November 17, 2021

P.K.M. Projects Private Limited: [ICRA]B- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	28.00	[ICRA]B- (Stable); Assigned
Total	**28.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating takes into account the favourable location of P.K.M. Project's (PKM) upcoming hotel property and presence of hotel management agreement (HMA) with a well-recognised international brand. Moreover, the rating factors in the sanction of one-time restructuring of PKM's term loans under the Reserve Bank of India's (RBI) resolution framework for Covid-19 related stress. The reduction in the repayment obligations due to the sanctioned moratorium period of 23 months is expected to provide cushion during the initial ramp-up phase of operations.

The rating, however, is constrained by the significant delay in commencement of commercial operations at the hotel property partially on account of the adverse impact of the pandemic. This has resulted in inadequate cash flows, thus leading to delayed debt servicing of the term loans availed for acquisition of a hotel property in Goa. Given the absence of current operational cash flows, ICRA also notes the entity's high dependence on infusion of unsecured loans from promoters.

The Stable outlook assigned to the company reflects ICRA's expectation that PKM would benefit from the strong brand reputation of the Hyatt and favourable location of the hotel property.

Key rating drivers and their description

Credit strengths

Favourable location of the project – The property is strategically located within 200 metres of the beachfront in the prime entertainment hub in North Goa. The location is near to Candolim, Calangute and Sinquerin beaches and is in vicinity to some of the leading hotel chains such as Taj Fort Aguada Heritage, Taj Holiday Village and Kingfisher Villa.

HMA agreement with Hyatt Group – In January 2021, PKM signed a hotel management agreement with Hyatt Group for its hotel property. With the civil construction and mechanical, electrical, and plumbing (MEP) services already complete for the hotel property, the management expects the hotel to be operational from January 2022. Post commencement of operations, strong brand value of Hyatt is likely to benefit the company.

Credit challenges

Past delays in debt servicing; however, restructuring provide cushion to cash flows – Execution delays, further exacerbated by the onset of the Covid-19 pandemic, severely impacted the company's cash flows. Because of these factors, there were instances of delays in debt servicing by the entity till May 2021. However, sanction of 23-months moratorium on the principal repayments for the term loan and conversion of interest of FY2022 into a term loan is expected to provide cushion to PKM's operational cash flows during the initial gestation phase. The restructuring proposal is applicable from June 2021.

Leveraged financial profile with dependence on promoter funding – In absence of any significant operational revenue generation, the entity remains excessively dependent on the infusion of funds from promoters. PKM's financial risk profile is characterised by high operating and financial leverage. While the sanctioned moratorium on the restructured term loan provides comfort in the near term, the debt coverage indicators are likely to remain stretched over the medium term owing to lower occupancies in the initial period of operations.

Liquidity position: Stretched

PKM's liquidity remains **stretched**, characterised by past delays in the term loan repayment obligations and high dependence on the promoter funding in absence of revenue generation through operations.

Rating sensitivities

Positive factors – The rating could be upgraded once the entity demonstrates timely completion of the hotel property and healthy ramp-up in operations thereby supporting an improvement in its financial performance.

Negative factors – Negative pressure on PKM's rating could arise in case of any further delays in the commencement of hotel operations or lack of envisaged funding support from the promoters in term of unsecured loans during the initial phase of operations.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials of the entity.

About the company

Incorporated in 2006, PKM is a part of Mahesh Mehta Group, founded by Mr. Mahesh Mehta. The promoters have more than two decades of experience in real estate and hotel industry. The Group has presence in industries like Katha production, real estate and hospitality business through its group entities.

In 2015, PKM acquired a three-star hotel property constructed on the freehold land admeasuring approximately 6,850 sq. metres, in Candolim, Goa. The company has tied-up O&M agreement with Hyatt Group for 97 rooms spread across area of 6,650 sq. ft and is expected to achieve full COD in January 2022.

Key financial indicators (audited/provisional)

ICTPL Standalone	FY2020 (A)	FY2021 (P)
Operating Income (Rs. crore)	0.11*	0.14*
PAT (Rs. crore)	-0.18	-0.84
OPBDIT/OI (%)	22.81%	-17.86%
PAT/OI (%)	-167.82%	-611.8%
Total Outside Liabilities/Tangible Net Worth (times)	8.75	10.27
Total Debt/OPBDIT (times)	-3,441.35	-3,778.00
Interest Coverage (times)	-0.09	-0.06

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

** The company is currently operating a 10-room hotel property under the name of Euphoria Hotels. Commencement of the operations of its primary hotel property (Hyatt Place) is expected from January 2022.*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2020
					Nov 17, 2021	Sept 30, 2020	Aug 30, 2019	Jun 17, 2019
1.	TL	Long-term	-	-	-	[ICRA]D Withdrawn	[ICRA]D ISSUER NON-COOPERATION	[ICRA]D ISSUER NON-COOPERATION
2.	TL	Long-term	28.00	23.78	[ICRA]B- (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – TL	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2014	NA	FY2027	28.00	[ICRA]B- (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

- Note Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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