

SILVER PEARL HOSPITALITY & LUXURY SPACES LIMITED
A REVIEW REPORT ON SILVER PEARL HOSPITALITY & LUXURY SPACES
LIMITED IPO

IPO Details

Opening Date	June 06, 2022
Closing Date	June 09, 2022
Stock Exchange	BSE SME
Status	Active
Lot Size	8000 Shares
Issue Price	₹ 18 per share
Issue Size	50,00,000 Equity shares of FV of ₹ 10 (aggregating up to ₹ 900 Lakh)
Application Amount	₹ 1,44,000

IPO Objective

- Purchasing a property in Goa
- General Corporate Purposes

Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	21,41,125	75.05 %
Public	7,11,750	24.95 %
Non Promoter & Non Public	125	0.004 %

Company Background

- Incorporated in the year 2011, it offers hospitality services.
- Its main hotel segments are:
 - Upper-midscale
 - Midscale
 - Economy
- It has total of 4 properties in Rakchham, Kinnaur.
- Company also operates restaurants and Café.
- It has 36 rooms in 4 properties and seating capacity of 100 people in its café.
- Company is also engaged in the business of Online Marketing and Branding of Tashi Dolma Home stay.
- As a part of growth and geographical diversification, company intends to purchase a hotel property in Goa.

Promoter of the Company

1. Rajesh Kumar Negi
2. Two Sisters Hotels And Resorts Private Limited

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Company Overview

Silver Pearl Hospitality and Luxury Spaces Limited operates in hospitality sector and has its presence since 2011. The company operates in a mid-priced hotel sector, consisting of the upper-midscale, midscale and economy hotel segment. It operates under brand name “Osiya”. It has properties in Rakchham, Kinnaur. It operates in 4 properties with a total of 36 rooms. The company also offers restaurant and café services with a seating facilities of 100 people. The company undertakes its business through (i) direct ownership of hotel properties, (ii) long-term lease or license arrangements for the land on which we construct our own hotels, (iii) long-term leases for existing hotels or home stays which are owned by third parties, and (iv) marketing agreements.

As part of growth and geographical diversification strategy, company intends to purchase a hotel property in Goa. This property will increase its geographical reach and also provide business during winter season from November to February which is comparatively a lean season for the properties situated in Rakchham, Himachal Pradesh.

Analysis

Established in 2011, company has an existence of more than 10 years. Operating in the hospitality segment, it has only 36 rooms in its 4 properties which is considered to be quite less in numbers. Although the company is planning to establish a new hotel in Goa, the profitability of the same is in question as the company has failed to provide good returns with its existing hotels and restaurants. Moreover, Goa has established players operating in the segment making it more difficult for the company to sustain. Hospitality sector is highly competitive and with well-established hotel chains in the country, it is quite difficult for a company to outperform those hospitality companies.

Industry Charts

Exhibit 1: Indian Travel Market expected to grow at a CAGR of 7.57% from FY 20 to FY 27

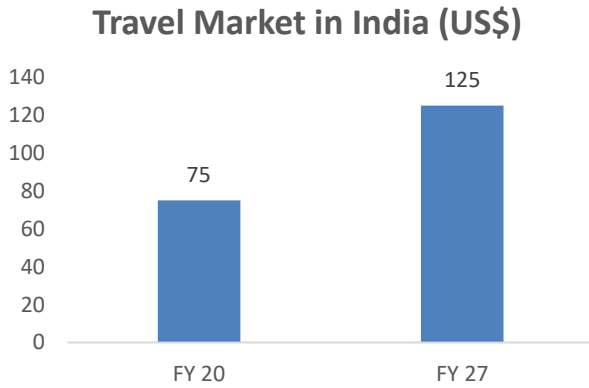


Exhibit 2: Travel and Tourism’s total contribution to GDP

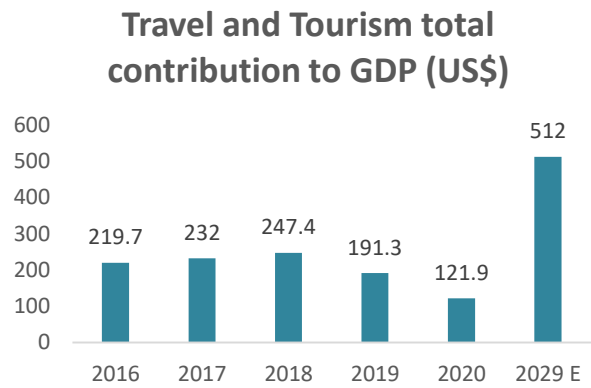


Exhibit 3: Purpose wise Foreign Tourist Arrivals in 2020 (000’s)

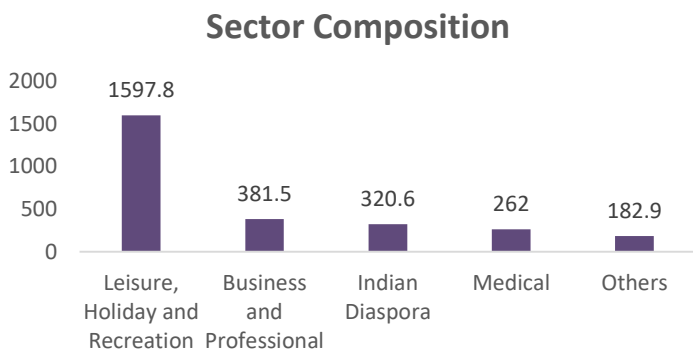
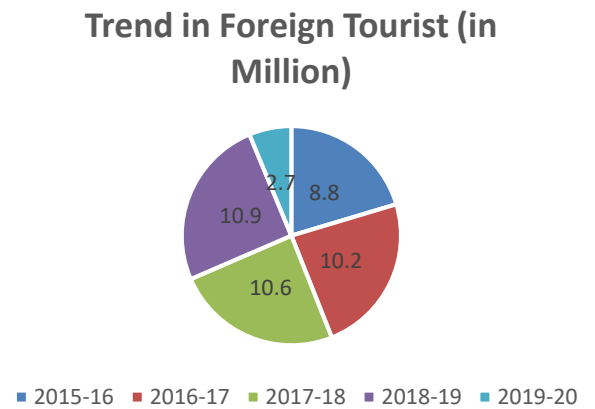


Exhibit 4: Foreign Tourists Arriving in India (in million)



(Source: ibef.org)

Investment Overview

Tourism and Hospitality Industry

Emerging as one of the key drivers of growth in past few years before COVID, the Indian Travel Market is expected to reach US \$ 125 billion in FY 2027. International Tourist Arrival in India is expected to reach 30.5 million by 2028. From the above infographics it can be seen that the market has been significantly hit by the outbreak of COVID-19 disease and thereafter though the market has rebounded, but the previous target level seems hard to be achieved. People have become more reluctant to travel than ever before. The foreign exchange earnings from travel and hospitality grew at a CAGR of 7% but dipped in 2020 due to the pandemic. In 2020, the Indian tourism sector accounted for 39 million jobs in the country which is 8% of the total employment of the country.

Although the industry prospect shows a decent number in the coming years, but those with greater share of market seems to be more beneficial than those with less control over the market.

(Source: ibef.org)

Addressable Market for Silver Pearl Hospitality and Luxury Spaces Limited

Company caters mainly to upper-midscale, midscale and economy segment of the industry. Company is also working upon providing marketing services and operates under its brand name "Osiya". As mentioned earlier company also carries out the facilities of restaurants and café under its name. The addressable market for the company is not catering to the luxurious or above economic class of the society and mainly focus on those customers looking not to spend much on stays.

Competition

The industry, also mentioned by company in their prospectus, is very competitive. The company operates with large multinational and domestic companies in its segment providing quality services and with good brand name and reputation. Not only in the luxurious segment, but also in the economic segment, the bargaining power of customers is very high in this industry. In order to strive in such a competitive market, the company has to

provide quality services at more affordable rates than its competitors and might have to cut down on their margins at initial stages.

Peer Analysis

As mentioned in the prospectus, the peers of the company are The Byke Hospitality Limited, Kamat Hotels (India) Limited and Aruna Hotels Limited.

The key measures of these companies have been highlighted in the table below –

Company	Silver Pearl Hospitality and Luxury Spaces Limited	The Byke Hospitality Limited	Kamat Hotels (India) Limited	Aruna Hotels Limited
Net Profit	1.17	-12.82	-22.16	-2.49
EBITDA	1.75	24.17	27.86	8.89
Return on Capital Employed	2.64%	-2.50%	-0.03%	0.74%
Return on Equity	2.60%	-8.16%	-0.03%	-12.89%
Diluted EPS	1.03	-3.20	-9.47	-1.29
P/E	17.48	-	-	-

The Industry has not been doing well at all. The company seems to be good comparing with its peers, but the figures seems to be unsustainable and there are many other companies providing the same services but not mentioned by the company in its prospectus.

Promoters' Profile

Mr. Rajesh Kumar Negi



- **Rajesh Kumar Negi** is the Promoter and Managing Director of the Company.
- He has completed his matriculation exam.
- He started Sambhu Lodge in the year 1999 as part of his family business.
- He provides strategic guidance to the Company and takes care of day to day business of the Company and executes the strategy as per the approval of our Board of Directors

Two Sisters Hotels and Resorts Private Limited

- **Two Sisters Hotels and Resorts Private Limited** is the Corporate Promoter of the Company.
- It was incorporated on 26th November, 2021.
- It is engaged in the business of Tour and Travel Operator

Analysis on the Company's Promoter and Board of Directors

The Managing Director, **Mr. Rajesh Kumar Negi**, has over 20 years of experience in the hospitality sector. He got associated with the company in the year 2018 and took the managerial role in the year 2020. He is the only managing director of the company and the other promoter is a corporate promoter which was recently incorporated. It shows that there might be a structural change in the management of the organization. Since the management is not associated with the business from a long time, the decisions it take might not be fruitful for the business. Also since there is only one Managing Director, the whole and sole of the company depends up on his capabilities and experience. The Independent Directors of the company also do not have enough experience the field in which the company operates and seems like they won't be able to take proper strategic decisions keeping in mind the business lines of the company.

Looking at the management, it looks like the company needs to change its management structure and hire personnel who are well versed and educated in the main business of the operations. The analysis of the management of the company is very negative with these observations.

Financial Snapshot

(Amount in Lacs)

Particulars	As at 31st March, 2022	As at 31st March, 2021	As at 31st March, 2020
Profit and Loss			
Revenue from operation	45.12	18.41	29.37
Other income	0.76	-	-
Total Revenue	45.88	18.41	29.37
Expenses	28.43	11.81	28.89
Depreciation and Amortisation Cost	1.93	1.95	-
Finance Cost	0.19	0.11	0.13
Total Expenses	30.55	13.87	29.02
PBT	11.72	3.30	0.47
EBITDA	13.84	5.36	0.60
EBITDA Margin	30.67%	29.11%	2.04%
Net Profit	11.72	3.30	0.47
Net Profit Margin	25.98%	17.93%	1.60%
Balance Sheet			
Total Borrowings	-	146.57	-
Net Worth	450.65	96.38	93.08
Fixed Assets	220.99	199.60	176.59
Net Working Capital	214.74	40.32	-86.28
Financial Measures			
Inventory Turnover Ratio	-	-	-
Receivables Turnover Ratio	-	-	-
Payables Turnover Ratio	-	-	0.24
Fixed Assets Turnover Ratio	0.20	0.09	0.17
Return on Capital Employed	2.64%	1.40%	0.64%
Return on Equity	2.60%	3.42%	0.50%
Debt-Equity Ratio	-	1.52	-

(The data has been taken and calculated from the financials given in the prospectus)

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

The EBITDA of the company has grown from Rs. 0.60 lacs in 2020 to 13.84 lacs in 2022 growing at a CAGR of 380%, which seems to be highly unsustainable looking at the highly competitive market and the size of the company. The EBITDA margin in 2022 was 30.67% which looks good but again the sustainability of the same is a huge question.

Net Profit

The net profit of the company has grown from Rs. 0.47 lacs in 2020 to Rs. 11.72 lacs in 2022 growing at CAGR of 399%. This growth does not seem to persist in the long run and we believe that the same will come down to a great extent in the coming years.

Finance Cost.

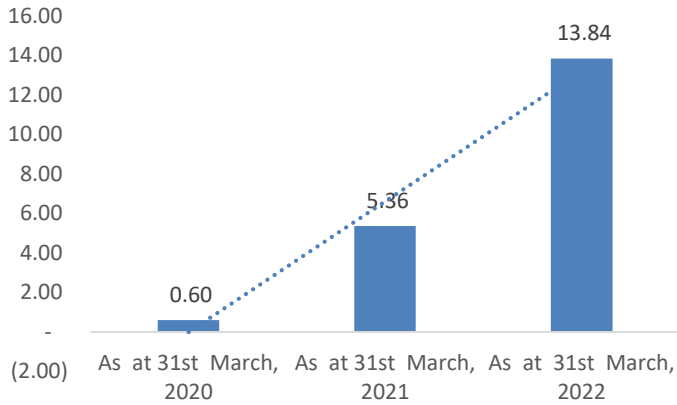
The finance cost of the company is only related to bank charges. The company had a borrowing of Rs. 146.57 lacs for the year 2020 but no interest expense has been booked for the same and there is no reason provided for not booking the expense.

Financial Measures/Ratios

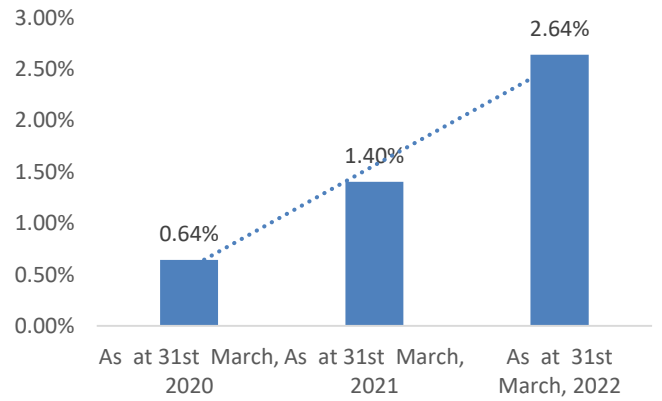
The financial ratios of the company show a supernormal growth in the recent years. The RoCE has increased from 1.40% to 2.64% due to decrease in long term borrowings which reduced the Capital Employed and Increase in the earnings of the company. The ROE has decreased from 3.42% to 2.60% because of increase in the shareholders' fund in the year 2022 as a part of Securities Premium. The debt to equity capital of the company is Nil, which shows that the company has not been able to utilise the opportunity of taking leverage and decreasing its weighted average cost of capital.

Financial Graph

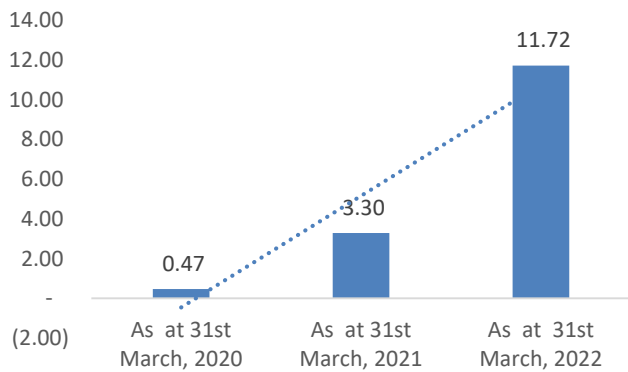
EBITDA (In Lacs)



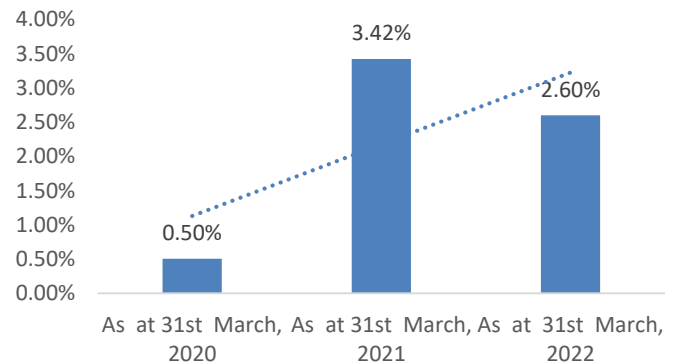
Return on Capital Employed



Net Profit (In Lacs)



Return on Equity



Key Risk Factors

1. The promoter of the company has filed a Civil suit against his brother with respect to dispute regarding the ownership of the property where Osiya Sambhu Lodge is situated. The case might go against the promoter and the company may lose its Sambhu Lodge Property.
2. Since the company is involved in the marketing and managing of third-party clients, if the third-party property owners fails to make timely and necessary investment, the brand name and reputation of the company might be at stake.
3. The company has only one area of Operations i.e. Rakchham, Kinnaur. Any geographical, political or other changes in the area can adversely affect the business and may also result in shut down of those properties.
4. The company has only one Managing Director. Dependency on the managerial decision of only one Managing Director could prove to be troublesome for the business.

Track Record of Merchant Banker/Lead manager

The lead manager to the issue is Inventure Merchant Banker Services Private Limited and the previous issue details have been taken from the Prospectus. A table has been set below highlighting the details of the IPO of some of the companies handled by the Lead Manager in recent times –

Sr. No	Company Name	Issue Size in Cr.	Issue Price/Share	Listing date	CMP#
1.	Parshva Enterprises Limited	3.65	45.00	July 1, 2019	334.95
2.	Navoday Enterprises Limited	4.61	20.00	June 25, 2021	7.55
3.	AA Plus Tradelink Limited	6.48	18.00	July 22, 2021	7.20
4.	Omnipotent Industries Limited	18.90	63.00	November 29, 2021	19.40
5.	Brandbucket Media & Technology Limited	8.25	55.00	December 31, 2021	14.20

#CMP is taken as on 06th June 2022

Apart from Parshava Enterprises Limited, the recent IPOs of the Lead Manager do not seem to do well. Also the lead manager has not handled an IPO of more than 10 crores (except Omnipotent Industries Limited) in the recent times. Based on these observations the track record of the lead manager does not look good.

Recommendation

Based on the Business track record, Products/Services, Competitive Scenario, Management Background and Experience, Financial Measures, Peer Analysis and Industry Outlook, we would like to state that one **must avoid** applying in the IPO. The business is not very well established in the market, and the revenue of the although increasing does not compete with the industry leaders. The company has only one area of operations and is trying to grow by purchasing a property in Goa, but it seems to be very risky and we may say that the company is still in the middle of embryonic and growing stage.

The company is not opting for loan to purchase the property, which shows that the company might not be in a position to pay it financial debt from its operations.

Also the company is not able to generate enough cash from its operating activities. The profit margins of the company seem to be supernormal.

The management of the company is dependent on one person and lacks team of highly experienced in the field of its business operations giving a negative outlook of the company.

To conclude, one should **avoid** applying in the IPO.

Disclaimer

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