

BUZZING

STOCK

Royal Orchid Hotels Ltd.

CMP – Rs.206

Analyst

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Key Stock Data

Sensex	14057
Nifty	4052
Sector	Hotels - Medium
Bloomberg	ROHL@IN
Reuters	ROYL.BO
No. of shares (m)	27
Market Cap (Rs m)	5,126
Market Cap (US\$ m)	115
52-week H/L	Rs.264/96

Shareholding Pattern (%)

Promoters	68.44
Mutual Funds	8.61
FII's	12.37
Corporate Bodies	1.61
Pubic & Others	8.97

Company Background:

Royal Orchid Hotels is one of the largest hotel chains in Bangalore. ROHL is promoted by Mr. Chander Baljee having three decades of experience in Indian Hospitality Industry. The company manages and operates a chain of hotels under the brand name of "Royal Orchids" with a major presence in Bangalore.

The company follows a unique business model of "Asset Light Strategy". Under this strategy company takes properties on long-term lease instead buying it. This strategy reduces the initial set up cost of developing a property and ensures a lower pay back period.

Property Portfolio:

The Group currently operates five hotels- Hotel Royal Orchid, Royal Orchid Central, Royal Orchid Harsha (Bangalore), Royal Orchid Resort (Bangalore) and Royal Orchid Metropole (Mysore). At present it has a room strength of 489 rooms.

All the properties are strategically located. Its three properties The Royal Orchid Hotel, Royal Orchid Central and Royal Orchid Harsha are in close proximity of Bangalore's Airport, making it a preferred destination to tap the business travellers. ROHL, caters mainly to Business Travellers. Besides, it has variety of F&B outlets in its hotels.

Capex:

The company has planned an aggressive expansion to increase its room strength from current 489 to 769 by FY '07. Capex will be funded through the proceeds of IPO (raised in the month of January 2006) and the internal accruals. The new properties are being planned in cities like Pune, Hyderabad, Jaipur, Delhi and Mysore. The company is targeting mainly business travellers as a result, it has planned expansion in Pune, Hyderabad, and Delhi. Cities like Pune and Hyderabad where IT and ITeS related activities have witnessed a growth has resulted in the increase of domestic and Foreign Business Travellers inflow. New properties are also planned at strategic locations that will ensure higher ARR (Average room Rents) coupled with healthy OR (Occupancy Rates).

Besides, it is present in all the segments like Luxury, Premium, Budget, Heritage and Resort across different price points, that helps the company to derisk its business model and gives access to diversified customer base.

Valuation:

ROHL, has reported good numbers for Q2FY07. Total revenues at Rs. 180.20m is up by 39% YoY. EBIDTA margins expanded by 852 basis points and EBIDTA grew by 64% YoY at Rs.99.70m. PAT has registered a growth of 84% YoY at Rs.67m. Growth is primarily driven by increase of ARR across all the properties coupled by Robust OR at 70%. The stock is currently trading at 21x its Q2FY07 annualised EPS of Rs.9.81.

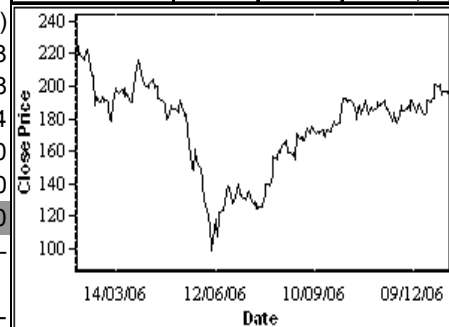
Bangalore Hotel market:

Bangalore Hotel market has grown in terms of Occupancy rates (OR) and Average Room rates (ARR). This is mainly on account of high demand for rooms and supply side being not in comfortable range. As per the Indian hotels Industry Survey compiled by HVS International Bangalore is expected to see 27 new hotels, service apartments with approximately 6,100 rooms in the various categories over the next few years.

Work on international Airport having commenced and the first phase of the international Airport is estimated to open by October 2008. This will drive the commercial and hotel development activity in the city.

Financial Snapshot

Royal Orchid Hotels Ltd.						Rs.m	Ratios (%)			
Financial Year End: March	Q2 FY07	Q2 FY06	Chg. (%)	FY06	FY05	Chg. (%)		FY06	FY05	Chg.(%)
Net Sales	180	130	39	593	388	53	Debt -Equity	0.3	1.2	(78)
Other Income	26	3	697	32	48	(33)	PBIDTM	55	61	(10)
Total Income	207	133	55	625	436	43	PBDTM	52	54	(3)
Total Expenditure	107	73	47	300	203	48	RoCE	27	57	(52)
PBIDT	100	61	64	325	234	39	RoNW	25	77	(68)
Interest	6	4	34	16	24	(35)				
PBDT	94	57	66	310	209	48				
Depreciation	7	7	5	26	20	28				
Tax	21	11	100	61	37	64				
Reported Profit After Tax	67	36	84	212	133	60				
Extra -ordinary Items	0	0	0	0	0	0				
Adj. Profit After Extra-ordinary item	67	36	84	212	133	60				
No. of shares (m)	27	20	-	27	20	-				
EPS (annualised.) (Rs.)	9.8	7.5	-	7.8	13.7	-				
P/E	21.0	27.5	-	26.4	15.1	-				



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