



SMC Ranking

★ ★ ★ ☆ ☆ (2.5/5)

### Issue Highlights

Industry	Hotel
Offer for sale (Shares)	20,645,161
Fresh Issue (Shares)	38,709,677
<b>Net Offer to the Public</b>	<b>59,354,839</b>
Issue Size (Rs. Cr.)	873-920
Price Band (Rs.)	147-155
Offer Date	5-Feb-24
Close Date	7-Feb-24
Face Value	1
Lot Size	96

### Issue Composition

	In shares
Total Issue for Sale	59,354,839
QIB	44,516,129
NIB	8,903,226
Retail	5,935,484

### Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	94.18%	68.15%
QIB	5.82%	24.90%
NIB	0.00%	4.17%
Retail	0.00%	2.78%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

\*calculated on the upper price band

### Objects of the Issue

1. Repayment/ prepayment, in full or in part of certain outstanding borrowings availed by the Company; and
2. General corporate purposes.

#### Book Running Lead Manager

- JM Financial Limited
- Axis Capital Limited
- ICICI Securities Limited

#### Name of the registrar

- Link Intime India Private Limited

### About the company

Incorporated in 1987, Apeejay Surrendra Park Hotels Limited (ASPHL) 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. The company owns restaurants under the brand name of Zen, Lotus, Aish, Saffron, Fire, Italia, 601, The Bridge, The Street, Verandah, Vista, Bamboo Bay, Monsoon, Mist, Love and Bazaar. As of June 2023, the company has a total of 1,923 employees.

### Strength

**Built successful hospitality brands through product innovation and service excellence to attract customer through a diversified and holistic offering:** The Company operates hospitality assets under its own brands, "THE PARK", "THE PARK Collection", "Zone by The Park", "Zone Connect by The Park" and "Stop by Zone". "THE PARK", "THE PARK Collection", "Zone by The Park", "Zone Connect by The Park" and 'Flurys', are well established brands in their respective categories and have received awards and accolades. The company has partnered with leading Indian and international designers to create the unique and differentiated spaces at its hotel properties. Through the strength of its brands, it has been able to expand and enhance its portfolio, and continue to focus on further expansion of its hotel portfolio at a CAGR of 21.56%, during six months ended September 30, 2023 and in last three fiscals. It has expanded "Zone by the Park" to 11 cities with 624 numbers of rooms and "Zone Connect by The Park" to seven cities with 409 rooms, since its launch in 2014 and 2019, respectively.

**A diversified Pan India portfolio of owned, leased and managed hotels that are strategically located across metros and emerging cities:** Spreading its wings across India, the company boasts a diverse network of 30 hotels, ranging from upscale to upper midscale, in both established metros and promising emerging cities. This pan-India presence translates to a room count of 2,298, and it's only growing! In the past 3 years alone, 13 new managed and leased hotels have joined the family, adding 686 rooms to the portfolio. But expansion isn't just about numbers; it's about strategic growth. By leveraging its strong brand equity and adopting an asset-light model that minimizes capital expenditure, the company is building a high-quality, diversified portfolio that positions it for continued success.

**High occupancy rate and REVPAR (revenue per available room) with a strong financial and operational track record:** The company has a strong operating track record of high occupancy, competitive average room rates and RevPAR for its hotel properties, during six months ended September 30, 2023 and September 30, 2022 and in last three Fiscals. It has been able to achieve an average occupancy level of 92.76%, 91.50% and 91.55% for its owned hotels for the six months ended September 30, 2023 and September 30, 2022 and the year ended March 31, 2023, respectively. Its high occupancy level reflects its expertise and credentials in the hospitality sector.

The table below sets forth the average occupancy level, Average Room Revenue and RevPAR for its owned hotels operating in upscale category, for the six months ended September 30, 2023 and September 30, 2022, and past three Fiscals:

	Six months ended Sept' 30		For the fiscal ended March 31,		
	2023	2022	2021	2020	2019
Average Occupancy rate (%)	92.76%	91.50%	91.55%	79.27%	67.10%
RevPAR (in Rs.)	5,968.97	5,281.14	5,851.70	3,149.23	2,272.96
Average Room Revenue (in Rs.)	6,435.03	5,771.84	6,392.01	3,972.96	3,387.61

**High F&B and Entertainment contributions which add to stable and non-cyclical earnings while complementing the hotel business:** Apeejay Surrendra Park Hotels believes its F&B and entertainment offerings go beyond serving hotel guests. With high-quality food, excellent service, and inviting ambiance, the company draws in a large non-resident clientele as well. This broadens its customer base and strengthens its business model, evidenced by the sustained success of its F&B operations. The company boasts one of the widest culinary selections among local hotels, ensuring something for everyone's taste. Furthermore, its nightclubs and entertainment options enhance brand recognition and create cross-selling opportunities between rooms, F&B, and entertainment. This strategy has proven successful with established brands like Tantra, Roxy, and iBar, drawing strong demand from both guests and non-residents.

**“Flurys” is an iconic brand with a successful and profitable track record of industry leading EBITDA margins:** Flurys, a well-known retail food and beverage brand in India with 73 outlets across various formats, plays a significant role in Apeejay Surrendra Park Hotels' business. Its asset-light model offers diversification, resilience, and scalability. Flurys contributed Rs. 19.49 crore, Rs. 15.60 crore, Rs. 38.21 crore, Rs. 24.60 crore, and Rs. 17.80 crore comprising 7.16 %, 6.54%, 7.29%, 9.18%, and 9.34% to its total income for the six months ended September 30, 2023 and September 30, 2022 and the years ended March 31, 2023, 2022 and 2021, demonstrating its financial strength and potential for continued growth.

## Strategy

**Continued focus on the development of existing land banks and strategic allocation of capital:** Apeejay Surrendra Park Hotels (ASPHL) seeks balanced growth through owned, leased/licensed, and asset-light models. The company focuses on developing and expanding existing properties across all categories while strategically adding managed hotels. To maximize efficiency, the company leverages its land holdings, building on them at low costs per room. Recently, the Board approved construction timelines for owned hotels in EM Bypass and Pune, along with development timelines for linked land banks. Additionally, estimated commencement dates for managed and leased hotels were established.

**Optimise capital efficiency through the adoption of asset light model with an optimal portfolio of owned, leased and managed hotels and to further strengthen, develop and expand existing brands:** Drawing on 55 years of experience, Apeejay Surrendra Park Hotels (ASPHL) excels in managing and operating properties. Its current portfolio boasts 23 operational managed and leased hotels (1,197 rooms) with 18 more under development (1,475 rooms). These future hotels, focused on the upper midscale segment, will operate under the "Zone by The Park" and "Zone Connect by The Park" brands. Maintaining a balanced mix of owned, leased/licensed, and managed hotels is key to its strategy. ASPHL remains open to opportunistic expansion based on market conditions.

**Improving operational efficiency to achieve superior performance:** The company seeks to improve its operational efficiencies by implementing holistic management plans for its hotels. These include rationalizing sourcing costs, effective workforce management using technology to enhance productivity and drive occupancy and efficient energy management.

**Further develop and strengthen the ‘Flurys’ brand in the retail food and beverage business through expansion plans:** Flurys, with 73 outlets across cafes, kiosks, and restaurants, currently operates primarily in Kolkata and West Bengal (64 outlets), followed by Mumbai and Navi Mumbai (8

outlets) and New Delhi (1 outlet). Leveraging its hospitality expertise, Flurys plans to expand its retail food and beverage presence using an asset-light model, meaning outlets operate on leased premises. This model offers flexibility, resilience, and scalability. Flurys aims to open new cafes, kiosks, and tea rooms across various formats. Its expansion strategy targets existing regions (Kolkata, West Bengal, Mumbai) while venturing into Delhi NCR, Hyderabad, Pune, metro airports, and even international airports.

### Risk factor

- Delayed development of its hotels and land holdings poses potential risks for the company.
- Nearly half (49%) of the company's hotel bookings and revenue in Fiscal 2023 comes through online travel agents and intermediaries.
- The company's past investing and financing activities have generated negative cash flow.

### Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcaps
Chalet Hotels Limited	1336.86	232.43	11.77	64.60	9.24	82.26	10	760.30	15622.19
Lemon Tree Hotels Limited	935.70	130.05	1.64	84.39	12.68	10.92	10	138.40	10964.69
Indian Hotels Company Limited	6488.84	1169.58	7.73	63.95	8.37	59.05	1	494.35	70367.37
EIH Limited	2252.14	424.08	7.36	44.46	5.84	56.05	2	327.25	20465.04
SAMHI Hotels Limited	805.92	-325.47	0.00	0.00	4.02	49.45	1	199.00	4338.90
Apeejay Surrendra Park Hotels Limited	544.54	52.50	2.46	62.99	2.81	55.23	1	155.00	3307.26

\*Peer comparisons are based on TTM

### Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.155, the stock is priced at pre issue P/E of 51.57x on TTM EPS of Rs. 3.01. Post issue, the stock is priced at a P/E of 62.99x on its EPS of Rs. 2.46. Looking at the P/B ratio at Rs.155, pre issue, book value of Rs. 33.12 of P/Bvx 4.68x. Post issue, book value of Rs. 55.23 of P/Bvx 2.81x.

Considering the P/E valuation, on the lower end of the price band of Rs.147, the stock is priced at pre issue P/E of 48.9x on TTM EPS of Rs. 3.01. Post issue, the stock is priced at a P/E of 59.74x on its EPS of Rs. 2.46. Looking at the P/B ratio at Rs.147, pre issue, book value of Rs. 33.12 of P/Bvx 4.44x. Post issue, book value of Rs. 55.23 of P/Bvx 2.66x.

### Industry Outlook

The hospitality sector in India consists of hotels offering rooms to tourists and business travelers, as well as restaurants, bars, and banquet facilities for events. India's hospitality industry is expected to grow rapidly, with an overall supply CAGR of 8.6% from September 2023 to FY 2027. Through FY 2027, about 25% of new supply will be in the Luxury-Upper Upscale segment, 24% and 20% in the Upscale and Upper-Midscale segments, respectively, and 31% in the Midscale-Economy segment. About 90% of total inventory is controlled by the top 25 chains. The Indian food services business includes both unorganized and organized players. Unorganized players include local restaurants and roadside eateries. Organized players include Quick Service Restaurants (QSRs) offering fast food, cafe chains offering coffee and beverages, snack eateries, bars/lounges offering alcohol and meals, and fine dining outlets. The Indian bakery market is expected to reach approximately Rs. 1,800-1,850 billion by Fiscal 2028, and the Indian cafe market is expected to grow at 19-21% CAGR during Fiscal 2023-2028. This presents various opportunities to grow retail food and beverage businesses across different distribution channels.

## Outlook

Apeejay Surrendra Park Hotels (ASPHL), boasting over 50 years of experience, has carved a unique space in the hospitality industry. Leading the segment with impressive occupancy rates, the company consistently outperforms competitors. A significant portion of its earnings will be directed towards debt reduction, leading to a healthier bottom line and lower financing costs. ASPHL's expansion plans are promising, paving the way for a bright future. However, potential risks lie in the delayed development of its hotels and land holdings, which require close attention.

### An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	05-February-24
BID/ISSUE CLOSSES ON	07-February-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	08-February-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	09-February-24
Credit of Equity Shares to demat accounts of Allottees	09-February-24
Commencement of trading of the Equity Shares on the Stock Exchanges	12-February-24

## Annexure

### Consolidated Financials

#### Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-23 (6 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Revenue from operations	264.41	506.13	255.02
Total expenditure	181.41	347.34	209.54
<b>Operating Profit</b>	<b>83.01</b>	<b>158.80</b>	<b>45.48</b>
OPM%	31%	31%	18%
Other Income	7.90	18.30	12.81
<b>PBDIT</b>	<b>90.91</b>	<b>177.10</b>	<b>58.29</b>
Depreciation	23.89	49.30	40.07
<b>PBIT</b>	<b>67.01</b>	<b>127.80</b>	<b>18.22</b>
Interest	33.38	62.33	60.01
<b>Profit before tax</b>	<b>33.64</b>	<b>65.47</b>	<b>-41.79</b>
Tax	10.69	17.41	-13.59
<b>PAT</b>	<b>22.95</b>	<b>48.06</b>	<b>-28.20</b>

**Balance sheet is on next page**

## Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-23	As on 31-Mar-23	As on 31-Mar-22
<b>Non-current assets</b>			
Property, plant and equipment	816.13	819.37	825.45
Capital work-in-progress	46.54	34.57	29.23
Investment Properties	180.99	181.49	140.68
Goodwill	22.81	22.81	22.81
Other intangible assets	25.44	26.12	27.76
Right of use assets	138.17	142.39	125.40
<b>Financial Assets</b>			
Investments	0.02	0.02	0.02
Loans	6.29	6.26	6.15
Other financials assets	20.39	19.41	13.67
Income tax assets (net)	3.13	2.09	6.52
Other non-current assets	17.36	14.48	10.69
<b>Total non-current assets</b>	<b>1277.27</b>	<b>1269.00</b>	<b>1208.38</b>
<b>Current assets</b>			
Inventories	12.97	13.48	10.06
<b>Financial Assets</b>			
Trade Receivables	31.28	26.10	19.02
Cash and Cash Equivalents	16.38	16.87	8.92
Bank balances other than (iii) above	2.44	0.35	0.33
Loans	0.12	0.13	0.05
Other financials assets	6.14	5.89	6.40
Income tax assets (net)			
Other current assets	35.91	29.97	22.02
<b>Total current assets</b>	<b>105.24</b>	<b>92.79</b>	<b>66.80</b>
<b>Total Assets</b>	<b>1382.51</b>	<b>1361.79</b>	<b>1275.18</b>
<b>Non-current liabilities</b>			
Financial liabilities			
Borrowings	481.10	501.02	478.01
Lease liabilities	40.57	43.43	26.38
Other financial liabilities	1.46	0.46	0.47
Provisions	7.53	7.03	7.25
Deferred tax liabilities (net)	36.58	31.75	19.00
<b>Total non-current liabilities</b>	<b>567.24</b>	<b>583.69</b>	<b>531.11</b>
<b>Current liabilities</b>			
<b>Financial Liabilities</b>			
Borrowings	116.00	65.86	144.67
Lease liabilities	7.46	7.12	4.62
Trade Payables			
Trades Payable - MSME	2.48	2.97	1.90
Trade Payables - other than MSME	46.64	53.62	42.51
Other financial liabilities	31.86	68.20	21.11
Provision	11.23	10.32	8.69
Current tax liabilities (net)	4.25	0.00	0.00
Other current liabilities	16.87	14.56	12.24
<b>Total current liabilities</b>	<b>236.78</b>	<b>222.64</b>	<b>235.74</b>
<b>Total</b>	<b>804.02</b>	<b>806.33</b>	<b>766.85</b>
Net worth represented by:			
Equity Share Capital	17.47	17.47	17.47
Non-Controlling interest	-0.22	-0.22	-0.18
Other equity	561.24	538.22	491.05
<b>Net Worth</b>	<b>578.48</b>	<b>555.46</b>	<b>508.33</b>

## RANKING METHODOLOGY

<b>WEAK</b>	★
<b>NEUTRAL</b>	★★
<b>FAIR</b>	★★★
<b>GOOD</b>	★★★★
<b>EXCELLENT</b>	★★★★★

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