Q3FY25 Result Update
Royal Orchid Hotels

Strong ARR, inventory expands but margins hit

Revenue for Royal Orchid Hotels (ROHL) grew 9% YoY to INR89cr in Q3FY25 on higher RevPAR (up 2.9%). Occupancy fell 3pp YoY due to renovations. ARR grew 12% YoY on healthy demand. Higher repairs and maintenance cost and manpower additions for the upcoming expansion impacted EBITDA (up 1% YoY at INR25cr). EBITDA margin contracted by 214bp YoY. PAT grew 13% YoY. To capitalise on favourable industry dynamics, it added 808 managed rooms in the last 12 months, taking total inventory to 6,603 rooms (JLO/managed: 1,279/5,324). We see ARR growing by 5% in FY25 on healthy domestic demand, constrained supply in the industry, and likely improvement in the product mix. We view ROHL as one of the key beneficiaries of sectoral tailwinds. We revise our TP to INR502 (14x FY26E EV/EBITDA). Maintain 'BUY'.

CMP: INR374
Rating: BUY
Target price: INR502
Upside: 34%
Date: February 22, 2025

Bloomberg:	ROHL.IN
52-week range (INR):	301/448
Shares in issue (cr):	2.7
M-cap (INR cr):	1,028
Promoter holding (%)	63.6

ARR growth boosts QoQ performance, expansion cost sink margin

Revenue from room rent/F&B grew 10.4%/8.7% YoY to INR45cr/INR32cr, while other services saw a 7% fall to INR12cr. Occupancy fell by ~3pp YoY to 70% due to room renovations and a high base. ARR (JLO rooms) grew 12% YoY to INR6,317 on healthy demand and constrained supply. EBITDA grew 1% YoY to INR25cr on front-loading of staff cost and higher refurbishment expenses. EBITDA margin contracted by 214bp YoY to 28.1%. APAT grew 16% YoY to INR18cr. Sequentially, revenue grew 27% on a ~24%/56% rise in ARR/other operating income. EBITDA grew 119% QoQ due to lower base, with a 12pp margin expansion. PAT grew 137% QoQ.

Strong inventory additions with a tilt towards management contracts

By H1FY26-end, ROHL plans to add 1,600 rooms across 21 hotels which will take its room inventory to ~8,156. It will add ~1,176/424 rooms under management contracts/leases. We conservatively estimate 6,726 rooms by FY25-end. Its strong front-ended room additions will place it ahead of the curve and will be a key growth driver.

Expect revenue/EBITDA/PAT CAGR of 17%/18.3%/18.6% over FY24–27

We expect 17% revenue CAGR over FY24–27 on: i) a 5% CAGR in ARR; ii) addition of over 1,450 rooms; iii) strong growth in F&B income led by expansion in its restaurant and banquet portfolio, improving MICE activity, and a revival in weddings; and iv) higher in-resort spends. Margin will be under pressure in FY25 (21.6%) due to: i) higher fixed costs to aid its quick-paced expansion (new properties need 9–12 months to ramp up), ii) elevated refurbishment costs, and iii) lower occupancy (over 100 rooms under refurbishment). We expect refurbishment cost to normalise from H2FY26 and see margin recovering from thereon. We see EBITDA margin settling at 26.8% in FY27. Over FY24–27, we expect an EBITDA/PAT CAGR of 18.3%/18.6%.

Higher EBITDA to drive cash flows and deleveraging

We expect a cumulative OCF of INR265cr over FY25–27, of which ~INR149cr will be used for room additions and maintenance capex. The balance will aid deleveraging. We expect net D/E ratio to improve to an adverse 0.33x in FY27 from 0.08x in FY24. With a large part of the room additions under the asset light model, we expect RoCE to rise to 29.2% in FY27 from 21.8% in FY24.

Maintain 'BUY' with a revised TP of INR502

ROHL is transitioning through an investment phase and is taking steps to: i) refurbish its existing inventory, ii) shifting its focus from volume to value (expansion in the five-star segment), and iii) hiring the right talent. These changes will help ROHL to immensely benefit from the current upcycle. We see the valuation gap with peers narrowing as the restructuring plays out.We have revised our TP to INR502 (14x FY26EV/EBITDA) from INR431 earlier (12xFY26E EV/EBITDA). Maintain 'BUY'.

Key financials

Year to March	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR cr)	264	294	342	406	470
Revenue growth (%)	90	11	17	19	16
EBITDA (INR cr)	82	76	74	98	126
Net profit (INR cr)	47	48	40	60	81
P/E ratio (x)	14.2	21.2	25.6	17.2	12.7
EV/EBITDA ratio (x)	8.2	13.7	13.9	10.2	7.3
RoACE (%)	28	22.2	19.7	27	32.2
RoAE (%)	31.5	26.7	19.6	25	27.7

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Quarterly Income Statement

Particulars	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
Net sales	89	82	9	70	27
Operating expenses	64	21	12	59	9
EBITDA	25	25	1	11	119
Depreciation	5	5	2	5	(3)
EBIT	20	20	1	6	223
Interest	4	5	(15)	4	(7)
Other income	6	5	18	8	(30)
PBT	22	20	9	10	119
Tax	5	5	(1)	3	73
PAT	16	15	13	6.8	140
Minority interest after net profit	0	0	-	0	-
P&L from an associate company	2	1	-	1	-
PAT after minority interest and the share of associates	18	15	16	7	137
Exceptional items	-	-	-	-	-
RPAT	18	15	16	7	137
EPS	6.5	5.6	16	2.7	138
EBITDA margin (%)	28.1	30.2		16.3	
PAT margin (%)	19.9	18.7		10.7	
Tax rate (%)	24.1	26.6		30.5	

Operating parameters

	Q3FY25	Q3FY24	YoY	Q2FY25	QoQ
JLO rooms					
– Occupancy (%)	70	73		70	
– ARR	6,317	5,675	11	5,114	24
– RevPAR	4,422	4,143	7	3,580	24
– Room count	1,279	1,279	0	1,279	0
Managed rooms					
– Occupancy (%)	67	64		57	
– ARR	4,208	4,047	4	3,672	15
– RevPAR	2,819	2,590	9	2,093	35
– Room count	5,324	4,516	18	5,277	1

Key takeaways from the management interaction

- The company added four new hotels with a total of 165 keys in Q3FY25.
- Its 300-room hotel in Mumbai is seeing rapid progress, with operations expected to start by FY25-end.
- Consolidated income grew by ~9.5%, while EBITDA rose marginally due to Ind AS adjustments. Excluding this, PAT would have been INR17.4cr (versus the reported INR16.35cr), with no impact on cash profits.
- Workforce expansion across regions added INR60lk YoY in costs, which it sees this as an investment for future growth.
- Ongoing hotel refurbishments, undertaken without closures, led to higher repair and maintenance costs of INR1.15cr. It views this as essential to maintain its competitiveness.
- The new Mumbai hotel is on a lease model, thus minimising capex risks, with a refundable deposit over 25 years. It will also invest INR15cr on interiors, branding, and the operational setup.
- The upcoming upscale lifestyle hotel, classified as a five-star property, is strategically positioned near Terminal 2 at Chhatrapati Shivaji Maharaj International Airport (CSMIA) in Mumbai for strong brand visibility. While the project will be ready in two weeks, operations will commence once final licenses and approvals are secured.
- ROHL plans to add 10 lease hotels with ~1,200 rooms in 2025. These properties will operate under a revenue-share model to minimise fixed costs and align expenses with performance.
- It is aiming at INR100cr in revenue from managed hotels over the next three years, with a key milestone of INR50cr by FY26. With 20 hotels in the pipeline, growth will depend on how quickly new properties come online. Given the high-margin nature of this segment (46–47% PBT), the management is confident in its strong profitability as it expands.
- Quarterly performance improved due to a refined sales strategy, efficiency-driven cost management, and stable cost structures. Revenue growth directly boosted profitability, with internal operational improvements playing a key role alongside favourable market conditions.
- EBITDA growth was muted, despite room expansion, as new hotels are still stabilising (around three years). As most additions are under management contracts, it will limit earnings due to fees instead of full revenue. While this slows immediate EBITDA growth, rising occupancy will drive fee income over time. Expansion-related costs will ease in FY26 as hotels mature, with upcoming lease-based hotels, including Mumbai, set to fuel long-term profitability.
- Room revenue growth was driven by a strong increase in ARR to INR6,317 from INR5,675 YoY, rather than an expansion in managed hotels. This growth accrues entirely from company-operated hotels (JLO) as revenue from managed hotels isn't included. Its pricing strategy and market positioning have played a key role in driving rates higher, making ARR a major contributor to overall revenue growth.
- The regenerate rewards programme, soft-launched four months ago, is gaining traction with more than 360 members and driving repeat business by 12–13%. Its seamless earn-and-burn system enhances customer engagement, with plans to expand across more hotels for effortless redemptions, even on small purchases. The programme aims to boost long-term retention and repeat stays.
- The company is awaiting land conversion approval for its Goa expansion, delayed due to election-related commitments. With the process expected to resume soon, clearances should be received in the coming months. Once approved, new rooms will be ready by October 2026, aiding revenue.
- The 28-room expansion at the Bengaluru resort, which was delayed by rain, is set for completion by April, enhancing its 54-room capacity. Renovation of the flagship hotel is progressing, with full completion expected by Q2FY26, boosting business. Phased renovations at the MG Road hotel (Icon Hospitality) will further unlock revenue potential.

Revenue mix

Year to March	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
Segmental revenue mix*					
– Room rent	50.5	46.2	9	41.1	23
– F&B	36.7	32.8	12	29	26
– Management fees	9.1	8.1	12	6	51
– Other services	3.4	3.6	(7)	2	74
Asset-wise revenue mix*					
- Owned	33.3	30.1	11	27	23
- Fixed and revenue share lease	37.1	34.1	9	29.7	25
- JV and associates	20.1	18.5	9	15.4	30
- Management contracts	9.1	8.1	12	6	51

*includes revenue from associate companies

Valuation and view

We assign 14x FY26E EV/EBITDA to arrive at our revised TP of INR502. Since FY16, its one-year forward EV/EBITDA ratio has been in the 4–20x range. The stock trades at 10.18x FY26E EV/EBITDA. During FY16–20 (i.e., in years with healthy industry performance), it traded at 12–17x one-year forward EV/EBITDA. We expect the re-rating to continue and value the stock at 14x FY26E EV/EBITDA (at the lower end of its historical trading range in an upcycle). Our optimism is driven by: i) favourable demand-supply dynamics, ii) healthy EBITDA growth, iii) strong cash flow, iv) strategic expansion of its product portfolio, and v) a sizeable valuation gap with its peers. In the near future, we see margin under pressure on: i) revenue and occupancy loss as ~100 rooms are expected to be refurbished in FY25, ii) front-loading of manpower and indirect fixed cost to aid inventory additions, and iii) rising share of revenue from relatively lower margin (~25%) leased hotels.

Particulars	Amount (INR cr)
EV based on 14x FY26E EV/EBITDA	1,370
Less: Net debt as of FY26E	(29)
Less: Minority interest as of FY26E	22
Total	**1,378**
Number of outstanding shares (cr)	2.7
Target price (INR)	**502**
CMP (INR)	**374**
Upside (%)	**34**

Financials

Income Statement (INR cr)

Year to March	FY24	FY25E	FY26E	FY27E
Income from operations	294	342	406	470
F&B consumed	29	33	39	46
Employee cost	73	95	110	123
Other expenses	116	140	159	176
Total operating expenses	218	269	308	344
EBITDA	76	74	98	126
Depreciation and amortisation	20	23	24	25
EBIT	56	51	74	101
Interest expense	18	17	14	13
Other income	19	19	19	19
Exceptional item	0	0	0	0
Profit before tax	57	53	78	107
Provision for tax	10	14	20	27
Profit after tax	47	39	59	80
Share of minority shareholders in profit	(2)	(2)	(2)	(2)
Adjusted profit after tax	48	40	60	81
Shares outstanding	3	3	3	3
Adjusted EPS	18	15	22	30

Common size metrics as a percentage of net revenue

Year to March	FY24	FY25E	FY26E	FY27E
Operating expenses	74	78	76	73
Depreciation	7	7	6	5
Interest expenditure	6	5	4	3
EBITDA margin	26	22	24	27
Net profit margin	17	12	15	17

Growth metrics (%)

Year to March	FY24	FY25E	FY26E	FY27E
Revenue	11	17	19	16
EBITDA	(7)	(3)	33	29
PBT	(10)	(7)	48	36
Net profit	3	(17)	49	36
EPS	3	(17)	49	36

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Balance Sheet (INR cr)

As of March 31	FY24	FY25E	FY26E	FY27E
Equity share capital	27	27	27	27
Reserves and surplus	163	190	233	297
Shareholders' funds	191	217	260	325
Total debt	67	44	22	21
Other long-term liabilities	126	173	166	159
Deferred tax liabilities	(13)	(13)	(13)	(13)
Minority interest	17	20	22	24
Sources of funds	**388**	**441**	**458**	**516**
Gross block	486	584	624	635
Depreciation	230	253	277	302
Net block	255	331	346	332
Capital work in progress	0	0	0	0
Total fixed assets	256	331	347	333
Investments	30	30	30	30
Inventories	3	4	4	5
Sundry debtors	33	45	50	58
Cash and equivalents	51	44	52	127
Loans and advances	14	14	14	14
Total current assets	131	137	151	234
Sundry creditors and others	66	94	106	117
Provisions	3	3	4	4
Total current liabilities and provisions	68	97	109	121
Net current assets	63	39	41	113
Other assets	70	70	70	70
Uses of funds	**388**	**441**	**458**	**516**

Ratios

Year to March	FY24	FY25E	FY26E	FY27E
RoAE (%)	26.7	19.6	25	27.7
RoACE (%)	22.2	19.7	27	32.2
Inventory days	3	4	4	4
Receivable days	41	48	45	45
Payable days	41	65	65	65
Cash conversion cycle (days)	3	(13)	(16)	(16)
Debt/equity ratio	0.4	0.2	0.1	0.1
Debt/EBITDA ratio	0.9	0.6	0.2	0.2
Adjusted debt/equity ratio	0.1	0	(0.1)	(0.3)

Valuation parameters

Year to March	FY24	FY25E	FY26E	FY27E
Diluted EPS (INR)	17.7	14.6	21.8	29.5
Diluted P/E ratio (x)	21.2	25.6	17.2	12.7
Price/BV ratio (x)	5.4	4.7	3.9	3.2
EV/EBITDA ratio (x)	13.7	13.9	10.2	7.3

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