June 14, 2019 Revised

Apeejay Surrendra Park Hotels Limited: Ratings reaffirmed

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	403.55	430.48	[ICRA]A+ (Stable); Reaffirmed
Fund-based Limits	50.00	50.00	[ICRA]A+ (Stable); Reaffirmed
Fund-based Limits	30.00	5.00	[ICRA]A1+; Reaffirmed
Non-fund-based Limits	15.00	15.00	[ICRA]A1+; Reaffirmed
Unallocated	5.48	3.55	[ICRA]A+ (Stable) / [ICRA]A1+; Reaffirmed
Total	**504.03**	**504.03**	

Rationale

The rating action considers consistent improvement in the operating metrics of ASPHL's hotel properties in FY2018 and FY2019 because of an uptick in the operating environment in the domestic hospitality industry. ASPHL's properties have recorded a substantial increase in both average room revenues (ARRs) and occupancy levels in FY2018 and FY2019, with the average occupancy across the properties standing at 90%. With the positive trend expected to sustain over the near-to-medium term, ICRA expects the company to record an increased profitability from its core operations, going forward. The ratings also factor in the sustained growth in food and beverages (F&B) revenues, which are more stable than the cyclical room revenues. 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 a share of profit received on these managed properties help 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 with presence across attractive locations in key cities and the company's conservative capital structure. ICRA also notes that the company enjoys a healthy relationship with domestic banks for being a part of the diversified Apeejay Surrendra Group, which results in financial flexibility as demonstrated by its ability to refinance debt at better terms in the past.

The ratings, however, are constrained by the subdued 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 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 depressed 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%. 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. ICRA also notes that the company is in the process of incurring capital expenditure to add capacity; funding pattern of the same along with deleveraging of the Group would also remain key rating monitorable. Going forward, with no incremental support likely to other Group entities, ICRA expects the cash flow position to remain comfortable relative to the debt service obligations.

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 23 hotels (7 own properties, 13 under the management contract and balance under lease model), comprising 1,951 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 presence in 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 business travellers because of favourable locations of most of the properties in business destinations.

The company has been increasing its presence in the management contract segment, and is expected to further increase its room inventory from 1,951 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 a 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 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 cyclicality of hotel business – The share of revenue from the F&B income has historically been high for ASPHL, relative to peers, with the share standing at 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 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.

Conservative capital structure - ASPHL's capital structure continued to remain comfortable, with the gearing estimated to be around 0.8 times as on March 31, 2019. While ICRA notes that the company is in the process of incurring capital expenditure to add capacity, funding pattern of the capex along with extent and timeliness of the Group's plan to reduce debt, would remain key rating monitorable.

Credit challenges

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 some improvement recorded by ASPHL in FY2018 and FY2019 (estimated). Subdued returns on certain large-sized properties and investments have been constraining ASPHL's profitability (as measured by RoCE of sub 6% in the past several years). ASPHL's debt coverage indicators, though improved over the levels recorded 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 same would remain a key determinant of ASPHL's credit profile, going forward.

Cyclical industry, vulnerable to general economic slowdown and exogenous shocks – Following a prolonged downcycle, 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 the operating metrics.

Liquidity position

The standalone liquidity position of ASPHL remains comfortable.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry
Parent/Group Support	ICRA notes that there is fungibility of cash flows within different businesses of the Group. However, ICRA does not expect any support in ASHPL. Also, there is no incremental support expected from ASHPL to other Group entities.
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 had 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 and recently launched THE PARK at Juhu Mumbai ASPHL also manages ten operational properties in Coimbatore, Jaipur (two), Chennai, Raipur, Jodhpur, Bangalore (two), Gurgaon and Jammu with a total inventory of 595 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 June 2019	Date & Rating April 2019	Date & Rating in FY2019 August 2018	Date & Rating in FY2018 Jan 2018	Date & Rating in FY2017 Oct 2016
1	Term Loans	Long Term	430.48	**433.48**	[ICRA]A+ (Stable); reaffirmed	[ICRA]A+ (Stable); outstanding	[ICRA]A+ (Stable); outstanding	[ICRA]A+ (Stable); reaffirmed	[ICRA]A+ (Stable); reaffirmed
2	Fund-based Limits	Long Term	50.00	**42.23**	[ICRA]A+ (Stable); reaffirmed	[ICRA]A+ (Stable); outstanding	[ICRA]A+ (Stable); assigned/outstanding	[ICRA]A+ (Stable); reaffirmed	[ICRA]A+ (Stable); reaffirmed
3	Fund-based Limits	Short Term	5.00	**8.00**	[ICRA]A1+; reaffirmed	[ICRA]A1+; outstanding	[ICRA]A1+; outstanding	[ICRA]A1+; reaffirmed	[ICRA]A1+; reaffirmed
4	Non-fund-based Limits	Short Term	15.00	**NA**	[ICRA]A1+; reaffirmed	[ICRA]A1+; outstanding	[ICRA]A1+; outstanding	[ICRA]A1+; reaffirmed	[ICRA]A1+; reaffirmed
5	Unallocated	Long Term/ Short Term	3.55	**NA**	[ICRA]A+ (Stable) / [ICRA]A1+; reaffirmed	[ICRA]A+ (Stable) / [ICRA]A1+; outstanding	[ICRA]A+ (Stable) / [ICRA]A1+; outstanding	[ICRA]A+ (Stable) / [ICRA]A1+; assigned	-
6	Commercial Paper/ Short-Term Debt	Short Term	-	Nil	-	[ICRA]A1+; withdrawn	[ICRA]A1+; outstanding	[ICRA]A1+; reaffirmed	[ICRA]A1+; reaffirmed

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	430.48	[ICRA]A+ (Stable)
NA	Fund-based Limits	NA	NA	NA	50.00	[ICRA]A+ (Stable)
NA	Fund-based Limits	NA	NA	NA	5.00	[ICRA]A1+
NA	Non-fund-based Limits	NA	NA	NA	15.00	[ICRA]A1+
NA	Unallocated	NA	NA	NA	3.55	[ICRA]A+ (Stable)/ [ICRA]A1+

Source: ASPHL

Corrigendum

Document dated June 14, 2019 has been corrected with revisions as detailed below:

- Revision on page number 2, under Credit Strengths- The no of hotels mentioned was 20 (including 13 under management). However, it will be 23 hotels (including 13 under management and 3 under lease) as corrected. The total rooms mentioned was 1798; however, it will be 1951 rooms as corrected. The Zone by the Park was mentioned as economy segment brand; however, it will be upper mid-market segment as corrected.
- Revision on Page number 3, About the company- hotels under THE PARK brand- "and recently launched THE PARK at Juhu Mumbai" will be added. Also, the manage properties will be ten (as against nine), Jaipur (two hotels as against one mentioned), and manage total inventory of 595 (as against 502 mentioned) as corrected.

ANALYST CONTACTS

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

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

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

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6169 3300
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

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
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