

Company Overview

Founded in 1987, Apeejay Surrendra Park Hotels Ltd. (ASPH) has emerged as a prominent player in the hospitality sector, boasting a diverse array of brands, including "THE PARK," "THE PARK Collection," "Zone by The Park," "Zone Connect by The Park," and the renowned retail brand 'Flurys.' With a robust presence in the retail food and beverage industry, the company manages an extensive network comprising 80 restaurants, nightclubs, and bars, and offer patrons an array of culinary experiences. The company has also made significant inroads in the hotel segment and operates 27 establishments across different categories comprising luxury boutiques to upscale and upper midscale which are strategically located in key Indian cities. As of August 2023, ASPH's hotel portfolio consists a total 2,111 rooms and spans cities including Kolkata, New Delhi, Chennai, Hyderabad, Bangalore, Mumbai, Coimbatore, Indore, Goa, Jaipur, Jodhpur, Jammu, Navi Mumbai, Visakhapatnam, Port Blair, and Pathankot. Complementing its hotel business, the company owns and manages a distinguished array of restaurants, including Zen, Lotus, Aish, Saffron, Fire, Italia, 601, The Bridge, The Street, Verandah, Vista, Bamboo Bay, Monsoon, Mist, Love, and Bazaar. With a dedicated workforce of 1,923 employees as of June 2023, ASPH continues to shape the hospitality and F&B landscape in India.

Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- ⇒ Rs. 600 crores for repayment / prepayment, in full or in part of certain outstanding borrowings availed by the company; and
- ⇒ General corporate purposes.

Investment Rationale

Enhanced brand recognition and diversified portfolio to fuel growth

ASPH has strategically built a diverse portfolio of hospitality brands, including "THE PARK," "THE PARK Collection," "Zone by The Park," and "Zone Connect by The Park," each catering to distinct price points and customer requirements. The company's commitment to product innovation and service excellence has earned it recognition and accolades across various categories, reinforcing its position as a key player in the Indian hospitality industry. By partnering with leading Indian and international designers, ASPH has created iconic spaces that resonate with guests, fostering brand loyalty and driving expansion. The company's focus on geographic expansion, wherein it has grown its hotel portfolio at a CAGR of 21.6% during FY21-H1FY24 period, reflects its ability to identify strategic locations and capitalize on growth opportunities. As India's urban centers expand and discretionary spending increases, ASPH is well-positioned to benefit from rising demand for upscale and upper-mid-scale accommodations. With a proven track record of creating distinctive hospitality experiences, the company is poised for continued success and market leadership.

Synergies between hospitality and food & beverage businesses drive revenue stability

ASPH's integrated approach to hospitality encompasses not only accommodation but also food, beverage, and entertainment offerings (40% of revenue). The company's iconic brands such as Zen, Lotus, and Someplace Else have become synonymous with quality and innovation, attracting both local and international patrons. Additionally, "Flurys" is an established retail food and beverage brand which has a distinctive track record and is widely recognized in India. Flurys operates under the ASPH umbrella and has 73 outlets with multiple formats such as kiosk, café, and restaurant format h. By leveraging its strong brand equity and operational expertise, ASPH has achieved high occupancy rates and competitive average room rates, bolstering its financial performance. The average occupancy levels for ASPH's owned hotels for H1FY24 and H1FY23 and FY23 were 92.76%, 91.50%, and 91.55%, respectively, which is ahead of the majority of the market. The food, beverage, and entertainment segment, comprising 81 outlets and banquet spaces, adds a non-cyclical dimension to the company's earnings and helps mitigate the seasonal fluctuations inherent in the hospitality industry. With India's evolving demographic profile consisting of growing working-age population and increased discretionary spending, ASPH is well-positioned to capitalize on changing consumer preferences and lifestyle trends. By offering a diversified and holistic experience to its guests, the company ensures resilience and stability in its revenue streams, reinforcing its position as a leader in the hospitality sector.

Issue Details

Offer Period	5 th February, 2024 - 7 th February, 2024
Price Band	Rs. 147 to Rs. 155
Bid Lot	96
Listing	BSE & NSE
Issue Size (no. of shares in mn)	61.9
Issue Size (Rs. in bn)	9.20
Face Value (Rs.)	1

Issue Structure

QIB	75%
NIB	15%
Retail	10%

BRLM	JM Financial Ltd, Axis Capital Ltd, ICICI Securities Ltd
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Registrar	Link Intime India Private Ltd.
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Particulars	Pre Issue %	Post Issue %
Promoter	94.18	68.13
Promoter Group	5.82	4.04
Public	0.00	27.83
Total	100.00	100.00

(Assuming issue subscribed at higher band)

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Apeejay Surrendra Park Hotels Ltd.

Valuation

Apeejay Surrendra Park Hotels stands at the intersection of a resurgent hospitality industry and a post-pandemic economic rebound. The resurgence is evident in the remarkable performance of the hotel sector over the past year which reflects buoyant market sentiment and optimism toward the sector's recovery. The timing of Park Hotels' IPO strategically positions the company to capitalize on this positive momentum. The company has built a strong brand presence and credibility within the hospitality industry which is likely to ensure that its valuations are respected over time. With a diversified pan-India portfolio, the company effectively spreads its risk across various geographic regions and market segments, enabling it to capture opportunities in a granular fashion. Moreover, the company's historically high occupancy rates bode well for improving net margins, thereby contributing to its financial stability and growth trajectory. A closer examination of the financials reveals significant milestones achieved by the company in recent years. The company has demonstrated robust revenue growth, with sales nearly tripling over the past three years. This turnaround is notable, considering the company's transition from losses to profitability, reflected in the sharp uptick in net profit in FY23. While the return on equity turned positive in FY23, the return on assets remains relatively modest, owing to the capital-intensive nature of the hotel industry. The valuation, although reasonable compared to peers, reflects market optimism in the relatively high P/E ratio, which stands at 56.4 times based on FY23 EPS Looking ahead, ASPH's strategic initiatives, including debt reduction and its unique blend of hotel and F&B services, position it favourably for sustainable growth and market leadership. **Based on the above-mentioned positives, we give the issue a "SUBSCRIBE" rating.**

Key Risks

- ⇒ Delay in the development of hotel properties and land banks may have an adverse effect on the business, results of operations, financial condition, and cash flows.
- ⇒ ASPH derives a significant portion of its room revenue from corporate accounts and leisure customers (~80% of room revenue). Changes in travellers' preferences due to increased use of telepresence equipment, cost of travel, spending habits, and other factors may adversely affect the demand for hotel rooms.



Apeejay Surrendra Park Hotels Ltd.

Income Statement (Rs in millions)

Particulars	FY20	FY21	FY22	H1FY24
Revenue				
Revenue from Operations	1,788	2,550	5,061	2,644
Total Revenue	1,788	2,550	5,061	2,644
Expenses				
Cost of raw material and components consumed	272	354	687	350
Purchases of Stock-in-Trade	0	-	0	0
Changes in inventory	1	-	-1	0
Employee benefit expenses	552	642	995	545
Other expenses	852	1,100	1,792	920
Total Operating Expenses	1,676	2,095	3,473	1,814
EBITDA	112	455	1,588	830
Depreciation and Amortization expenses	377	401	493	239
Other income	115	128	183	79
EBIT	-150	182	1,278	670
Finance costs	569	600	623	334
Exceptional Item	-151	-	-	-
PBT	-870	-418	655	336
Current tax	-	-	43	56
Deferred Tax charge/ (credit)	-109	-136	131	51
Total tax	-109	-136	174	107
PAT	-761	-282	481	229
Diluted EPS	-4.3	-1.6	2.8	1.3

Source: RHP, BP Equities Research

Cash Flow Statement (Rs in millions)

Particulars	FY20	FY21	FY22	H1FY24
Cash Flow from operating activities	266	581	1763	689
Cash flow from investing activities	-253	-221	-421	-627
Cash flow from financing activities	-53	-372	-1262	-65
Net increase/(decrease) in cash and cash equivalents	-40	-12	80	-2
Cash and cash equivalents at the beginning of the period	137	98	85	166
Cash and cash equivalents at the end of the period	98	85	166	163

Source: RHP, BP Equities Research



Apeejay Surrendra Park Hotels Ltd.

Balance Sheet (Rs in millions)

Particulars	FY20	FY21	FY22	H1FY24
Equity and Liabilities				
Equity Share Capital	175	175	175	175
Other Equity	5,188	4,910	5,382	5,612
Non-controlling interest	-1	-2	-2	-2
Total Equity	5,362	5,083	5,555	5785
Non-Current Liabilities				
Financial Liabilities				
(i) Borrowings	4,696	4,780	5,010	4,811
(ii) Lease Liabilities	196	264	434	406
Deferred tax liability (net)	0	5	5	15
Provisions	75	73	70	75
Other non current liabilities	325	190	317	366
Current Liabilities				
Financial Liabilities				
(i) Borrowings	1,238	1,447	659	1,160
(ii) Lease Liabilities	25	46	71	75
(iii) Trade Payable	503	444	566	491
(iv) Other financial liabilities	201	211	682	319
Current tax liabilities (net)	-	-	-	42
Provisions	89	87	103	112
Other current liabilities	92	122	146	169
Total Current Liabilities	2,149	2,357	2,226	2,367
Total liabilities	7,441	7,668	8,063	8040
Total Equity and Liabilities	12,803	12,752	13,618	13,825
Assets				
Non-Current Assets				
Property, plant and equipment	8,425	8,255	8,194	8,161
Capital work in Progress	275	292	346	465
Right of Use assets	1,414	1,407	1,815	1,810
Intangible Assets	228	228	228	228
Intangible assets under development	297	278	261	254
Other investments	1,203	1,254	1,424	1,382
Financial Assets				
(i) Loans	89	62	63	63
(ii) Other financial assets	141	137	194	204
Income tax assets (net)	37	65	21	31
Other non current assets	113	107	145	174
Total Non current assets	12,221	12,084	12,690	12773
Current Assets				
Inventories	99	101	135	130
Investments	195	190	261	313
(i) Trade Receivables	100	89	169	164
(ii) Cash and cash equivalents	3	3	4	24
(iii) Other financial assets	1	1	1	1
Other current assets	60	64	59	61
Total Current Assets	124	220	300	359
Assets held for sale	583	668	928	1,052
Total Assets	12,803	12,752	13,618	13,825

Source: RHP, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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