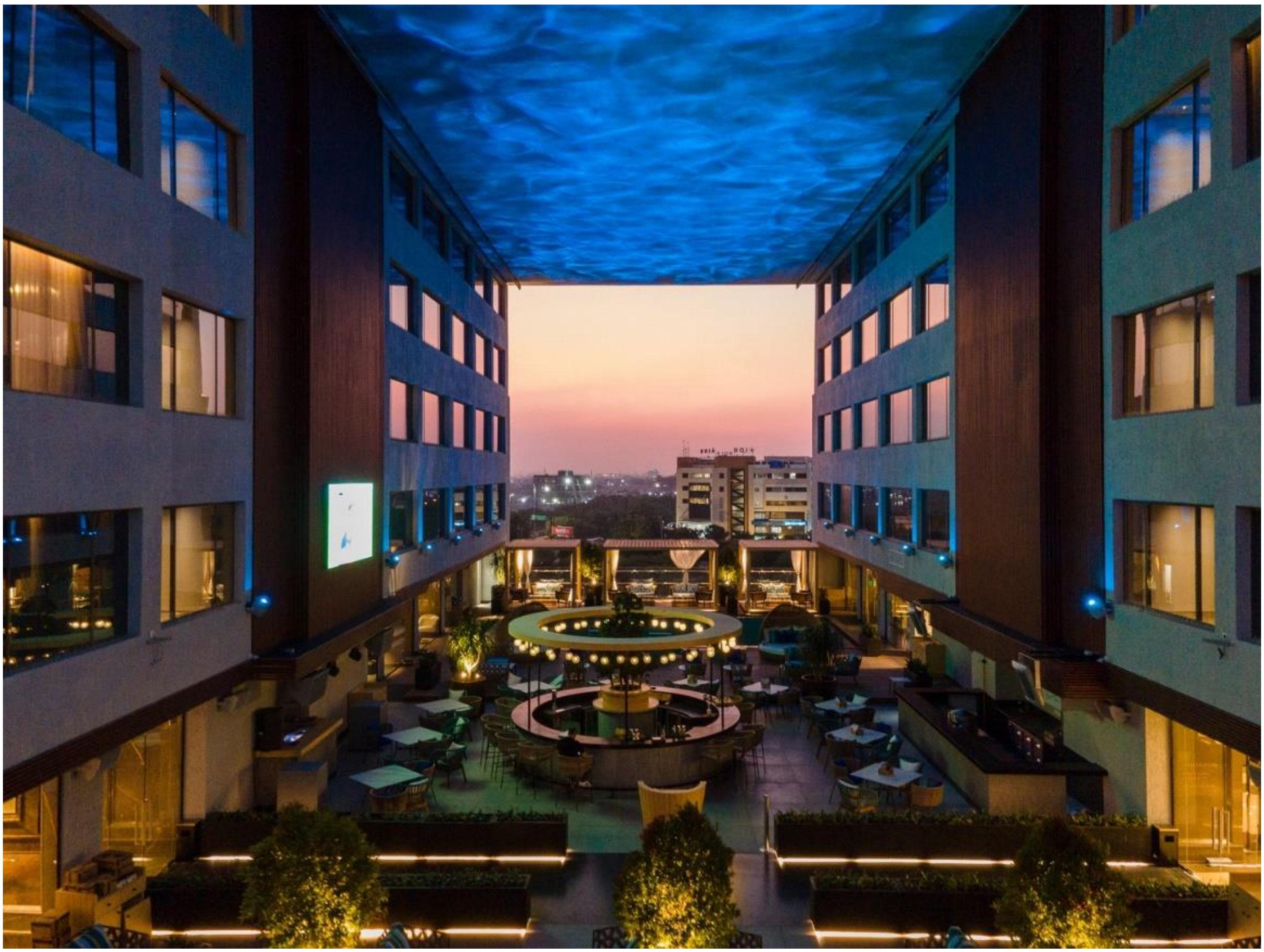
Apeejay Surrendra Park Hotels Ltd

Pioneering Excellence in Hospitality and Culinary Ventures



Subscribe

Pioneering Excellence in Hospitality and Culinary Ventures

Incorporated on November 27, 1987, Apeejay Surrendra Park Hotels Limited (ASPL),among hotel chains with asset ownership, ranks as the eighth largest in India in terms of chain affiliated hotel rooms inventory as of September 30, 2023. Of the 45,800 rooms owned by chained affiliated hotels across the country as at September 30, 2023, the Company comprises of about 1,300 rooms constituting 2.80% of the total inventory.

ASPL is engaged in the hospitality business operating under the brand names of "THE PARK", "THE PARK Collection", "Zone by The Park", "Zone Connect by The Park" and "Stop by Zone". The company is also engaged in the business of retail food and beverage industry through its retail brand 'Flurys.

As of March 31, 2023, the company operates 80 restaurants, night clubs and bars, offering a wide selection of culinary experiences. The company currently operates 27 hotels, which are spread across different categories such as luxury boutique, upscale, and upper midscale. These hotels are present in various cities in India including Kolkata, New Delhi, Chennai, Hyderabad, Bangalore, Mumbai, Coimbatore, Indore, Goa, Jaipur, Jodhpur, Jammu, Navi Mumbai, Visakhapatnam, Port Blair, and Pathankot, offering a total of 2,111 rooms as of August 2023.

ASPL's proposed issue size is INR 920 cr out of which INR 600 cr is a fresh issue and the remaining INR 320 cr is OFS. The proposed fresh issue will be utilized for

- **INR 550 cr for Repayment/ prepayment, in full or in part of certain outstanding borrowings availed by the company**
- **And the balance amount would be used for general corporate purposes**

At the IPO price of INR 155 (upper price band), ASPL is valued at P/E of 12.5x.

Industry	Hospitality

Issue Details	
Listing	BSE & NSE
Open Date	5th Feb 2024
Close Date	7th Feb 2024
Price Band	INR 147-155
Face Value	INR 1
Market Lot	96 shares
Minimum Lot	1 Lot

Issue Structure	
Offer for Sale	34.78%
Fresh Issue	65.22%
Issue Size (Amt)	INR 920 cr
Issue Size (Shares)	58,709,676
QIB Share (%)	≥ 75%
Non-Inst Share (%)	≤ 15%
Retail Share (%)	≤ 10%
Pre issue sh (nos)	17,46,61,760
Post issue sh (nos)	21,33,71,437
Post issue M Cap	3,306 cr

Shareholding (%)	Pre (%)	Post (%)
Promoter	94.18	68.13
Public	5.82	31.87
TOTAL	**100**	**100**

Key Financial Data (INR Cr, unless specified)

	Revenue	EBITDA	PAT	EBITDA (%)	PAT (%)	Adj EPS (₹)	BVPS (₹)	RoE (%)	RoIC (%)	P/E (X)	EV/Sales (X)	EV/EBITDA (X)
FY21	178.8	11.4	-75.9	6.4	-42.4	-19.6	138.5	-14.2	-2.4	-7.9	21.7	341.6
FY22	255.0	45.5	-28.2	17.8	-11.1	-7.3	131.4	-5.5	0.5	-21.3	15.4	86.2
FY23	506.1	158.8	48.1	31.4	9.5	12.4	143.6	8.6	9.9	12.5	7.6	24.3

`

Growth Strategies

Strategic Growth Through Asset Management: Company's Focus on Efficient Hotel Development and Expansion

In line with their growth strategy, the company emphasizes a balanced approach involving owned, leased/licensed, and managed hotels. Leveraging an asset management strategy, they capitalize on low land costs, ensuring efficient and timely development. Recent board approvals highlight the projected timelines for construction and development, showcasing the company's commitment to prudent capital allocation. The aim is to maximize value from existing land banks, leading to increased revenue, improved occupancy rates, and enhanced profitability. With a robust project pipeline, the company is poised for strategic expansion in the near future.

Decades of Expertise: Company to Expand Hotel Portfolio with Asset Light Model

With a rich history spanning 55 years in hotel management, the company currently oversees 23 operational managed and leased hotels, comprising 1,197 rooms. Additionally, they have 18 managed and leased hotels in the upper midscale category under development, adding 1,475 rooms. To further embrace their asset-light business model, the company plans to expand its portfolio through operation and management agreements, as well as lease or license deeds, particularly for properties under the "Zone by The Park" and "Zone Connect by The Park" brands. This strategic approach allows them to grow without significant capital commitments, earning management fees while maintaining an optimal mix of owned, leased, licensed, and managed hotels.

Improving operational efficiency to achieve superior performance

In a bid to enhance operational efficiency, the company is implementing holistic management plans for its hotels. This involves streamlining sourcing costs, leveraging technology for workforce management, and implementing energy-efficient practices. Notably, the migration of the corporate data center to a secured private cloud IaaS environment ensures optimal uptime, cost-effectiveness, and scalability for future business needs. The adoption of OTA Insight, a cloud-based business and market intelligence tool, enables the company to monitor and benchmark room demand and rates, ensuring pricing parity. Utilizing business intelligence tools, the company efficiently manages its workforce and resources, including outsourcing services during peak demand periods. Additionally, the strategic outsourcing of certain functions and judicious utility management further contributes to their commitment to operational excellence.

Flurys Expansion: Leveraging Hospitality Expertise and Asset-Light Model

With 73 outlets across diverse formats, including restaurants, cafés, and kiosks, Flurys has a strong presence in Kolkata, West Bengal, Mumbai, and New Delhi. Recognizing the potential of the brand, the company plans to capitalize on its hospitality expertise for further growth in the retail food and beverage industry. Notably, Flurys achieved the second-highest EBITDA margin (17.18%) among identified players in Fiscal 2023. Adopting an asset-light business model, the company operates outlets on leased premises, ensuring a diversified and scalable approach. The expansion strategy involves growing Flurys' footprint in various formats, including cafes, kiosks, and tea rooms, with a focus on Kolkata, West Bengal, Mumbai, Delhi NCR, Hyderabad, Pune, and major domestic and international airports.

Key Risks & Concerns

- The Company is exposed to risks associated with the delay in development of their hotel properties and land banks. Any delay in the construction of new hotel buildings or expansion of their existing properties may have an adverse effect on their business, results of operations, financial condition, and cash flows.

- The Company is exposed to risks associated with the construction and development of serviced apartments at EM Bypass, which is a one-off project of the Company and of which the Company has no prior experience.

- The Company was not in compliance with certain covenants under certain of their financing agreements in the past and had delays in repayment of certain long-term rupee loans and working capital loans. In case of any breach of covenants or delay in repayment of facilities in the future, such non-compliance, if not waived, could adversely affect their business, results of operations, cash flows, and financial condition.

- There are certain instances of delays in payment of statutory dues or non-payment of statutory dues on account of certain disputes. Any delay in payment of such statutory dues or non-payment of statutory dues in dispute may attract financial penalties from the respective government authorities and in turn may have an adverse impact on the Company's financial condition and cash flows.

Issue Structure and Offer Details

The proposed fresh issue size of NTL is INR 920 cr (INR 320 cr OFS and 600 cr fresh issue) and the price band for the issue is in the range of INR 147-155 and the bid lot is 96 shares and multiples thereof.

Issue Structure

Investor Category	Allocation
QIB	Not less than 75% of the Offer
NIB	Not more than 15% of the Offer
Retail	Not more than 10% of the Offer

Number of shares based on a higher price band of INR 155

Source: Company Reports

Details of the selling shareholders

Promoter Selling shares	Amount offered	No of shares
Apeejay Private Limited	Not more than 296 Cr	1,90,96,774
RECPIV Park Hotel investors Ltd	Not more than 23 Cr	14,83,871
RECP IV Park Hotel Co-investors Ltd	Not more than 1 Cr	64,516

The amount is based on a higher price band of INR 155

Source: Company Reports

ASPL financial summary and analysis

Fig in INR Cr (unless specified)	FY21	FY22	FY23
Income Statement			
Revenue	**178.8**	**255.0**	**506.1**
YoY Growth (%)	*(58.5)*	*42.6*	*98.5*
Raw Material Cost	(0.1)	0.0	(0.1)
RM Cost to Sales (%)	*(0.1)*	*0.0*	*(0.0)*
Employee Cost	55.2	64.2	99.5
Employee Cost to Sales (%)	*30.9*	*25.2*	*19.7*
Other Expenses	112.4	145.3	247.9
Other Exp to Sales (%)	*62.8*	*57.0*	*49.0*
EBITDA	**11.4**	**45.5**	**158.8**
Margin (%)	*6.4*	*17.8*	*31.4*
YoY Growth (%)	*(86.4)*	*299.5*	*249.1*
Depreciation & Amortization	37.7	40.1	49.3
EBIT	**(26.3)**	**5.4**	**109.5**
Margin (%)	*(14.7)*	*2.1*	*21.6*
YoY Growth (%)	*(153.9)*	*(120.6)*	*1,923.6*
Other Income	11.5	12.8	18.3
Finance Cost	56.9	60.0	62.3
Interest Coverage (X)	(0.5)	0.1	1.8
Exceptional Item	(15.1)	0.0	0.0
PBT	**(86.8)**	**(41.8)**	**65.5**
Margin (%)	*(48.5)*	*(16.4)*	*12.9*
YoY Growth (%)	*(1,096.6)*	*(51.9)*	*(256.7)*
Tax Expense	(10.9)	(13.6)	17.4
Tax Rate (%)	*12.6*	*32.5*	*26.6*
PAT	**(75.9)**	**(28.2)**	**48.1**
Margin (%)	*(42.4)*	*(11.1)*	*9.5*
YoY Growth (%)	*(413.4)*	*(62.8)*	*(270.4)*
Min Int/Sh of Assoc	0.0	0.0	0.0
Net Profit	**(75.9)**	**(28.2)**	**48.1**
Margin (%)	*(42.4)*	*(11.1)*	*9.5*
YoY Growth (%)	*(413.4)*	*(62.8)*	*(270.4)*
Balance Sheet			
Share Capital	17.5	17.5	17.5
Total Reserves	518.8	491.0	538.2
Shareholders Fund	**536.3**	**508.5**	**555.7**
Long Term Borrowings	469.6	478.0	501.0
Deferred Tax Assets / Liabilities	32.5	19.0	31.7
Other Long Term Liabilities	19.6	26.8	43.9
Long Term Trade Payables	0.0	0.0	0.0
Long Term Provisions	7.5	7.3	7.0
Total Liabilities	**1,065.5**	**1,039.6**	**1,139.4**
Net Block	1,015.3	1,001.4	1,010.7
Capital Work in Progress	27.5	29.2	34.6
Intangible assets under development	0.0	0.0	0.0
Non Current Investments	0.0	0.0	0.0
Long Term Loans & Advances	34.6	34.8	37.3
Other Non Current Assets	3.3	2.3	5.0
Net Current Assets	(15.1)	(28.1)	51.9
Total Assets	**1,065.5**	**1,039.6**	**1,139.4**

Fig in INR Cr (unless specified)	FY21	FY22	FY23
Per share data & Yields			
Adjusted EPS (INR)	(19.6)	(7.3)	12.4
Adjusted Cash EPS (INR)	(9.9)	3.1	25.2
Adjusted BVPS (INR)	138.5	131.4	143.6
Adjusted CFO per share (INR)	1.2	15.0	45.6
CFO Yield (%)	0.8	9.7	29.4
Adjusted FCF per share (INR)	(1.6)	3.0	23.1
FCF Yield (%)	(1.0)	1.9	14.9
Solvency Ratio (X)			
Total Debt to Equity	1.1	1.2	1.0
Net Debt to Equity	1.1	1.2	1.0
Net Debt to EBITDA	51.2	13.5	3.5
Return Ratios (%)			
Return on Equity	(14.2)	(5.5)	8.6
Return on Capital Employed	(2.0)	0.3	7.2
Return on Invested Capital	(2.4)	0.5	9.9
Working Capital Ratios			
Payable Days (Nos)	103	64	41
Inventory Days (Nos)	20	14	10
Receivable Days (Nos)	40	27	19
Net Working Capital Days (Nos)	-43	-22	-12
Net Working Capital to Sales (%)	(11.7)	(6.0)	(3.4)
Valuation (X)			
P/E	(7.9)	(21.3)	12.5
P/BV	1.1	1.2	1.1
EV/EBITDA	341.6	86.2	24.3
EV/Sales	21.7	15.4	7.6
Cash Flow Statement			
PBT	(86.8)	(41.8)	65.5
Adjustments	96.4	91.9	126.6
Change in Working Capital	6.1	(5.6)	1.7
Less: Tax Paid	10.9	13.6	(17.4)
Cash Flow from Operations	**26.6**	**58.1**	**176.3**
Net Capital Expenditure	(41.3)	(26.5)	(41.8)
Change in Investments	16.0	4.4	(0.3)
Cash Flow from Investing	**(25.3)**	**(22.1)**	**(42.1)**
Change in Borrowings	51.6	22.8	(63.8)
Less: Finance Cost	(56.9)	(60.0)	(62.3)
Proceeds from Equity	0.0	0.0	0.0
Buyback of Shares	0.0	0.0	0.0
Dividend Paid	0.0	0.0	0.0
Cash flow from Financing	**(5.3)**	**(37.2)**	**(126.2)**
Net Cash Flow	**(4.0)**	**(1.2)**	**8.0**
Forex Effect	0.0	0.0	0.0
Opening Balance of Cash	13.7	9.8	8.5
Closing Balance of Cash	**9.8**	**8.5**	**16.6**

Source: Ventura Research

Disclosures and Disclaimer

Ventura Securities Limited (VSL) is a SEBI registered intermediary offering broking, depository and portfolio management services to clients. VSL is member of BSE, NSE and MCX-SX. VSL is a depository participant of NSDL. VSL states that no disciplinary action whatsoever has been taken by SEBI against it in last five years except administrative warning issued in connection with technical and venial lapses observed while inspection of books of accounts and records. Ventura Commodities Limited, Ventura Guaranty Limited, Ventura Insurance Brokers Limited and Ventura Allied Services Private Limited are associates of VSL. Research Analyst (RA) involved in the preparation of this research report and VSL disclose that neither RA nor VSL nor its associates (i) have any financial interest in the company which is the subject matter of this research report (ii) holds ownership of one percent or more in the securities of subject company (iii) have any material conflict of interest at the time of publication of this research report (iv) have received any compensation from the subject company in the past twelve months (v) have managed or co-managed public offering of securities for the subject company in past twelve months (vi) have received any compensation for investment banking merchant banking or brokerage services from the subject company in the past twelve months (vii) have received any compensation for product or services from the subject company in the past twelve months (viii) have received any compensation or other benefits from the subject company or third party in connection with the research report. RA involved in the preparation of this research report discloses that he / she has not served as an officer, director or employee of the subject company. RA involved in the preparation of this research report and VSL discloses that they have not been engaged in the market making activity for the subject company. Our sales people, dealers, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein. We may have earlier issued or may issue in future reports on the companies covered herein with recommendations/ information inconsistent or different those made in this report. In reviewing this document, you should be aware that any or all of the foregoing, among other things, may give rise to or potential conflicts of interest. We may rely on information barriers, such as "Chinese Walls" to control the flow of information contained in one or more areas within us, or other areas, units, groups or affiliates of VSL. This report is for information purposes only and this document/material should not be construed as an offer to sell or the solicitation of an offer to buy, purchase or subscribe to any securities, and neither this document nor anything contained herein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. This document does not solicit any action based on the material contained herein. It is for the general information of the clients / prospective clients of VSL. VSL will not treat recipients as clients by virtue of their receiving this report. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of clients / prospective clients. Similarly, this document does not have regard to the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The securities discussed in this report may not be suitable for all investors. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Persons who may receive this document should consider and independently evaluate whether it is suitable for his/ her/their particular circumstances and, if necessary, seek professional/financial advice. And such person shall be responsible for conducting his/her/their own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this document. The projections and forecasts described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. Projections and forecasts are necessarily speculative in nature, and it can be expected that one or more of the estimates on which the projections and forecasts were based will not materialize or will vary significantly from actual results, and such variances will likely increase over time. All projections and forecasts described in this report have been prepared solely by the authors of this report independently of the Company. These projections and forecasts were not prepared with a view toward compliance with published guidelines or generally accepted accounting principles. No independent accountants have expressed an opinion or any other form of assurance on these projections or forecasts. You should not regard the inclusion of the projections and forecasts described herein as a representation or warranty by VSL, its associates, the authors of this report or any other person that these projections or forecasts or their underlying assumptions will be achieved. For these reasons, you should only consider the projections and forecasts described in this report after carefully evaluating all of the information in this report, including the assumptions underlying such projections and forecasts. The price and value of the investments referred to in this document/material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. Future returns are not guaranteed and a loss of original capital may occur. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. We do not provide tax advice to our clients, and all investors are strongly advised to consult regarding any potential investment. VSL, the RA involved in the preparation of this research report and its associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report/document has been prepared by VSL, based upon information available to the public and sources, believed to be reliable. No representation or warranty, express or implied is made that it is accurate or complete. VSL has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. The opinions expressed in this document/material are subject to change without notice and have no obligation to tell you when opinions or information in this report change. This report or recommendations or information contained herein do/does not constitute or purport to constitute investment advice in publicly accessible media and should not be reproduced, transmitted or published by the recipient. The report is for the use and consumption of the recipient only. This publication may not be distributed to the public used by the public media without the express written consent of VSL. This report or any portion hereof may not be printed, sold or distributed without the written consent of VSL. This document does not constitute an offer or invitation to subscribe for or purchase or deal in any securities and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This document is strictly confidential and is being furnished to you solely for your information, may not be distributed to the press or other media and may not be reproduced or redistributed to any other person. The opinions and projections expressed herein are entirely those of the author and are given as part