June 21, 2024

Apeejay Surrendra Park Hotels Limited: Ratings upgraded to [ICRA]A+ (Stable)/ [ICRA]A1

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Term loan	568.60	75.00	[ICRA]A+ (Stable); upgraded from [ICRA]BBB+ (Stable)
Long term - Fund-based working capital	60.00	40.00	[ICRA]A+ (Stable); upgraded from [ICRA]BBB+ (Stable)
Short term - Fund-based limit (WCDL) - Interchangeable	-	(40.00)	[ICRA]A1; upgraded from [ICRA]A2
Short term - Fund-based limit	5.00	-	-
Short term - Non-fund based limits**	15.00	20.00**	[ICRA]A1; upgraded from [ICRA]A2
Long term/Short term – Unallocated limit	5.43	75.00	[ICRA]A+ (Stable)/[ICRA]A1; upgraded from [ICRA]BBB+ (Stable)/[ICRA]A2
Total	**654.03**	**210.00**	

**Instrument details are provided in Annexure-I; **Bank guarantee; includes Rs. 10 crore sub-limit for letter of credit*

Rationale

The ratings upgrade for Apeejay Surrendra Park Hotels Limited (ASPHL) considers the significant improvement in its financial profile following the successful initial public offer (IPO) in February 2024, and expectations that the company will continue to maintain a healthy financial profile going forward. The IPO resulted in a fresh equity infusion of Rs. 600 crore, which was used to prepay all existing term loans from banks (~Rs. 550 crore). While the IPO has led to deleveraging, industry tailwinds and strong operational capability of the entity led to double-digit growth in its consolidated revenues and operating profits in FY2024. This growth was supported by a ~10% increase in the company's average room rates (ARR) and an industry-leading overall occupancy of ~92%. The company's overall performance is likely to improve further over the medium term given the healthy outlook for the hospitality industry.

The ratings continue to derive comfort from the established position of ASPHL in the Indian hospitality industry, with a presence across attractive locations in key cities and sustained growth in its food and beverages (F&B) revenues, which are less cyclical than room revenues. The share of F&B income in ASPHL's revenues has historically been high (43% in FY2024) compared to its peers. The addition of the Flury's brand since October 2019 has provided further fillip to the company's overall F&B revenues, and the trend is likely to continue in the medium term, given the company's significant expansion plan for the Flury's segment.

The company is in the process of expanding its presence across geographies through leased hotels and the asset-light management contract model, with limited capital outlay. ASPHL has also planned a few greenfield projects, however, all such properties will be built on its existing owned land, limiting the cash outflow. The new project in Kolkata will be entirely funded through inflows from the monetisation of the real estate project. Thus, the overall cash outflow for the greenfield projects finalised so far (Kolkata and Pune) is estimated at ~Rs. 500 crore, to be incurred over FY2025 to FY2029. Besides this, the company would also incur a capex of ~Rs. 500 crore for expansion of the Flury's business, room renovations and room additions in other locations. The capex will be mainly funded by ~Rs. 300 crore income expected from the real estate project in Kolkata and the balance from internal accruals. Nevertheless, the company would remain exposed to the associated project risks. ASPHL settled a property tax demand of ~Rs. 90 crore from the Kolkata Municipal Corporation (KMC) at ~Rs. 42 crore in FY2023

and paid off the same to commence project development on the land. However, it has another property tax demand of ~Rs. 68 crore, as of September 2023, from the New Delhi Municipal Council (NDMC), which is currently subjudice. ICRA will continue to monitor the developments in this regard.

The ratings also remain constrained by the company's vulnerability to the cyclicality inherent in the hospitality industry due to its close linkages with the economic cycles and exogenous shocks, notwithstanding the demand tailwind being witnessed at present, which is likely to sustain in the medium term. ICRA notes the history of liquidity crunch and resulting defaults in debt servicing by a few entities of the Apeejay Surrendra Group in the past. Nevertheless, there has been a substantial improvement in the overall leverage and liquidity profile of the Group through the sale of loss-making tea estates and the Typhoo (UK) brand. Moreover, ASPHL's recent IPO and an improvement in the overall operational performance of the Group have strengthened its overall financial profile to an extent.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company's revenues and profits are likely to remain healthy, supported by industry tailwind, and its financial profile is likely to remain comfortable due to limited reliance on fresh borrowings for planned projects.

Key rating drivers and their description

Credit strengths

Significant deleveraging led by equity infusion of Rs. 600 crore through IPO – ASPHL's Rs. 920-crore IPO was successfully concluded in February 2024, with a primary/fresh issue of Rs. 600 crore mainly used to pay off ~Rs. 550 crore term loans. This has led to a significant improvement in ASPHL's capital structure and liquidity position. Its net worth improved to Rs. 1,198.0 crore as on March 31, 2024 from Rs. Rs. 555.7 crore as on March 31, 2023, and the gearing reduced to 0.1 times as on March 31, 2024 from 1.1 times as on March 31, 2023. The company's net debt is negative at present. Its interest and repayment obligations will be significantly lower going forward due to the closure of sizeable long-term loans.

Improved FY2024 performance driven by healthy occupancy and ARR; sustained growth expected with favourable industry outlook – The company's operating income (OI) grew by 12% in FY2024, and OPBDITA improved to Rs. 195 crore from Rs. 170 crore in FY2023, aided by double-digit growth in RevPar (11%) and F&B revenues (10%). ASPHL's properties are located at favourable locations in key cities, maintaining industry-leading occupancy levels (92% over the last two fiscals). This, along with healthy ARRs (Rs. 6,699 in FY2024) kept RevPars high (Rs. 6,170 in FY2024). Higher demand growth compared to room supply growth, due to limited room addition scope prime locations of key cities, is likely to result in a continuation of industry tailwind in the medium term, positively impacting ASPHL's performance. Improved profits, coupled with significant debt reduction, have positively impacted the company's debt coverage metrics, which are likely to improve further going forward.

Established five-star luxury hotels under 'The Park' brand; presence across attractive locations in key geographies in India – ASPHL is a medium sized but well-established player in the Indian hotel industry. As of May 2024, the company had a portfolio of 33 hotels (7 own properties, 22 under management contracts and 4 under the lease model), comprising 2,395 rooms spread across attractive locations in key geographies in India. ASPHL's hotel portfolio is diversified across categories, with its presence in the luxury and upscale segments primarily through 'The Park' brand, and in the upper mid-market segment mainly through 'Zone by The Park' brand (mostly operated through management contracts). Besides, the company has also expanded its portfolio through 'The Park Collection' brand for relatively smaller luxury hotels and 'Zone Connect' brand in the upper midscale segment, mainly through management contracts.

Like other established hospitality brands in India, the company has been focusing on the management contract segment. This asset-light model enables the company to increase its presence while limiting the capital outlay. At present, management contracts contribute only ~2% to the consolidated revenues, however, the same is likely to increase going forward. The company has recently (March 2024) opened a 65-roomed hotel in Digha, West Bengal, developed by the Government of West Bengal and leased to ASPHL. The company also has plans to open two palace hotels in Patiala and Chettinad, with 37 and 15

rooms, respectively, in Q2 and Q3 FY2025. These room additions, supported by strong demand conditions, are likely to positively impact ASPHL's revenues and profits in the near-to-medium term.

High share of food and beverage income provides some cushion against cyclicality of hotel business – The share of revenues from the F&B segment has been historically high for ASPHL compared to its peers. Though F&B margins are lower than those of room revenues, high F&B revenues provide stability in the event of falling occupancies and ARRs of hotels. The presence of many quality restaurants, nightclubs and the Flury's brand positively impacts ASPHL's F&B revenues. The focus on expanding the confectionary business under the Flury's brand, which came under the aegis of the hotel business since October 2019, has increased the company's F&B income. In FY2024, the share of F&B revenues, including Flury's, stood at 43% and 36% excluding Flury's. The number of Flury's stores increased to 82 as on May 31, 2024 from 27 as on March 31, 2019. The company plans to significantly expand the Flury's segment going forward, which is likely to diversify the revenue stream.

Significant reduction in overall leverage and improvement in liquidity position of the promoter Group – Over the years, stress in the 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 loans. The Group exited the Typhoo operations in 2021. ATL also sold off 16 of its 17 tea gardens and has significantly reduced its debt obligations. Consequently, the overall debt for the Group has significantly declined. Further, an improvement in the overall operational performance of the Group after the pandemic period and ASPHL's recent IPO have strengthened the Group's overall financial profile.

Credit challenges

Exposure to risks of time and cost overruns for the planned greenfield hotel projects – The company has planned greenfield hotel projects, on its existing owned land, in Kolkata (EM Bypass) and Pune, which will have 250 and 200 rooms, respectively. While the Kolkata project is to be entirely funded from the proceeds of real estate monetisation, the cost of the Pune project will also be limited (~Rs. 200 crore). The construction of the Pune and Kolkata projects is likely to commence from Q2 FY2025 and Q4 FY2025, respectively, and the hotels are scheduled to be launched in October 2027 and March 2029, respectively. Besides, there are plans for room additions in Vizag (100) and Navi Mumbai (80), for which the constructions are likely to start from April 2025 and September 2025, respectively. Implementation of the projects within the budgeted cost and estimated timeframes will remain critical from the credit perspective, as any major cash flow mismatches due to higher costs or delay in revenue generation from the new properties may adversely impact the company's business returns and liquidity.

Contingent liabilities towards property tax demand – ASPHL settled a property tax demand of ~Rs. 90 crore from the KMC at ~Rs. 42 crore in FY2023 and paid off the same to commence project development on the land. However, it has another property tax demand (~Rs. 68 crore as of September 2023) from NDMC, which is currently subjudice. ICRA will continue to monitor developments in this regard.

Cyclical industry; vulnerable to economic cycles and exogenous shocks – The operating performance of hotels remains vulnerable to seasonality, general economic cycles and exogenous factors (geopolitical crisis, terrorist attacks, disease outbreaks, natural disasters and others). However, the company's deleveraged balance sheet following the recent IPO would mitigate the impact of any adverse operating environment on its financial profile.

Environmental and social risks

Environmental considerations – Hotel entities, including ASPHL, are exposed to natural disasters (such as hurricanes and floods) and extreme weather conditions, which could interrupt operations or damage properties. However, the availability of insurance for most hotels helps mitigate these circumstances and may not be a material driver of credit, especially when there is property diversification. For hotels with fewer properties, the impact on occupancy could be relatively higher. Overall, the hotel industry has a relatively lower environmental risk.

Social considerations – Akin to other hotel entities, the company would need to adapt to evolving social fabric (including changing consumer preferences and social trends) such as digitisation and preference for branded hotels and rely heavily on

human capital. The Covid-19 pandemic is an example of social risk, given its substantial implications on health and safety. Hotel entities are also vulnerable to data security and data privacy issues. Hence, there is moderate exposure to social risks.

Liquidity position: Strong

ASPHL's liquidity position is strong. Prepayment of existing long-term loans of ~Rs. 550 crore, aided by a fresh equity infusion of Rs. 600 crore through the IPO in February 2024 has led to a significant reduction in interest and repayment obligations of ASPHL. It had free cash of nearly Rs. 60 crore as on March 31, 2024. The company's cash flow from operations remained healthy at ~Rs. 120 crore in FY2024, and is likely to improve further in the current fiscal. ASPHL is likely to incur a capex of Rs. 170-190 crore (excluding leases) in FY2025, which is to be mainly funded by internal accruals. However, the company has also received fresh sanction of a Rs. 75 crore term loan (repayable in 24 quarters after a moratorium of one year), which, along with a fund-based working capital limit (overdraft/WCDL) of Rs. 40 crore, provide an additional liquidity buffer.

Rating sensitivities

Positive factors – Improvement in scale of operation and continuation of healthy RevPAR, leading to a sustained rise in earnings along with maintenance of a low debt level and strong liquidity, would act as positive rating triggers.

Negative factors – Pressure on ASPHL's ratings may arise in case of a decline in its cash accruals, and /or deterioration in the liquidity position due to higher-than-anticipated cash outlay towards capex or crystallisations of contingent liabilities. The specific credit metrics which may trigger ratings downgrade include total debt/OPBDITA of more than 1.7 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Hotels
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ASPHL. The company has three subsidiaries, which are enlisted in Annexure-II.

About the company

Apeejay Surrendra Park Hotels Limited (ASPHL) is a part of the diversified Apeejay Surrendra Group, based in Kolkata. The company has seven owned luxury boutique hotels with an inventory of 1,101 rooms, located across Bangalore, Chennai, Hyderabad, Kolkata, Navi Mumbai, New Delhi and Vizag. The company has four leased hotels with 244 rooms and has management contracts for 22 operational properties in various locations with a total inventory of 1,050 rooms. The company primarily operates in the luxury & upscale and upper midscale segments. It also operates two motels. Besides, it runs a chain of bakery and confectionary items, named Flury's, through 82 outlets as of May 2024. ASPHL's equity shares were listed on BSE and NSE in February 2024.

The company has three subsidiaries - Apeejay Hotels & Restaurants Private Limited (AHRPL), Apeeiay North-West Hotels Private Limited (ANWHPL) and Apeejay Charter Private Limited (ACPL). AHRPL operates a hotel with 116 rooms in Kolkata (Zone by The Park – Biswa Bangla) leased from the Government of West Bengal. The upcoming palace hotel (leased) in Patiala, with 37 rooms, will be operated under ANWHPL, while ACPL is involved in the hiring of yachts. The subsidiaries have small scale of operations compared to ASPHL.

Key financial indicators (audited)

ASPHL (Consolidated)	FY2023	FY2024
Operating income	517.5	581.5
PAT	48.1	68.8
OPBDIT/OI	32.9%	33.5%
PAT/OI	9.3%	11.8%
Total outside liabilities/Tangible net worth (times)	1.5	0.2
Total debt/OPBDIT (times)	3.6	0.5
Interest coverage (times)	2.7	3.0

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	Current rating (FY2025)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	
					Jun 21, 2024	Apr 06, 2023	Aug 22, 2022*	Jul 07, 2022	Aug 02. 2021	May 03, 2021
1	Term loan	Long term	75.00	0.00	[ICRA]A+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Negative)
2	Fund-based working capital	Long term	40.00	-	[ICRA]A+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Negative)
3	Fund- based limit (WCDL) - Interchangeable	Short term	(40.00)	-	[ICRA]A1	-	-	-	-	-
4	Fund-based limits	Short term	-	-	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A2
5	Non-fund based limits	Short term	20.00**	-	[ICRA]A1	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A2
6	Unallocated limit	Long term/ short term	75.00	-	[ICRA]A+ (Stable)/ [ICRA]A1	[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

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

*** Bank guarantee; includes Rs. 10 crore sub-limit for letter of credit*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund-based Limits – Term loan	Simple
Long term - Fund-based working capital limit	Simple
Short term - Fund based limit (WCDL) - Interchangeable	Simple
Short term - Non-fund based limits	Very simple

Long term/Short term – Unallocated limit	Not applicable

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**	Apr-2024	NA	FY2032	75.00	[ICRA]A+ (Stable)
NA	**Fund-based working capital limit**	NA	NA	NA	40.00	[ICRA]A+ (Stable)
NA	**Fund-based limit (WCDL) - Interchangeable**	NA	NA	NA	(40.00)	[ICRA]A1
NA	**Non-fund-based limits***	NA	NA	NA	20.00	[ICRA]A1
NA	**Unallocated limit**	NA	NA	NA	75.00	[ICRA]A+ (Stable)/ [ICRA]A1

*Source: Company; *Bank guarantee; includes Rs. 10 crore sub-limit for letter of credit*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	ASPHL's ownership	Consolidation Approach
Apeejay Hotels & Restaurants Private Limited	100%	Full Consolidation
Apeeiay North-West Hotels Private Limited	100%	Full Consolidation
Apeejay Charter Private Limited	52%	Full Consolidation

Source: Company

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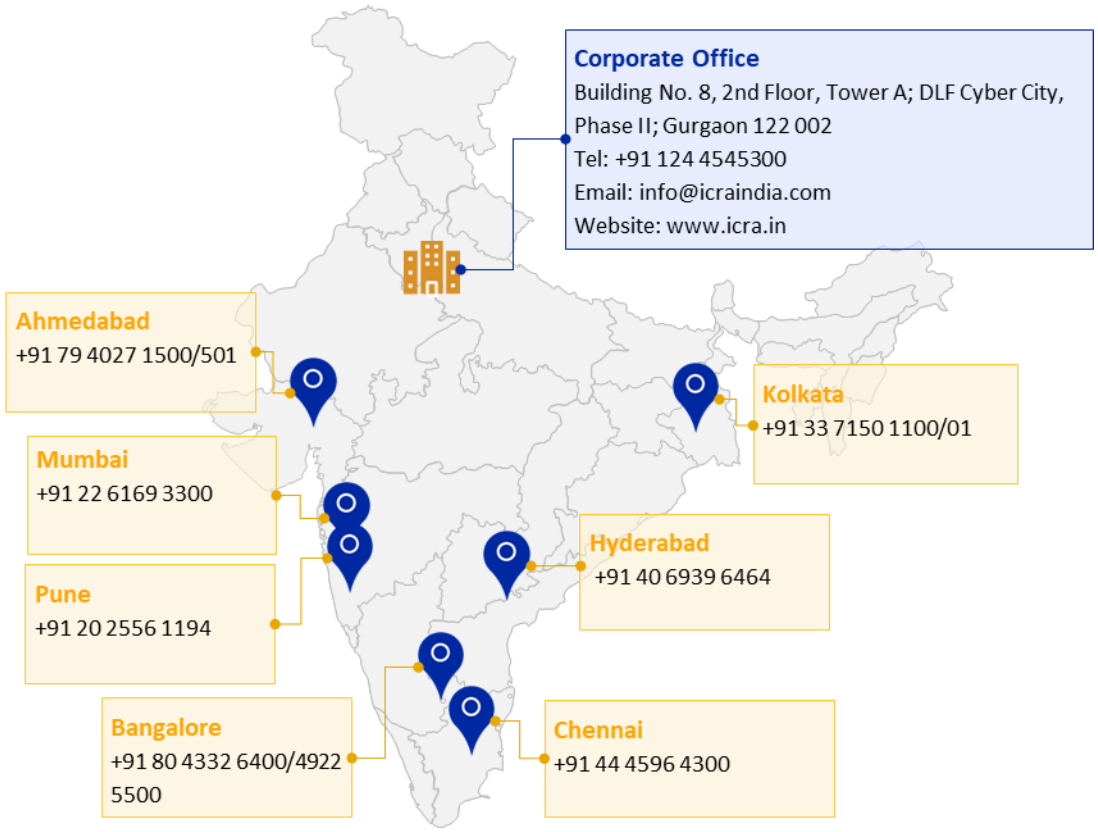

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