October 12, 2020

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

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	430.48	430.48	Downgraded to [ICRA]A- (Negative) from [ICRA]A+ (Negative)
Fund-based Limits	50.00	50.00	Downgraded to [ICRA]A- (Negative) from [ICRA]A+ (Negative)
Fund-based Limits	5.00	5.00	Downgraded to [ICRA]A2+ from [ICRA]A1+
Non-fund-based Limits	15.00	15.00	Downgraded to [ICRA]A2+ from [ICRA]A1+
Unallocated	3.55	3.55	Downgraded to [ICRA]A- (Negative)/[ICRA]A2+ from [ICRA]A+ (Negative)/[ICRA]A1+
Total	**504.03**	**504.03**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action factors in the expected weak financial performance of Apeejay Surrendra Park Hotels Limited (ASHPL) in FY2021, owing to a sharp demand contraction stemming from the Covid-19 pandemic, which would exacerbate the tight liquidity position of the company. The extended pan-India lockdown announced from March 24, 2020 followed by localised lockdown and contagion fears have resulted in a sharp fall in the occupancy levels to below 40% during April-July 2020. With the consequent decline in revenues, ASHPL has recorded operating losses of around Rs. 13 crore in 4M FY2021 (provisional numbers) despite undertaking significant cost control measures, including rationalisation of employees, pay structures, power expenses and marketing expenditure.

ICRA notes that with the recent unlock rules easing inter-state travel/air travel and opening of the broader economy, which largely coincides with the beginning of the peak months in the hospitality industry in India, demand could witness some recovery in H2 FY2021. While ASHPL's average occupancy has gradually improved to over 50% in the recent months, sustenance of the same along with the average tariff would be the key factors determining the company's financial performance in the current fiscal. Notwithstanding any improvement from the current levels, ICRA expects the company's revenues and margins to witness a sharp fall, leading to cash losses in FY2021.

ICRA understands that despite availing moratorium as a part of the COVID-19 - Regulatory Package announced by the RBI, the debt service obligations for the company are substantial in FY2021, with the total interest and debt repayment estimated to be ~ Rs.68 crore in the second half of the current fiscal. With ASPHL expected to incur cash losses in FY2021, the company would need external sources of funds to ensure timely debt repayments. In this regard, ICRA understands that the company is in discussion with various investors for large fund infusions to ease the liquidity position. Timely fruition of the same, along with the nature and the extent of fund infusion and the utilisation of the same would be the key factors impacting the financial risk profile of the company, going forward. ICRA, however, notes that the company has undrawn working capital lines and bank balance of around Rs. 20.0 crore to meet any immediate debt servicing requirements. ICRA also takes comfort from the healthy relationship of the company and the Apeejay Surrendra Group with domestic banks, with demonstrated ability to refinance debt at attractive terms in the past.

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. A fixed fee and a share of profit received on these managed properties help the company improve its business returns. In the pre-Covid times, ASPHL's properties had recorded a substantial increase in both the average room revenues (ARRs) and occupancy levels over the years, with the average occupancy across the properties standing at 86% in FY2020. The ratings also factor in the sustained growth in food and beverages (F&B) revenues, which are more stable than the cyclical room revenues. The addition of the confectionary business, under the Flury's brand, is expected to further support the operating profile of the company, going forward. Nevertheless, ICRA expects the ongoing pandemic to keep the operating metrices muted in the near term. While ICRA notes that the company had filed the draft red-herring prospectus (DRHP) in January 2020 for the proposed Initial Public offer (IPO), in the aftermath of the Covid-19 pandemic, an IPO is unlikely in the near term.

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 22 hotels (seven own properties, 13 under the management contract and the balance under the lease model), comprising 1,937 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 been increasing its presence in the management contract segment, and is expected to further increase its room inventory. This asset light model enables the company to increase its presence while limiting the capital outlay. A 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. In FY2019 end, ASPHL commissioned a property in Kolkata Biswa Bangla under the long-term lease model, which has 117 rooms. 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); near-term revenue visibility to be impacted by the 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 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). Nevertheless, ICRA expects the ongoing pandemic to keep the operating metrices muted in the near term, which will remain a key rating monitorable.

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 40 in December 2019 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 expected in FY2021 on account of a steep demand drop owing to the pandemic – The Covid-19 pandemic led to a significant disruption in the global travel and tourism industry. The extended pan-India lockdown announced from March 24, 2020 followed by localised lockdown and contagion fears resulted in a sharp fall in occupancy levels to below 40% during April to July 2020. With the consequent decline in revenues, ASHPL has recorded operating losses of around Rs. 13 crore in 4M FY2021 (provisional numbers), despite undertaking significant cost control measures. ICRA notes that with the recent unlock rules easing inter-state travel/air travel and opening of the broader economy during the peak months in the hospitality industry in India, demand could witness some recovery in H2 FY2021. While ASHPL's average occupancy has gradually improved to over 50% in the recent months, sustenance of the same along with the average tariff would be the key factors determining the financial performance of the company in the current fiscal. Notwithstanding any improvement from the current levels, ICRA expects the company's revenues and margins to witness a sharp fall, leading to cash losses in FY2021.

Tight liquidity owing to likely weak performance along with high debt repayment obligation in FY2021; fructification of fund-raising plans would provide respite – The expected weak financial performance together with high repayments in FY2021 is likely to keep the liquidity position tight in the near term. ICRA understands that despite availing the moratorium, the debt obligations of the company are substantial in FY2021, with the total interest and debt repayment estimated to be ~ Rs.68 crore and the company would need external sources of funds to ensure timely debt repayments. ICRA understands that the company is in discussion with various investors for large fund infusion, which once finalised, is likely to ease the liquidity to a large extent. Timely fruition of the same will remain a key rating factor. ICRA, however, notes that the company has undrawn working capital lines and bank balance of around Rs. 20.0 crore, to meet any immediate debt servicing requirements.

Sub-optimal returns on capital employed and moderate coverage indicators – The returns on capital employed (RoCE) remained sub-optimal at ~5.4% in FY2020, primarily led by royalty payment and non-yielding large investment in land. Adjusting for the same, the RoCE would be around 8% in FY2020. In addition, ASHPL's debt coverage indictors also remained moderate with an estimated interest cover of ~2.0 times and Total Debt/OPBDITA of ~5.7 times in FY2020. Following the Covid-19 pandemic, the near-term capex is likely to be deferred. The expected decline in profitability is likely to adversely impact the returns indicators and debt protection metrics. However, ICRA derives comfort from the management's demonstrated track record of refinancing debt at favourable terms.

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

ASHPL's liquidity position is **stretched** with the current account balance and undrawn CC facility of ~Rs. 20.0 crore. The same is likely to be sufficient to meet any immediate debt servicing requirements in the next 2-3 months. However, ICRA notes that the total interest and debt repayment is estimated to be ~ Rs.68 crore in FY2021 and thus the company would need external sources of funds to ensure timely debt repayments. ICRA understands that the company is engaged in discussion with various investors for large fund infusion, which once finalised, is likely to ease the liquidity to an extent.

Rating Sensitivities

Positive triggers – A rating upgrade in the near term is unlikely, given the Negative outlook on the industry/company due to concerns over the severe impact of the Covid-19 pandemic on the travel and tourism business. Nonetheless, a substantial fund infusion with favourable terms, leading to a sustained improvement in liquidity over the medium term, could lead to a change in the outlook. A sustained improvement in operational metrices and profitability margins following the pandemic could also be positive triggers.

Negative triggers –Pressure on ASHPL's ratings may arise for reasons including a prolonged impact of the pandemic, leading to slower-than-anticipated recovery in operating metrices, more-than-expected weakening of its debt servicing indicators and any delay in fund infusion, further deteriorating 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	The company enjoys financial flexibility for being a part of the Apeejay Surrendra Group
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 a 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 in 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 is estimated to report a net profit of Rs.4.10 crore on an operating income of Rs. 437.77 crore in FY2020. In FY2019, the company reported an operating income of Rs. 421.67 crore, and a net profit of Rs.12.17 crore.

Key financial indicators (audited, standalone)

	FY2019	FY2020*
Operating Income (Rs. crore)	421.67	437.77
PAT (Rs. crore)	12.17	4.10
OPBDIT/ OI (%)	21.60%	21.89%
PAT/OI (%)	2.89%	0.94%
Total Outside Liabilities/Tangible Net Worth (times)	1.08	1.15
Total Debt/ OPBDIT (times)	5.33	5.66
Interest Coverage (times)	1.84	1.94

*FY2020 are estimated numbers

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Rating (FY2021)					Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding (March 31, 2020)	Current rating	FY2021	FY2020		FY2019	FY2018
					12-Oct-2020	05-May-2020	14-Jun-2019	30-Apr-2019	28-Aug-2018	31-Jan-2018
1	Term Loans	LT	430.48	495.24	[ICRA]A - (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Fund-based Limits	LT	50.00	-	[ICRA]A - (Negative)	[ICRA]A+ (Negative)	ICRA]A+ (Stable)	ICRA]A+ (Stable)	ICRA]A+ (Stable)	ICRA]A+ (Stable)
3	Fund-based Limits	ST	5.00	-	[ICRA]A2+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Non-fund-based Limits	ST	15.00	-	[ICRA]A2+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Unallocated	LT/ST	3.55	-	[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+	[ICRA]A+ (Stable) / [ICRA]A1+
6	Commercial Paper/ Short-Term Debt	ST	-	-	-	-	-	Withdrawn	[ICRA]A1+	[ICRA]A1+

LT: Long term; ST: Short term

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-FY2020	NA	FY 2022 – FY2027	430.48	ICRA]A- (Negative)
NA	Fund-based Limits	NA	NA	NA	50.00	ICRA]A-(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	3.55	ICRA]A- (Negative)/ [ICRA]A2+

Source: ASPHL

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