August 22, 2022

Apeejay Surrendra Park Hotels Limited: Ratings downgraded to [ICRA]D/[ICRA]D and simultaneously upgraded to [ICRA]BBB (Stable)/[ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits - Term Loans	568.60	568.60	Rating downgraded to [ICRA]D from [ICRA]BBB (Stable) and simultaneously upgraded to [ICRA]BBB (Stable)
Fund-based Limits - Bank Facilities	60.00	60.00	Rating downgraded to [ICRA]D from [ICRA]BBB (Stable) and simultaneously upgraded to [ICRA]BBB (Stable)
Fund-based Limits - Bank Facilities	5.00	5.00	Rating downgraded to [ICRA]D from [ICRA]A3+ and simultaneously upgraded to [ICRA]A3+
Non-Fund based Limits	15.00	15.00	Rating downgraded to [ICRA]D from [ICRA]A3+ and simultaneously upgraded to [ICRA]A3+
Unallocated	5.43	5.43	Rating downgraded to [ICRA]D/[ICRA]D from [ICRA]BBB (Stable)/[ICRA]A3+ and simultaneously upgraded to [ICRA]BBB (Stable)/[ICRA]A3+
Total	**654.03**	**654.03**	

**Instrument details are provided in Annexure-1*

Rationale

The rating downgrade factors in the irregularities in debt servicing by Apeejay Surrendra Park Hotels Limited (ASPHL) earlier, which has come to ICRA's notice recently from the auditor's comments in the audited financial statement of FY2021. These delays, as mentioned in the auditor's report, were due to the weakening in the liquidity position of the company during the pandemic period. The no-default-statements taken by ICRA from the company and the feedback received by ICRA from the company's lenders during FY2021, however, did not indicate any irregularity in debt servicing. The simultaneous upgrade of the ratings factor in the regularisation of debt servicing by the company (within FY2021) following an improvement in its credit risk profile, driven by an improvement in the performance of the hospitality sector on the back of the opening up of the economy. The sanction of Emergency Credit Line Guarantee Scheme (ECLGS) facilities also led to an improvement in the liquidity profile of the company.

ASPHL posted a sequential recovery in FY2022, wherein the overall occupancy (OCC) at ASPHL's properties reached the pre-Covid levels of ~90% in March 2022. For the full year, however, OCC stood at an average of ~76%, although Average Room revenue (ARR) was low at ~Rs. 3,605 primarily on account of the second wave of the pandemic in Q1 and the third wave in January 2022 impacting the business. In the first quarter of FY2023, however, OCC has improved sharply to ~91% while ARR has also improved to ~Rs. 5,077. Given the outlook on the hospitality industry, ICRA expects healthy OCC and ARR to sustain in the current financial year, leading to a significant improvement in profitability and debt coverage indicators. The extent of improvement would, however, moderate if there are any further wave of the pandemic for an extended period. Notwithstanding the improvement, ASPHL's profitability and coverage indicators are likely to remain modest at an absolute level. In addition, ICRA notes that the company has tied-up debt, which will be primarily used to pre-pay the scheduled repayment of term loans over the next two years, considerably easing the liquidity position of the company.

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 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 less cyclical than the room revenues. ASPHL's share of F&B income has historically been high compared to its peers. Addition of the Flury's brand, since October 2019, has provided further fillip to the overall F&B revenues for the company.

Key rating drivers and their description

Credit strengths

Established five-star luxury hotels under THE PARK brand; presence across attractive locations in key geographies in India – With a portfolio of 22 hotels (7 own properties, 13 under the management contract and the balance under the lease model), comprising 1,935 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). The 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 in FY2022, with signing of three hotels (around 153 keys) under management contract. Further, The PARK Indore has been launched in FY2022 with 99 keys.

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; sharp recovery post the impact of Covid in FY2021 and part of FY2022 – 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 2-3 years before the pandemic hit. ASPHL's properties have recorded a considerable increase in both ARRs and occupancy levels during FY2017 to FY2020, 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 of the pandemic on the performance. The same, however, gradually picked up as the effect of the pandemic started to wane. The occupancy levels hovered around 85% and 79% in Q3 and Q4 of FY2022, respectively, notwithstanding the recurrence of the pandemic in January 2022. In the current fiscal, the MTD June 2022 occupancy touched ~93%, showing considerable improvement and the occupancy levels reaching the same level as before the pandemic.

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. 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. The F&B income generated as a percentage of the room revenue stood at ~109% in May 2022. Also, the focus on expanding the confectionary business under the Flury's brand, which came under the aegis of the hotel business since October 2019, is expected to further increase the F&B income of the company. The number of Flury's stores has increased to 61 in March 2022 from 27 in March 2019, which will also support the revenue in the current year. The management is planning to double this number by the end of the current fiscal.

Credit challenges

Push-back of IPO to delay the deleveraging, however, tie-up of debt with back-ended bullet repayment supports liquidity – The Covid-19 pandemic had postponed ASPHL's IPO plans, first in March / April 2020 and again in April 2021. During the pandemic, the company had relied on drawdown of loans under the ECLGS scheme to meet its debt repayment obligations. The company has now tied up additional debt, with a back-ended bullet repayment, which will be used to pre-pay the entire principal repayment of term loans falling due in FY2023 and FY2024, considerably easing the liquidity of the company. ASPHL expects to refile its revised draft red-herring prospectus (DRHP) after FY2023 and complete the listing by the subsequent fiscal.

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 during the pandemic. The returns on capital employed (RoCE), which remained negative in FY2021 owing to losses at the PBIT (profit before interest and tax) level, is estimated to have improved in FY2022 at around ~2%. ASPHL's debt coverage indictors have also improved with an estimated interest cover of ~0.8 times and Total Debt/OPBDITA of ~12.0 times in FY2022 from ~0.3 times, and ~30.9 times in FY2021 respectively. With an improvement in the operating environment in FY2023, ICRA expects ASHPL's Total Debt to OPBDITA and interest cover to further improve to ~4.9 times and ~2.0 times, respectively.

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: Adequate

ASPHL's liquidity position is adequate. The company intends to raise new structured debt with favourable credit terms, which will be used to repay the current debt obligations amounting to ~Rs. 190 crore for FY2023 and FY2024. In addition, with an improvement in the operating cash flows, the liquidity is expected to improve too.

Rating Sensitivities

Positive factors – Continuation of healthy RevPAR, leading to an improvement in profitability and debt coverage metrics, would act as positive rating triggers.

Negative factors – Pressure on ASPHL's ratings may arise if there is a decline in OCC and ARR, resulting in a fall in profitability. Any developments that are inconsistent with ICRA's understanding of the regular payment track record of the company post the curing of the payment delays in FY2021 may also have an adverse impact on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotels Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

Apeejay Surrendra Park Hotels Limited (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 711 rooms under the brand, Zone by THE PARK/THE PARK. The company has two lease hotels (123 keys), with the major one in Kolkata, 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	FY2021	FY2022*
Operating income (Rs. crore)	186.4	257.7
PAT (Rs. crore)	-75.9	-38.0
OPBDIT/OI	10.3%	20.0%
PAT/OI	-40.7%	-14.8%
Total outside liabilities/Tangible net worth (times)	1.4	-
Total debt/OPBDIT (times)	30.9	-
Interest coverage (times)	0.3	0.8

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of Rating History for the past 3 years						
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021		Date & rating in FY2020		
					Aug 22, 2022*	Jul 07, 2022	Aug 02, 2021	May 03, 2021	Oct 12, 2020	May 05, 2020	Jun 14, 2019	Apr 30, 2019	
1	Term Loans	Long-Term	568.60	557.77	**[ICRA]BBB (Stable)**	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A - (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
2	Fund-based Limits	Long-Term	60.00	-	**[ICRA]BBB (Stable)**	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A - (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
3	Fund-based Limits	Short-Term	5.00	-	**[ICRA]A3+**	[ICRA]A3+	[ICRA]A3+	[ICRA]A2	[ICRA]A2+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
4	Non-fund-based Limits	Short-Term	15.00	-	**[ICRA]A3+**	[ICRA]A3+	[ICRA]A3+	[ICRA]A2	[ICRA]A2+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
5	Unallocated	Long-Term/ Short-Term	5.43	-	**[ICRA]BBB (Stable) / [ICRA]A3+**	[ICRA]BBB (Stable) / [ICRA]A3+	[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+	
6	Commercial Paper/ Short-Term Debt	Short-Term	-	-		-	-	-	-	-	-	Withdrawn	

* Rating downgraded to [ICRA]D/[ICRA]D from [ICRA]BBB (Stable)/[ICRA]A3+ and simultaneously upgraded to [ICRA]BBB (Stable)/[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based - Term Loans	Simple
Fund-based - Bank Facilities – Long Term	Simple
Fund-based – Bank Facilities – Short Term	Simple
Non-fund based	Very Simple
Unallocated	NA

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 analysing 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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2016-FY2020	NA	FY 2022 – FY2030	568.60	[ICRA]BBB(Stable)
NA	Fund-based Limits	NA	NA	NA	60.00	[ICRA]BBB(Stable)
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(Stable)/ [ICRA]A3+

Source: *Company*

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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About ICRA Limited:

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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.

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