

Press Release

Pragati Green Meadows And Resorts Limited

August 04, 2021

Rating Assigned



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| Total Bank Facilities Rated* | Rs. 50.00 Cr. |
| Long Term Rating | ACUITE BB/ Outlook: Stable (Assigned) |

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.50.00 Cr bank facilities of Pragati Green Meadows And Resorts Limited (PGMRL). The outlook is '**Stable**'.

Incorporated in 1996, Pragati Green Meadows And Resorts Limited is an ISO 9001:2015, ISO 14001:2015, ISO 45001:2018, Organic & IGBC rated Resort. It is a flagship Company of Pragati Group; promoted by Mr. Gaddipati Bala Koteswara Rao (Chairman), his wife Mrs. Venkata Kumari Gaddipati Pragati and son Mr. Ajay Chandra Gaddipati (Managing Director). PGMRL operates Pragati resort in Hyderabad, Telangana and is also engaged in sale of plots.

Analytical Approach

Acuite has taken the standalone view of the business and financial risk profile of PGMRL to arrive at the rating.

Key Rating Drivers

Strengths

• Promoters extensive experience in hospitality and real estate development industry

PGMRL is part of the Pragati Group, which has diversified business interests across real estate development, hospitality, steel, herbal products, herbs and plants, dairy, Ayurveda, wellness amongst others. Mr. Gaddipati Bala Koteswara Rao (Chairman) and his wife Mrs. Venkata Kumari Gaddipati Pragati along with his son, Mr. Ajay Chandra Gaddipati are the directors of the company and actively involved in the day to day operations. All the directors are having an experience of over two decades in the hospitality business. The company is one of the well-recognised resort in South India with an established track record of over 25 years. The company enjoys a competitive advantage in terms of its location. It is located at Chilkur Balaji Temple Road in Proddutur Village of Shankarpally Mandal in Ranga Reddy District which is close to outer ring road. In addition, it is situated at a distance of 40 kms from the airport. The Pragati Resort is spread over 85 Acres of land and it is a one of the center for conducting national and international conferences and mega events with 7480 sft of conference hall space, 45 acres of lawns, Mega Party Area of 4.33 Acres, Cricket Ground over 2.82 Acres and Golf Area over 4.54 acres, Ample theatre of 20000 sq ft, Electronics Sports and Games, Indoor Games, Board Rooms Dynasty, Skating Ground, Star Café and fine dining restaurants, Swimming pool. It is having an accommodation available in 30 Independent cottages, 32 Executive Rooms, 8 Executive Suits, 2 Pool suits, 1 Board Room and 3 Halls apart from 3 star Hotel with 100 Rooms. Acuite believes that the company will continue to benefit from its established presence in Hyderabad, decent brand recognition, promoter's extensive experience in the hospitality industry.

• Diversified business mix

PGMRL has a mixed portfolio, comprising hospitality, real estate development and Agriculture sector. It derives around 47% of its revenues from resort segment, ~38% from sale plots segment and ~15% from Agriculture income segment in FY21 vis-à-vis 32%, 59% and 9% respectively in FY20. It is maintained the healthy operating margin of 27.79% in FY21 (Prov.) as against 19.27 % in FY20 and 21.82 % in FY19. Although, the hospitality sector would remain susceptible to exogenous shocks and prolonged impact of the Covid-19 pandemic, the steady cashflows from the real estate portfolio are expected to benefit the company going forward as well. Acuite believes that diversified segment mix will expect to support the the company's revenue and profitability over the medium term.

Weaknesses

• Moderate financial risk profile marked by significant investments and advances in Group companies

PGMRL's financial risk profile is moderate, marked by moderate net worth, healthy gearing (debt-to-equity), and total outside liabilities to total net worth (TOL/TNW) and comfortable debt protection metrics. PGMRL's net worth is healthy at Rs.99.73 Cr as on March 31, 2021 (Provisional) as compared to Rs.96.60 as on March 31, 2020. Gearing is healthy at 0.46 times as on March 31, 2021 (Provisional) as against 0.48 times as on March 31, 2020. TOL/TNW is high at 0.85 times as on March 31, 2020 vis-à-vis 0.92 times as on March 31, 2019. PGMRL has total investments and advances of Rs 111.45 Cr towards its subsidiaries and group companies and exceeds the standalone net worth of PGMRL, which impacted its financial profile adversely. Recoverability of these exposures remains uncertain given the financial position of these companies. Its debt protection metrics are healthy marked by interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) at 3.02 times and 0.17 times in FY2021 (Provisional) vis-à-vis 3.41 times and 0.20 times in FY2020, respectively.

PGMRL generated cash accruals of Rs.7.75 to 12.18 Cr during the last 3 years through FY2019-21 (Provisional), while its maturing debt obligations were in the range of Rs.4-8 Cr during the same period. The cash accruals of the company are estimated to remain around Rs.7-10 Cr during 2021-23 while their repayment obligations are estimated to be around Rs.4-6 Cr during the same period. It has debt-funded capex plans of Rs.20 Cr to develop existing assets. Acuite believes that despite this, PGMRL's debt levels are expected to remain moderate and the capital structure and coverage metrics are expected to remain moderate over the near to medium term

• Sharp dip in revenues in FY2021 due to the pandemic

The company's operational performance has been impacted by the Covid-19 pandemic, which resulted in a sharp decline in global and domestic travel, disrupting the demand for the hospitality sector. Its revenues witnessed a steep decline in FY2021 due to the pandemic-induced lockdown and the company's revenue fell by 43% in FY2021 to Rs. 42.07 Cr. The performance of the company remained subdued due to the second wave of the pandemic and recovery to pre-Covid levels is likely to be in FY2023. However, the situation is still evolving and slow current pace of vaccination, efficacy of vaccines, high infection rates and possibility of a third Covid-19 wave remain a concerns. Acuite believes that operational metrics, though expected to improve gradually, would continue to remain at subdued levels for the remaining months of current fiscal with the ongoing outbreak of Covid-19 and slow recovery in travel activities. As the impact of the pandemic persists in fiscal 2022, performance is not expected to revive to historical levels and any sharp dip in operating performance can constrain financial flexibility and liquidity; operating performance will hence continue to be closely monitored.

Liquidity Position: Adequate

PGMRL's liquidity is adequate marked by moderate cash accruals to its repayment obligations and albeit constraint by significant investments and advances to its subsidiaries and Group companies. PGMRL generated cash accruals of Rs.7.75 to 12.18 Cr during the last 3 years through 2019-21 (Provisional), while its maturing debt obligations were in the range of Rs.4-8 Cr during the same period. The cash accruals of the company are estimated to remain around Rs.7-10 Cr during 2021-23 while their repayment obligations are estimated to be around Rs.4-6 Cr during the same period. It has unencumbered cash and bank balance of Rs. 0.75 Cr as on March 31, 2021 and current ratio of 1.67 times as on March 31, 2021 (Provisional). PGMRL has total investments and advances of Rs. 111.45 Cr towards its subsidiaries and group companies. PGMRL presently not receiving any interest income on these loans and advances outstanding, any delay in their receipt or write-offs related to these has the potential to impact the company's cash flows. Acuite believes that any further increase in the loans and advances could stretch PGMRL's liquidity profile and cash flows.

Rating Sensitivities

- Decline in the company's scale of operations and profitability that impacts its financial profile
- Higher-than-estimated investments in Group companies
- Doubtful loans and advances and investment write-offs, thereby eroding the net worth and straining the liquidity position
- Capex that impacts its liquidity position or coverage and leverage metrics adversely

Material covenants

None

Outlook: Stable

Acuite believes the company will maintain a stable outlook over the medium term owing to its experienced management and established presence and brand name in Hyderabad. The outlook may be revised to 'Positive' in case the company is able to increase business operational performance and profitability indicators while maintaining its stable credit risk profile. Conversely, the outlook may be revised to 'Negative' if there is a significant fall in decline in the company's scale of operations and profitability or doubtful loans and advances and investment write-offs, thereby eroding the net worth and straining the liquidity position and cash flows of PGMRL.

About the Rated Entity - Key Financials

| | Unit | FY21 (Provisional) | FY20 (Actual) |
|-------------------------------|----------|--------------------|---------------|
| Operating Income | Rs. Cr. | 42.07 | 74.48 |
| PAT | Rs. Cr. | 3.13 | 4.66 |
| PAT Margin | (%) | 7.45 | 6.26 |
| Total Debt/Tangible Net Worth | Time0073 | 0.46 | 0.48 |
| PBDIT/Interest | Times | 3.02 | 3.41 |

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Entities In service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Entities In Real Estate Entities - <https://www.acuite.in/view-rating-criteria-63.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

| Name of the Facilities | Lenders bank | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|----------------------------------|---------------------|------------------|----------------|----------------|-----------------------------|-----------------------------|
| Term Loan-1 | Union Bank of India | 06-09-2013 | Not Available | 31-03-2022 | 4.00 | ACUITE BB/Stable (Assigned) |
| Term Loan-2 | Union Bank of India | 28-02-2016 | Not Available | 31-12-2031 | 7.00 | ACUITE BB/Stable (Assigned) |
| Term Loan-3 | Union Bank of India | 02-08-2017 | Not Available | 31-07-2032 | 9.00 | ACUITE BB/Stable (Assigned) |
| Working Capital Term Loan (GECL) | Union Bank of India | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE BB/Stable (Assigned) |
| Proposed Term Loan | Union Bank of India | Not Applicable | Not Applicable | Not Applicable | 25.00 | ACUITE BB/Stable (Assigned) |

Contacts

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About Acuité Ratings & Research:

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