Apeejay Surrendra Park Hotels Limited Revised

April 30, 2019

Summary of rated instruments

Instrument	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Commercial Paper/ Short Term Debt	30.00	-	[ICRA]A1+; withdrawn
Term Loans	403.55	403.55	[ICRA]A+ (Stable); Outstanding
Fund-based Limits	50.00	50.00	[ICRA]A+ (Stable); Outstanding
Fund-based Limits	30.00	30.00	[ICRA]A1+; Outstanding
Non-fund-based Limits	15.00	15.00	[ICRA]A1+; Outstanding
Unallocated	5.48	5.48	[ICRA]A+ (Stable) / [ICRA]A1+; Outstanding
Total	**534.03**	**504.03**	

Rationale

The rating for the commercial paper programme has been withdrawn as there is no amount outstanding against the instrument. The rating has been withdrawn as per the request of the company and it is in accordance with ICRA's policy on withdrawal and suspension.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that ASPHL's financial profile will continue to improve over the near-to-medium term on the back of sustained buoyancy in room rates and occupancy levels. The outlook may be revised to Positive if there is a considerable improvement in return and debt coverage indicators, supported by sustained and significant increase in room rates and occupancy levels. The outlook may be revised to Negative if the market position and performance of ASPHL's key properties are adversely impacted by incremental supply, exogenous shocks or economic slowdown.

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 (including 13 under the management contract), comprising 1,798 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 upscale segments through 'THE PARK' brand, and in the economy segment through the 'Zone by THE PARK' brand (operated through management contracts). Owing to 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 its room inventory from 1,798 at present to around 2,500 by 2020. This asset light model enables the company 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 at present. The recently commissioned property in Kolkata- Biswa Bangla is under the long-term lease model, which has 117 rooms and 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 from FY2020.

Continuous improvement in average occupancy levels in FY2019; the trend likely to sustain over the medium term and expected to result in high profitability going forward - The Indian hospitality industry, which 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-three years. ASPHL's properties have recorded a considerable increase in both average room revenues (ARRs) and occupancy levels in FY2018 and FY2019, with ARRs increasing by 11% in FY2019 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 the F&B income has historically been high for ASPHL, relative to peers, with the share standing at around 45-46% of total revenues on an average over the period FY2013-2019, notwithstanding some decline in the quarters post demonetisation due to an overall economic slowdown. Even though the margins in F&B are lower compared to room margins, 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 estimated to be around 0.8 times as on March 31, 2019. ICRA expects capital structure to remain comfortable in the near to medium term because of healthy profitability and scheduled repayment of term debt.

Credit challenges

Liquidity position of the overall Apeejay Group under pressure- Overall group liquidity has been impacted because of consistent operating losses suffered in the group's tea business in the last few years.

Subdued returns on capital employed and coverage indicators, notwithstanding the improvement estimated in FY2019 - The debt coverage and return indicators of the company remained depressed, despite improvement recorded by ASPHL in FY2018 and estimated FY2019. 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 sub 6% in the past several years). ASPHL's debt coverage indicators, though improved over the levels a year ago, continued to remain stretched as on March 31, 2019 with an estimated interest cover of around 2 times, Total Debt/OPBDITA of around 5 times and Net Cash Accruals/Total Debt of 8-9%. 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. This is expected to lead to a pick-up in new project announcements over the medium term, strengthening the supply pipeline. However, the same could constrain improvement in operating metrics.

Liquidity position

While the standalone liquidity position of ASPHL remains moderate, the level of support to the Group would be a key determinant of the overall liquidity position of the company.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry
Parent/Group Support	ICRA expects Apeejay Surrendra Group to extend financial support to ASPHL, should there be any requirement. ICRA has also factored in the fungibility of cash flows within different businesses of the Group. ASPHL also shares common name with other Apeejay Group entities, which in ICRA's opinion would persuade Apeejay Group to provide financial support to ASPHL to protect its reputation from the consequences of a Group entity's distress.
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, which used to have a 15% stake in ASPHL, sold 7.5% back to ASPHL in Q3 FY2018.

The company has 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 manages two hotels in Goa under the brand, THE PARK. The company also manages nine operational properties in Coimbatore, Jaipur, Chennai, Raipur, Jodhpur, Bangalore (two), Gurgaon and Jammu with a total inventory of 502 rooms under the brand 'Zone by THE PARK'. The company has also added 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.

ASPHL reported a net loss of Rs.8.10 crore on an operating income of Rs. 385.21 crore in FY2018. In FY2017, the company reported an operating income of Rs. 366.45 crore, and a net profit of Rs. 10.16 crore.

Key financial indicators (audited, standalone)

	FY2017	FY2018
Operating Income (Rs. crore)	366.45	385.21
PAT (Rs. crore)	10.16	-8.10
OPBDIT/ OI (%)	20.07%	20.20%
RoCE (%)	4.63%	4.44%
Total Debt/ TNW (times)	0.73	0.82
Total Debt/ OPBDIT (times)	6.15	6.13
Interest Coverage (times)	1.67	1.86
NWC/ OI (%)	0%	5%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding – March 2019 (Rs Crore)	Date & Rating April 2019	Date & Rating in FY2019 August 2018	Date & Rating in FY2018 Jan 2018	Date & Rating in FY2017 Oct 2016
1	**Commercial Paper/ Short-Term Debt**	**Short Term**	**-**	**Nil**	**[ICRA]A1+; withdrawn**	**[ICRA]A1+; outstanding**	**[ICRA]A1+; reaffirmed**	**[ICRA]A1+; reaffirmed**
2	Term Loans	Long Term	403.55	**433.48**	[ICRA]A+ (Stable); outstanding	[ICRA]A+ (Stable); outstanding	[ICRA]A+ (Stable); reaffirmed	[ICRA]A+ (Stable); reaffirmed
3	Fund-based Limits	Long Term	50.00	**42.23**	ICRA]A+ (Stable); outstanding	[ICRA]A+ (Stable); assigned/outstanding	ICRA]A+ (Stable); reaffirmed	[ICRA]A+ (Stable); reaffirmed
4	Fund-based Limits	Short Term	30.00	**8.00**	[ICRA]A1+; outstanding	[ICRA]A1+; outstanding	[ICRA]A1+; reaffirmed	[ICRA]A1+; reaffirmed
5	Non-fund-based Limits	Short Term	15.00	**NA**	[ICRA]A1+; outstanding	[ICRA]A1+; outstanding	[ICRA]A1+; reaffirmed	[ICRA]A1+; reaffirmed
6	Unallocated	Long Term/ Short Term	5.48	**NA**	[ICRA]A+ (Stable) / [ICRA]A1+; outstanding	[ICRA]A+ (Stable) / [ICRA]A1+; outstanding	[ICRA]A+ (Stable) / [ICRA]A1+; assigned	-

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	**Commercial Paper**	**NA**	**NA**	**7-365 days**	**-**	**[ICRA]A1+ withdrawn**
NA	Term Loan	NA	NA	NA	403.55	ICRA]A+ (Stable)
NA	Fund-based Limits	NA	NA	NA	50.00	[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	Unallocated	NA	NA	NA	5.48	[ICRA]A+ (Stable)/ [ICRA]A1+

Source: ASPHL

Corrigendum

Document dated April 30, 2019 has been corrected with revisions as detailed below:

- Revision on page number 1, under Credit Strengths- The no of hotels mentioned was 19 (including 12 under management). However, it will be 20 hotels (including 13 under management) as corrected. The expected rooms for 2020 was mentioned as 3000; however, it will be 2500 rooms as corrected.
- Revision on Page number 5, under Rating history for last three years- The amount outstanding as on March 31, 2019 against short-term fund-based limit was Rs 3.00 crore. However, it will be Rs 8.00 crore, as corrected.

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About ICRA Limited:

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