

22 February 2024

Apeejay Surrendra Park Hotels

Industry-leading occupancy, attractive valuations; Initiating, with a Buy

Rating: **Buy**

Target Price (12-mth): Rs.285

Share Price: Rs.213

Park Hotels operates 30 hotels (seven owned, three leased, 20 under Management contract) with 2,298 rooms (~1,280/~1018 owned & leased/MC) in luxury categories: boutique upscale (The Park, The Park Collection), upper midscale (Zone by the Park, Zone Connect by the Park), at prime business destinations. It has the highest occupancy in the industry. Following a strategy of pricing its rooms more attractively than peers, a well-calibrated expansion strategy and reasonable valuation augur well for it (trading at 50%/10%/33% discounts to Indian Hotels/Lemon Tree/Chalet Hotels). Hence, we initiate coverage on the stock with a Buy and a 12-mth TP of Rs285 (valuing it at 18x FY26 EV/EBITDA, giving 35%/20%/10% discounts from Indian Hotels/Chalet Hotels/Lemon Tree).

Multi brands, prime locations, industry-leading occupancy, competitive ARR augur well. The company's hotel portfolio is diversified across categories luxury and upscale through The Park brand, and upper mid-market through Zone by the Park. The bulk of revenue, which arises from domestic business and leisure travellers, is because the hotels are located at prime destinations. Most of the properties have the highest occupancy rates in the industry (over ~90%; industry average ~66%) with room rates more attractive than peers (a ~12% discount to industry ARR) largely due to corporate clientele.

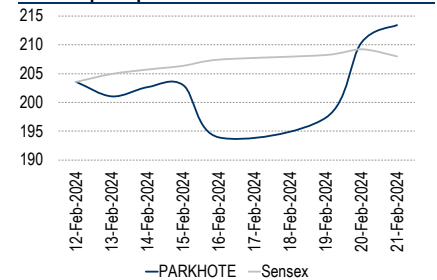
From the Rs6bn fresh issue, all debt to be repaid. In H1 FY24 net debt was ~Rs5.8bn. The company plans to utilise Rs5.5bn from the net proceeds to repay outstanding borrowings (Rs3bn in FY24, Rs2.5bn in FY25). Given the outlook for the hospitality sector, we expect the healthy occupancy (>90%) and ARR (a 13.6% CAGR over FY24-FY26) to continue, leading to significantly better margins (from 31.4% in FY23 to 38.2% in FY26) and free cashflows.

Risks: High contingent liabilities (Rs902m/Rs793m in H1 FY24/FY23, ~15.7%/14.5% of FY24e/FY23 revenue), economic slowdown.

Key data	PARKHOTE IN
52-week high / low	Rs224 / 170
Sensex / Nifty	72623 / 22055
3-m average volume	-
Market cap	Rs46bn / \$548.8m
Shares outstanding	213m

Shareholding pattern (%)	Pre-Offer	Post-Offer
Promoters	47.2%	38.7%
Promoter Group	46.9%	29.5%
Non-promoter	5.8%	31.8%

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY22	FY23	FY24e	FY25e	FY26e
Sales (Rs m)	2,550	5,061	6,217	7,553	8,502
Net profit (Rs m)	-281	482	740	1,535	1,822
EPS (Rs)	-1.6	2.8	3.5	7.2	8.5
P/E (x)	-133.3	77.8	50.6	24.4	20.6
EV / EBITDA (x)	94.4	27.0	21.5	15.5	13.2
P / BV (x)	7.4	6.7	3.0	2.7	2.4
RoE (%)	-5%	9%	8%	12%	12%
RoCE (%)	0%	7%	7%	9%	11%
Dividend yield (%)	-	-	-	-	-
Net debt / equity (x)	1.2	1.0	-0.1	-0.1	-0.1

Source: Company RHP, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
Net revenues	2,550	5,061	6,217	7,553	8,502
Growth (%)	42.6	98.5	22.8	21.5	12.6
No. of rooms	1,223	1,280	1,345	1,402	1,402
Direct costs	1,243	2,052	2,498	2,919	3,159
Gross profit	1,307	3,009	3,719	4,635	5,343
Gross margins (%)	51.3	59.5	59.8	61.4	62.8
SG&A	852	1,421	1,719	1,862	2,096
EBITDA	455	1,589	2,000	2,773	3,247
EBITDA margins (%)	17.8	31.4	32.2	36.7	38.2
Depreciation	401	493	497	604	680
Other income	128	183	155	189	213
Interest expenses	600	623	570	100	100
PBT	-418	655	1,088	2,257	2,679
Effective tax rates (%)	32.5	26.6	32.0	30.0	30.0
+Associates / (Minorities)	1	0	0	0	0
Net income	-281	481	740	1,535	1,822
WANS	175	175	213	213	213
FDEPS (Rs)	-1.6	2.8	3.5	7.2	8.5

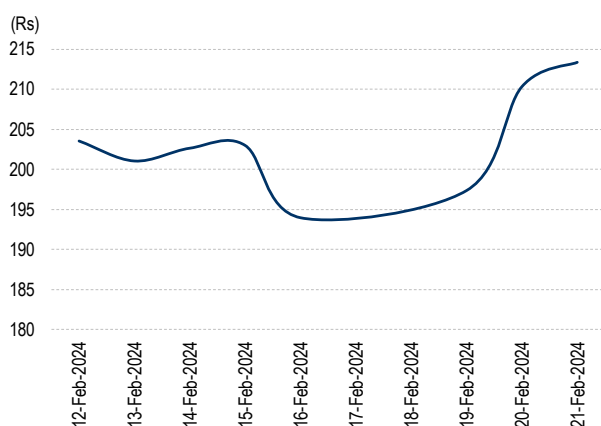
Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
PBT	-418	655	1,088	2,257	2,679
+ Non-cash items	974	1,096	912	515	568
Oper. prof. before WC	556	1,752	2,000	2,773	3,247
- Incr. / (decr.) in WC	54	-31	-257	13	21
Others incl. taxes	29	-42	348	722	857
Operating cash-flow	581	1,763	1,395	2,063	2,410
Free cash-flow	307	1,343	685	303	650
- Capex	-274	-421	-710	-1,760	-1,760
- Div. (incl. buyback & taxes)	-	-	-	-	-
+ Equity raised	-	-	5,999	-	-
+ Debt raised	229	-639	-2,698	-2,311	-
- Fin investments	1	21	-	-	-
- Misc. (CFI + CFF)	-442	-505	-453	89	113
Net cash-flow	-12	79	3,532	-1,919	763

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
Share capital	175	175	213	213	213
Net worth	5,085	5,557	12,295	13,830	15,652
Debt	6,227	5,669	2,971	660	660
Deferred tax liability	190	317	366	366	366
Capital employed	11,500	11,541	15,630	14,854	16,675
Net tangible assets	9,661	10,009	10,221	11,377	12,457
Net intangible assets	278	261	261	261	261
Goodwill	228	228	228	228	228
Right of use assets	1,254	1,424	1,424	1,424	1,424
CWIP (tang. & intang.)	292	346	346	346	346
Investments (strategic)	0	0	0	0	0
Investments (financial)	-	-	-	-	-
Current assets (excl. cash)	946	1,178	1,304	1,378	1,430
Cash	93	172	3,704	1,786	2,548
Current liabilities	1,252	2,077	1,859	1,946	2,019
Working capital	-306	-899	-555	-568	-589
Capital deployed	11,500	11,541	15,630	14,854	16,675
Contingent liabilities	1,693	793	-	-	-

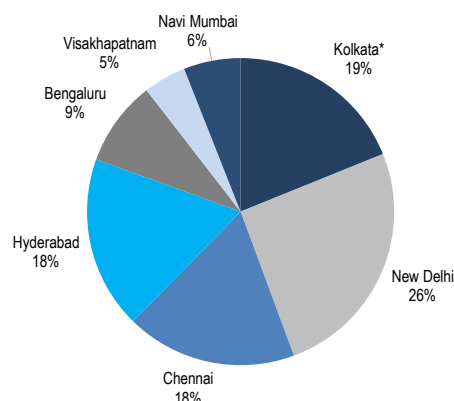
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
P/E (x)	-133.3	77.8	50.6	24.4	20.6
EV / EBITDA (x)	94.4	27.0	21.5	15.5	13.2
EV / Sales (x)	16.8	8.5	6.9	5.7	5.1
P/B (x)	7.4	6.7	3.0	2.7	2.4
RoE (%)	-5.4	9.0	8.3	11.7	12.4
RoCE (%) - after tax	0.3	6.7	7.3	9.4	10.7
RoIC (%) - after tax	0.3	6.8	8.4	11.3	12.4
DPS (Rs)	-	-	-	-	-
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%) - incl. DDT	0	0	0	0	0
Net debt / equity (x)	1.2	1.0	-0.1	-0.1	-0.1
Receivables (days)	27	19	20	20	20
Inventory (days)	14	10	8	6	6
Payables (days)	77	59	56	56	56
CFO : PAT %	-206.8	366.1	188.6	134.4	132.3

Source: Company, Anand Rathi Research

Fig 6 – Region-wise room revenue (Owned/Leased) – H1 FY24



Source: Company RHP, * Incl. the Serampore property

Multi-brand, prime locations, industry-leading occupancy, competitive ARR

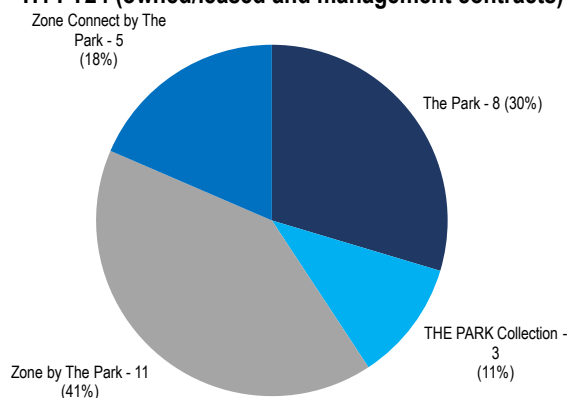
The company operates 30 hotels in the luxury categories: boutique upscale (The Park, The Park Collection), and upper midscale (Zone by the Park, Zone Connect by the Park), across India at metropolises such as Kolkata, New Delhi, Chennai, Hyderabad, Bengaluru and Mumbai and other tier 2/ -3 cities. In H1 FY24, it had ~1,280 owned/leased rooms and ~1,018 under management contract. It recently launched its economy motel brand, Stop-by Zone.

Fig 7 – Operating metrics (owned & leased rooms)

	FY21	FY22	FY23	H1 FY24
No. of hotels	9	9	10	10
No. of rooms (owned & leased)	1223	1223	1280	1280
Occupancy (%)	67.3	79.1	91.8	93.3
ARR (Rs)	3251	3804	6071	6059
Y/y growth (%)		17.0	59.6	
RevPar (Rs)	2,188	3,009	5,571	5,652
Y/y growth (%)		37.5	85.1	
Total room rent (Rs m)	896	1,282	2,513	1,321

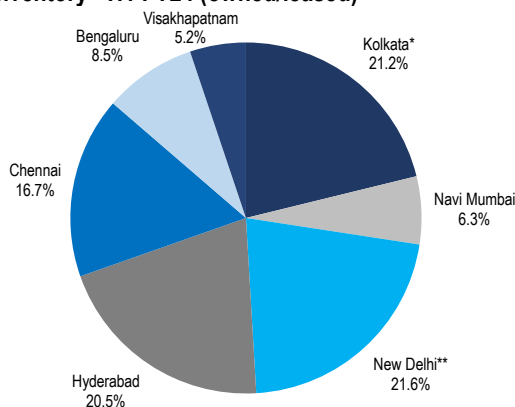
Source: Company RHP, Anand Rathi Research

Fig 8 – Brand-wise – H1 FY24 (owned/leased and management contracts)



Source: Company RHP, Anand Rathi Research

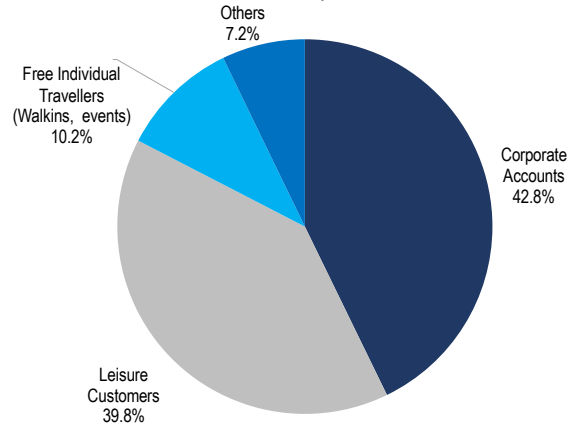
Fig 9 – Region-wise inventory - H1 FY24 (owned/leased)



Source: Company RHP, Anand Rathi Research * Incl. Serampore property **Incl. Saket property

The bulk of revenue arises from domestic business and leisure travellers since the company’s hotels are located at prime destinations.

Fig 10 – Traveller-wise contribution - H1 FY24 (owned/leased and management contracts)



Source: Company RHP, Anand Rathi Research

Park's Key Hotel Market Mapping

Fig 11 - Park's Key Hotel Market Mapping

Park Hotel Location	Nearby Hotels	Distance from The Park (km)	Nearby Corporates/Offices/tourist attractions/restaurant	Distance from The Park (km)
Navi Mumbai	Tunga Hotels	9.2	RBI	0.35
	Sky Suites by wwwThe Monarch	10	CIDCO	0.65
	KJSP Seasons Hotel	3	SBI Life Insurance	0.5
	Mariott Hotel	8	Citizen Facility Centre/Passport Office	0.45
	IBIS	8	Competition Commission of India	0.35
	Vivanta by Taj	7.5	Konkan Bhavan/Central Government Offices	1.4
	IHCL Seleqtions (4 star)	0.85	LIC	1.5
	Itsy (3 star)	0.4	DLF Centre	0.4
New Delhi	The Lalit (5 star)	2.1	New Delhi Municipal Council	0.9
	The Imperial new delhi (5 star)	2.4	VFS Global	1
			Jantar Mantar	0.45
			NITI Aayog	1.4
			RBI	2.5
Chennai	Taj Coromandal	0.75	Consulate General of USA	0.4
	Welcome Hotel by ITC	2.9	Bank Of India	2.7
	Hotel Palmgrove (3-star)	0.45		
	Hotel Crystal Park (2-star)	1.8		
Hyderabad	Fab Hotel (3-star)	3.6	Hussain Sagar Lake	3.5
	Taj Deccan (5 star)	3.5	Karnataka Bank	2
	Taj Krishna (5 star)	2.8	Yes Bank	5
	Radisson Blu Plaza, Banjara Hills	4.2	Jazeera Airways	2.8
			IDFC First Bank	3.7
Bengaluru	Taj MG Road	1.4	RNS infrastructure ltd.	0.2
	The Oberoi	1.4	Zvest Financial Services	1.6
	Hyatt Centric	1.6	Lido Mall	0.17
	The Leela Palace	4.2	BSNL office	4.7
	Radisson	0.35	Export Credit guarantee corporation of India	0.28
	Conrad	0.26	Arvind Fashions Ltd.	0.95
			Bangalore Chamber of Industry & Commerce	1.6
			Brigade Road	2.1
			Commercial Street	1.9
			BetterPlace Human Capital SAAS Platform	1.8
Kolkata	Kempton Hotel	0.75	Park street social	0.06
	Treebo Tryst Dee Empresa	0.6	The Bengal Club	0.13
	The Elgin Fairlawn	0.9	Magnolia bar and restaurant	0.11
	Golden Parkk Hotel	1.2	Queens Mansion	0.3
			National Bank for Agriculture and Rural Development	1.2
			Steel Authority of India	0.7

Source: Anand Rathi Research

Most of the company's properties have the highest occupancy rates in the sector, of over ~90% (industry average ~66%); its room rates are more attractive than peers (a ~12% discount to the sector ARR) largely due to corporate clientele.

Fig 12 – Hotel companies' occupancy and ARR

	FY19	FY20	FY21	FY22	FY23	H1 FY24
ARR (Rs)						
Park Hotel	NA	NA	3251	3804	6071	6059
Indian Hotels (standalone)	11,003	10,734	7,351	9,861	13,736	12,793
EIH	12,971	11,200	8,035	9,657	14,308	13,658
Lemon Tree	4,180	4,347	2,615	3,459	5,340	5,253
Chalet Hotels	8,210	8,482	4,040	4,576	9,169	9,964
Samhi	NA	4,516	2,624	3,149	5,069	5,425
Industry Average	6,038	6,104	4,630	4,951	6,869	NA
Occupancy %						
Park Hotel	NA	NA	67.3	79.1	91.8	93.3
Indian Hotels (standalone)	68	66.7	39.0	52.5	71.7	75.0
EIH	68.3	66.0	25.8	47.5	74.8	68.5
Lemon Tree	76.0	70.0	40.0	46.1	68.0	71.0
Chalet Hotels	77.0	71.0	30.0	51.8	72.0	71.5
Samhi	NA	61.4	28.0	45.9	71.7	71.3
Industry Average	66.2	66.1	34.5	49.9	66.1	NA

Source: Company RHP, Anand Rathi Research

KTAs from our visit to The Park, Navi Mumbai

- The hotel with existing inventory of 80 rooms has been running at higher occupancy for the past three months; this is because it is the only 4-5star hotel within a 5km-10km radius.
- Hotels located nearby: Tunga Hotels (~9.2km), Sky Suites by Monarch (~10km), KJSP Seasons Hotel (~3km), Marriott Hotel (~8km), IBIS (~8km).
- Nearby offices are the RBI (~550m), CIDCO Bhavan (~950m), GAIL (~2.9km), SBI Life Insurance (~500m), Konkan Bhavan (~600m), Central government offices (~160m), citizen facility centre (~1.2km), passport office (~1.2km), CRPF, The Competition Commission of India.
- In terms of MICE space, the hotel has one ~65-seater (~100 standing) banquet with a dedicated space for buffet system for guests during conferences.
- An outdoor banquet space is also available which is customisable as per event requirements i.e., wedding, conference, party, etc.
- The hotel also has two meeting rooms with each space accommodating ~25-30 seats.
- Two restaurants, namely Aqua and West1 exist within the hotel premises. While Aqua (adjacent to the swimming pool) serves only Chinese cuisine and accommodating ~48 guests, West1 is a multi-cuisine restaurant with ~58 seats.
- The recently renovated lounge Dusk is a 58-seater, located within the hotel premises.
- Apeejay Institute of Hospitality located right next to hotel premises.
- Major clientele: corporates
- Booking routes: direct contact with reservation team, OTAs or official website.

Hotel development pipeline

Ahead, the company's hotel pipeline includes expanding two of its owned hotels, at Visakhapatnam and Navi Mumbai; and developing an embedded land bank in Pune (380 rooms incl. all three locations). Further, as part of its development plan, it intends to utilise its land bank to construct a hotel in Jaipur; it would use 3.36 acres to construct a hotel and service apartments at Mouza Boinctala on the Eastern Metropolitan Bypass, Kolkata.

Fig 13 – Hotel development pipeline

Nature	Location	Rooms	Time of expansion	
Owned				
Expansion of owned hotel-The Park	Visakhapatnam	100	Apr'25	2.5–3.5 years
Expansion of owned hotel-The Park	Navi Mumbai	80	Jul'24	2.5–3.5 years
Expansion of managed hotel-The Park	Indore	19	In progress	By Mar'24
Development of embedded land bank-The Park	Pune	200	Apr'24	2.5–3.5 years
Construction of The Park	EM Bypass	250	Apr'24	2.5–3.5 years
Total Rooms		649		
Long-term lease		Rooms	Estimated timeline for hotel commencement	
THE PARK Collection, Chettinad Palace		24	Apr'24	
THE PARK Collection, Quila Mubarakpur, Patiala		33	Apr'24	
Zone by The Park, Digha		65	Feb'24	
Eight roadside motels, Kolkata		40	Mar'25	
Total		162		
Managed agreements		Rooms	Estimated timeline for hotel commencement	
Zone by The Park, Goa		262	Mar'27	
Zone by The Park, Muzaffarpur		50	Nov'24	
Zone by The Park, Srinagar		70	Dec'24	
Zone by The Park, Kasauli		80	Sep'25	
Zone By The Park, Shaheed		30	Oct'25	
Zone By The Park, Bhopal		60	Sep'25	
Zone By The Park, Siliguri		50	Apr'26	
Zone By The Park, Darjeeling		50	Dec'24	
Zone By The Park, Lucknow		100	Apr'25	
Zone Connect, Yadagirigutta		400	Mar'27	
Zone Connect, Alibag		50	Dec'24	
Zone Connect, Manali (including 15 tents)		25	Apr'24	
Zone Connect, Patna		42	Oct'25	
Zone Connect, Lansdowne		20	Feb'24	
Zone Connect, Kolkata		45	Apr'24	
Total		1,334		

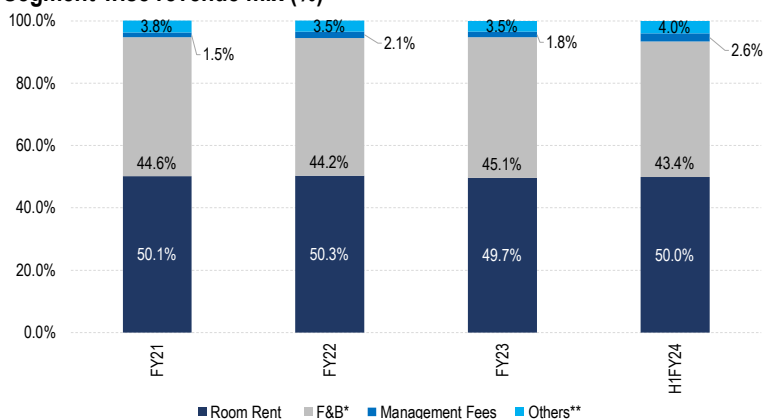
Source: Company RHP, Anand Rathi Research

High F&B contribution complementing the hotel business

Apart from room rentals, the company also draws revenue from its F&B outlets and entertainment offerings located within hotel premises. In H1 FY24, it operated ~81 restaurants, night clubs and bars under brands such as *Zen*, *Someplace Else*, *Tantra*, *Roxy*, *iBar*, *The Leather Bar*, *Pasha* and *Aqua*.

As part of its initiative to develop new offerings, it launched an outlet *Someplace Else*, a Kolkata-based bar brand, in Mumbai (Jio World Drive, BKC). It also added outlets within its hotels eg, *Beer Garden* in The Park, Kolkata; *The Tap Room* in Aqua, Bengaluru.

Fig 14 - Segment-wise revenue mix (%)

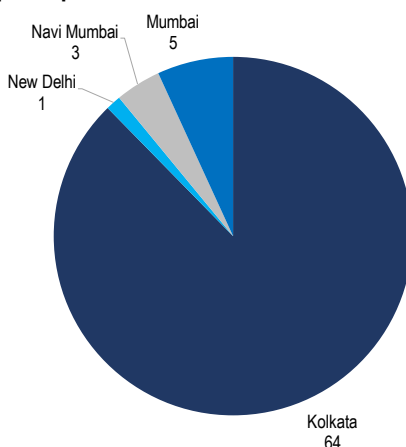


Company RHP, Anand Rathi Research * Incl. Flurys revenue ** recreational activities, property management & space rentals

Flurys, Kolkata-based retail F&B business

Another arm of the company’s F&B revenue mix is Flurys (on leased premises or on a revenue-sharing model), the premium confectionary chain that operates 73 outlets in Kolkata (and the rest of West Bengal), Delhi, Mumbai, and Navi Mumbai.

Fig 15 – Flurys’ geographic operations



Source: Company RHP, Anand Rathi Research

These outlets exist across multiple formats including restaurants, cafés and kiosks. In the near term, the company aims to increase Flurys outlets, making it an all-India F&B offering.

Fig 16 – Varied store formats

Store format	FY21	FY22	FY23	H1 FY24	At date of RHP
Tea rooms	3	3	4	4	4
Cafés	20	22	26	26	27
Kiosks	29	34	39	41	42
Total	52	59	69	71	73

Source: Company RHP, Anand Rathi Research

Fig 17 – Flurys' revenue share as % of total revenue

Year	FY21	FY22	FY23	H1 FY24
Revenue (Rs m)	178	246	382	195
As % of total revenue	9.9	9.6	7.6	7.4

Source: Company RHP, Anand Rathi Research

KTAs from our visit to Flurys, Phoenix MarketCity, Kurla

- Eight outlets in Mumbai, including three in Navi Mumbai (Seawoods, Kharghar and CBD Belapur)
- Although upcoming in Mumbai, the brand is predominantly popular in Kolkata.
- Already in Wadala, Chembur and Vero Moda shop at Linking Road
- Although acquired by Park Hotels, Flurys' expansion strategy is independent; it plans to penetrate deeper in Mumbai.
- Price points are broadly in line with Theobroma; with pricing difference observed compared to Starbucks' product offerings
- The store has a seating arrangement accommodating ~6-7 people at once.
- Staff included four servers and one F&B manager.
- Cafés' near Kurla outlet: Tim Hortons, Café Coffee Day, Cinnabon, Auntie Anne's, Costa Coffee, Pret A Manger (coming soon), Blue Tokai and Coffee Culture.
- Most cafes were located on the same floor except Coffee Culture which was located a floor above.
- Compared to other cafes, Flurys (Kurla) had very limited seating area. But the product spread was largely in-line with peers.

Set to capitalise on supply constraints in key metropolises

The company has ~1,280 owned/leased rooms in Kolkata, New Delhi, Chennai, Hyderabad, Bengaluru and Navi Mumbai. The top-10 hotel-room markets in India had 70% of the hotel rooms in FY15 and 63% in FY22. This figure could slide to 58% by FY26 as, of the 37,000 fresh supply of rooms planned till then, only 15,000 (40%) are in the top-10 markets, per Hotelivate. This supply slowdown and growing demand would lead to considerably higher occupancies in the top-10 markets.

Fig 18 – Against 4.7% growth in the hotel sector, the number of hotel rooms in the top-10 cities expected to grow 3.1%

Top-10 Indian cities	CAGR, %								
Hotel room stock (no. of rooms)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2025e-26e	(2015-20)	(2021-26)
Bengaluru	11,539	11,995	12,594	13,366	13,691	13,901	17,911	4	5.2
Y/Y growth (%)	3.8	4.0	5.0	6.1	2.4	1.5	NA		
As % of branded rooms	10.3	10.1	10.0	10.3	9.8	9.7	9.9		
Chennai	7,585	8332	9061	9099	9,657	9,655	9,967	5	0.6
Y/Y growth (%)	1.9	9.8	8.7	0.4	6.1	0.0	NA		
As % of branded rooms	6.8	7.0	7.2	7.0	6.9	6.7	5.5		
Goa	5,574	6400	6386	5979	6,772	7,039	9,069	5	5.2
Y/Y growth (%)	5.2	14.8	-0.2	-6.4	13.3	3.9	NA		
As % of branded rooms	5.0	5.4	5.0	4.6	4.9	4.9	5.0		
Mumbai	13,054	13494	13524	13568	14,070	14,330	17,445	2	4.0
Y/Y growth (%)	1.5	3.4	0.2	0.3	3.7	1.8	NA		
As % of branded rooms	11.7	11.3	10.7	10.5	10.1	9.9	9.6		
New Delhi	14,142	14296	14450	14952	15,027	15,181	15,892	3	0.9
Y/Y growth (%)	7.2	1.1	1.1	3.5	0.5	1.0	NA		
As % of branded rooms	12.7	12.0	11.4	11.6	10.8	10.5	8.8		
Gurugram	5,117	5263	5890	5538	5,589	5,643	7,635	1	6.2
Y/Y growth (%)	-3.9	2.9	11.9	-6.0	0.9	1.0	NA		
As % of branded rooms	4.6	4.4	4.7	4.3	4.0	3.9	4.2		
Hyderabad	5,992	6254	6846	6672	7,393	7,420	7,825	4	1.1
Y/Y growth (%)	0.6	4.4	9.5	-2.5	10.8	0.4	NA		
As % of branded rooms	5.4	5.2	5.4	5.2	5.3	5.2	4.3		
Jaipur	4,931	5058	5352	5285	5,553	5,714	7,298	3	5.0
Y/Y growth (%)	2.3	2.6	5.8	-1.3	5.1	2.9	NA		
As % of total branded rooms	4.4	4.2	4.2	4.1	4.0	4.0	4.0		
Kolkata	2,701	3199	3652	3742	4,579	4,933	5,444	11	2.0
Y/Y growth (%)	0.0	18.4	14.2	2.5	22.4	7.7	NA		
As % of branded rooms	2.4	2.7	2.9	2.9	3.3	3.4	3.0		
Pune	6,108	6445	6353	6460	6,712	6,915	7,178	2	0.7
Y/Y growth (%)	-0.5	5.5	-1.4	1.7	3.9	3.0	NA		
As % of branded rooms	5.5	5.4	5.0	5.0	4.8	4.8	4.0		
Total no. of rooms	76,744	80,737	84,109	84,662	89,044	90,732	1,05,664	4	3.1
Y/Y growth (%)	2.5	5.2	4.2	0.7	5.2	1.9	NA		

Source: Hotelivate Report, 2023

Fig 19 – In the next 2-3 years, ~60% of supply will be in markets beyond the top-10.

All-India data	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2025-26e	CAGR, %	
								(2015-20)	(2021-26)
Branded hotel rooms in India	1,11,600	1,19,220	1,26,570	1,29,401	1,39,406	1,44,047	1,80,814	5.3	4.7
YY growth (%)	3.6	6.8	6.2	2.2	7.7	3.3			
Absolute supply YY	3,905	7,620	7,350	2,831	10,005	4,641	36,767		
Top-10 hotel markets	76,744	80,737	84,109	84,662	89,044	90,732	1,05,664	4	3.1
YY growth (%)	2.5	5.2	4.2	0.7	5.2	1.9			
Top-10 markets' absolute supply y/y	1,889	3,993	3,372	552	4,383	1,688	14,932		
Top-10 hotel markets, % of overall hotel rooms	68.8	67.7	66.5	65.4	63.9	63.0	58.4		
Top-10 markets' supply as % of absolute supply	48.4	52.4	45.9	NA	43.8	36.4	40.6		

Source: Hotelivate Report, 2023

Of 1,280 rooms, ~86.3% are at hotels in the six metropolises. These bring ~95% to the company's room revenue overall.

Fig 20 – Of 1,280 rooms, ~86.3% are in six metropolises where supply will be a constraint in the next 3-5 years

Area	Keys	FY23		H1 FY24		
		% of total keys	Room revenue (% of total revenue)	Keys	% of total keys	Room revenue (% of total revenue)
Kolkata *	271	21.2	18.9	271	21.2	18.9
New Delhi **	277	21.6	26.6	277	21.6	25.5
Chennai	214	16.7	16.6	214	16.7	18.0
Hyderabad	263	20.5	17.5	263	20.5	18.2
Bengaluru	109	8.5	9.6	109	8.5	9.0
Visakhapatnam	66	5.2	5.0	66	5.2	4.5
Navi Mumbai	80	6.3	5.7	80	6.3	6.0

Source Company RHP, Anand Rathi Research * Incl. the Serampore property ** Incl. the Saket property

Fig 21 – Region-wise Industry occupancy and ARR trends

	Industry occupancy (%)													
	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Business hotels														
Bengaluru	53.2	58.4	56.6	55.6	57.7	58.1	65.7	65.9	68.3	65.1	67.5	27.5	40.5	65.0
Chennai	62.1	67.2	65.7	60.0	55.4	58.9	62.7	64.8	63.0	64.6	64.5	36.1	51.7	68.7
Delhi & NCR	68.3	68.7	63.8	61.7	60.9	61.7	66.7	69.4	70.5	72.5	73.2	40.8	57.4	75.1
Hyderabad	53.3	57.1	54.0	49.3	51.7	57.1	59.3	63.7	66.3	69.9	70.3	33.7	51.4	72.8
Kolkata	67.5	68.3	70.0	71.5	70.2	67.8	69.3	70.9	70.2	69.8	66.7	30.2	50.1	69.9
Mumbai	62.5	62.4	63.7	63.7	67.2	71.8	73.7	74.4	75.5	77.1	76.6	42.9	60.4	78.6
Pune	50.9	46.7	51.3	58.2	57.4	61.3	65.6	64.1	68.2	69.9	66.7	27.9	41.3	67.5
Leisure hotels														
Ahmedabad	58.2	54.3	59.9	53.7	52.7	53.9	55.6	61.1	63.8	63.3	64.8	33.1	57.9	67.7
Goa	65.1	67.7	68.5	68.9	68.7	69.7	70.2	71.3	70.0	71.8	67.7	37.0	55.9	69.3
Jaipur	57.3	57.7	55.2	54.7	54.3	54.5	60.8	64.4	67.6	68.3	66.2	33.9	49.5	61.7

Source: Hotelivate Report, 2023

	Industry ARR (Rs)													
	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Business hotels														
Bengaluru	6,597	6,776	6,293	5,960	5,379	5,368	5,392	5,598	5,823	6,434	6,707	4,704	4,128	7,048
Chennai	5,710	5,632	5,524	5,440	5,050	4,825	4,767	4,761	4,863	5,174	5,148	3,597	3,966	5,679
Delhi & NCR	8,834	8,634	8,174	7,387	6,941	6,568	6,211	6,292	6,649	7,063	7,186	4,764	5,246	8,013
Hyderabad	5,146	5,173	5,026	4,854	4,556	4,535	4,741	4,880	4,924	5,377	5,654	3,979	4,111	6,489
Kolkata	6,087	6,408	6,049	6,093	5,739	5,734	5,607	5,814	5,904	5,830	5,934	4,258	4,300	5,663
Mumbai	8,428	8,194	8,210	7,820	7,355	7,473	7,611	7,942	8,066	8,376	8,487	5,270	5,191	9,196
Pune	5,810	4,949	4,163	3,861	3,908	3,846	3,922	4,195	4,484	4,943	5,070	4,179	3,920	5,446
Leisure hotels														
Ahmedabad	4,540	4,285	3,917	3,904	3,734	3,753	3,884	3,897	4,158	4,625	4,273	3,399	3,048	4,754
Goa	5,613	6,056	6,162	6,513	6,692	6,819	7,020	7,538	7,920	8,207	8,260	7,379	8,507	10,267
Jaipur	4,539	4,718	4,727	4,843	4,743	4,743	4,721	4,787	5,051	5,347	5,500	4,277	4,933	6,814

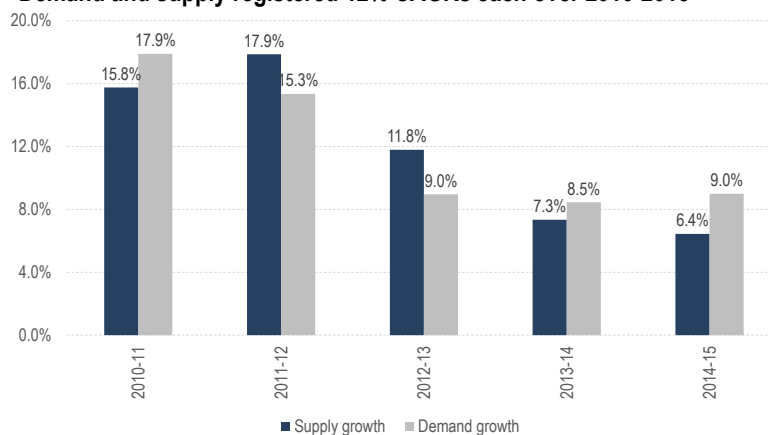
Source: Hotelivate Report, 2023

Hotel demand-supply dynamics

2023-26 demand CAGR would outpace 5-6% supply growth

Much before the pandemic, India's hotel sector saw a protracted period of demand-supply mismatch, with a massive supply overhang. This led to the sector's mediocre performance over 2010-2015.

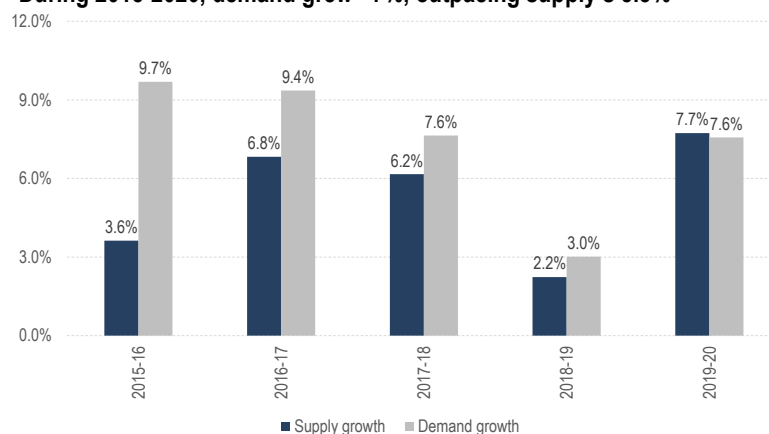
Fig 22 – Demand and supply registered 12% CAGRs each over 2010-2015



Source: Hotelivate Report, 2023

However, slower supplies added and a revival in demand in 2015-2020 altered all that. Then, Covid-19 struck. Every business was shattered, hotels being in the forefront. Travel & tourism was negligible and weddings were curtailed. This resulted in massive losses to hotel companies.

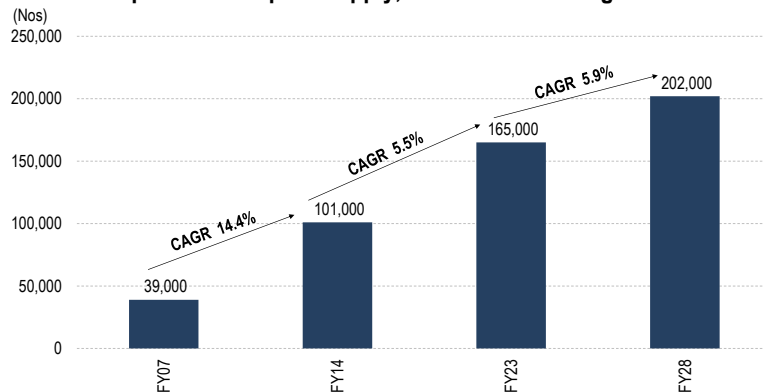
Fig 23 – During 2015-2020, demand grew ~7%, outpacing supply's 5.3%



Source: Hotelivate Report, 2023

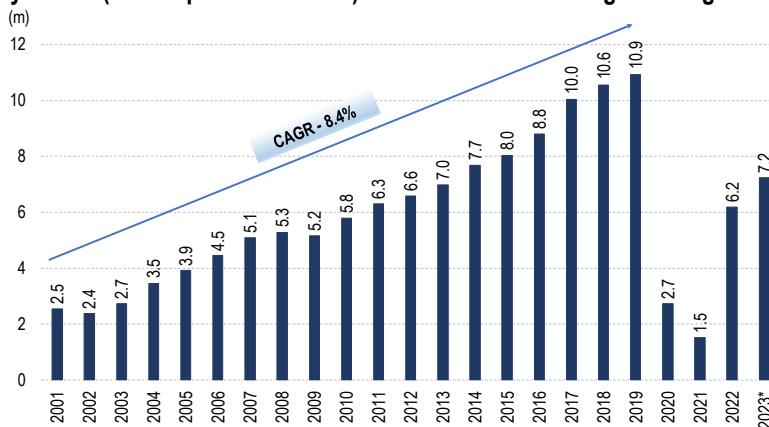
But now, as demand has picked up, largely due to domestic travel, the sector is expected to flourish. Considering the narrowing gap between supply and demand, room occupancies are expected to rise, pushing up room rates.

Fig 24 – Demand expected to outpace supply, at much wider margins



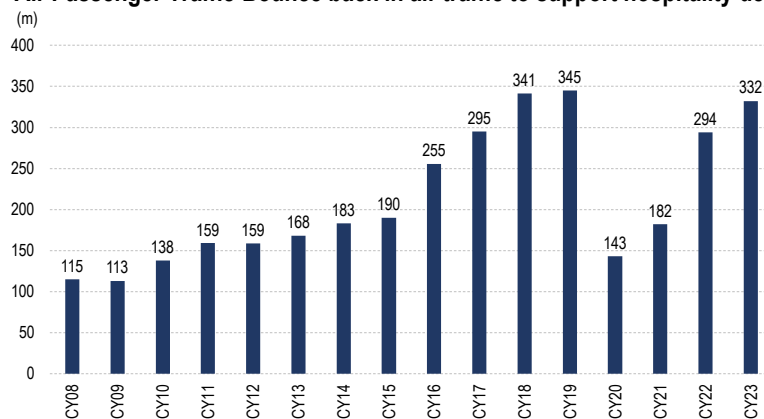
Source: Hotelivate Report, 2023

Fig 25 – Foreign Tourist Arrivals-Strong performance by the industry despite partial recovery in FTA (66% of pre-covid levels) with domestic tourists generating demand



Source: Ministry of Tourism

Fig 26 – Air Passenger Traffic-Bounce back in air traffic to support hospitality demand



Source: Ministry of Tourism

Financials

Aided by ARR, we expect a 16.9% revenue CAGR over FY24-26

We expect the company to register a 16.9% revenue CAGR over FY24-FY26, aided by favourable industry demand-supply dynamics, which would lead to healthy occupancy (>90%) and ARR (a 13.6% CAGR over FY24-FY26).

We expect expansion to continue through management contracts (MC revenue to clock a 50.2% CAGR over FY24-FY26).

- We expect Flurys' revenue to record a ~39.7% CAGR over FY24-FY26 as it plans to penetrate deeper in Mumbai and other metropolises.

Fig 27 – Financial details

	FY21	FY22	FY23	FY24e	FY25e	FY26e	FY24-26 CAGR, %
No. of owned and leased room	1,223	1,223	1,280	1,345	1,402	1,402	
No. of owned and leased hotels	9	9	10	11	13	13	
ADR (Rs)	3,251	3,804	6,071	6,705	7,869	8,653	13.6
<i>YY growth (%)</i>		17.0	59.6	10.4	17.4	10.0	
Average occupancy	67.3	79.1	91.8	95.3	91.7	90.2	
Rev PAR (Rs)	2,187	3,009	5,571	6,393	7,213	7,803	10.5
<i>YY growth (%)</i>		37.6	85.1	14.8	12.8	8.2	
Revenue from room rentals	896	1282	2513	3095	3640	3938	12.8
-Food and beverages (excl. Flurys)	620	881	1,898	2,275	2,730	2,954	13.9
<i>As % of room rentals</i>	69.3	68.7	75.5	73.5	75.0	75.0	
-Flurys	178	246	382	505	702	986	39.7
<i>As % of room rentals</i>	19.8	19.2	15.2	16.3	19.3	25.0	
-Other services (incl. service charges)	68	89	177	195	263	295	23.0
<i>As % of room rentals</i>	7.5	6.9	7.1	6.3	7.2	7.5	
Total	1,761	2,497	4,971	6,070	7,336	8,172	16.0
Other operating revenue							
-Management fee	27	53	90	146	217	330	50.2
<i>As % of revenue</i>	1.5	2.1	1.8	2.4	2.9	3.9	
Total	27	53	90	146	217	330	
Revenue from operations	1,788	2,550	5,061	6,217	7,553	8,502	16.9

Source: Company, Anand Rathi Research

Margins expansion to be robust

We expect EBITDA to register a 27.4% CAGR over FY24-FY26, margins expanding from 32.2% to 38.2%, aided by the stabilisation of the staff-to-room ratio, lower power costs due to the rising share of renewable energy in the hospitality segment, and lower G&A costs.

Fig 28 – Margins expansion to be robust

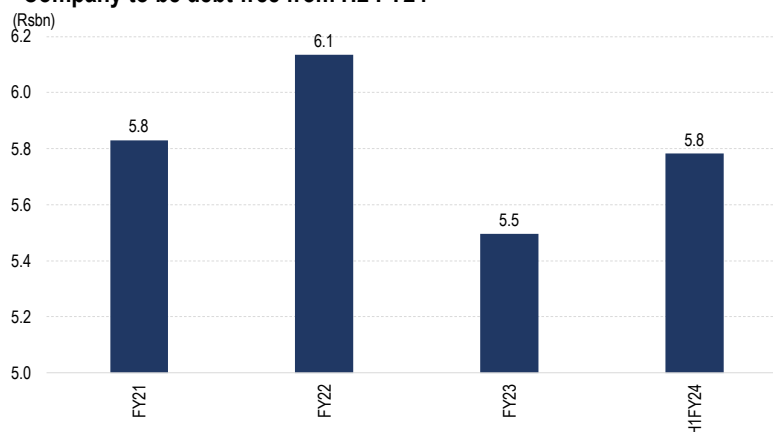
	FY21	FY22	FY23	FY24e	FY25e	FY26e	FY24-26 CAGR %
Total revenue	1788	2550	5061	6217	7553	8502	16.9
No. of owned and leased rooms	1223	1223	1280	1345	1402	1402	
Average cost of employee / room (Rs m)	0.45	0.53	0.78	0.91	1.02	1.09	
Employee benefits (expense)	552	642	995	1222	1435	1530	
As % of revenue	30.9	25.2	19.7	19.7	19.0	18.0	
Operating expense	462	601	1058	1276	1483	1629	13.0
As % of revenue	25.9	23.6	20.9	20.5	19.6	19.2	
Cost of food and beverages consumed	271	354	686	819	928	1004	
As % of F&B revenue	43.7	40.1	36.1	36.0	34.0	34.0	
Power and Fuel	192	247	372	457	555	625	
As % of revenue (excl. management contracts)	10.9	9.9	7.5	7.5	7.6	7.6	
Selling and distribution cost	105	175	356	438	532	599	16.9
As % of revenue	5.9	6.9	7.0	7.0	7.0	7.0	
Advertisement and business promotion	34	45	131	155	193	175	
As % of room rentals	3.8	3.5	5.2	5.0	5.3	4.4	
Commission	71	130	226	282	339	424	
As % of room rentals	7.9	10.1	9.0	9.1	9.3	10.8	
General and administration cost	555	678	1064	1281	1330	1497	8.1
As % of revenue	31.0	26.6	21.0	20.6	17.6	17.6	
Rates & taxes	114	108	134	141	162	170	
As % of revenue (excl. management contracts)	6.5	4.3	2.7	2.3	2.2	2.1	
Others	441	570	955	1167	1198	1359	
Total costs	1674	2095	3473	4217	4780	5255	11.6
EBITDA	114	455	1588	2000	2773	3247	27.4
EBITDA margins (%)	6.4	17.8	31.4	32.2	36.7	38.2	

Source: Company, Anand Rathi Research

Rs6bn of fresh issue to repay debt

In H1 FY24, net debt was ~Rs5.8bn. From the net proceeds the company plans to utilise Rs5.5bn to pay off outstanding borrowings (Rs3bn in FY24, Rs2.5bn in FY25). We expect it to incur Rs4.2bn capex over FY24-FY26 to develop a pipeline (~811 rooms to be added in next 3-4 years). We expect it would generate Rs1.64bn free cashflow cumulatively over the same period.

Fig 29 – Company to be debt-free from H2 FY24



Source: Company, Anand Rathi Research

Fig 30 – Peer comparison

Particulars	Revenue (Rs m)					Revenue growth, y/y (%)					EBITDA (Rs m)					EBITDA margins (%)				
	FY19	FY20	FY21	FY22	FY23	FY19	FY20	FY21	FY22	FY23	FY19	FY20	FY21	FY22	FY23	FY19	FY20	FY21	FY22	FY23
Park Hotels	NA	NA	1,788	2,550	5,061	NA	NA	NA	42.6	98.5	NA	NA	115	455	1,589	NA	NA	6.4	17.8	31.4
Indian Hotels (consol.)	45,120	44,631	15,752	30,561	58,099	10.0	-1.1	-64.7	94.0	90.1	8,297	9,675	-3,618	4,048	18,045	18.4	21.7	-23.0	13.2	31.1
EIH*	18,108	15,963	4,935	9,853	20,188	13.3	-11.8	-69.1	99.6	104.9	4,082	2,952	-2,809	19.9	5,995	22.5	18.5	-57.0	0.2	29.7
Lemon Tree	5,495	6,694	2,517	4,022	8,750	13.5	21.8	-62.4	59.8	117.5	1,688	2,434	613	1,187	4,476	30.7	36.4	24.3	29.5	51.2
Chalet Hotels	9,872	9,808	2,856	5,078	11,285	24.1	-0.6	-70.9	77.8	122.2	3,192	3,429	71	985	4,528	32.3	35.0	2.5	19.4	40.1
Samhi Hotels*	NA	6,056	1,696	3,227	7,386	NA	NA	-72.0	90.3	128.8	NA	1,500	-694	114	2,377	NA	24.8	-40.9	3.5	32.2

Source: Company, Anand Rathi Research * Bloomberg

Fig 31 – Hotel companies, a comparison

Particulars	Revenue (Rs m)			Revenue growth y/y (%)			EBITDA (Rs m)			EBITDA margins (%)			EV / EBITDA (x)		
	FY24e	FY25e	FY26e	FY24e	FY25e	FY26e	FY24e	FY25e	FY26e	FY24e	FY25e	FY26e	FY24e	FY25e	FY26e
Park Hotels	6,217	7,553	8,502	22.8	21.5	12.6	2,000	2,773	3,247	32.2	36.7	38.2	21.5	15.5	13.2
Indian Hotels (consol.)	67,537	77,345	88,837	16.2	14.5	14.9	21,541	25,301	29,628	31.9	32.7	33.4	33.5	28.9	26.3
EIH*	25,124	31,033	35,862	24.5	23.5	15.6	9,093	12,672	15,565	36.2	40.8	43.4	26.9	19.3	15.7
Lemon Tree	10,700	13,963	15,632	22.3	30.5	12.0	5,341	7,212	8,179	49.9	51.6	52.3	22.5	16.6	14.7
Chalet Hotels	14,580	18,039	20,655	29.2	23.7	14.5	6,388	8,501	10,134	43.8	47.1	49.1	31.3	23.5	19.7
Samhi Hotels*	9,840	12,119	13,415	33.2	23.2	10.7	2,801	4,271	4,910	28.5	35.2	31.8	22.6	14.8	12.8

Source: Company, Anand Rathi Research * Bloomberg

Fig 32 – Net debt of hotel companies

(Rs bn)	FY19	FY20	FY21	FY22	FY23	6M FY24
Park Hotels	NA	NA	5.8	6.1	5.5	5.8
Indian Hotels (consol.)	18.7	18.6	30.3	(1.05)	(9.9)	(11.1)
EIH	3.4	4.7	2.5	1.6	(2.8)	(5.1)
Lemon Tree	11.3	14.9	15.3	16.3	17.2	19.0
Chalet Hotels	3.0	17.7	19.0	23.2	25.5	24.9
Samhi Hotels	NA	19.9	22.0	23.8	25.4	18.7

Source: Company, Anand Rathi Research Note: Net debt excludes lease liabilities

Valuations

Park Hotels operates 30 hotels (seven owned, three leased, 20 under MC) with 2,298 rooms (~1,280/~1018 owned & leased/MC) in luxury categories: boutique upscale (The Park, The Park Collection), upper midscale (Zone by the Park, Zone Connect by the Park), at prime business destinations. It has the highest occupancy in the industry.

Following a strategy of pricing its rooms more attractively than peers, a well-calibrated expansion strategy and reasonable valuation augur well for it (50%/10%/33% discounts to Indian Hotels/Lemon Tree/Chalet Hotels). Hence, we initiate coverage on the stock with a Buy and a 12-mth TP of Rs285 (valuing it at 18x FY26 EV/EBITDA, giving 35%/20%/10% discounts from Indian Hotels/Chalet Hotels/Lemon Tree), largely due to low owned & leased room count, lower EBITDA margins etc.

Risks

- Slowdown in the economy would curtail demand; also, external factors such as terrorist attacks, epidemics, etc.
- Huge contingent liabilities (Rs902m in H1 FY24, Rs793m in FY23), ~45%/50% of FY24e/FY23 EBITDA).
- Delay in development of hotel properties and land banks could impact business operations and cashflows
- ~55%(H1FY24) of room bookings happen through OTAs, with increasing prominence of OTAs in room bookings could lead in demanding higher room rate concessions thereby impacting company's margin

Company background, management

A leading name in hospitality, Park Hotels is the eighth largest in India by hotel rooms. Its first hotel was launched in 1967 in Kolkata under its flagship brand “THE PARK”. It is now found in 20 cities across India. It now operates 30 hotels (owned, leased and managed) under five brands: THE PARK, THE PARK Collection, Zone Connect by The Park, Zone by The Park and Stop-by Zone.

These brands cover two hotel categories: upscale and upper mid-scale. Along with hospitality, the company is also into F&B and entertainment, operating 81 restaurants, nightclubs and bars (Q2). In a further foray into F&B, it operates a premium multi-format retail chain (restaurants, cafes, kiosks) across India under the brand name, Flurys.

Fig 33 – Park Hotels – milestones

Year	Key events
1988	'The Park' opened in New Delhi
1994	'Someplace Else' restaurant opened in Kolkata
1999	Purchased 'The Park' in Bangalore; Apeejay Hotels Delhi (AHD) acquired Budget Hotels (former name of the company)
2000	"The Park' opened in Bengaluru
2002	Another 'The Park' hotel opened in Chennai
2003	Amalgamation of AHD and Gemini Hotels & Holdings (its subsidiary) with Budget Hotels
2004	Name changed to Apeejay Surrendra Park Hotels
2007	Received investments from RECP IV Park Hotel Investors, RECP IV Park Hotel Co-Investors and REFS Park Hotel Investors
2010	'The Park' opened in Hyderabad
2012	Branding exercise to establish 'The Park', 'The Park Collection' and 'Zone by The Park'
2014	First property under 'Zone by The Park' opened in Coimbatore
2019	Acquisition of the confectionery business from Flurys' Swiss Confectionery
2021	'Someplace Else' opened in Mumbai

Source: Company RHP, Anand Rathi Research

Fig 34 – Contingent liabilities

Particulars	FY21	FY22	FY23	H1 FY24
Demand for property tax	1319	1498	597	677
Demand for land tax	142	143	144	144
Demand for service tax	44	44	44	73
Demand for entertainment tax	8	8	8	8
Claims against the Group not acknowledged as debt	0	0	0	0
Total	1513	1693	793	902
As % of revenue	84.6	66.4	15.7	14.5*

Source: Company RHP, Anand Rathi Research *On FY24e

Fig 35 - Management Details

Name	Designation	Description	Other Directorships	Remuneration (FY23, Rs m)	Committees
Priya Paul	Chairperson & Executive Director	BA, Wellesley College, Massachusetts, USA. Owner/President Management Program, Graduate School of Business Administration, Harvard University, USA. ~ 35 years' experience in the hospitality segment.	<u>Indian Companies</u> <ul style="list-style-type: none"> Afsan Health Resort Pvt. Ltd. Apeejay Shipping DLF Cyber City Developers DLF Ladies Youth Association South Asia Women Foundation India World Monuments Fund India Association <u>Foreign Companies</u> <ul style="list-style-type: none"> Women's Fund Asia 	42	<ul style="list-style-type: none"> - Nomination and Remuneration - Stakeholders' Relationship - Corporate Social Responsibility
Vijay Dewan	Managing Director	M.Sc. (organic chemistry) Garhwal University, Uttarakhand; PGDM (hotel management), Oberoi School of Hotel Management, New Delhi. ~32 years' experience in the hospitality industry. Managing committee member of the Hotel & Restaurant Association of Eastern India	<ul style="list-style-type: none"> Apeejay Hotels & Restaurants Pvt. Ltd. Apeejay North-West Hotels Pvt. Ltd. Hotel & Restaurant Association of Eastern India Nicco Parks & Resorts 	45	<ul style="list-style-type: none"> - Audit and Risk Management - Stakeholders' Relationship
Karan Paul	Non-Executive Director	BA, Brown University, USA; membership and association with various trade organizations and fora: Indian National Shipowners Association, Indian Tea Association, The Tea Board of India, etc; three decades' experience in managing businesses across various sectors incl. shipping, real estate, FMCG, logistics, financial services, tea plantations, etc.	<u>Indian Companies</u> <ul style="list-style-type: none"> Apeejay Infra-Logistics Pvt. Ltd. Apeejay Logistics Park Pvt. Ltd. Apeejay Securities Pvt. Ltd. Apeejay Shipping Apeejay Tea Bengal Shipyard Indian National Shipowners Association K.P.H. Dream Cricket Pvt. Ltd. Oceanic Shipyard West Bengal Tourism Development Corp. <u>Foreign Companies</u> <ul style="list-style-type: none"> Surrendra Overseas (Panama) Inc. Surrendra Overseas (Singapore) Pte. Ltd. 		<ul style="list-style-type: none"> - Stakeholders' Relationship
Debanjan Mandal	Independent Director	LL.B., Burdwan University, West Bengal; ~23 years' experience in litigation, arbitration & transactional matters within energy, public transport, aviation, shipping, corporate M&A	<ul style="list-style-type: none"> Apeejay Tea Bengal Aerotropolis Projects Century Plyboards (India) CESC Fox & Mandal Consultancy Solutions Pvt. Ltd. Haldia Energy Indian Chamber of Commerce, Calcutta Industrial and Prudential Investment Co. Spencer's Retail Titagarh Rail Systems West Bengal Infrastructure Development Finance Corp 		<ul style="list-style-type: none"> - Audit and Risk Management - Nomination and Remuneration - Stakeholders' Relationship
Suresh Kumar	Independent Director	B.Sc. Delhi University. ~4 decades' experience in the hospitality segment; recognized as 'Green Hotelier' at the Environment Awards, 1996 by The International Hotel & Restaurant Association	<ul style="list-style-type: none"> HPL Additives Kirlsokar Electric 		<ul style="list-style-type: none"> - Audit and Risk Management - Nomination and Remuneration - Corporate Social Responsibility
Ragini Chopra	Independent Director	BA. Meerut University, UP. Diploma in hotel management, Oberoi School of Hotel Management, New Delhi; ~48 years' experience in the hotel industry; previously associated with Jet Airways (India) and the Oberoi Group.	<ul style="list-style-type: none"> Advani Hotels & Resorts (India) 		<ul style="list-style-type: none"> - Nomination and Remuneration - Corporate Social Responsibility
Atul Khosla	Chief Financial Officer (CFO)	B.Com. Delhi University; fellow of the ICAI and ICFAI		16	
Shalini Keshan	Company Secretary	Associate member, ICSI, ICAI		2	
S.R. Batliboi & Co. LLP	Statutory Auditor				

Source: Company RHP, Anand Rathi Research

Appendix

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