

"Royal Orchid Hotels Limited's Q3 FY'17 results Conference Call"

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HOTELS LIMITED

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Moderator:

Ladies and gentlemen, good day and welcome to the Royal Orchid Hotels Limited Conference Call to discuss Q3 FY'17 results. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chander Baljee, Managing Director of Royal Orchid Hotel. Thank you and over to you sir.

Chander Baljee:

Good afternoon my friends. It is a pleasure to talk to you after long time and this is a good occasion because the company has turned around. The outlook for the hospitality industry for the last few years has not been very good. From 2008, there has been a downturn in the hospitality industry because downturn in the overall economy of the country also and particularly the hospitality industry went through a very rough time because just like all hotel companies, we went into for an IPO in 2006. We raised lot of money and we started investing money in multiple projects across the country and then after that we leveraged and invested more money that's the reason we faced some liquidity crisis in the post 2008. But some of the projects particularly in places like Hyderabad went into a bit of a problem because of the Telangana issue refaced real severe times that period. However, we were quick to take a decision that we decided, ok, there is a huge investment and a loan on Hyderabad project, we decided to take a quick call and liquidate that plot for hotel. It was a marquee project, very large hotel. But then we thought it's not looking too good and let's bite the bullet and take the company forward. So we sold that hotel and we brought the debt down substantially and company and the company was in CDR and after lot of restructuring we went through out of CDR. So the company was put back on track. After that we



thought to look at each one of our verticals how they are going to be made more profitable because we found that in Jaipur we had a hotel where there is a lot of money spent on the Jaipur hotel. We had a loan with large interests on that. Of course, its business has improved over the last few years and the hotel has been running for the last 5 years, it has turned the corner.

The debt has been swapped. The main company debt has also been swapped. So from the debt point of view the company is now in a very comfortable position. At the same time, couple of subsidiaries have become debt free. So our hotel in Bangalore and hotel in Goa has become debt free. So they have actually started generating cash for the parent company. With that situation things have turned around and this particular quarter has been good for us and going forward we are looking for a much better time and I think economy is also turning around. We are seeing growth in occupancies. We will also look at substantial growth in the ARR in the coming quarters when the occupancy goes up and reaches an optimum level. But what we did which was very important was the cost control. So we went on consciously on the last one year to control our cost. Now the cost has been very well-contained although turnover has gone up. So I think with that the company is on the right track and it should do much better in the coming months. Thank you.

Amit Jaiswal:

Good afternoon friends. If we really look at our quarter, in comparison to last year same quarter, in the standalone there is a marginal growth in the revenues. Now the question arrives that there is not much growth. So let me clarify one point to you, one of the hotels which was on the lease model last year has been converted into management contract and the turnover of that hotel for the quarter last year was Rs 2.5 crores. So if I consider that hotel then our growth is almost 4% as far as the revenue is concerned if we match apple to apple. Irrespective



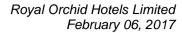


of that if we go the bottom line, we have increased our net profit in comparison to last year which was 110%. We have closed at a net profit of Rs 4.23 crores as against last year's Rs 2 crores. This is the standalone numbers that I am talking about and as far as the consolidated numbers are concerned, the effect of one lease model property has affected the overall revenue growth. We had a growth in revenue but because of this one hotel we are finding little decline in the topline of the company. If you look at the bottom line we have in comparison to last year Rs 1.9 crores we have done Rs 4.3 crores this year a growth of almost 119%.

Now friends, let me tell you very important thing which has happened to our company in this quarter is that, for the first time after a gap of 5 years, the company's consolidated numbers YTD have gone into green. Still last quarter we had a loss, as far as the consolidated net profit was concerned. Also year-to-date we are in green and we are very confident that we will close this year after a gap of 5 years in a positive note in the year end. That's it from my side as far as the financials are concerned. We have controlled our cost in a big way that is why we are having a much better operational profit in comparison to last year of the earlier quarter. And we are moving in the right direction to give back more and more to the bottom line. Although we are also very positive about the growth in the topline because we are adding more and more hotels through management contracts the consolidated profit of this company will be going up in further quarters to come. That is from my side.

Moderator:

Thank you so much. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Kashyap Zhaveri from Capital 72 Advisors. Please go ahead.



ROYAL ORCHID

Kashyap Zhaveri:

Two questions. One on, if you could throw some light on city wise occupancy rates and ARR? How they are improving or the way they are behaving and which geographies are same where occupancy rate is actually at least crossing 68%-70% and consequent outlook on the ARR for FY'18? And question number two is, one of your comments about more and more management contracts being added, if you could throw a bit more light on that strategy, what kind of hotels are we adding and in which geographies?

Amit Jaiswal:

Yes. I will take you through some of the ARRs of concern. See year-to-date we are sitting at occupancy of 68% across all the hotels, although some of the hotel like our Pune Hotel and the Navi Mumbai hotel are sitting at an occupancy of almost 85%. Overall the group occupancy is sitting at 58% at YTD. And as far as the growth in the occupancy is concerned there is not much growth although the ARR have gone up by almost around 3% as against last year YTD. So we are seeing a marginal growth in the revenue through the average rate route, although we are reaching at occupancy of 68% it is very good for the group. In the last quarter we had done an occupancy of around 71%.

Kashyap Zhaveri:

And this 68% is YTD number, what was that in 9 month last year?

Amit Jaiswal:

It is YTD, yes.

Kashyap Zhaveri:

And was it in M9 last year, M9 16?

Amit Jaiswal:

67%.

Kashyap Zhaveri:

So just about a percentage point increase?

Amit Jaiswal:

Yes.





Kashyap Zhaveri:

Now, if I look at the HVS report in FY'16 over FY'15 and '15 over

'14 was a pretty good occupancy rate improvement. Has that

improvement now bit stalled or it has been little slower versus what we

have seen in last two years?

Amit Jaiswal: So actually what happens is some of the new hotels have come so there

is improvement in lot of the hotels, but there are lot of cities where

new hotels have come up. So the competition is little higher, our hotels

and some of the new hotels which we have opened during the year may

not have high occupancy. So, this is averaging out my total group

occupancies.

Kashyap Zhaveri: So let me put it differently. My question is that, on a like-to-like basis

the property which you had probably for let us say last which is

vintage of more than 2 years, or let us say there is an old property and

if you are comparing on property wise like-to-like occupancy rate that

would have improved in quite a bit in '17?

Amit Jaiswal: Correct. Like the Jaipur hotel which was sitting at an occupancy of

65% last year has gone to almost 70%, so similarly there are lot of

improvements also. The Goa hotel has done almost 5% occupancy in

more than last year. So lot of hotels which were not doing good last

year have done fairly well this year as compared to last year

occupancies.

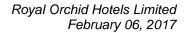
Kashyap Zhaveri: And how many new rooms did we added in '17 versus '16?

Amit Jaiswal: It's on '15-'16, we have added almost 2000 rooms and in FY17 we

already we have added 300 rooms and another 290 rooms are in the

pipeline before the year end.

Kashyap Zhaveri: And on the management contracts?





Amit Jaiswal: Total put together.

Kashyap Zhaveri: No, I am saying, the other question was on management contracts,

what kind of regions, have we sort of identified any?

Amit Jaiswal: No, we are looking at all cities where there is a potential, we are not

planning to go to very small towns, tier III cities, but tier I and tier II

cities is what we are planning to go to. Currently we are present in 29

cities but going ahead we are planning to expand it to at least 35 cities

or almost 40 cities. So our plan is that today totally we are about 39

hotels or so and the plan is that within one year we should cross 50

hotels that is adding on an average of one hotel per month. Geography

yes, we are very well represented North, West and South.In East and

Central India we are not yet well represented. We will be coming in

those zones as well.

Kashyap Zhaveri: And in terms of overall numbers, we would not be reporting

consolidated numbers any more or would we be?

Amit Jaiswal: This year we cannot. Usually we cannot because if you have report the

consol number it has to start from the beginning of the year. That is a

SEBI guideline. But of course in March we will be giving consol

number because the reported annual numbers will go in consolidation

only. This quarter we could not do it. Probably from next year onwards

we will be looking at how to do it.

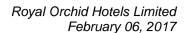
Kashyap Zhaveri: So then your presentation once you release your quarterly numbers

would be, where we could find consolidated numbers?

Amit Jaiswal: Yes

Moderator: Thank you. We have the next question from the line of Ashish

Kacholia from Lucky Investment Managers. Please go ahead.





Ashish Kacholia: My question pertains to the other income number that we have. We

have another income of Rs 2.91 crores in this quarter and in the second

quarter also we had a number of Rs 2.65 crores versus Rs 94.14 crores

of last year. What is this other income and is it sustainable number?

Amit Jaiswal: Yes, other income numbers include the interest on bank deposit,

debenture interest and there is some income tax refund that we have

got.

Ashish Kacholia: How sustainable is it, is it a one-off kind of thing?

Amit Jaiswal: No, it is not one of a kind. It will be there because the investment in

subsidiary is now converted into debentures, so those interests will be

coming regularly.

Ashish Kacholia: So net-net are we now what, our interest expenses only? Interest

expense is about Rs 1.55 crores and our interest income is you are

saying Rs 2.91 crores, are on we net cash or not?

Amit Jaiswal: Net cash.

Ashish Kacholia: You do not have debt anymore?

Amit Jaiswal: Debt is there. EIFC debt is there, one debt is there but now we are well

leveraged that way.

Ashish Kacholia: So what is the net cash position as of now, and how much is the gross

debt? And how much cash do we have on hand? Cash or marketable

instrument?

Amit Jaiswal: Yes. We have done our operational profit of almost Rs 2.8 crores and

there is an addition of the net outflow of other income and finance cost.

So it is adding to that and going to Rs 4 crores which will be there

every quarter.



Ashish Kacholia: No, my question is little different sir. I am asking what is the gross

debt that we have on our books? And how much cash do we have on

our books, cash or cash equivalents?

Amit Jaiswal: Rs 43 crores is the gross debt.

Ashish Kacholia: And how much cash and cash equivalents do we have on our books?

Amit Jaiswal: Rs 14.65 crores.

Ashish Kacholia: Rs 14.65 crores of cash and cash equivalents?

Amit Jaiswal: Yes.

Ashish Kacholia: Then Rs 14.6 crores, how does it give other income of Rs 2.91 crores

in one quarter?

Amit Jaiswal: Rs 2.91 is not only that. See, there is debenture interest. There is some

FD interest which has come and there is some income refund which

has come.

Ashish Kacholia: How much is the income tax refund? I would assume that is a non-

sustainable number, how much is that out of this Rs 2.91 crores?

Amit Jaiswal: See, we have got income tax refund of around Rs 25 lakhs, then

debenture interest is almost Rs 81 lakhs and then there is Rs 9 lakhs of

bank interest, some miscellaneous income of around Rs 30 lakhs and some gain on the foreign currency of our investment in Tanzania Rs

around Rs 13 lakhs and there are certain liabilities of Rs 35 lakhs

which we were not required to be provided for, that has been written

back.



Ashish Kacholia: Okay, alright sir. And are we expected to see some meaningful

improvement in occupancies going forward? What are the trends like,

sir?

Amit Jaiswal: January has been very good. We have done well in January in all the

hotels and we are very positive as our average occupancy across the

group has crossed 70%.

Ashish Kacholia: How much is it right now?

Amit Jaiswal: Right now it is 68%.

Ashish Kacholia: 68% YTD?

Amit Jaiswal: YTD.

Ashish Kacholia: And for the full year we hope to cross 70%?

Amit Jaiswal: Yes, that we are hopeful of crossing 70%

Ashish Kacholia: And this ARR of 3% that you saw in this quarter, how much has it

been for the YTD?

Amit Jaiswal: YTD has been Rs. 3,300.

Ashish Kacholia: Which is a YoY growth of how much sir?

Amit Jaiswal: Very marginal growth of around Rs. 100.

Ashish Kacholia: So 3%?

Amit Jaiswal: Correct, 3%.

Ashish Kacholia: 3% in this quarter and 3% YTD?

Amit Jaiswal: Yes.



Ashish Kacholia: Ok and what is the outlook for this quarter and for next year going

forward in terms of both these numbers? Occupancy you have already

mentioned for the year you seem to be very positive.

Amit Jaiswal: We are very positive of taking it up by another Rs. 150 - Rs. 200 on a

group wise basis, we are very confident of taking it above.

Ashish Kacholia: This is in the next financial year?

Amit Jaiswal: Yes.

Ashish Kacholia: About 5%-6%, 6% is what you are saying?

Amit Jaiswal: Definitely there will be a growth.

Ashish Kacholia: Okay and on the occupancy side, for next year what are we budgeting

for? Will we have 70%?

Amit Jaiswal: 70% we are hopeful of closing this year end and next year we are

targeting around 73%-74%.

Ashish Kacholia: Okay, I think if you can do that then things should look much better.

Great.

Amit Jaiswal: This has really been visible in the financials.

Ashish Kacholia: Mr. Baljee, can you just give us some sense of how the business is

shaping up and what are the key challenges that you are kind of trying

to address in the company?

Chander Baljee: See what we did was, this time last year, is that all the management

contracts were put in a subsidiary in SPV so that we are able to better

track their profitability of that particular business.

Ashish Kacholia: Of which business are we talking about?



Chander Baljee: We are talking about management contracts business.

Ashish Kacholia: Alright.

Chander Baljee:

So typically, what happens is management contracts business how it fairs is that for the first few years, it loses money, then you read typical mass and then you start making money and then whatever incremental contracts you sign most of it comes to the bottom line except, ok may be after 10 hotels you may add Vice President of senior resource since everything was in one company Royal Orchid Hotels itself. So there was not that much focus on the profitability of this. So some cost were getting shared and hidden. So what we started doing was, that let us put in SPV and let us see how it is there. So there we have found that helped us focus on profitability of the line income and even the collection because as and when the company typically rules out on getting management fees. So we have also started concentrating on an accrual of management fee when it's not actually received. So we have tightened control on that and I think that has reached what they call as inflection point. So we are looking at that thing to grow substantially and there is a healthy pipeline right now for newer projects and we have expanded our reach in terms of sourcing. We have decentralized that process. There was one guy sitting in Mumbai who is to look at development. Now we have decentralized that, so there are lots of people in the market who are looking at projects that we are getting many more enquiries for the last 2 months than we were getting earlier. And we are now getting quick, so in the management contract space I think we are today well placed in the Indian market. Today we look at it amongst the concept, we are very well placed today in that, so that is what we are trying to do. So there is no cash drain on this. There should be cash coming in. On the subsidiaries where there was no management fees coming, that is when it all turned around. So we are going to get management fees actually coming in. So cash flow will





improve, although the bottom line as for that account may not but the cash flows will approve and of course these hotels will start doing better also and so we will get more management fees also. So I think that is one area where our liquidity position will improve and then because the debt which was Rs 50 crores, we swapped from the banks to the tourism finance corporation, our repayment which was for a period of 4 years, that we have taken to 10 years now. So I think our company should be able to very comfortably meet the debt. Number two, we had a debt in our Jaipur Hotel which was also swapped a few months back. It was from IDBI and was a short term debt. We swapped it with Rajasthan Industrial Investment Corporation and we have got 10 year period for this. So I think there also, these are the major two debts and the third one was our another subsidiary in Bangalore where again the debt has been swapped with the NBFC and so we are today as far as debt is concerned our total situation across group is about 100 odd crores. So it is not a very large amount for a group of this size and our debts are with 10 years repayment period so we are in a comfortable position. As far as liquidity is concerned, I have told you about management contracts, how that business is shaping up.

Ashish Kacholia:

Can you speak a little bit about the financials of the management contract business in the 9 months that has gone by? And what is the kind of sales and profit or loss in the management contract business for the 9 months sir?

Amit Jaiswal:

See, from the management contract business we get only the management fees. So if I compare 9 months of this year to 9 months last year we have got a fees of around Rs 7 crores and this year we have done Rs 7.77 crores of fees. So any incremental fees that we get straight away goes to my bottom line because we are not increasing any of our operational cost towards managing the hotel. In the current



financial year also we have added so many hotels. So those hotels will also start giving us results. So overall we are very positive towards getting the management income.

Ashish Kacholia: Sir but the Rs 7.77 crores it is like a kind of 10% growth in revenues in

the first 9 months over last year, does not look too kind of inspiring,

so...?

Amit Jaiswal: So, the reason is that, we have opened most of the hotels post Jan-Feb.

So these are still not pitched in. So next year all these hotel fees will

come in and then our growth will be substantial there.

Ashish Kacholia: So what are you seeing these numbers for next year, see FY'18 what

are the numbers?

Amit Jaiswal: I am looking at around Rs 12 crores.

Ashish Kacholia: So assuming that Rs 7.7 crores become current year, you are saying Rs

10 crores will become Rs 12 crores next year?

Amit Jaiswal: Definitely.

Ashish Kacholia: And what is that fixed cost base in that business on an annual basis?

Amit Jaiswal: Anything between Rs 5.5 crores to Rs 6 crores is the fixed cost.

Ashish Kacholia: Rs 5.5 crores to Rs 6 crores is what you are saying is the annual fixed

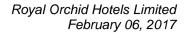
cost?

Amit Jaiswal: Yes, may be another 5% growth will be there in that cost.

Ashish Kacholia: So if you say this year we do Rs 10 crores so what do you see this Rs

10 crores would become in 3 years' time?

Amit Jaiswal: In 3 years' time, it should become 16 crores-17 crores.





Moderator: Thank you. We have the next question from the line of Bhaumik

Bhatia from Girik Capital. Please go ahead.

Bhaumik Bhatia: First of all, if you can give us the consolidated numbers for 9 months

in terms of revenue, EBITDA and PAT and say a YoY comparable

number, if possible?

Amit Jaiswal: In the standalone results, we have posted a...

Bhaumik Bhatia: Sir, sorry I have the standalone number if you can give the

consolidated numbers? I mean, standalone you would be reporting,

consolidated you can give?

Amit Jaiswal: YoY, for the quarter we have done Rs 44.9 crores of revenues as

against last year's Rs 46.21 crores and profit number we have done Rs

4.33 crores as against Rs 1.97 crore last year.

Bhaumik Bhatia: But is the 9 months consolidated numbers available?

Amit Jaiswal: 9 months we have both, we have done a revenue of about Rs 113

crores as against last year of Rs 115 crores and profit as far as 9

months is concerned we have consolidated profit of around Rs 51 lakhs

as against the loss of all Rs 2.8 crores last year.

Bhaumik Bhatia: A related question was that, if I see the Q3 numbers for the last year on

consol level and compare it with the standalone number, even last year

the subsidiary performance was pretty much, I mean there was not

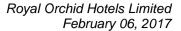
much loss even last year, but if I see the other quarters, if I compare

the Q2 numbers for consol versus standalone there is a loss of about

3.5 crores at the subsidiary levels. So just wanted to understand where

does this confidence of the subsidiary is not incurring further loses at a

full year basis?





Amit Jaiswal: On full year basis, already in 9 months we have become green and if

this quarter also the subsidiary will be very good because our major

loss was coming from two of the units, one was Jaipur unit and one

was Central Bangalore. And Jaipur unit also have posted profit for the

first time in this quarter in its history which we opened the hotel. So it

is looking good and even the fourth quarter traditionally also the third

and fourth quarter is always better than the first and second quarter. So

that way we are very confident but in the yearend we will have a profit

and this we are trying to mitigate the factors what we were having the

loses because of the subsidiary by refinancing the loans and of course

the performance of those two subsidiaries also have improved

drastically and further it is going to improve.

Bhaumik Bhatia: Ok and secondly on the debt front, you mentioned Rs 43 crores was the

gross debt, is that a consolidated number and has it include long term

and short term both?

Amit Jaiswal: No, it is standalone.

Bhaumik Bhatia: Okay, so what would be the consolidated number, Rs 100 crores, is it?

Amit Jaiswal: Exactly the number is around Rs 103 crores it is coming.

Bhaumik Bhatia: Okay, long term and short term both, right?

Amit Jaiswal: Yes.

Bhaumik Bhatia: And how much cash is there at consol level?

Amit Jaiswal: Consol level cash equivalent is around Rs 24 crores EBITDA.

Bhaumik Bhatia: And how do you see this debt? What are the chances of this debt

basically coming down say over the next 2-3 years and what are the

levers for the same?



Amit Jaiswal: See all these debts are already structured debt. It is in the form of term

loan which has a structural scheduled repayment term. So it cannot go

down in one stretch, but it will go down in a...

Bhaumik Bhatia: Over the tenure of the loan?

Amit Jaiswal: Yes.

Bhaumik Bhatia: And what is the coupon rate and average borrowing cost?

Amit Jaiswal: Around 13.5% it comes to.

Bhaumik Bhatia: And lastly on the CAPEX plan, now I understand that incrementally

everything goes under the management contracts, but any other sort of

investment or CAPEX that is likely to come up?

Amit Jaiswal: We are looking at maybe a disinvestment of maybe our Bombay

property, Bombay land which we have now got full control over, we were earlier 75% owners of that property, now we are 100% owners of that property. So we have that freedom to do whatever we like there

and so we are trying to encash on the property ASAP.

Bhaumik Bhatia: Where is this land parcel and how big is the land parcel?

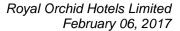
Amit Jaiswal: In Powai and the land is about 15,000 square feet.

Bhaumik Bhatia: Okay and it is 100% under you now, right?

Amit Jaiswal: It is a subsidiary which is 100% controlled by us.

Moderator: Thank you. We have the next question from the line of Arun Malhotra

from Santalum Capital. Please go ahead.





Arun Malhotra:

I think most of my questions have been answered. Just wanted to check, you were trying to reduce the debt, should we expect some sale of non-core savings in the next 12 months or 18 months?

Chander Baljee:

Yes, we are definitely looking at it the sale of this Bombay property, we are definitely expecting to reduce the debt and in fact if the sale goes through, we will be looking at both, developing the property or selling it. So if that happens, our parent company debt will come down.

Arun Malhotra:

Sure and secondly I think coming back to the previous question that was being answered, this management contracts, we have seen a big increase in the number of keys but we have not seen a proportionate increase in the revenue part, even the consolidated number 12 month basis is just almost flattish. So when do you think this positivity key will start getting reflected in the financial numbers?

Chander Baljee:

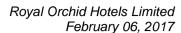
I think, one thing that we have done a lot of rationalizing of our cost in the manual company because we said that we have now reached a critical mass, so let us cut out the dead wood and make it more efficient which was a process which was started about a year back. So today in the company our overheads are being streamlined and reduced and income is going to go up by adding new properties also. So I think this is going to be a substantial improvement starting from this quarter itself.

Arun Malhotra:

Sure. Lastly sir how much time it takes for us to be positive on management contract? How long it takes and what percentage of the management contracts are generating cash for us right now?

Chander Baljee:

See, all the management contract generate cash because there we do not lose any money. Yes, the cash depends on where the situation is, the GOP, because the top line revenue that we get, 2%-3% of the turnover that directly comes to us. The only thing is that GOP what





percentage we get, GOP there is 6%-8%. That will vary depending on the profit that the company generates. But it is never a negative situation for us, it is always positive. If the hotel does not make money, we do not get that fees, but we do not have to pay anything on the downside and the hotel normally takes depending on if you start a hotel in Summer in Jaipur, it will not generate money in the first 6 months. Whereas if you start the same hotel in October we start generating money for the first year itself. So, that is what they call professional hazard because you cannot predict some time when the hotel – we all target to put at the season, sometime projects do not get completed and that is not totally in our hands because they are in the hands of the owner. So if sometimes it takes a little time for it to get opened. But then that is only first year, that is a bit of challenge, but I think second year onwards it is not a problem.

Moderator:

Thank you. We have the next question from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor:

Sir firstly your comments on the consolidated numbers, for the nine months you are reporting a consolidated profit of Rs. 51 lakhs, is it correct?

Amit Jaiswal:

Yes.

Saket Kapoor:

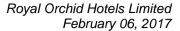
That means on a constant basis we are incurring losses, on a standalone we are around Rs 6.46 crores for 9 months and if we take the consol part we are losing around Rs. 6 crores.

Amit Jaiswal:

Absolutely, you are right.

Saket Kapoor:

And what are the reasons for the same sir?





Amit Jaiswal:

First and the very important reason is the depreciation. If you really look at the numbers the standalone depreciation for 9 months is Rs 3.28 crore, whereas in consol for the 9 months it is Rs 9.97 crores. The previous hit is the depreciation because the newer hotels have come in the subsidiaries. So that takes away our bottom line to a great extent of Rs 6-7 crores of extra depreciation only comes into the consolidated, that is one and there are certain debts, debt also is there in the subsidiary, there are almost Rs 60 crores of debt which is taking the toll.

Saket Kapoor:

So interest service is there due to that?

Amit Jaiswal:

Right, interest service is very high there. So these two factors takes a lot of our bottom line. Like our finance cost in 9 months in the standalone is Rs 4.43 crores where as in consolidated it is Rs 9.48 crores. So round Rs 14-15 crores of debt depreciation and finance cost takes away the bottom line of the consol. But the good part is that at consolidated we were always in loss but this is the first time that in 9 months we have now come into profits.

Saket Kapoor:

Sir moving forward sir, what steps are we are taking to mitigate these two factors – depreciation cannot be helped out, but only it is the increase in revenue and the cost control that can take part of the bottom line.

Amit Jaiswal:

So we have improved our revenues and we are working very seriously on the cost. Like if you see employee cost in consolidated last year 9 months, in consol basis it was Rs 29.30 crores whereas this year it is Rs 26.68 crores. So we are trying to work seriously on the cost also to save the cost wherever possible and cut down the low-hanging fruits as far as the cost is concerned and of course improvement in the top line depends a lot on the market scenario and market condition also which





we are very hopeful of that. So next year will be really good and we

will turn around the things.

Saket Kapoor: Sir these properties which are under the consol are all the domestic

properties or how many are the foreign assets and how many are

domestic that have come here?

Amit Jaiswal: All are domestic only. There is no operating hotel which is in the

financial of Royal Orchid. So all are domestic properties.

Saket Kapoor: Or even in the consol part it is all domestic only?

Amit Jaiswal: All operating hotels are all domestic, only a small land parcel is there

which is overseas. That is not on operating hotel, we have invested in

land parcel in Tanzania.

Saket Kapoor: And especially for the Tanzania assets of land parcels we were looking

for a resort I think so, early as a development....

Amit Jaiswal: But right now the conditions are not that favorable to take because we

will have to again take debt to those things we are not planning to take

any debt. So the project is as it is lying there.

Saket Kapoor: How much is our investment there sir?

Amit Jaiswal: It is hardly only Rs 14 crores till date.

Saket Kapoor: Including debt?

Amit Jaiswal: No, there is no debt. We have invested rs 14 crores till now in that

project.

Saket Kapoor: Okay sir and what is the estimated market value if you do not want to

continue, because you are exiting this to get the cash?



Amit Jaiswal: See, it is much above, our cost margin is somewhere around Rs 25

crores definitely.

Saket Kapoor: And are we envisaging anything to get rid of the same in the near

future?

Amit Jaiswal: We are trying.

Saket Kapoor: Sir you told the loans being restructured to TFCI, Tourism Finance,

how much are we owing to them sir and what is the coupon rate?

Amit Jaiswal: Rs 43 crores and we are paying around 14% interest on that.

Saket Kapoor: And sir, are we in NPA account there or we are servicing both the

principal and the interest.

Amit Jaiswal: We are servicing both principal and the interest.

Saket Kapoor: We are not an NPA in their books?

Amit Jaiswal: No, never there.

Chander Baljee: It is a swapped loan, it is not a restructured loan. It was with the banks

and it is taken over by TFCI and so it is a fresh loan and none of our

loans are in the company, either NPA or restructured as of now and all

our loans are standard, regular loans.

Saket Kapoor: Okay and sir do we have any tie up with people like OYO and other

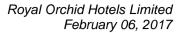
whether substantial number of rooms are also getting tie up for

occupancy? Are we there with people like OYO and others?

Amit Jaiswal: We have kept away from OYO Rooms because if you give rooms to

OYO it dilutes our brand and so there is no question of tying up with

people like OYO Rooms. Of course, we do get substantial business





from what they call online travel agents like Makemytrip, Goibibo and all those people. So that tie ups continue as a regular business tie up.

Saket Kapoor:

Correct. Lastly sir, just a small request from my part. Sir, if after the numbers if we get some sort of detailed investor presentation also, just decoding the numbers for us so that when the con-call is arranged we have better rationalizing of the numbers because a big part of it can be explained through our investor presentation which can be put up on the BSE and NSE site for the good of all stakeholders. So going forward if we could implement that, the interaction will be more interactive and would be more benefiting for all the stakeholders.

Amit Jaiswal:

Yes. Point well taken. I think we will ask our PR agency, the Investor Relations team to circulate the numbers to all of you.

Saket Kapoor:

And sir the transcript will be available readily from the Ad factors only we have to...?

Amit Jaiswal:

They will have.

Moderator:

Thank you. We have the next question from the line of Sadanand Shetty from Taurus Mutual Fund. Please go ahead.

Sadanand Shetty:

If I look at your revenue excluding other income, your core hotel business has declined. I joined a little later in the conference, now when you had a steady ARR and steady occupancy how come your core revenue has declined for the quarter as well as for the 9 months?

Amit Jaiswal:

Yes, I will explain it to you. See what has happened, last year we had a property which was under leased models and that is why the revenue of that property which was almost Rs 5 crores used to get added to our topline. What we have done we have converted that property from leased model to management contract. So that is why although it has



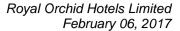
become more profitable but the topline has declined because of that. If you take out that number from last year you will find a growth of almost 4% on year-to-year basis.

Sadanand Shetty:

Fair enough. Practically all your cost component has actually declined. Can you explain in detail, perhaps individual cost component how have you done this?

Chander Baljee:

See, what we started looking at is, we said less challenge all the status quo and this year we said that okay whatever cost are there, balanced our staff cost. Typically, what use to happen is every year which is the given that staff cost will go up as 7%, year-on-year. I said no, we do not want the staff cost to go up. We will give the increment but we want to make sure that the number of people coming up. We were trying to give examples to our general manager that look here, abroad they have a ratio, a much better staff to room ratio, why can't you do it? So there was a lot of pressure on them to reduce the staff, so the staff cost has come down and there were other overheads like wastages, all the things we have tightened up from that and we want to tighten up still further. So I think all the general managers introduced some sort of competition between them to show who is doing better. So they have all now come on a platform where we discussed, once a month we have a video call with all our general managers. So now they are all charged up to produce better results, whether it is some cost cutting or increasing the revenue. I think it is definitely created a sense of an internal competition and we have been benchmarking internally also amongst all our hotels that okay, this hotel, of a similar size has this cost, why should you have a cost which is higher than, you need to explain that if you want to have a higher cost. So those are the things which have been done quite aggressively which is what has helped us in actually reducing our cost.





Sadanand Shetty:

So Mr. Baljee can you, provide a perspective on incremental inventories since capacity is coming up in the industry and also in terms of new launches which is going to be announced or may be in the process?

Chander Baljee:

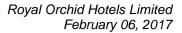
What has really actually happened is in the last few years there is a huge-huge boom in the inventory. So with the result the number of rooms have gone up very much and the market did not go up proportionately. So with the result we all suffered. Now that have tapered off, inventory is coming, but it is not coming at the speed at which it was coming in the past. If you see every single private equity company model, we have a class of hotel, class of assets in that and everything. Every real estate person wanted to have hotels in their portfolio, now today only people who are generally interested in the hospitality industry are coming in, so that glut is not going to be there for some time. Once the hotel industry will start showing very good numbers again there will be a euphoria and people will start building hotels again, but then it is a gestation time, in our country, in spite of ease of doing business there is nothing in the ground level. It still takes 4 years to complete our hotel and get the clearances, so there is nothing really happening to that extent which is working well for us actually. If more inventory comes in, it will be more difficult for people to make hotels, it works better for the existing players.

Moderator:

Thank you. We have the next question from the line of Nishna Biyani of Prabhudas Lilladher. Please go ahead.

Nishna Biyani:

Sir if you could throw some light on what transpired during the quarter, month wise, say October-November-December if you would split that, that would be first and have we done some accelerated sales in the online portal, like makemytrip and booked some revenues there?





Amit Jaiswal: See, makemytrip and goibibo numbers have substantially improved. Of

course if you look at month wise yes, October was not a good one because Dussehra and Diwali both fell in one month and so there were number of holidays and situation were not too good and November the demonetization happened but it didn't affect large number of hotels, but some hotels where there with weddings which got postponed, because the guy who has the wedding has to make a lot of cash payments to the bandwala, the event management guys, all those taxi people and so on. So there was a temporary cash crunch there. So in two of our properties that is Goa and Jaipur we did see some postponements or cancellation of weddings. December was otherwise a good month and I think now January has been very good, so I think looking forward because the issue of demonetization also is behind us and I think situation is definitely looking up in the next quarters to

come.

Nishna Biyani: So sir the online part of it should be what percentage of booking at this

point in time?

Amit Jaiswal: About 20%.

Chander Baljee: Online which one, the total EMC you are asking?

Amit Jaiswal: Total EMC is around 20%.

Chander Baljee: That is portal, GS and plus our website.

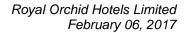
Amit Jaiswal: Brand website, whatever booking we are getting directly.

Nishna Biyani: Okay and sir what is the internal assessment of the value of noncore

assets and any timelines for the disposal sir?

Chander Baljee: See, we have only two assets which we are looking at – one is Powai

and one is Tanzania. Now the market seems to be turning favorable





and I would say post Municipal Corporation election in Bombay, there should be more activity in the real estate that I think we are expecting that within the next 3-6 months we should definitely have some positive news on both these properties.

Nishna Biyani:

That should be good sir. So FY'18 looks much better. And sir if you could throw some light on, out of the 5 leased properties, almost 322 keys, is there anything coming out of the lease arrangement in this year?

Amit Jaiswal:

Nothing.

Nishna Biyani:

Okay and also would like to understand sir, the delta on earnings, when you look at every 1% change in, either the ARR or the occupancy part of it, so what delta can happen, 1 crores or 50 lakh, what number would you put on that?

Amit Jaiswal:

If you really look at it we are looking at a growth of around 5% of our total this thing.

Chander Baljee:

Yes, the 4% will be the flow through in the bottom line.

Nishna Biyani:

But have you calculated this internally, say ARR moves up by 5%, so what should be the change on the earnings for this?

Amit Jaiswal:

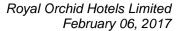
Yes, Rs 6 crores to Rs 7 crores out of which Rs 3-4 crores will go to the bottom line.

Nishna Biyani:

Good and sir when you look at the carry forward loses over the last 4-5 years which we have so if you could throw some light on any tax liability that can come up or you should be sailing through?

Amit Jaiswal:

Next 2 years we do not have any tax liability.





Nishna Biyani:

Okay and sir my final question would be if you could throw some light on the competition, your kind of competition, so the Sarovar, Lemon Trees and Fortunes of the world, so how are their plans shaping up and are they under similar situation like you, like in terms of the momentum in business?

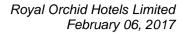
Amit Jaiswal:

Sarovar is definitely a strong brand, but it has now got sold to Golden Tulip. So how that pans out in the future we do not know because these foreign companies have their different policies as far as their fees structure is concerned. They charge on per reservation and the number of extra charges that they have. So unless they follow the same model what the Sarovar has been following and for Golden Tuplip they have another model, but eventually both these model will have to merge, so how it is going to pan out is right now a question mark and so we are going to take advantage of that because we are definitely looking ok as our company is not changing hands. So we are definitely there in the driver's seat and we are growing up very fast and of course ITC Fortune is a brand which competes with us and they are very fine brand they have the backing of ITC but we are caught up with them quite a bit. In fact recently one hotel was de-flagged from ITC Fortune in Ludhiana in which we have signed in. They have not continued their agreement with Fortune. So what is happening is we have seen that again in the market where other hotels, where contracts are closing in other chains, we are trying to look at that also as our playing ground.

Moderator:

Thank you. The next question is from the line of Rohit Balakrishnan from Rare Enterprises. Please go ahead.

Rohit Balakrishnan: Yes, sir can you help me understand the management contract model, what percentage of revenue you take and do you take any percentage of the profits as well?





Amit Jaiswal:

Yes, we normally take 2-3% of the revenue as our management fees and then there is an incentive fee which typically varies from 6%-8% of the gross operating profit.

Rohit Balakrishnan: Gross operating profit would be equivalent to the EBITDA or the gross profit.

Chander Baljee:

Little more than EBITDA. Because EBITDA will have sometime the property tax and all those things. Whereas gross operating profit will not have that. Gross operating expenses are expenses of running the hotel which are directly under the control of the operator. So nothing else gets added direct to that.

Rohit Balakrishnan: Understood and these management contracts, the hotels which are under your contracts these are branded as Royal Orchid or these to be any other brand as well?

Chander Baliee:

No, only under our brand which is the Regenta brand that we have. All the management contracts are in Regenta. The Regenta, Regenta Central and Regenta Inn. You would be glad to know that we got into the budget space also with Regenta in brand.

Rohit Balakrishnan: Got it. Sir one more question. We have been reading a lot of foreign players also entering into this market and they are also segmenting across 3-4 and obviously they are 5 Star as well and they are also following the management contract model. So from a hotel property owner point of view, why should one choose Royal Orchid versus a global name or a more pronounced name which everybody perhaps knows? So just want to understand.

Chander Baljee:

See, what happens is if you look at the whole scenario, the foreign brands come with certain high-end specifications, so with result that the cost of the project is much higher than what we deliver. Number

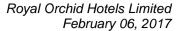


two is that, their fees is substantially higher. Number three is that, they do not have ground level sales support as much as we have got. They are dependent mostly on online bookings and so we are countering the extra bookings that they deliver from the online space because of the larger reach through our sales offices which are spread across the country. So I think in India, there is a fascination for foreign brand and it was very high but now where they have found that there are hotels who have not delivered. I will give you small example of our partner who have partnered with us in Pune and he has partnered with Hyatt also in Pune. The Hyatt investment he had to totally write-off actually and because the cost was very high and they did not deliver whereas our hotel is continuing to do very well right from the beginning. So there have been lots of cases where these foreign brands have not delivered. So I think the word is spreading around that yes all is not hunky, yes, in a boom market they will say yes we are delivering, we are very great. It is absolutely great, but when the times are bad then are they delivering that is the issue. There are certain areas where they doesn't require the market in Indian why you need a foreign brand, is lot of ego issue. You want to have a foreign brand that you know you want to have a Marriott because you are in a small town like Bilaspur, but what is Marriott really delivering, that is a big question.

Rohit Balakrishnan: Got it. Sir one more question. I actually missed it. I got dropped off. You were talking about, somebody asked about the overall demand-supply situation in the industry, if you can just repeat what you have said. I am sorry I had dropped out?

Chander Baljee:

No. The demand what I was saying is, there is this supply which is coming into the market has slowed down. The economy is picking up. So there is going to be definitely a better utilization of a capacities and the moment the boom comes in, it is only at that time that a lot of people will start thinking of getting into the hospitality industry again





and but then there is gestation period of 3 years almost to start a hotel from the time you buy a land. So we are going to be definitely getting into a much better situation.

Rohit Balakrishnan: Good. And sir, in the call earlier you mentioned that your management contract model has now reached an inflection point. Can you expound on that a bit? Why do you think so? And why do you think the current level is going to be at inflection level for you?

Amit Jaiswal:

Firstly we had put all this in an SPV about a year back, so we are monitoring the cost of the management space very closely and so the overheads are well-contained and now whatever new contracts we signed, the fees that we get from the new contract will flow directly to the bottom line. That is what we were talking of inflection point and already the brand has reached a certain critical mass, now we are close to 40 hotels. That means we are forced to reckon with in the management contracts space. So, when people talk to us, or Sarovar, or Fortune they get delighted to speak. Earlier we had smaller number of hotels we were not even considered.

Moderator:

Thank you. Ladies and gentlemen, due to time constraint, that was our last question. I would now like to hand the conference over to Mr. Chander Baljee for closing comments. Thank you and over to you sir.

Chander Baljee:

Thank you everybody. It was really nice interactions. I think now the questions which you have raised will set the tune for our own management teams. We will put it to them that this is the questions that have been asked and so we must focus on those points, so in this conference call you made us much more focused in the future. So we will look forward to meeting you maybe again after maybe the next quarter. So thank you so much.



Moderator:

Thank you very much members of the management. Ladies and gentlemen, on behalf of Royal Orchid Hotels Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.