May 03, 2021

Apeejay Surrendra Park Hotels Limited: Ratings downgraded; outlook continues to remain Negative; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based- Term Loans	430.48	568.60	Downgraded to [ICRA]BBB+ (Negative) from [ICRA]A- (Negative); rated amount enhanced
Fund-based- Bank Facilities	50.00	60.00	Downgraded to [ICRA]BBB+ (Negative) from [ICRA]A- (Negative); rated amount enhanced
Fund-based- Bank Facilities	5.00	5.00	Downgraded to [ICRA]A2 from [ICRA]A2+
Non-fund based	15.00	15.00	Downgraded to [ICRA]A2 from [ICRA]A2+
Unallocated	3.55	5.43	Downgraded to [ICRA]BBB+(Negative)/[ICRA]A2 from [ICRA]A-(Negative)/[ICRA]A2+; rated amount enhanced
Total	**504.03**	**654.03**	

Instrument details are provided in Annexure-1

Rationale

The rating action factors in ICRA's expectation that the recovery in the performance of Apeejay Surrendra Park Hotels Limited (ASPHL) is likely to be weaker in FY2022 than previously anticipated owing to the recent spike in Covid-19 cases. This follows a significant weakness in financial metrics in FY2021 amid a sharp demand contraction owing to the pandemic. In addition, slower-than-expected progress on the initial public offer (IPO) of ASPHL has further pushed back the deleveraging plans of the Group as well as the company.

Owing to a sharp demand contraction stemming from the Covid-19 pandemic, ASPHL's occupancy levels dropped significantly in H1 FY2021, but the same gradually recovered in H2 FY2021. The average room rate (ARR), however, remained moderate, thus adversely impacting the RevPAR by ~57% in FY2021. Proactive revenue management measures have allowed ASPHL to report higher-than-industry occupancies in FY2021. In the pre-Covid times also, ASPHL's properties had recorded consistently high occupancy levels, with the average occupancy across the properties standing at 86% in FY2020. Despite significant cost control measures undertaken, weak operating metrics had a significant impact on ASPHL's financial performance, with the company recording an estimated top line of ~Rs. 182 crore and OPM of ~8% in FY2021 against a top line of ~Rs. 440 crore and an OPM of ~21% in FY2020. However, the performance in FY2021 is estimated to be better than industry as ICRA expects industry wide revenues to contract by ~65% in FY2021 with significant losses. While the occupancy in April 2021 is significantly higher than the corresponding period of the last year following the national lockdown, occupancy levels in April 2021 have witnessed a declining trend, given the recent spike in Covid-19 cases again. Owing to the implementation of localised lockdowns/restrictions in various states, the recovery in operating and financial performance in FY2022 is likely to be weaker than what was previously anticipated by ICRA. In addition, high debt quantum along with sizeable interest and repayment obligations are likely to keep the overall debt coverage indicators and the company's liquidity profile modest in FY2022. Any severe impact of the second wave of the pandemic may further affect the liquidity position of the company. Although ICRA understands that the company has some undrawn sanctioned limits available under the Emergency Credit Line Guarantee Scheme 2.0 (ECLGS 2.0) and expects further sanction under ECLGS 3.0, which is likely to ease the liquidity position to an extent, delay in the IPO of the company has further pushed back the deleveraging plans of ASPHL and the Group. ICRA understands that the company is in discussion with various investors for immediate large fund infusions in ASPHL to ease the liquidity position.

The ratings continue to derive comfort from the established position of ASPHL's brand, THE PARK, in the Indian hospitality industry with presence across attractive locations in key cities. Moreover, the company continues to focus on the asset light management contract model for expansion, which enables it to increase its presence while limiting the capital outlay. Management fees on these managed properties help the company improve its business returns. The ratings also factor in the sustained growth in food and beverages (F&B) revenues, which are relatively less cyclical than the room revenues. ASPHL's share of F&B income has historically been high at 111% (F&B/Room revenues), given its location and reputation for nightlife. Addition of the confectionary business, under the Flury's brand in FY2021, is expected to further support the operating profile of the company, going forward. Nevertheless, ICRA expects the hotel operations to remain impacted in the short-to-medium term on account of the likelihood of the extended impact of the Covid-19 pandemic on the global travel and hospitality industry.

Key rating drivers and their description

Credit strengths

Established five-star luxury hotel brand under the name of THE PARK; presence across attractive locations in key geographies in India – With a portfolio of 20 hotels (seven own properties, 11 under the management contract and the balance under the lease model), comprising 1,850 rooms spread across attractive locations in key geographies in India, ASPHL is a medium sized, but well established player in the Indian hotel industry. ASPHL's hotel portfolio is diversified across categories, with its presence in the luxury and upscale segments through THE PARK brand, and in the upper mid-market segment through Zone by THE PARK brand (operated through management contracts). A bulk of the company's revenue is derived from domestic business travellers because of favourable locations of most of the properties in business destinations. The company has further launched a new brand, Zone CONNECT, with signing of three hotels (around 129 keys) under management contract. Further, two leased hotels (around 40 keys) has been added under the brand, THE PARK, in FY2021. All these new hotels will commence operations in the near term.

As with other established hospitality brands in India, the company has been increasing its presence in the management contract segment. This asset light model enables the company to increase its presence while limiting the capital outlay. In FY2019 end, ASPHL commissioned a 117-key property in Kolkata Biswa Bangla under the long-term lease model. The same has been developed by the Government of West Bengal and will be managed by ASPHL. ICRA notes that the terms of the associated management contract are favourable, and the property is expected to generate revenues and profits, going forward.

Healthy operating metrices in FY2019 and FY2020 before lockdown; however, the same were impacted in FY2021 owing to Covid-19 pandemic – The Indian hospitality industry, which experienced a prolonged downturn during FY2009-FY2015 because of excess supply in several key markets in India, posted an improvement (as measured by Revenue per Available Room or RevPAR) over the past two-three years. ASPHL's properties have recorded a considerable increase in both ARRs and occupancy levels in the last few 2-3 years, with the average occupancy across the properties standing at 86% (before the lockdown). However, the pandemic adversely impacted occupancy and ARR in FY2021. Nonetheless, after a significant drop in occupancy in H1 FY2021, it gradually recovered in H2 FY2021 with the occupancy touching ~93% in February 2021. However, occupancy levels in April 2021 have witnessed a declining trend given the recent spike in Covid-19 cases.

High share of food and beverage income provides some cushion against cyclicality of hotel business – The share of revenue from the F&B segment has been historically high for ASPHL, relative to peers, at 45-46% of the total revenues on an average over the period FY2013-2019, notwithstanding some decline in the quarters post demonetisation because of an overall economic slowdown. Even though the F&B margins are lower than that of rooms, high F&B revenues provide stability to the hotel in the event of falling occupancies and ARRs. Addition of the confectionary business under the Flury's brand is expected to further increase the F&B income of the company. The number of Flury's stores has increased to 50 in March 2021 from 27 in March 2019, which will also support the revenue in the current year. However, in line with the room revenue, the overall F&B revenue is also expected to remain muted in the near term.

Credit challenges

Sharp decline in revenues and cash accruals estimated in FY2021; weaker than previously expected performance in FY2022 due to second wave of the pandemic – The Covid-19 pandemic resulted in a significant disruption in the global travel and tourism industry. ASPHL's occupancy levels dropped significantly in H1 FY2021 before gradually recovering in H2 FY2021. The ARR continued to remain moderate, thus adversely impacting the RevPAR by ~57% in FY2021. This had a major impact on ASPHL's performance with an estimated top line of ~Rs. 182 crore and OPM of ~8% in FY2021 against a top line of ~Rs. 440 crore and OPM of ~21% in FY2020. However, the performance in FY2021 is estimated to be better than industry.

While the occupancy in April 2021 (YTD) is better than the corresponding period last year, there has been a gradual decline in the occupancy levels in April 2021 (YTD). With the recent spike in Covid-19 cases, the recovery in operating and financial performance is likely to be weaker than previously anticipated. Also, ICRA expects the hotel operations to remain impacted in the short-to-medium term due to the likelihood of the extended impact of the pandemic on the global travel and hospitality industry.

Delay in IPO is likely to result in a delay in deleveraging both at entity and group levels – The company has made slower-than-expected progress on its IPO and is yet to file the revised draft red-herring prospectus (DRHP) with SEBI. Over the years, weak performance of few Group entities had resulted in building up of debt at the Group level. The delay in IPO has further pushed back the deleveraging plans of the Group as well as the company. ICRA understands that the company is in discussion with various investors for immediate large fund infusions in ASPHL to ease the liquidity position of the company.

Higher debt repayment relative to cash accruals from core operation impacting liquidity, however, loans extended under Guaranteed Credit Line Scheme would provide some respite– ICRA notes that the debt obligations of the company are substantial, with the total interest and debt repayment expected to be ~Rs. 130 crore in the current fiscal. While, the operating profit is expected to improve compared to a significant drop witnessed in FY2021, the same may not be sufficient to meet the entire debt obligations of the entity. Any severe impact of the second wave of the pandemic may further impact the liquidity position of the company. ICRA understands that the company has some undrawn sanctioned limits under ECLGS 2.0 and expects further sanction under ECLGS 3.0, which is likely to ease liquidity to a large extent. Timely sanction/disbursement of the same will remain a key rating factor.

Depressed returns on capital employed and coverage indicators – A significant decline in profits and cash accruals adversely impacted the returns and debt coverage indicators of the entity. The returns on capital employed (RoCE) is estimated to remain negative in FY2021 owing to losses at the PBIT (profit before interest and tax) levels. In addition, ASPHL's debt coverage indictors also remained depressed with an estimated interest cover of ~0.3 times and Total Debt/OPBDITA of ~39.0 times in FY2021. While the performance in FY2022 is expected to be better compared to a significant decline witnessed in FY2021, the returns and coverage indicators are likely to remain depressed.

Cyclical industry, vulnerable to general economic slowdown and exogenous shocks – The operating performance of the properties remained vulnerable to the seasonality, general economic cycles and exogenous factors (geopolitical crisis, terrorist attacks, disease outbreaks, natural disasters etc).

Liquidity position: Stretched

ASPHL's liquidity position is stretched. The company has undrawn sanctioned limit of Rs. 25.0 crore under ECLGS 2.0**.** Further, ASPHL is eligible for ~Rs. 92 crore of loans under ECLGS 3.0, which is yet to be sanctioned. Timely sanction and disbursement of the same will remain a key rating factor. The company has total interest and debt repayment of ~ Rs.130 crore in FY2022 and ~Rs. 145 crore in FY2023. Given the quantum of debt servicing requirements, the company would require external sources of funds to ensure timely debt repayments. The company is in discussion with various investors for immediate large fund infusions in ASPHL to ease the liquidity position.

Rating sensitivities

Positive factors – An upgrade in the near term is unlikely, given the Negative outlook. Nonetheless, a sustained improvement in operational metrices and profitability margins could lead to a change in the outlook. Also, equity infusion leading to a sustained improvement in liquidity over the medium term would be positive triggers.

Negative factors – Pressure on ASPHL's ratings may arise for reasons including a further severe impact of the second wave of the pandemic, leading to slower-than-anticipated recovery in operating metrices, more-than-expected weakening of its debt coverage indicators and deterioration in its liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Entities in the Hotel Industry](#)
Parent/Group Support	-
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

Apeejay Surrendra Park Hotels Ltd. (ASPHL) is a part of the diversified Apeejay Surrendra Group, based in Kolkata. A private equity firm currently holds 5.82% stake in the entity. The company has seven owned and operating luxury boutique hotels with an inventory of 1,101 rooms, diversified across Bangalore, Chennai, Hyderabad, Kolkata, Navi Mumbai, New Delhi, and Vishakhapatnam. ASPHL also manages eleven operational properties in various locations with a total inventory of 626 rooms under the brand, Zone by THE PARK/THE PARK. The company has two lease hotels (123 keys), with the major being one property in Kolkata under the lease model, which has 117 rooms and has been developed by the Government of West Bengal. It will be managed by ASPHL under the brand, Zone by THE PARK. ASPHL is planning additional hotels under management contract under the brands, THE PARK and Zone by THE PARK over the next two to three years. Few hotels (under management contract and lease model) are already under the implementation stage.

Key financial indicators (audited)

ASPHL	FY2018	FY2019	FY2020
Operating Income (Rs. crore)	385.37	424.72	438.50
PAT (Rs. crore)	-8.13	11.44	24.25
OPBDIT/OI (%)	20.15%	21.46%	21.34%
RoCE (%)	4.44%	5.63%	5.36%
Adj RoCE (%)*	8.16%	9.65%	7.90%
Total Outside Liabilities/Tangible Net Worth (times)	1.08	1.09	1.19
Total Debt/OPBDIT (times)	6.14	5.33	5.78
Interest Coverage (times)	1.86	1.84	1.81
DSCR (times)	1.07	1.02	0.98

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year); *adj for royalty payment and non-yielding large investment in land*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2022)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding (March 31, 2021)	Current Rating	FY2021		FY2020		FY2019
					May 03, 2021	Oct 12, 2020	May 05, 2020	June 14, 2019	April 30, 2019	August 28, 2018
1	Term Loans	Long-Term	568.60	539.58	[ICRA]BBB+(Negative)	[ICRA]A - (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Fund-based Limits	Long-Term	60.00		[ICRA]BBB+(Negative)	[ICRA]A - (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3.	Fund-based Limits	Short-Term	5.00		[ICRA]A2	[ICRA]A2+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Non-fund-based Limits	Short-Term	15.00		[ICRA]A2	[ICRA]A2+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Unallocated	Long-Term/ Short-Term	5.43		[ICRA]BBB+ (Negative) / [ICRA]A2	[ICRA]A - (Negative) / [ICRA]A2+	[ICRA]A+ (Negative) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+
6	Commercial Paper/ Short-Term Debt	Short-Term	-		-	-	-	-	Withdrawn	[ICRA]A1+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based- Term Loans	Simple
Fund-based- Bank Facilities	Simple
Fund-based- Bank Facilities	Simple
Non-fund based	Very Simple
Unallocated	Simple

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

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	FY2016-FY2020	NA	FY 2022 – FY2027	568.60	[ICRA]BBB+(Negative)
NA	Fund-based Limits	NA	NA	NA	60.00	[ICRA]BBB+(Negative)
NA	Fund-based Limits	NA	NA	NA	5.00	[ICRA]A2
NA	Non-fund-based Limits	NA	NA	NA	15.00	[ICRA]A2
NA	Unallocated	NA	NA	NA	5.43	[ICRA]BBB+(Negative)/ [ICRA]A2

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

NA

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Pavethra Ponniah
+91 44 4596 4314
pavethrap@icraindia.com

Sumit Jhunjhunwala
+91 33 7150 1111
sumit.jhunjhunwala@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 61693300
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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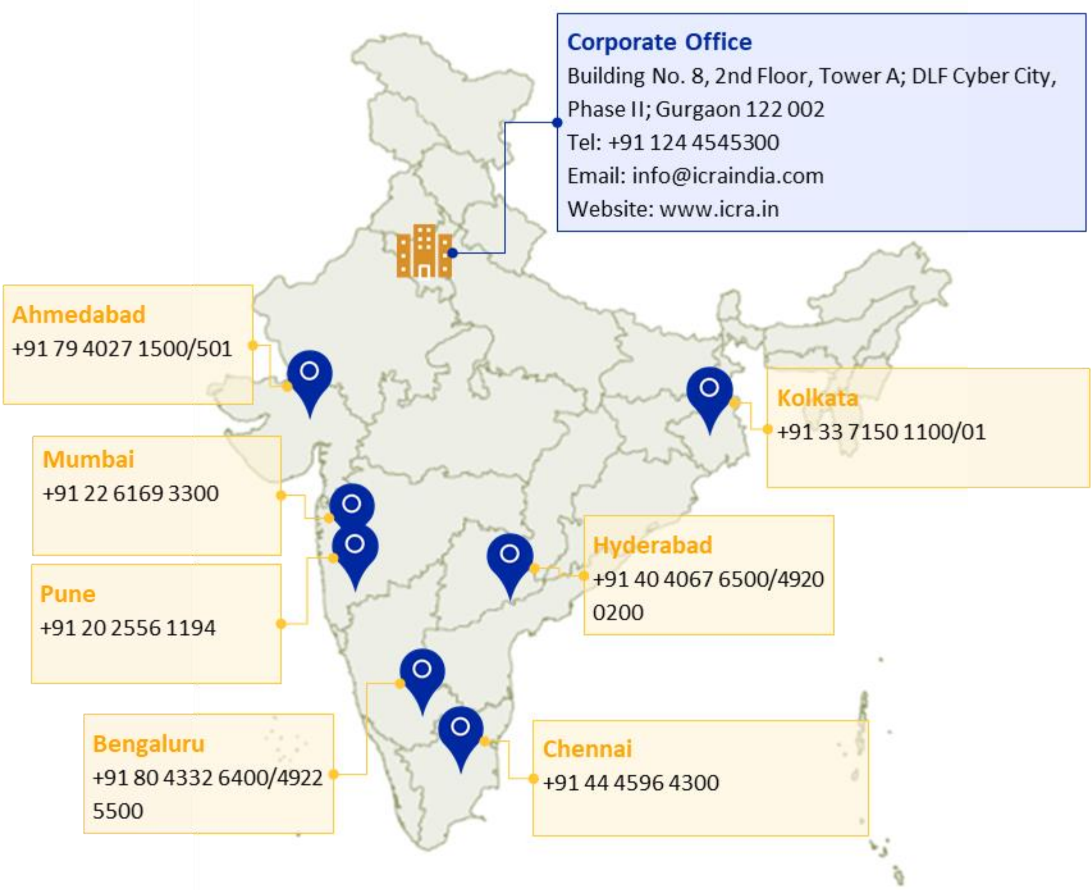
ICRA Limited

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches



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