Apeejay Surrendra Park Hotels Limited

January 31, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	424.03	403.55	[ICRA]A+ (stable); reaffirmed
Fund-based Limits	30.00	30.00	[ICRA]A+ (stable); reaffirmed
Fund-based Limits	15.00	30.00	[ICRA]A1+; reaffirmed
Non-fund-based Limits	15.00	15.00	[ICRA]A1+; reaffirmed
Commercial Paper/ Short Term Debt	30.00	30.00	[ICRA]A1+; reaffirmed
Unallocated	-	5.48	[ICRA]A+ (stable) / [ICRA]A1+; reaffirmed
Total	**514.03**	**514.03**	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A+ (pronounced ICRA A plus) assigned to the Rs. 403.55-crore[1] (reduced from Rs. 424.03 crore) term loans and the Rs. 30-crore fund based bank limits of Apeejay Surrendra Park Hotels Limited (ASPHL)[2]. The outlook on the long-term rating is Stable. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) assigned to the Rs. 30-crore (increased from Rs. 15 crore) fund-based bank limits and the Rs. 15-crore non-fund-based bank limits of ASPHL. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ assigned to the Rs. 30-crore commercial paper/ short-term debt programme of the company. The total borrowings under CP/STD programme and fund-based working capital limits from banks are to be limited to Rs. 30 crore. ICRA has also reaffirmed ratings of [ICRA]A+ (Stable) and [ICRA]A1+ to unallocated limits of Rs. 5.48 crore of ASPHL.

Rationale

The rating reaffirmation takes into account in the recent uptick in the operating environment of the domestic hospitality industry, as supply additions slowed down across several key markets in the country, while the demand momentum continues to remain strong. ASPHL's properties, in particular, have recorded a considerable increase in both average room revenues (ARRs) and occupancy levels since FY2017, with average occupancy across the properties standing at 90% at present. With the positive trend expected to sustain over the near-to-medium term, ICRA expects the company to record increased profitability from its core operations going forward. Moreover, the company continues to focus on the asset light management contracts model for expansion, which enables it to increase its presence while limiting the capital outlay. The fixed fee and share of profit received on these managed properties helps the company improve its business returns, although ICRA notes that the returns remain moderate on an absolute basis. In addition, the ratings continue to derive comfort from the established position of ASPHL's brand - 'THE PARK'- in the Indian hospitality industry, and its presence across attractive locations in key cities, the company's conservative capital structure and the financial flexibility enjoyed by the company from being a part of the diversified Apeejay Surrendra Group and the healthy relationship with domestic banks with proven ability to refinance debt at better terms.

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.*

The long-term rating, however, is constrained by the depressed debt coverage and return indicators of the company. Low returns on certain large-sized properties and investments have been constraining ASPHL's profitability (as measured by Return on Capital Employed, or RoCE, of 4.6% in FY2017). ASPHL's debt coverage indicators, though improved over the levels a year ago, continued to remain depressed as of March 31, 2017 with interest cover of 1.67 times, Total Debt/OPBDITA of 6.15 times and Net Cash Accruals/Total Debt of 8%. While RoCE and debt protection metrics are expected to witness improvement going forward, they are likely to remain subdued on an absolute basis. Moreover, ICRA notes that hoteliers, including ASPHL, remain susceptible to economic cycles and exogenous shocks. However a high share of food and beverage income, which provides diversification in cash flows, mitigates such risks for the company.

Outlook: Stable

While further improvement is expected in ASPHL's financial profile over the near-to-medium term on the back of sustained buoyancy in room rates and occupancy levels, the extent of the improvement would remain a key determinant of ASPHL's credit profile going forward. The outlook may be revised to Positive if there is a considerable improvement in return and debt coverage indicators, supported by sustained and significant increases in room rates and occupancy levels. The outlook may be revised to Negative if the market position and performance of ASPHL's key properties is adversely impacted by incremental supply, exogenous shocks or economic slowdown.

Credit strengths

Established five-star luxury hotel brand, under the name of 'THE PARK' in the Indian hospitality industry; presence across attractive locations in key geographies in India - With a portfolio of 14 hotels (including seven under management contract), comprising a total of 1,527 rooms, spread across attractive locations in key geographies in India, ASPHL is a medium-sized, but well-established, player in the Indian Hotel industry. The hotel portfolio is diversified across categories, with presence in luxury and upper upscale segments through 'THE PARK' brand, and in the economy segment through the 'Zone by THE PARK' brand (operated through management contracts). By virtue of the favourable locations of most of the properties in business destinations, the bulk of the company's revenue is derived from business travellers.

The company has been increasing its presence in the management contract segment, and is expected to further increase the room inventory from 1527 at present to over 3000 by FY2020. This asset light model enables it to increase its presence while limiting the capital outlay. The fixed fee and share of profit received on these managed properties also help the company improve its business returns, although ICRA notes that the returns remain moderate on an absolute basis. The expansion plans include Biswa Bangla, a property with 105 rooms in Kolkata, which is being developed by the Govt. of West Bengal and is to be managed by ASPHL, through one of its wholly-owned subsidiaries, from April, 2018 onwards. ICRA notes that the terms of the associated management contract are favourable, and the property is expected to generate revenues and profits from FY2019 onwards.

Substantial improvement in average occupancy levels to around 90% and 10% growth in ARRs during 9M FY2018, with the trend likely to sustain over the medium term, expected to lead to increased profitability going forward - The Indian hospitality industry, which had experienced a prolonged downturn during FY2009–FY2015 because of excess supply in several key markets in India, posted improvement (as measured by Revenue per Available Room or RevPAR) over the past two years. This was driven by an improvement in occupancy levels in FY2015–FY2016, as the pace of supply additions slowed down across markets amid robust demand growth. Scale up in room occupancy offered considerable pricing power to the industry, as witnessed by the improvement in Average Room Rates (ARRs) across cities during FY2017. Over the next 18-24 months, despite a sizeable supply pipeline, ARRs are expected to improve further, driven by robust demand conditions. ASPHL's properties, in particular, have recorded a considerable increase in both average room revenues (ARRs) and occupancy levels since FY2017, with ARRs increasing by 10% during 9M FY2018 and average occupancy across the properties standing at 90% at present. With the positive trend expected to sustain over the near-to-medium term, ICRA expects the company to record increased profitability from its core operations going forward.

High share of food and beverage income provides some cushion against the cyclicality of the hotel business - Share of revenue from F&B income has historically been high for ASPHL, relative to peers, with the share standing at around 47% of total revenues on average over the period FY2013-2017, notwithstanding some decline in the quarters post demonetisation due to an overall economic slowdown. Even though the margins in F&B are lower as compared to room margins, the high F&B revenues provide stability to the hotel in the event of falling occupancies and ARRs.

Conservative capital structure - ASPHL's capital structure continues to remain comfortable, with a gearing of 0.7 time as on March 31, 2017. ICRA notes that the promoters of ASPHL have recently bought back a stake of 7.5% from a private equity investor at a favourable valuation, and have reduced the share capital of the company by the corresponding amount. Notwithstanding the resulting reduction in ASPHL's tangible net worth, ICRA expects the capital structure of the company to remain comfortable going forward.

Financial flexibility derived from the status as a company belonging to the diversified Apeejay Surrendra Group – The Apeejay Surrendra Group currently (post buy back of part of the shares held by a private equity player) holds 92% stake in ASPHL. Given the established position of the Group, ASPHL enjoys considerable financial flexibility and maintains a healthy relationship with domestic banks with proven ability to refinance debt at better terms.

Credit challenges

Depressed return and coverage indicators, notwithstanding the improvement in the same during FY2017 - The debt coverage and return indicators of the company remain depressed, despite the improvement recorded by ASPHL during FY2017. Subdued returns on certain large-sized properties and investments have been constraining ASPHL's profitability (as measured by the Return on Capital Employed, or RoCE, of 4.6% in FY2017). ASPHL's debt coverage indicators, though improved over the levels a year ago, continued to remain stretched as of March 31, 2017 with interest cover of 1.67 times, Total Debt/OPBDITA of 6.15 times and Net Cash Accruals/Total Debt of 8%. While further improvement is expected in ASPHL's financial profile over the near-to-medium term on the back of sustained buoyancy in room rates and occupancy levels, the extent of the improvement would remain a key determinant of ASPHL's credit profile going forward.

Cyclical industry, vulnerable to general economic slowdown and exogenous shocks (geopolitical crises, terrorism, disease outbreaks, etc.) – Following a prolonged down cycle, the Indian hospitality industry has started witnessing a significant improvement in operating metrics from FY2016 onwards. This is expected to lead to a pick-up in new project announcements over the medium term, strengthening the supply pipeline, which could constrain improvement in operating metrics.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

[Rating Methodology for Entities in the Hotel Industry]

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, which used to have a 15% stake in ASPHL, sold 7.5% back to ASPHL in Q3 FY2018.

The company has a collection of seven owned and operating luxury boutique hotels with an inventory of 1,108 rooms, diversified across Bangalore, Chennai, Hyderabad, Kolkata, Navi Mumbai, New Delhi, and Vishakhapatnam. In addition, the company also manages a 35-room boutique hotel in Goa under the brand THE PARK. The company also manages six operational properties at Coimbatore, Jaipur, Chennai, Raipur, Jodhpur and Bangalore with a total inventory of 384 rooms under the brand 'Zone by THE PARK'. ASPHL is planning six additional hotels with 415 rooms under management contract under the brand THE PARK and nine hotels with 1124 rooms under management contract under the brand Zone by THE PARK over the next two to three years. In the near term, the total room inventory of owned and managed properties is expected to increase to 3066 from the existing 1527 rooms.

ASPHL reported a net profit of Rs. 10.16 crore on an operating income of Rs. 366.45 crore in FY2017. During FY2016, the company reported an operating income of Rs. 332.20 crore, and a net loss of Rs. 5.10 crore.

Key financial indicators (audited, stand-alone)

	FY2016	FY2017
Operating Income (Rs. crore)	332.20	366.45
PAT (Rs. crore)	-5.10	10.16
OPBDIT/ OI (%)	20.51%	20.07%
RoCE (%)	3.99%	4.63%
Total Debt/ TNW (times)	0.75	0.73
Total Debt/ OPBDIT (times)	6.66	6.15
Interest Coverage (times)	1.57	1.67
NWC/ OI (%)	4%	0%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					Jan 2018	Oct 2016	Aug 2015	Sep 2014
1	Term Loans	Long Term	403.55	**NA**	[ICRA]A+ (Stable);	[ICRA]A+ (Stable);	[ICRA]A+ (Stable);	[ICRA]A+ (Stable);
2	Fund-based Limits	Long Term	30.00	**NA**	[ICRA]A+ (Stable);	[ICRA]A+ (Stable);	[ICRA]A+ (Stable);	[ICRA]A+ (Stable);
3	Fund-based Limits	Short Term	30.00	**NA**	[ICRA]A1+;	[ICRA]A1+;	[ICRA]A1+;	[ICRA]A1+
4	Non-fund-based Limits	Short Term	15.00	**NA**	[ICRA]A1+;	[ICRA]A1+;	[ICRA]A1+;	-
5	Commercial Paper/ Short-Term Debt	Short Term	30.00	**Nil**	[ICRA]A1+;	[ICRA]A1+;	[ICRA]A1+;	-
6	Unallocated	Long Term/ Short Term	5.48	**NA**	[ICRA]A+ (Stable) / [ICRA]A1+;	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

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-FY2018	NA	FY 2022 – FY2027	403.55	[ICRA]A+ (Stable);
NA	Fund-based Limits	NA	NA	NA	30.00	[ICRA]A+ (Stable);
NA	Fund-based Limits	NA	NA	NA	30.00	[ICRA]A1+;
NA	Non-fund-based Limits	NA	NA	NA	15.00	[ICRA]A1+;
NA	Commercial Paper	NA	NA	7-365 days	30.00	[ICRA]A1+;

Source: ASPHL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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