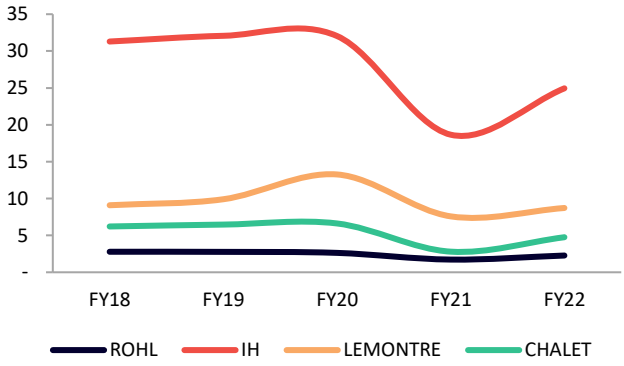


Exhibit 53: Room nights sold; impact of the COVID-19 pandemic more pronounced for IH (in lk)



Perfectly positioned to capture the upcycle

Exhibit 54: ROHL and LEMONTRE command a similar ARR given their similar product mix (INR)

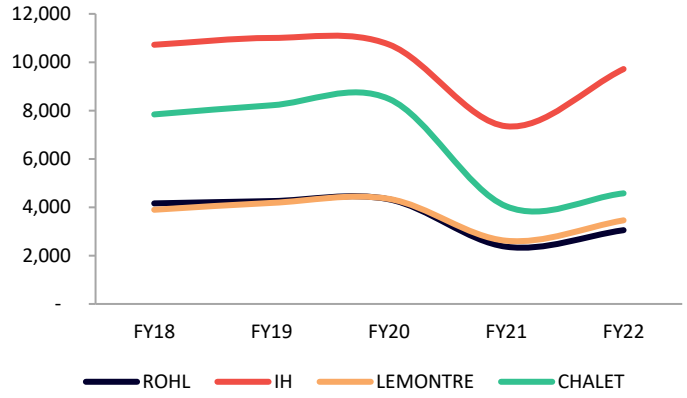


Exhibit 55: Trend in occupancy; ROHL better at managing headwinds

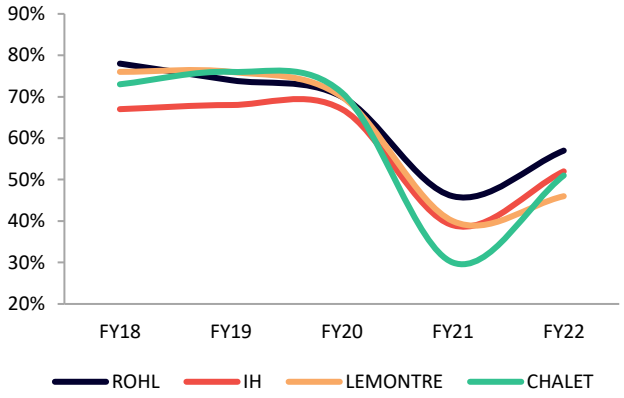


Exhibit 56: Revenue a function of room nights and ARR (INR cr)

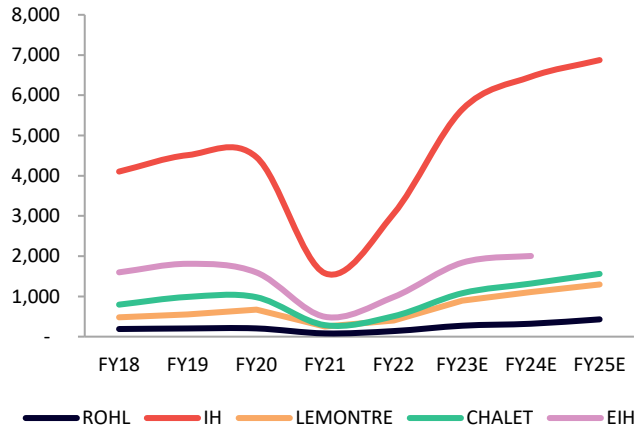
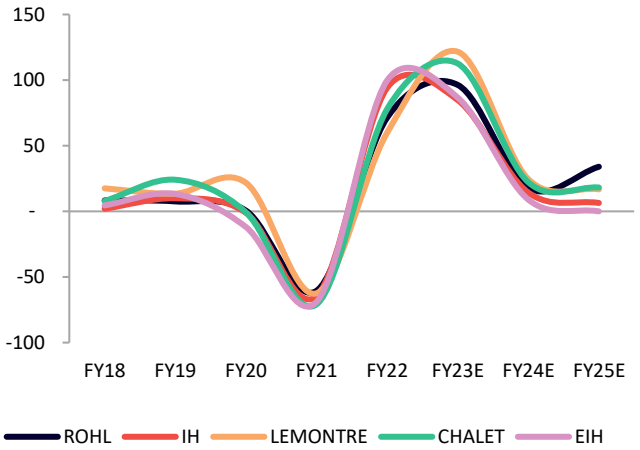


Exhibit 57: Trend in revenue growth (%)



Perfectly positioned to capture the upcycle

Profitability

Given the cyclical and discretionary nature of the sector, brands with a larger share of luxury and upscale inventory and a greater exposure to international travellers perform relatively better in an upcycle but are hit the most in a downturn. This is visible in exhibit 58 and 60 where IHCL and EIH witnessed a sharp fall in FY21 but were also a steep recovery in FY21. ROHL and LEMONTRE clocked a relatively higher operating profit in FY21. Despite catering to the luxury segment, CHALET was able to manage margin better than IH and EIH as it completely owns its inventory. A large part of the incremental growth in profitability is expected to accrue in FY23 led by significant growth in RevPAR. In FY24–25, EBITDA growth is expected to normalise with margin higher than pre-COVID levels across the industry. With improving revenue as well as operating profit, financial leverage is expected to come into play, leading to a sharp improvement in net margin in FY23 across players.

Exhibit 58: EBITDA and operating leverage conspicuous for players with higher share of JLO inventory (INR cr)

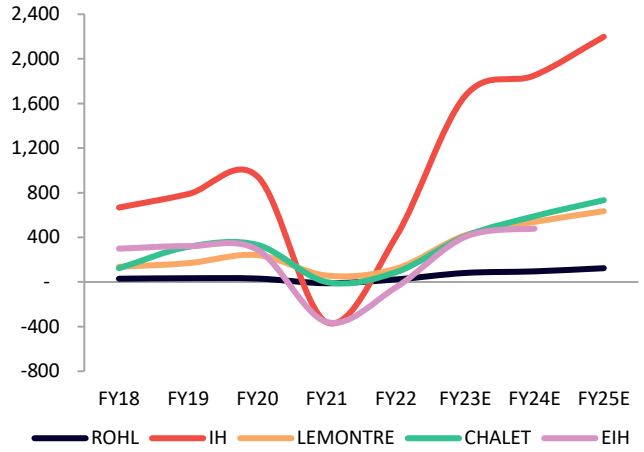


Exhibit 59: Trend in EBITDA margin (%)

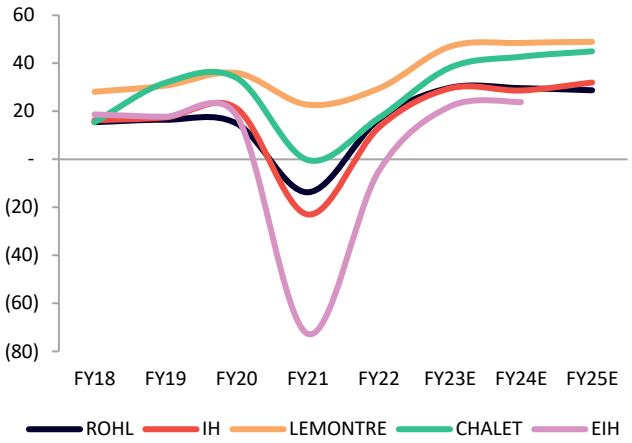


Exhibit 60: Trend in EBITDA growth (%)

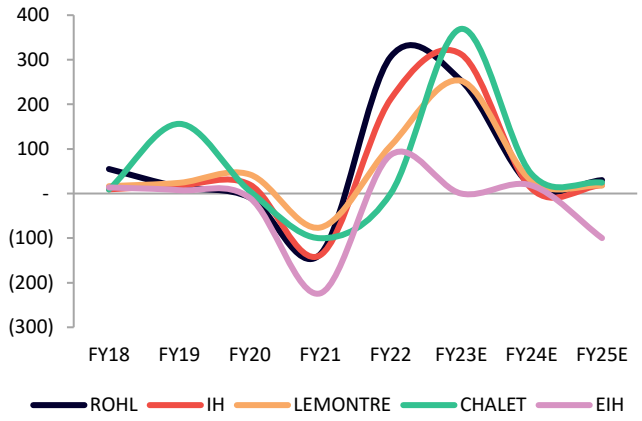
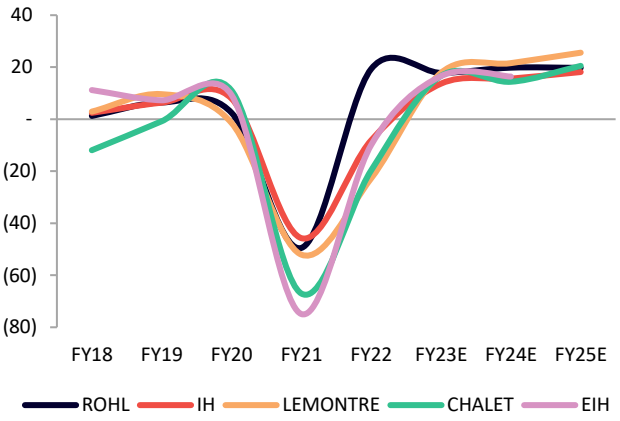


Exhibit 61: Net margin trend (%)



Source: Nuvama Wealth Research

Balance Sheet strength

An asset-light model typically generates the best returns, but at the cost of margin. IH aggressively started adding inventory via management contracts before the COVID-19 pandemic, leading to an uptick in RoCE and RoE in FY20. ROHL's RoE was the most impacted during the pandemic as it was unable to distribute fixed overheads given its smaller scale. However, after the lifting of COVID-related restrictions, it clocked the sharpest recovery as operating as well as financial leverage kicked in. Going forward, with future expansion being asset light, RoE is expected to expand in FY24E.

Exhibit 62: RoCE trend (%)

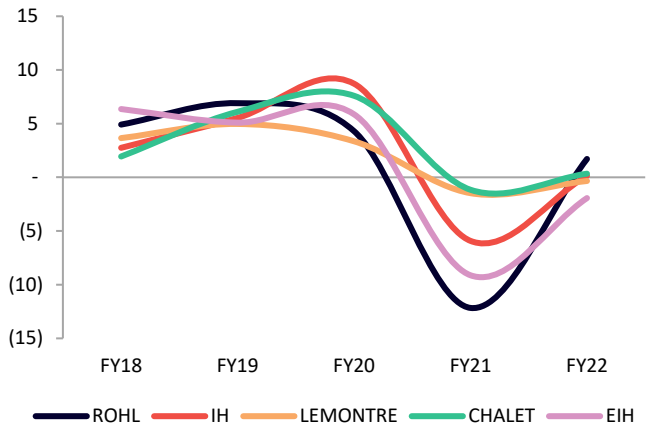
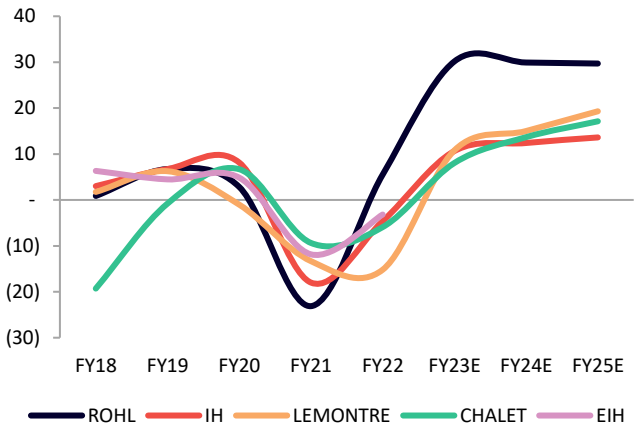


Exhibit 63: RoE trend (%)



Source: Nuvama Wealth Research

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Valuation

As its portfolio is entirely owned, CHALET's EV/room is the highest, followed by IH and EIH. ROHL's EV/room is the lowest given the greater share of budget and four-star rooms and lower brand recognition vis-à-vis LEMONTRE. ROHL's brand value has been improving due to its recent expansion and marketing spends. A similar discount is also visible in one-year forward EV/EBITDA ratio where ROHL trades at a heavy discount to all its peers. With a significant improvement in RoE as well as improving Balance Sheet strength, we believe the gap will narrow going forward.

Exhibit 64: One-year forward EV/EBITDA ratio (x)

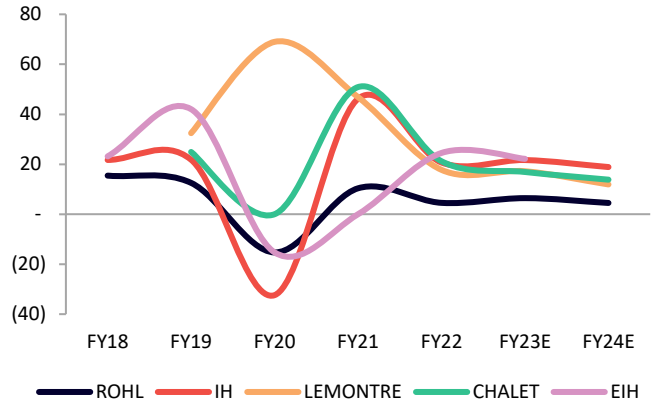


Exhibit 65: TTM P/E ratio (x)

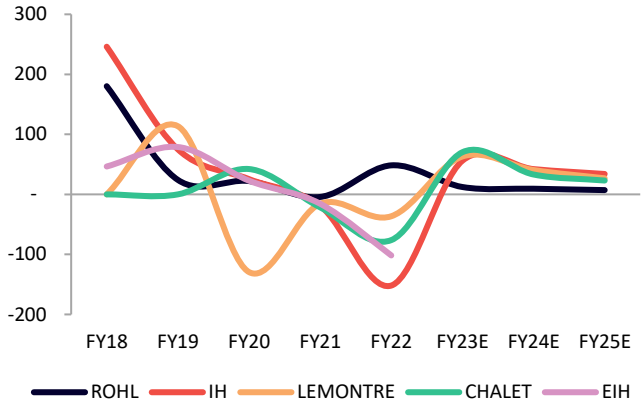
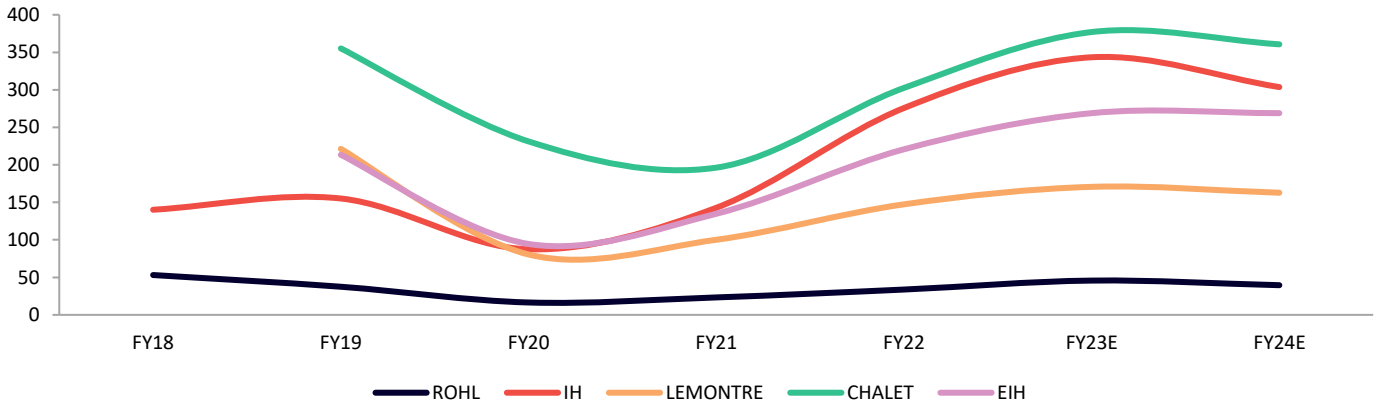


Exhibit 66: EV/room (INR lk)



Source: Company, Bloomberg consensus estimates, Nuvama Wealth Research

Financials

Income Statement

Year to March (INR cr)	FY21	FY22	FY23E	FY24E	FY25E
Income from operations	81	139	272	321	430
F&B Consumed	13	17	29	34	51
Employee costs	26	35	51	59	71
Other expenses	53	64	111	133	184
Total Operating expenses	92	116	191	226	306
EBITDA	-11	23	81	95	124
Depreciation and amortisation	19	19	20	20	22
EBIT	-30	4	61	75	101
Interest expenses	16	16	12	6	4
Other income	8	17	16	16	16
Exceptional item	-7	25	-	-	-
Profit before tax	-46	30	65	85	113
Provision for tax	-6	3	16	21	29
Profit after tax	-40	27	48	64	85
Share of minority shareholders in profits	8	3	2	2	2
Adj. profit after tax	-26	7	51	66	87
Shares outstanding	3	3	3	3	3
Adjusted EPS	-10	3	18	24	32

Common size metrics as a percentage of net revenue

Year to March	FY21	FY22	FY23E	FY24E	FY25E
Operating expenses	114	83	70	70	71
Depreciation	24	14	7	6	5
Interest expenditure	20	12	5	2	1
EBITDA margin	-14	17	30	30	29
Net profit margin	-32	5	19	20	20

Growth metrics (%)

Year to March	FY21	FY22	FY23E	FY24E	FY25E
Revenue	-61	71	96	18	34
EBITDA	-136	307	253	17	30
PBT	-462	112	1,244	31	33
Adj. net profit	-632	126	632	30	32
Adj. EPS	-632	126	632	30	32

Balance Sheet

As on March 31	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	27	27	27	27	27
Reserves and surplus	113	98	140	192	265
Shareholders' funds	140	125	168	219	293
Total Debt	109	80	71	33	21
Other long-term liabilities	51	66	41	38	36
Deferred tax liabilities	-10	-8	-8	-8	-8
Minority interest	33	22	20	18	16
Sources of funds	**323**	**285**	**291**	**300**	**357**
Gross block	465	385	380	391	442
Depreciation	223	193	213	233	255
Net block	243	193	167	158	186
Capital work in progress	1	0	0	0	0
Total fixed assets	243	193	167	158	187
Investments	0	24	24	24	24
Inventories	2	2	3	4	6
Sundry debtors	10	19	37	43	57
Cash and equivalents	44	47	79	96	125
Loans and advances	73	31	31	31	31
Total current assets	128	123	174	198	242
Sundry creditors and others	84	67	85	90	105
Provisions	2	2	3	3	4
Total CL and provisions	86	69	88	94	110
Net current assets	43	54	86	104	133
Other assets	37	38	38	38	38
Uses of funds	**323**	**285**	**291**	**300**	**357**
Book value per share (INR)	51	46	61	80	107

Cash Flow Statement

Year to March	FY21	FY22	FY23E	FY24E	FY25E
Operating profit after tax but before WC changes	-5	22	67	76	97
WC changes	-45	16	-0	-1	0
CFO	-50	39	67	75	98
CFI	71	50	22	5	-35
CFF	-18	-85	-57	-63	-34
Total Cash Flow	4	3	32	17	29

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Ratios

Year to March	FY21	FY22	FY23E	FY24E	FY25E
RoAE (%)	-16.7	5.2	34.5	33.9	33.9
RoACE (%)	-11.7	1.5	27.4	30.5	35.8
Debtors (days)	43	50	49	49	48
Inventory (days)	8	5	4	4	5
Payable (days)	179	101	75	70	65
Cash conversion cycle (days)	-127	-46	-22	-17	-12
Current ratio	1.5	1.4	1.7	1.9	2.0
Debt/equity ratio	0.8	0.6	0.4	0.2	0.1
Debt/EBITDA ratio	-9.9	3.5	0.9	0.3	0.2
Adjusted debt/equity ratio	0.5	0.3	-0.0	-0.3	-0.4

Valuation parameters

Year to March	FY21	FY22	FY23E	FY24E	FY25E
Diluted EPS (INR)	-11.8	10.7	18.4	23.9	31.7
YoY growth (%)	-765.2	190.5	72.0	30.0	32.4
Diluted P/E ratio (x)	-19.1	21.1	12.3	9.4	7.1
Price/BV ratio (x)	4.4	4.9	3.7	2.8	2.1
EV/sales ratio (x)	2.9	2.7	2.2	1.7	1.2
EV/EBITDA ratio (x)	-21.5	16.1	7.5	5.9	4.2
Diluted shares O/S	2.7	2.7	2.7	2.7	2.7
Basic EPS	-11.8	10.7	18.4	23.9	31.7
Basic P/E ratio (x)	-19.1	21.1	12.3	9.4	7.1

Nuvama Wealth and Investment Limited, Edelweiss House, Windsor Ln, Kolivery Village, MMRDA Area, Kalina, Santacruz East, Mumbai, Maharashtra 400098

Sandeep Raina

Head of fundamental research

sandeep.raina@nuvama.com

SANDEEP ASHOK RAINA

Digitally signed by SANDEEP ASHOK RAINA
Date: 2023.03.27 10:26:56 +05'30'

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