

Press Release

KHFM Hospitality and Facility Management Services Limited

April 01, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned
1.	Bank Facilities- Long Term	33.68	IVR BBB-/Stable (IVR Triple B minus with Stable Outlook)
2.	Bank Facilities- Short Term	18.38	IVR A3 (IVR A Three)
	Total	52.06	

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of KHFM Hospitality and Facility Management Services Limited (KHFM) derives comfort from its experienced promoters and long track record of operations, continuous growth in total operating income and moderate gearing with comfortable debt coverage indicators. The ratings also positively factor in its reputed client base and positive demand outlook for facilities management market. These rating strengths however are tempered by its modest profit margins, highly fragmented & competitive nature of the hospitality and facility management sector with significant price war and working capital intensive nature of its operations.

Key Rating Sensitivities

Upward Rating Factors

- Growth in scale of operations with improvement in profitability and debt protection metrics on a sustained basis
- Improvement in the capital structure
- Manage working capital requirements efficiently with improvement in liquidity position

Downward Rating Factors

- Moderation in scale of operations and/or profitability impacting the debt protection metrics on a sustained basis
- Moderation in the capital structure
- Elongation in the operating cycle impacting the liquidity profile

Detailed Description of Key Rating Drivers

Key Rating Strengths:

Experienced management and long track record of operations

KHFM has long track record of operation of around three and a half decades as it started its commercial operation in 1983. The promoters of KHFM are associated with the company since its inception and have an experience of around three and half decades in service industry. Well-qualified personnel ably support them.

Continuous growth in total operating income

KHFM's total operating income has grown at a CAGR of ~31% during FY16-FY19 and witnessed an increase of 70.74% y-o-y to Rs.78.00 crore in FY19 as against Rs.45.68 crore in FY18. The growth is driven by increase in revenue from sale of services. Also, KHFM already has achieved a total operating income of Rs.87.73 crore in 11MFY20.

Moderate gearing with comfortable debt coverage indicators

KHFM's overall gearing and long-term debt to equity ratio stood moderate at 1.40x and 0.59x respectively as on March 31, 2019. The Total outside liabilities to Tangible net worth as on March 31, 2019 stood comfortable at 1.76x. The debt protection parameters of the company also remained satisfactory with a comfortable interest coverage ratio of 1.76x and moderate Total debt to Gross cash accruals of 10.35x in FY19. The overall Gearing stood 1.11x as on September, 2019.

Reputed client base

KHFM bids for tenders floated by various government departments/entities and caters to private players as well. Over the years of its operations, the company has established a strong business relationship with various government departments as well as private clients.

Positive demand outlook for facilities management market

Services sector growth is governed by both domestic and global factors. The Indian facilities management market is expected to grow at 17 per cent CAGR between 2015 and 2020 and surpass the US\$19 billion mark supported by booming real estate, retail, and hospitality sectors.

Key Rating Weaknesses

Modest profit margins

Being the bidding nature of contracts, the EBIDTA margin and the PAT margin stood modest, though remained above 11% and 3% for the past three financial years (FY17- FY19). In FY19, the margins stood at 11.20% and 3.45% respectively, though deteriorated marginally because of increase in site expenses and high labor charges. Further, in 6MFY20, KHFM achieved a PAT of Rs.1.47 crore on a total operating income of Rs.39.61 crore (KHFM achieved a PAT of Rs.1.43 crore on a total operating income of Rs.37.85 crore in 6MFY19) whereas the EBIDTA margin and the PAT margin stood at 11.08% and 3.71% respectively (10.83% and 3.78% respectively in 6MFY19).

Highly fragmented & competitive nature of the hospitality and facility management sector with significant price war

The domestic hospitality and facility management sector is highly crowded with presence of many players with varied statures & capabilities. With a rise in the prospect of outsourcing, the manufacturing businesses are now able to pay attention to improving their core competencies in place of shouldering the burden of maintenance aspects of their business. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern for the users with respect to quality of output.

Working capital intensive nature of operation

Hospitality and Facility management business, by its nature, is working capital intensive. Further, the company's revenue is skewed towards the last two quarters with higher proportion in the last quarter of the fiscal. Also, the major clientele for the company are government entities which have higher debtor holding days, while ensuring the payment receipt. Consequently, the year-end receivables generally remained high. The collection period remained high at 164 days in FY19 as against 227 days in FY18; the improvement was mainly due to application of better credit arrangements with new clients. The working capital requirement of the company is mainly funded through the bank borrowings. Average utilization of fund-based limit of KHFM is around ~92% for the trailing 12 months ended December 2019.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Service Sector Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The company is expected to generate cash accrual in the range of Rs.8.00-13.00 crore during FY20-FY22, which is adequate to serve its debt repayment obligations during the previously mentioned period, which is around Rs.4.00 crore. Its capex requirements are low and expected to be funded using internal accruals. Moreover, its bank limits are utilized to the extent of ~92% during the past 12 months ended December, 2019 indicating a moderate liquidity buffer as the company is looking for limit enhancement.

About the Company

Mr. Ravindra Hegde started the business as a proprietary concern in 1983. Later in 2006, the firm was reconstituted as a private limited company with the name Kalpataru's Hospitality & Facility Management Service Private Limited. Further, the company changed its name in July, 2012 to KHFM Hospitality and Facility Management Services Private Limited on August 10, 2012. Subsequently, the Company was converted into a public limited company and consequently the name of the Company was changed to KHFM Hospitality and Facility Management Services Limited on May 30, 2018. KHFM provides integrated hospitality and facility management services (IHFM). The Company provides the entire range of hospitality and facility management services including mechanized housekeeping, guesthouse management, pest control, gardening and security service etc. Headquartered in Mumbai the company has a pan-India presence across 13 states covering 25 cities through a network of site offices with more than 3300 employees.

Financials: Standalone

	(Rs. Crore)	
For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	45.68	78.00
EBITDA	6.97	8.74
PAT	2.22	2.70
Total Debt	27.05	29.40
Tangible Net worth	18.38	20.99
EBITDA Margin (%)	15.26	11.20
PAT Margin (%)	6.74	4.67
Overall Gearing Ratio (x)	1.47	1.40

*as per Infomerics standards

Status of non-cooperation with previous CRA: N.A.

Any other information: N.A.

Rating History for last three years: Not applicable

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Cash Credit	Long Term	24.12	IVR BBB- /Stable	-	-	-
2.	Term Loan	Long Term	9.56	IVR BBB- /Stable			
3.	Overdraft	Short Term	1.38	IVR A3			
4.	Bank Guarantee	Short Term	17.00	IVR A3	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it based on complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Mr. Archit Aggarwal Tel: (011) 24611910 Email: aaggarwal@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@infomerics.com
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About Infomerics:

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Cash Credit	NA	NA	NA	24.12	IVR BBB-/ Stable Outlook
Long Term Bank Facilities – Term Loan	NA	NA	April, 2031	9.56	IVR BBB-/ Stable Outlook
Short Term Bank Facilities– Overdraft	NA	NA	NA	1.38	IVR A3
Short Term Bank Facilities– Bank Guarantee	NA	NA	NA	17.00	IVR A3