

Press Release

P K Hospitality Services Private Limited

April 02, 2020



Rating Downgraded

Total Bank Facilities Rated	Rs.105.00 crore
Long Term Rating	ACUITE BB+/ Stable (Downgraded from ACUITE BBB-)
Short Term Rating	ACUITE A4+ (Downgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuité has reviewed and downgraded the long term rating to '**ACUITE BB+**' (**read as ACUITE double B plus**) from '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the short term rating to '**ACUITE A4+**' (**read as ACUITE A four plus**) from '**ACUITE A3**' (**read as ACUITE A three**) on Rs.105 crores bank facilities of P K Hospitality Services Private Limited(PKHS). The outlook is '**Stable**'.

The rating downgrade is on account of decline in operating revenue coupled with significant reduction in their profitability margins in FY2019. The operating revenue has declined to Rs.160.06 crore in FY2019 as compared to Rs.173.41 crore in FY2018. The operating margin has declined to 1.29 per cent in FY2019 from 9.14 per cent in FY2018. Similarly Profit After Tax(PAT) margin declined to 1.40 per cent in FY2019 as compared to 4.05 per cent in FY2018. Any further deterioration in revenues coupled with profitability margins as well as bank limit utilization will be a key rating sensitivity factor.

P K Hospitality Services Private Limited (PKHS) was established in March 2000, promoted by Mr. Pravin Kumar Agarwal and Vijay Shinde Kashinath to carry on business of hospitality services. The company has a wide range of fine dining restaurants, take away food kiosks, quick service restaurants (QSR), pubs, airport lounges and hotels. The company is also involved in trading and warehousing of food grains & pulses, providing infrastructure services, engaged in contract of user fee collection and has built a food processing plant to manufacture pulp, paste, sausages and chutneys.

Analytical Approach

ACUITÉ has considered the standalone business and risk profile of PKHS to arrive at the rating.

Key Rating Drivers:

Strengths

- Experienced management and established track record of operations**

PKHS commenced operations from 2000. The company is promoted by Mr. Pravin Kumar Agarwal and Mr. Vijay Shinde Kashinath who 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 many restaurants & food kiosks across India. 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.

- **Diversification in business profile**

Apart from owning and operating hotels, resorts, restaurants & food kiosks, the company is also engaged into other businesses. 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 utilizes the storage facilities to trade in commodities such as tur dal and gawar. PKHS is also has a food processing plant situated in Amritsar(Punjab)to manufacture and trade pulp, paste, sausages and chutneys from different fruits & vegetables. Apart from this, the company has invested in an infrastructure project responsible for the construction & maintenance of the Delhi Police Headquarters and also engaged in contract of user fee collection.

Weaknesses

- **Decline in Operating Revenues and profitability margins**

The operating revenue has declined to Rs.160.06 crore in FY2019 as compared to Rs.173.41 crore in FY2018 due to short term fund mismatch and closure of contracts for the airport food kiosks and restaurants of Goa and Pune.

The operating margin has declined sharply to 1.29 per cent in FY2019 from 9.14 per cent in FY2018 due to increase in their material costs. Material consumption ratio has increased in FY2019 due to lower margin on business in agri-commodities and the company has incurred substantial amount on advertisement and business promotion during this financial year for development of the new business verticals. Similarly, Profit After Tax (PAT) margin declined to 1.40 per cent in FY2019 as compared to 4.05 per cent in FY2018. Acuité believes that improvement in operating revenues and profitability margins would remain a key credit monitorable.

- **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. 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.

Rating Sensitivity

- Improvement in Operating Revenue and Profitability margins
- Diversification in business portfolio

Material Covenants

No

Liquidity Position

The company's liquidity is stretched marked by full utilization of working capital limits for the last six months ended February 2020. However the company has moderate net cash accruals of Rs.4.46 crores in FY2019 as against maturing obligation of Rs.2.45 crore over the same period. The current ratio stood comfortable at 3.22 times as on March 31, 2019.The unencumbered cash and bank balances of the company stood at Rs.0.19 crores as on 31st March 2019.The company's working capital moderate operations as reflected by Gross Current Assets (GCA) of 92 days in FY2019 as against 82 days in FY2018. Acuité believes that the liquidity of the company would improve supported by better net cash accruals and working capital efficient operations.

Outlook

Acuité believes that PKHS will maintain a 'Stable' outlook over the medium term on account of its experienced management and diversified business portfolio. 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 intensive working capital operations or it registers lower-than expected growth in revenue and profitability.

About the Rated Entity - Key Financials

	Unit	FY19(Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	160.06	173.41
PAT	Rs. Cr.	2.24	7.01
PAT Margin	(%)	1.40	4.05
Total Debt/Tangible Net Worth	Times	0.34	0.42
PBDIT/Interest	Times	2.24	3.93

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

CRISIL, vide its press release dated Sep 17, 2019 had denoted the rating of P K Hospitality Services Private Limited as 'CRISIL B+/StableA4; ISSUER NOT COOPERATING'

Any other information

None

Applicable Criteria

- Default Recognition -<https://www.acuite.in/criteria-default.htm>
- Entities in services sector - <https://www.acuite.in/view-rating-criteria-8.htm>
- Entities in infrastructure sector - <https://www.acuite.in/view-rating-criteria-15.htm>
- Entities in trading sector - <https://www.acuite.in/view-rating-criteria-6.htm>
- Entities in manufacturing sector - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments -<https://www.acuite.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
25-Feb-2020	Term Loan	Long Term	2.26	ACUITE BBB- (Indicative)
	Term Loan	Long Term	5.57	ACUITE BBB- (Indicative)
	Term Loan	Long Term	6.45	ACUITE BBB- (Indicative)
	Cash Credit	Long Term	16.60	ACUITE BBB- (Indicative)
	Bank Guarantee	Short Term	8.00	ACUITE A3 (Indicative)
	Bank Guarantee	Short Term	1.12	ACUITE A3 (Indicative)
	Proposed Bank Facility	Short Term	65.00	ACUITE A3 (Indicative)

06-Dec-2018	Term Loan	Long Term	2.26	ACUITE BBB- /Stable (Assigned)
	Term Loan	Long Term	5.57	ACUITE BBB- /Stable (Assigned)
	Term Loan	Long Term	6.45	ACUITE BBB- /Stable (Assigned)
	Cash Credit	Long Term	16.60	ACUITE BBB- /Stable (Assigned)
	Bank Guarantee	Short Term	8.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	1.12	ACUITE A3 (Assigned)
	Proposed Bank Facility	Short Term	65.00	ACUITE A3 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.26	ACUITE BB+/Stable (Downgraded from ACUITE BBB-)
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.57	ACUITE BB+/Stable (Downgraded from ACUITE BBB-)
Term Loan	Not Applicable	Not Applicable	Not Applicable	6.45	ACUITE BB+/Stable (Downgraded from ACUITE BBB-)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.60	ACUITE BB+/Stable (Downgraded from ACUITE BBB-)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A4+ (Downgraded from ACUITE A3)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.12	ACUITE A4+ (Downgraded from ACUITE A3)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE A4+ (Downgraded from

Contacts

Analytical	Rating Desk
Pooja Ghosh Head - Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Shubham Ghosh Analyst - Rating Operations Tel: 033-66201212 shubham.ghosh@acuite.in	

About Acuité Ratings & Research:

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