August 02, 2021

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
Fund-based- Term Loans	568.60	568.60	Downgraded to [ICRA]BBB(Negative) from [ICRA]BBB+(Negative)
Fund-based- Bank Facilities	60.00	60.00	Downgraded to [ICRA]BBB(Negative) from [ICRA]BBB+(Negative)
Fund-based- Bank Facilities	5.00	5.00	Downgraded to [ICRA]A3+ from [ICRA]A2
Non-fund based	15.00	15.00	Downgraded to [ICRA]A3+ from [ICRA]A2
Unallocated	5.43	5.43	Downgraded to [ICRA]BBB(Negative)/[ICRA]A3+ from [ICRA]BBB+(Negative)/[ICRA]A2
Total	**654.03**	**654.03**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action factors in the expectation of continued weak performance of Apeejay Surrendra Park Hotels Limited (ASPHL) in FY2022 owing to the higher-than-anticipated impact of the second wave of the pandemic on the company's operating performance. This is likely to elongate its recovery further.

Following the sequential recovery in H2 FY2021, wherein the overall occupancy at ASPHL's properties reached the pre-Covid levels of ~93% in February 2021, the occupancy declined to ~47% in May 2021 before climbing to 61% in June 2021. This volatility highlights the risks posed by the pandemic and the potential impact of any subsequent infections across the country. The average revenue per room (ARR), which dropped by almost 40% in FY2021, continues to remain range-bound in the current fiscal (till date) as well. Overall, the operational performance is expected to remain subdued in the near term at least, because of the ongoing pandemic.

The company's planned initial public offer (IPO) has been further pushed back to Q1 FY2023 (or late Q4 FY2022). This will further delay the expected deleveraging of the Group as well as the company. 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 subdued in FY2022. While the operating profit is expected to improve compared to a significant drop witnessed in FY2021, the same is unlikely to be sufficient to meet the debt-servicing obligations of the entity without external sources of funding. ICRA understands that the company has undrawn sanctioned limits available under the Emergency Credit Line Guarantee Scheme 3.0 (ECLGS 3.0) and expects further sanctions under the same scheme to ease the liquidity position to an extent. Timely sanction/disbursement of the same will remain critical to ensure ASPHL's timely debt servicing. The company now expects to file its revised draft red-herring prospectus (DRHP) after Q2 FY2022 and complete the listing by early Q1 FY2023 (or late Q4 FY2022). The fund raised will be primarily used to deleverage, both for ASPHL and the Group.

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 night life. Addition of the confectionary business, under the Flury's brand in FY2020, is expected to further support the operating profile of the company, going forward.

In line with the room revenue, the overall F&B revenue is also likely to remain muted in the near term. ICRA also notes the recent incident in The Park Hotel Kolkata, where the police reportedly booked some guests for partying in violation of the Covid protocol. Post that, the state excise department has suspended the bar licence till further notice, which will impact the F&B income of The Park Hotel Kolkata, to an extent. The Park Kolkata is a famous F&B destination in the city and derives about 25% of its revenues from the sale of beverages. ICRA will continue to closely monitor the developments in this regard and assess the impact of such developments on the credit profile of ASHPL.

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 launched a new brand, Zone CONNECT, with signing of three hotels (around 129 keys) under management contract. Further, two leased hotels (around 40 keys) have been added under the brand, THE PARK, in FY2021. All these new hotels will commence operations in the near term.

Like 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 and Q1 FY2022 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. The occupancy levels further dropped to around 58% in Q1 FY2022 given the impact of the second wave on the performance. Going forward, any meaningful improvement would be a function of trend in Covid-19 cases and efficacy and pace of the vaccination programme.

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. Also, the recent incident of violating ongoing Covid restrictions in The Park Kolkata, resulting in suspension of the bar licence till further notice, will impact the F&B income of the said hotel to an extent. ICRA will continue to monitor the developments in this regard and assess the impact of such developments on the credit profile of ASHPL.

Credit challenges

Continued weak performance expected in FY2022, recovery cycle likely to get further elongated – The operating performance is expected to remain weak in FY2022, owing to the higher-than-anticipated impact of the second wave of the pandemic on the operating performance. This is likely to suppress and elongate the recovery cycle further. The occupancy level, which touched 93% in February 2021, declined to 47% in May 2021 before climbing to 61% in June 2021. This volatility highlights the risks posed by the pandemic and the potential impact of any subsequent waves across the country. The average revenue per room (ARR), which dropped by almost 40% in FY2021, continues to remain range-bound in the current fiscal (till date) as well. Overall, the operational performance is expected to remain subdued in the near term at least because of the ongoing pandemic. 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.

Push back of IPO is likely to result in a delay in deleveraging both at entity and Group levels – The company now expects to refile its revised draft red-herring prospectus (DRHP) after Q2 FY2022 and complete the listing by early Q1 FY2023 (or late Q4 FY2022). The push back of the IPO is likely to delay the deleveraging plans of the Group as well as the company. ASPHL's deleveraging and the Group's debt levels and repayments would remain key rating factors.

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 and ~Rs. 145 crore in FY2023. 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. The impact of the second wave of the pandemic has further derailed the improvement. Any significant increase in Covid cases, going forward, may further impact the liquidity position of the company. ICRA understands that the company has some undrawn sanctioned limits under ECLGS 3.0 and expects further sanctions under the same scheme, which is likely to ease its liquidity to an extent. Timely sanction/disbursement of the same will remain a key rating factor. As per the terms of the sanction, the fund will be used to support the working capital requirements and cannot be used for any other purpose.

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 remains 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 is eligible for ~Rs. 92 crore of loans under ECLGS 3.0, out of which ~Rs. 42 crore has already been sanctioned. Timely sanction and disbursement of the same will remain key rating factors. 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.

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 owing to a slower-than-anticipated recovery in operating metrices, more-than-expected weakening of its debt coverage indicators and a deterioration in its liquidity position. Any further delay in IPO planned in Q1 FY2023/ Q4 FY2022 could also exert pressure on the ratings.

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 holds a 5.82% stake in the entity at present. 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 618 rooms under the brand, Zone by THE PARK/THE PARK. The company has two lease hotels (123 keys), with the major one 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%
PAT/OI (%)	-2.11%	2.69%	5.53%
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

*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		FY2021		FY2020		FY2019
					Aug 02, 2021	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]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]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]A3+	[ICRA]A2	[ICRA]A2+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Non-fund-based Limits	Short-Term	15.00		[ICRA]A3+	[ICRA]A2	[ICRA]A2+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Unallocated	Long-Term/ Short-Term	5.43		[ICRA]BBB (Negative) / [ICRA]A3+	[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: 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 – FY2030	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]A3+
NA	Non-fund-based Limits	NA	NA	NA	15.00	[ICRA]A3+
NA	Unallocated	NA	NA	NA	5.43	ICRA]BBB(Negative)/ [ICRA]A3+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

NA

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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.

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