

Press Release

P K Hospitality Services Private Limited

December 06, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 105.00 Cr. (Enhanced from Rs. 40.00 Cr.)
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs. 40.00 crore bank facilities and assigned short-term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs. 65.00 crorebank facilities of P K Hospitality Services Private Limited (PKHS). The outlook is '**Stable**'.

PKHS is a Mumbai based company incorporated in 2000 and is involved in the hospitality sector. The company owns and operates hotels, restaurants and food kiosks. The company is also involved in trading and warehousing of food grains & pulses, providing infrastructure services and building a food processing plant.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of PKHospitality Services Private Limited (PKHS) to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management

PKHS benefits from its experienced management. PKHS was incorporated in 2000 and its current Directors, Mr. Pravin Kumar Agarwal and Mr. Vijay Shinde Kashinath have around two decades of experience in the hospitality industry. The company primarily owns and operates 2 hotels in Mumbai, 1 resort in Goa and 10 restaurants & food kiosks across India. The extensive experience of the promoters is reflected through its healthy revenue growth rate. The revenues of the company have grown at a CAGR of 9.00 percent over the last three years through 2018 to Rs.173.41 crore. Acuité believes that PKHS will continue to benefit over the medium term from the extensive experience of the management and long track record of operations.

• Diversified business portfolio

The company has diversified their business portfolio in order to expand. Apart from owning and operating hotels, resorts, restaurants & food kiosks, the company has also ventured recently into other businesses. PKHS receives royalty for owning and outsourcing an in-flight catering service by the name of 'Flying Chef', based at Ahmedabad (Gujarat). The company also owns a warehousing & chilling station at Panwa (Madhya Pradesh) spread across 2 premises of 20,000 sq. ft. each. The company currently utilises the storage facilities to trade in commodities such as tur dal and gawar. The company will further be making provisions to store & trade tea, rice and almonds. PKHS is also involved in constructing a foodprocessing plant to manufacture pulp, paste, sausages and chutneys from different fruits & vegetables. The total cost of the project is estimated to be around Rs.25.00 crore and is expected to be funded out of internal accruals and additional equity contribution by the promoters. Apart from this, the company has invested in an infrastructure project responsible for the construction & maintenance of the Delhi Police HQ.

• Moderate financial risk profile

The financial risk profile is moderate marked by moderate net worth and debt protection measures and low gearing. The net worth of the company is moderate at around Rs.82.67 crore as on 31 March,

2018 as against Rs.60.65 crore as on 31 March, 2017. The improvement in net worth is on account of equity infusion of Rs.1.50 crore by the promoters to support the incremental working capital requirements. The company has followed a conservative financial policy as reflected by peak gearing of 0.86 times over the last three years through 2017-18. The gearing of the company has further improved to around 0.42 times as on March 31, 2018.

Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.26 times as on 31 March, 2018 as against 1.11 times as on 31 March, 2017. The healthy revenue levels coupled with stable operating margins have resulted in moderate debt protection measures. Interest Coverage Ratio (ICR) remained moderate at 3.93 times in FY2018 and 2.86 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.28 times as on 31 March, 2018 as against 0.20 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) stood at 1.26 times for FY2018 as against 1.12 times in FY2017. Acuité believes that the financial risk profile of PKHS will continue to remain moderate over the medium term on account of its improving scale of operations and conservative financial policy.

Weaknesses

- **Competition from existing and upcoming hotels, resorts & restaurants**

PKHS faces intense competition from existing and upcoming resorts and hotels in and around Mumbai and Goa. PKHS's long track record and experience of its directors partly mitigates the risk of decline in revenue. The company also faces intense competition in the constantly evolving food industry from other established and upcoming restaurants in Mumbai. The hospitality sector is sensitive to business cycles and level of discretionary spending in the economy.

- **Project implementation and stabilization risk**

The company's heavy investment in the ongoing infrastructure project of constructing and maintaining the Delhi Police HQ is subject to project implementation and stabilization risk. PKHS, along with 2 other partners, is a partner in the infrastructure company - Eternal Infra Private Limited, that has been awarded the contract. The total cost of the project is Rs.360.00 crore which would be funded by the partner companies in the project. Successful completion and eventual commencement of annuity stream from the project in lieu of heavy investments made until now will remain a key sensitivity factor.

- **Volatility in agro commodity prices**

Agro commodities are heavily reliant on the availability of raw materials which further depend on the harvesting seasons for different commodities. Hence, the prices of these commodities would vary based on the seasonality and the supporting climatic conditions prevalent. Any adverse changes can result in heavy volatility in the prices of these agro commodities.

Outlook: Stable

Acuité believes that PKHS will maintain a 'Stable' outlook over the medium term on account of its experienced management and established market position. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenue and accruals along with improvement in the financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of significant elongation in the working capital cycle or if the company registers lower-than-expected growth in revenue and profitability or deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	173.41	109.47	89.20
EBITDA	Rs. Cr.	15.86	11.58	12.16
PAT	Rs. Cr.	7.01	4.88	2.61
EBITDA Margin	(%)	9.14	10.58	13.63
PAT Margin	(%)	4.05	4.45	2.93
ROCE	(%)	14.04	12.08	11.35
Total Debt/Tangible Net Worth	Times	0.42	0.65	0.86
PBDIT/Interest	Times	3.93	2.86	2.28
Total Debt/PBDIT	Times	1.89	2.68	2.79
Gross Current Assets (Days)	Days	134	64	106

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition -<https://www.acuite.in/criteria-default.htm>
- Trading Entities -<https://www.acuite.in/view-rating-criteria-6.htm>
- Entities In Services Sector -<https://www.acuite.in/view-rating-criteria-8.htm>
- Financial Ratios And Adjustments -<https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	2.26	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	5.57	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	6.45	ACUITE BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.60	ACUITE BBB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.12	ACUITE A3
Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE A3

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About Acuité Ratings & Research:

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