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IPO Report

03rd Feb'24

Snapshot

Among hotel chains with asset ownership, company 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, Company comprises of about 1,300 rooms constituting 2.80% of the total inventory. Company operate hospitality assets under its own brands, “THE PARK”, “THE PARK Collection”, “Zone by The Park”, “Zone Connect by The Park” and “Stop by Zone”

VALUATION

Company is bringing the issue at price band of Rs 147-155 per share at p/e multiple of 58x on post issue annualized H1FY24 PAT basis.

Company have built successful hospitality brands through product innovation and service excellence to attract customer through a diversified and holistic offering. Company has a diversified Pan India portfolio of owned, leased and managed hotels that are strategically located across metros and emerging cities. Company has high occupancy rate and REVPAR with a strong financial and operational track record along with High F&B and Entertainment contributions which adds to stable and non-cyclical earnings while complementing the hotel business. Also, company’s “Flurys” which is an iconic brand with a successful and profitable track record of industry leading EBITDA margin makes this issue a decent one.

Hence, looking after all above we recommend “Subscribe” on issue.

Price Band (Rs./Share)	147-155
Opening date of the issue	05th Feb '2024
Closing Date of the issue	07th Feb '2024
No of shares pre issue	197204447 Eq Shares
Issue Size	Rs 920 Cr
Fresh issue	Rs 600 Cr
Offer For Sale	Rs 320 Cr
No of Shares	62619045-59385351 Eq Sh
Face Value (Rs/ share)	Rs 1/share
Bid Lot	96
Employee Discount	Rs 7/share

BIDDING DETAILS

QIBs (Including Anchor)	75% of the offer (Approx 44032258 Eq Shares)
Non-Institutional	15% of the offer (Approx 8806451 Eq Shares)
Retail	10 % of the offer (Approx 5870967 Eq Shares)
Employee	675675 Eq Shares
Lead managers	Axis Capital, JM Financial, ICICI Securities
Registrar to the issue	Link Intime India Pvt Ltd

WHAT WE LIKE

High occupancy rate and REVPAR with a strong financial and operational track record

Company have 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. Company have 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. Company’s high occupancy level reflects its expertise and credentials in the hospitality sector.

“Flurys” is an iconic brand with a successful and profitable track record of industry leading EBITDA margins

The “Flurys” has a distinctive track record in the retail food and beverage chain and is widely recognised brand in India. “Flurys” is company’s established retail food and beverage brand under which it operate 73 outlets with multiple formats such as kiosk format, café format and restaurant format. The asset-light business model adopted by Flurys provides a diversified, resilient, and scalable business model for company to leverage on.

High F&B and Entertainment contributions which adds to stable and non-cyclical earnings while complementing the hotel business

The food, beverage, and entertainment adds a non-cyclical element to the seasonal and cyclical hospitality industry, thereby providing added stability and resilience to company’s earnings and cash flows. As of September 30, 2023 company operate a total of 81 restaurants, night clubs and bars. Company also offer indoor and outdoor banquet and conference spaces spread across its hotel properties in India. Company’s restaurant offerings include, among others, Zen, Lotus, Aish, Saffron, Fire, Italia, 601, The Bridge, The Street, Verandah, Vista, Bamboo Bay, Monsoon, Mist, Love and Bazaar.



COMPANY BACKGROUND

Company have a long-standing expertise of over 55 years in the hospitality business of owning and operating hotels, with its first hotel being launched under brand “THE PARK” at the iconic Park Street in Kolkata. Company have established presence in the retail food and beverage industry through company’s retail brand ‘Flurys’. Company have pioneered the concept of luxury boutique hotels in India under brand, “THE PARK”, extending it further through and “THE PARK Collection”, and in upper-midscale categories with brands “Zone by The Park” and “Zone Connect by The Park”. Company’s hotel portfolio has a PAN-India presence, and it continue to attract customers with its diversified portfolio. Company categorize its hotel portfolio into two distinct hotels categories based on brand classification – upscale, and upper mid-scale. Company operate hotels under following four brands, namely “THE PARK, “THE PARK Collection”, “Zone by The Park”, “Zone Connect by The Park” and have recently launched economy motel brand, “Stop by Zone”:

“THE PARK” brand is positioned as an upscale brand with a luxury boutique offering, with a brand philosophy that concentrates on design, style, and service to create differentiated and unique experiences at each hotel.

- “THE PARK Collection” brand encompasses small luxury properties located at selected travel destinations targeted at the luxury hotel category delivering personalized guest experiences.
- “Zone by The Park” brand is positioned at the upper midscale level. It is designed for the price conscious and design conscious customers.
- “Zone Connect by The Park” is an upper midscale brand that channels its spirit and design philosophy from Zone by The Park.
- “Stop by Zone” is an economy motel brand which aims at providing convenient accommodation with easy access to parking, free Wi-Fi along with food services.

Company’s food and beverage outlets and entertainment offerings within its hotels provide a diversified experience for its customers. As of September 30, 2023, company operate 81 restaurants, night clubs and bars, offering a wide selection of culinary experiences. The night club and entertainment division contribute to company’s brand positioning and allows cross-selling opportunities. Company have created award-winning brands such as Zen, Someplace Else, Tantra, Roxy, iBar, The Leather Bar, Pasha and Aqua.

Company operate 30 hotels across luxury boutique upscale, and upper midscale categories, with pan-India presence in metros such as Kolkata, New Delhi, Chennai, Hyderabad, Bangalore, and Mumbai as well as in other major cities such as Coimbatore, Indore, Goa, Jaipur, Jodhpur, Jammu, Navi Mumbai, Visakhapatnam, Port Blair, Pathankot representing 2,298 rooms. THE PARK hotels recorded (a) RevPAR of ₹ 5,652.58, and ₹ 5,571.00, (b) occupancy rate of 93.29% and 91.77% and (c) average room per revenue of ₹ 6,059.05 and ₹ 6,070.51 for the six months ended September 30, 2023 and year ended March 31, 2023, respectively. High occupancy levels at The PARK hotels enable strong RevPAR (Source: Horwath HTL Report). The occupancy and RevPAR indices (hotel performance for occupancy and RevPAR over the market occupancy and RevPAR) reflect that company’s parameters are ahead of the market in 37 of the 40 data points.

The following table sets forth certain information of company for the period/years indicated below :

(₹ in million, unless otherwise specified)

	As at and for the six months ended September 2023	As at and for the six months ended September 30, 2022	As at and for the year ended March 31, 2023	As at and for the year ended March 31, 2022	As at and for the year ended March 31, 2021
Operational Metrics					
Average Occupancy rate (in %)	93.29%	91.89%	91.77%	79.10%	67.26%
RevPAR (in ₹)	5652.58	4979.98	5571.00	3009.05	2186.61
Average Room Revenue (in ₹)	6059.05	5419.31	6070.51	3804.27	3250.90
No of Hotels	27	22	25	21	17
Inventory (No. of Operating rooms)	2123	1890	2009	1865	1612
Inventory growth	12.33%	7.33%	7.72%	15.69%	NA



INVESTMENT RATIONALE

<p><i>A diversified Pan India portfolio of owned, leased and managed hotels that are strategically located across metros and emerging cities.</i></p>	<p>Company operate 30 hotels across upscale to upper midscale category, with pan-India presence representing 2,298 rooms. Company have grown its business geographically with the opening of 13 managed and leased hotels in the last 3 years, adding 686 rooms to company’s total portfolio. Most of company’s hotels are located at accessible, central locations within or close to key business and commercial areas as well as tourist attractions. For instance, THE PARK Kolkata is located at the iconic Park Street, foremost dining district in Kolkata; THE PARK New Delhi is located at the Parliament Street, New Delhi, centre of business, commercial, and diplomatic area; THE PARK Visakhapatnam is a beachfront resort located at Beach Road, attracting business, leisure, and group demand. India currently has 5 megacities i.e., Mumbai, Delhi National Capital Region (Delhi NCR), Bengaluru, Kolkata, and Chennai, which are urban agglomerations with population greater than 10 million . Further, Ahmedabad and Hyderabad, presently with 7 to 9.5 million inhabitants, are expected to become megacities by the year 2030. Company has owned hotels under brand THE PARK in six of these seven mega cities.</p>
<p><i>Dedicated and experienced leadership team with high standards of corporate governance</i></p>	<p>Company have an experienced and qualified management team and board of directors who have in-depth knowledge of hotel operations and hotel property development. The team has a strong understanding of the local hospitality and property market and has successfully developed company’s business through brand building initiatives and strategic alliances. Company is led by Priya Paul, Chairperson of the Company, Vijay Dewan, Managing Director of the Company and Karan Paul, Chairman of the Apeejay Surrendra Group, who each has 35, 32 and 31 years of experience in the industry respectively. Company’s senior management team include qualified professionals with significant years of experience in the areas of finance, compliance and legal, project management, hospitality and public relations. Company is guided by its core values to foster and underpin a culture of openness, teamwork, trust and accountability within its organisation.</p>
<p><i>Company have built successful hospitality brands through product innovation and service excellence to attract customer through a diversified and holistic offering.</i></p>	<p>Company have successfully created iconic brands as part of its food, beverage, and entertainment offerings, which include Zen, Someplace Else, Tantra, Roxy, iBar, The Leather Bar, Pasha, Aqua, Zen, Lotus, Fire, 601, The Bridge and company’s spa and wellness offering, “Aura”. The awards that company’s restaurants have received include, among others, the ‘Gastro-Pub of the Year (West)’ award presented to Aqua, THE PARK Indore at the Food Connoisseurs India Awards in 2022, the ‘Best Pan Asian – Premium Food Delivery’ award presented to Lotus at the Times Food & Nightlife Awards in 2022, the ‘Best Lounge Bar’ award presented to Peace Bar at the Times Food & Nightlife Awards in 2022, and the ‘Best World Cuisine – Premium Dining’ award presented to 6 O 1 at the Times Food & Nightlife Awards in 2021. The ‘Best Night Club’ award presented to Pasha at the Times Food & Nightlife Awards in 2021.</p>



OBJECTS OF OFFER

Offer for Sale

The Selling Shareholders will be entitled to their respective portion of the proceeds of the Offer for Sale after deducting their proportion of the Offer related expenses and relevant taxes thereon.

Objects of the Net Proceeds

Company proposes to utilise the Net Proceeds towards funding the following objects:

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

RISKS

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

Source:RHP

INDUSTRY OVERVIEW

Overview of the café market

Cafés sell light meals and non-alcoholic drinks, such as tea, coffee, and other beverages. Light meals include savoury snacks, such as sandwiches, open toasts, continental starters, and breakfast, along with bakery items such as muffins, cakes, and pastries. They offer a casual meeting place for customers to engage with their friends, colleagues, and family members. Cafés have value proposition as centres of social interaction. Some cafés also offer reading spaces and books or corners to conduct ones' regular business activities. Amid increasing ubiquity of internet usage, cafés also offer Wi-Fi services for its patrons to connect to the internet via their devices, encouraging them to use the coffee table as a desk and spend more time at the establishment.

Key growth drivers for the industry

Growing café culture among Indian youth Coffee shops have grown in appeal among the young people as these offers high-quality coffee with a social environment and provide services such as wi-fi. Within the space, products such as cold brew coffee and chocolate-based beverages are seeing high demand from the younger population.

Tea cafés are gaining a foothold by introducing traditional drink in modern formats In India, tea has typically been prepared at home or consumed at roadside tea stalls or in cafeterias / canteens. However, lately, tea cafés and outlets have grown in presence. The modern outlets are offering tea in a café environment with light snacks, targeting the working class.

Increased discretionary consumption supporting café industry Rising per capita income and discretionary spending are supporting the growth in café industry in India. Several coffee and tea shops in urban India are being opened, with the added value proposition of offering food and beverages and a place for social interaction.

Public spaces have led to demand of new service formats such as kiosks Previously, kiosks of organised F&B players were only restricted to malls or shopping streets. However, with growing urbanisation and development of public infrastructure, the options have increase to metro stations, transportation hubs and highways. Kiosks are a relatively new format, entering the retail spaces, such as shopping malls and metro stations.

Overview of the Indian food services industry

The Indian food services business comprises of both unorganized and organized players. The unorganized players comprise of local restaurants and roadside eateries. The organized format includes quick service restaurants (QSR) offering fast food products, café chain offering coffee and beverages along with snack eateries, bars/ lounges offer alcohol-based beverages along with full-fledged meals and fine dining outlets. The Indian bakery market is expected to reach approximately ₹ 1,800-1,850 billion over next five years, by Fiscal 2028, and the Indian café market is expected to grow at 19-21% CAGR during Fiscal 2023- 2028.

Growth drivers of the food services industry

Gains of a growing economy and rising income levels trickle down to food services

The Indian economy grew at a 6.2% CAGR between fiscals 2012 and 2023, which resulted in a strong consumption sentiment. Rising income levels due to the growing economy have improved the spending power of India's population, especially in urban areas, encouraging consumers to spend more on food services.

Demographic dividend to boost discretionary spending on food services As per World Bank data, the share of people in the age group of 15-64 in India's population, largely touted as the country's demographic dividend led by young students and the working population, increased from 60.5% in 2000 to 67.8% in 2022. The share is expected to increase further in the next few years, along with an uptick in the earning and spending ability of this set of consumers. The preference of youngsters for eating out, awareness about global cuisines, and an increase in dependency on food ordering due to a busy lifestyle is expected to drive consumption-driven growth.

More families ordering and eating out due to the growing presence of women in working population Economic growth in India has led to increased participation of women in formal jobs. The worker population ratio, defined as the percentage of employed persons in the population, for women aged 15 & above increased from 22% in 2017-18 to ~36% in 2022-23.

Aggregators have eased discovery of restaurants and cuisines Aggregators provide listings of restaurants in any desired location, and also enable customers to search specific eateries serving cuisines of their choice. Apart from providing essential details and peer reviews of restaurants, aggregators allow users to reserve tables at select restaurants. Food delivery aggregators help users order food online from select restaurants and provide seamless delivery through their fleet.



Consolidated Financials

(Rs in Mn)

Financials	FY21	FY22	FY23	H1FY24
Total Revenue (A)	1788.30	2550.20	5061.30	2644.12
Total Expenditure (B)	1674.44	2095.37	3473.35	1814.07
EBIDTA	113.86	454.83	1587.95	830.05
EBIDTA Margin	6.37	17.84	31.37	31.39
Other Income	114.60	128.10	183.00	79.00
Depreciation	377.00	400.72	492.98	238.91
EBIT	-148.54	182.21	1277.97	670.14
Interest	568.80	600.10	623.30	333.76
PBT	-717.34	-417.89	654.67	336.38
Exceptional	-150.70	0.00	0.00	0.00
PBT	-868.04	-417.89	654.67	336.38
Tax	-109.20	-135.87	174.05	106.88
PAT	-758.84	-282.02	480.62	229.50
NPM	-42.43	-11.06	9.50	8.68
ROE%	-14.15	-5.55	8.65	3.97
EPS	-4.34	-1.61	2.75	1.31
Eq Cap	174.66	174.66	174.66	174.66
Net Worth	5,362.02	5,083.30	5,554.62	5,784.84

(Source: RHP)

Peer Comparison

Company Name	Face value	P/E	Revenue from operations (Rs in Mn)	EPS	NAV	ROE %
<i>Apeejay Surrendra Park Hotels Limited</i>	<i>1</i>	<i>--</i>	<i>5061.30</i>	<i>2.75</i>	<i>31.81</i>	<i>8.65</i>
Peers						
Chalet Hotels Limited	10	79.78	11284.67	9.06	75.20	12.03
Lemon Tree Hotels Limited	10	92.34	8749.90	1.45	10.78	16.46
Indian Hotels Company Limited	1	65.67	58099.10	7.06	56.20	13.19
EIH Limited	2	56.59	20188.10	5.03	53.96	9.75
SAMHI Hotels Limited	1	NA	9328.09	-47.48	2.51	NA

(Source: RHP)



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