

April 06, 2023

Apeejay Surrendra Park Hotels Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term - Fund-based Limits – Term Loans	568.60	568.60	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
Long-Term - Fund-based Limits – Bank Facilities	60.00	60.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
Short term - Fund-based Limits – Bank Facilities	5.00	5.00	[ICRA]A2; upgraded from [ICRA]A3+
Short-Term - Non-Fund based Limits	15.00	15.00	[ICRA]A2; upgraded from [ICRA]A3+
Long-Term/Short-Term – Unallocated Limits	5.43	5.43	[ICRA]BBB+ (Stable)/[ICRA]A2; upgraded from [ICRA]BBB (Stable)/[ICRA]A3+
Total	654.03	654.03	

*Instrument details are provided in Annexure-I

Rationale

The rating action considers a significant improvement in the financial performance of Apeejay Surrendra Park Hotels Limited (ASPHL) in FY2023 on the back of a sharp increase in the average room revenue (ARR). The financial performance is likely to further improve over the medium term given the healthy outlook on the hospitality sector. The rating action also factors in the tie-up of loans worth Rs. 275 crore, which would lead to a further improvement in liquidity as such loans have low scheduled repayments over the medium term. Tie-up of such loans and the expected healthy profits would keep the company's cash flows strong relative to its debt repayment obligations over the next 24 months.

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, OCC stood at an average of ~76%, although the 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 11 months of FY2023, OCC improved further to 91% and ARR to ~Rs. 5,500, which was higher than the pre-Covid levels.

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 of the company. Notwithstanding the potential impact on demand with further wave of the pandemic, if any, the occupancy is expected to remain healthy in the coming quarters as well.

Key rating drivers and their description

Credit strengths

Significant improvement in OCC and ARR led to healthy financial performance in FY2023; further improvement likely given the favourable outlook on the hospitality sector in India – ASPHL posted a sequential recovery in FY2022, wherein the OCC at ASPHL's properties reached the pre-Covid level of ~90% in March 2022. For the full year FY2022, OCC stood at an average

of ~76%, although the 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. However, in the first 11 months of FY2023, OCC further improved to 91% and ARR to ~Rs. 5,500, which were higher than the pre-Covid levels. ICRA expects the sustenance of domestic leisure travel, demand from meetings, incentives, conferences and exhibitions (MICE) and business travel, along with an increase in foreign tourist arrivals (FTAs) would support the operating metrics. The industry is likely to benefit from the G20 summit and the ICC World Cup 2023 as well.

Established five-star luxury hotels under THE PARK brand; presence across attractive locations in key geographies in India

– With a portfolio of 25 hotels (7 own properties, 15 under the management contract and the balance under the lease model), comprising 2,009 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 180 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 end-FY2019, 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 metrics in FY2019 and FY2020 before lockdown; sharp recovery in YTD FY2023 – 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 had hit. ASPHL's properties have recorded a considerable increase in both ARR 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 owing to the impact of the second wave of the pandemic. The same, however, gradually picked up as the effects of the pandemic started waning. 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 first 11 months of FY2023, OCC has witnessed a further improvement to 91% and ARR to ~Rs. 5,500, showing a considerable improvement and the occupancy levels reaching the same level as before the pandemic. These positively impacted the overall financial profile of the company. ICRA expects the Total Debt to OPBDITA and the interest coverage to improve to ~3.6 times and ~2.6 times in FY2023 from ~11.3 times and ~0.9 times in FY2022, respectively. Notwithstanding the improvement, the company's RoCE remained modest at ~1.4% in FY2022. However, ICRA expects the RoCE to improve significantly in FY2023 to ~11.4% in FY2023. Another factor impacting the RoCE of ASPHL is the large value of land to the tune of ~Rs. 240 crore on its books, and adjusting the RoCE for such non-yielding investments, the RoCE is expected to improve by another ~370 bps in FY2023.

High share of food and beverage income provides some cushion against cyclicity of hotel business – The share of revenue from the F&B segment has been historically high for ASPHL, relative to its 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 ~110% till January 2023. 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 68 in March 2023 from 27 in March 2019, which will also support the revenue in FY2024.

Significant reduction in the overall leverage of the group, through sale of tea estates, thereby leading to an improvement in the overall financial profile of the group – Over the years, stress in performance of Apeejay Tea Limited (ATL) as well as Typhoo

operations (in the UK) led to an increase in debt of the Group as the losses were largely funded by debt. The Group exited the Typhoo operations in 2021, leading to large devolvement of loans, on the group. ATL has also sold off the majority of its gardens in FY2023 and significantly reduced its debt obligations. Consequently, the overall debt for the Group is estimated to have declined substantially in FY2023.

Credit challenges

Postponement 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. However, the company has recently refinanced loans worth Rs. 275 crore, which would lead to a further improvement in liquidity as such loans have low scheduled repayments over the medium term. Such loans are sufficient to take care of the current scheduled repayment over the next 24 months, considerably easing the liquidity of the company.

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 has recently refinanced loans worth Rs. 275 crore, which would lead to a further improvement in liquidity as such loans have low scheduled repayments over the medium term. Such loans are sufficient to take care of the current scheduled repayment over the next 24 months, considerably easing the liquidity of the company. In addition, with an improvement in the key operating metrics in FY2023 thereby having a positive impact on the operating cash flows, the liquidity is expected to improve too. The average utilisation of the fund-based limits stood at ~68% for the 11 months ending in February 2023.

Rating sensitivities

Positive factors – Continuation of healthy RevPAR, leading to an improvement in profitability and debt coverage metrics, would act as positive rating triggers. Specific trigger would be an interest cover of more than 4.0 times on a sustained basis.

Negative factors – Pressure on ASPHL’s ratings may arise if there is a decline in OCC and ARR, resulting in a fall in profitability.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel 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 15 operational properties in various locations with a total inventory of 728 rooms under the brand, Zone by THE PARK/THE PARK. The company has three lease hotels (180 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	184.1	263.6
PAT	-78.2	-30.9
OPBDIT/OI	9.2%	20.8%
PAT/OI	-42.4%	-11.7%
Total outside liabilities/Tangible net worth (times)	1.4	1.5
Total debt/OPBDIT (times)	35.0	11.3
Interest coverage (times)	0.3	0.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years							
		Amount rated (Rs. crore)	Amount outstanding as of Feb 28, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022		Date & rating in FY2021	
				Apr 06, 2023	Aug 22, 2022*	Jul 07, 2022	Aug 02, 2021	May 03, 2021	Oct 12, 2020	May 05, 2020	
1 Term loans	Long term	568.60	505.1	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)	[ICRA]A+ (Negative)	
2 Fund-based limits	Long term	60.00		[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)	[ICRA]A+ (Negative)	
3 Fund-based limits	Short term	5.00		[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A2	[ICRA]A2+	[ICRA]A1+	
4 Non Fund-based limits	Short term	15.00		[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A2	[ICRA]A2+	[ICRA]A1+	
5 Unallocated	Long term and short term	5.43		[ICRA]BBB+ (Stable)/[ICRA]A2	[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+	

* 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
Long-Term - Fund-based Limits – Term Loans	Simple
Long-Term - Fund-based Limits – Bank Facilities	Simple
Short term - Fund-based Limits – Bank Facilities	Simple
Short-Term - Non-Fund based Limits	Very Simple
Long-Term/Short-Term – Unallocated Limits	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: [Click Here](#)

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	FY2022-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]A2
NA	Non-Fund-based limits	NA	NA	NA	15.00	[ICRA]A2
NA	Unallocated	NA	NA	NA	5.43	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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