

Pearl Green Clubs and Resorts Limited

A REVIEW REPORT ON PEARL GREEN CLUBS AND RESORTS LIMITED IPO

IPO Details

Opening Date	June 27, 2022
Closing Date	June 29, 2022
Stock Exchange	BSE SME
Lot Size	600 Shares
Issue Price	₹ 186 per share
Issue Size	6,30,000 Equity Shares
Application Amount	₹ 1,11,600

IPO Objective

- To Meet the Capital Expenditure Requirements
- General Corporate Purposes

Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	17,35,500	99.88 %
Public	2,000	0.12%

Company Background

- Incorporated in the year 2018, it is engaged in the business of agricultural products and allied activities.
- It is involved in trading of Wheat Corn, Rice, Seeds Cotton, Gram, Pulses, Cereals, Peas etc.
- Company is proposing to enter the Hospitality and Tourism sector.
- Company plans to open a resort in the name of **Pearl Green Clubs and Resort** and utilize funds from IPO for the same.
- The property is located at Gandhinagar which is approximately 20 kms away from Ahmedabad
- As on date of filing of prospectus the company had 7 employees.

Promoter of the Company

1. Mr. Hemantsingh Naharsingh Jhala
2. Mrs. Rekhadevi Hemantsingh Jhala

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Company Overview

Pearl Green Clubs and Resorts Limited was incorporated in the year 2018 and has been serving the agricultural industry. Contrast to its name the company is engaged in trading of agricultural products such as Wheat Corn, Rice, Seeds Cotton, Gram, Pulses, Cereals, Peas etc. Company has been planning to set up a resort in Gandhinagar, Gujarat and so has planned to raise money from public. The details of the property is given in the exhibit below –

Particulars	Details
Total Site Area	3,53,804 sq. ft.
Total Proposed Constructed Area	97,500 sq. ft.
Proposed Rooms	40 rooms (approx.)
Amenities	Club, Garden Restaurant, Swimming pool, Kids play area, Banquet Hall, Wine Shops, Party Hall etc.

Company has taken the above property on lease for a period of 25 years from the promoters and their family which will renew after every 11 months. Currently the lease rent has been decided to be Rs. 1,00,000 per month.

Analysis

The company has just around 4 years of existence and has been trading in agricultural products which widely varies from its purpose of raising money through IPO. Based on the data given in the prospectus, the company has been selling mainly only in the state of Gujarat for the past 3 years. Up to Dec'21, more than 90% of its revenue was from its top 10 customers. For the year 2020-21 and 2019-20, there were only 2 customers. It shows that the company is not operating with a good customer base and is also highly dependent on a single geographical region. Moreover, the company does not have any experience in managing and operating the hospitality sector and is planning to expand into a totally different sector with public money which seems to be quite risky.

Industry Charts

Exhibit 1: Gross Value Added by Agriculture and Allied Sector from FY 17 to FY 21

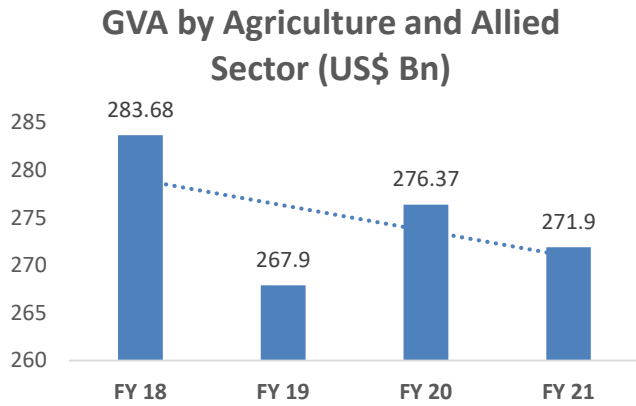


Exhibit 2: Key Trends in Agricultural Exports from India from FY 18 to Aug'21

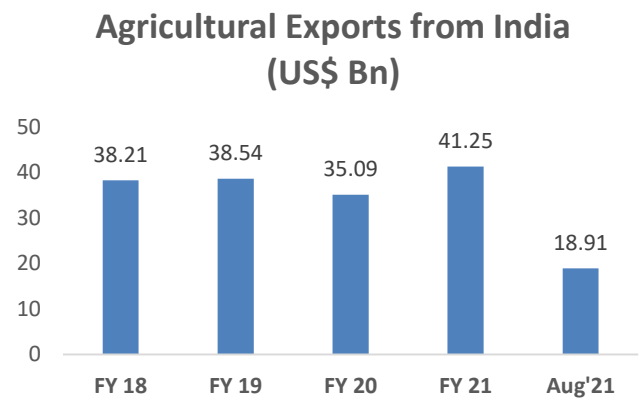


Exhibit 3: Indian Travel Market expected to grow at a CAGR of 7.57% from FY 20 to FY 27

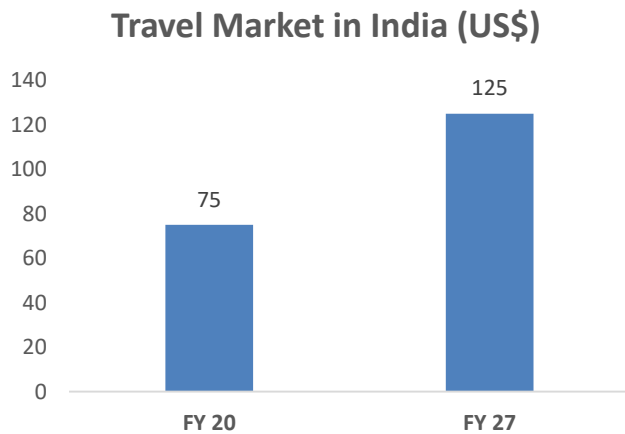
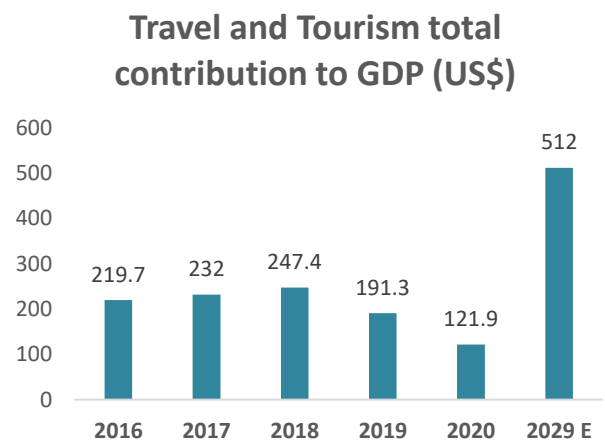


Exhibit 4: Travel and Tourism's total contribution to GDP



(Source: ibef.org)

Investment Overview

Agriculture and Tourism Industry

Agriculture is the primary source of livelihood for about 58% of India's population. Gross Value Added by agriculture, forestry, and fishing was estimated at Rs. 19.48 lakh crore (US\$ 276.37 billion) in FY20. As per 1st advance estimates of National Income FY22, the percentage share of GVA of Agriculture and Allied Sectors (at current prices) is 18.8% of the total GVA. Consumer spending in India will return to growth in 2021 post the pandemic-led contraction, expanding by as much as 6.6%. Agriculture and allied activities recorded a growth rate of 3.6% at constant prices in FY21. The total agricultural and allied products exports stood at US\$ 41.25 billion in FY21.

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.

(Source: ibef.org)

Addressable Market for Pearl Green Clubs and Resorts Limited

Company is majorly selling only in the state of Gujarat. As per the details provided in the prospectus more than 90% of its revenue from operations up to Dec'21 was from the state of Gujarat. However, in the coming times, the company can look forward to expand its business in the neighbouring states and after settling up can look to sell its products PAN India. Also the company is planning to set up a Resort in Gandhinagar, Gujarat. In near future it can also target other areas of Gujarat for establishing resort facilities.

Competition

The industry, also mentioned by company in their prospectus, is very competitive. The products in the agriculture market are homogenous in nature and the price is determined by intersection of supply and demand. There are very low barriers to entry and anyone with decent capital can easily enter the market. The market is highly fragmented and is filled with organized and unorganized players. The company faces competition from both the organized and unorganized sector. Talking about the Hospitality sector, the industry is also highly fragmented and competitive. There are existing players in the market with good capital base, brand name and reputation and competing with these companies while not being established will be a huge task for the company.

Peer Analysis

As Mentioned in the prospectus, the company has only one peer company i.e. White Organic Retail Limited. A comparison of the same has been depicted in the table below –

Company	Pearl Green Clubs and Resorts Limited	White Organic Retail Limited
Net Profit (INR Cr)	0.62	6.89
EBITDA (INR Cr)	0.88	9.23
Return on Capital Employed	11.04%	21.22%
Return on Equity	8.24%	15.87%
EPS (INR)	3.54	6.00
P/E* (Times)	52.54	82.11

***P/E has been calculated as on 24/06/2022**

However, since the company is also entering the Hospitality Sector, we believe that the company has peers in this segment too. Some of the peers of the company could be Silver Pearl Hospitality and Luxury Spaces Limited, 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 (INR Cr)	1.17	-12.82	-22.16	-2.49
EBITDA (INR Cr)	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%
EPS (INR)	1.03	-3.20	-9.47	-1.29
P/E* (Times)	13.35	-	-	-

***P/E has been calculated as on 24/06/2022**

Promoters' Profile

Mr. Hemantsingh Naharsingh Jhala



- **Mr. Hemantsingh Naharsingh Jhala** is the Promoter and Managing Director of the Company.
- He has nearly three decades of experience in the Agricultural and Hospitality sector.
- He is associated with the company since its inception.
- He is a graduate in Bachelor of Arts.
- He is responsible for the overall working of the company and is the guiding force behind every strategic decision of the company.

Mrs. Rekhadevi Hemantsingh Jhala



- **Mrs. Rekhadevi Hemantsingh Jhala** is the Promoter and Executive Director of the Company.
- She is actively involved in Business and act as mentor to all the Key Management Personnel of the Company.
- Highlighting her educational qualification, she has passed her Higher Secondary Examination.
- On societal front she heads all Gujrat Investor Protection Trust.

Analysis on the Company's Promoter and Board of Directors

The management team of the company, except Mr. Hemantsingh Naharsingh Jhala, is not very experienced in the business segment. Mr. Hemantsingh Naharsingh Jhala heads the business operation and is responsible for the overall strategic and tactical decisions of the company.

Mrs. Rekhadevi Hemantsingh Jhala, one of the Promoters and Executive Directors, is not involved in the day to day operations of the business and is not a part of decision making team.

Ms. Rekha Vijaybhai Jhala, one of the Executive Directors of the company is also managing business operations focusing on resources, capacity utilization and Output. She also heads Logistic and Transport Division of the Company. But, she has only been associated with the company since late 2020 and so lacks experience.

The Independent Directors are experienced and well educated and can guide the Board to very useful decisions but once again they are not part of the day-to-day operations of the company.

It can be concluded that, the company is particularly managed by its founder promoter and recently Mrs. Rekha Vijaybhai Jhala has also been looking after the business operations. However, other than the Managing Director, the team is not very well experienced as well as educated. Also the company is entering into a new segment and therefore should hire some managerial personnel who is very well versed with the hospitality sector.

Financial Snapshot

(Amount in Lacs)

Particulars	As at 31st March, 2020	As at 31st March, 2021	As at 31st December, 2021
Profit and Loss			
Revenue from operation	56.97	375.74	447.41
Other income	-	-	-
Total Revenue	56.97	375.74	447.41
Expenses	51.69	366.67	363.74
Depreciation and Amortisation Cost	-	0.15	0.50
Finance Cost	-	-	-
Total Expenses	51.69	366.82	364.24
PBT	5.28	8.92	83.17
EBITDA	5.28	9.07	83.67
EBITDA Margin	9.27%	2.41%	18.70%
Net Profit	3.91	6.54	61.54
Net Profit Margin	6.86%	1.74%	13.75%
Balance Sheet			
Total Borrowings	1.12	27.91	6.40
Net Worth	8.84	690.38	751.92
Fixed Assets	-	3.45	2.95
Net Working Capital	8.84	11.98	74
Financial Measures			
Inventory Turnover Ratio	-	-	-
Receivables Turnover Ratio	1.00	4.04	1.04
Payables Turnover Ratio	1.00	5.11	0.99
Fixed Assets Turnover Ratio	-	108.91	151.66
Return on Capital Employed	0.70%	1.29%	11.04%
Return on Equity	44.23%	0.95%	8.24%
Debt-Equity Ratio	-	-	-

(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. 5.28 lacs in 2020 to 83.67 lacs in Dec'21 growing at a CAGR of 385%. The EBITDA margin up to Dec'21 was 18.70% from 9.27% in 2020. Such a growth in EBITDA does not seem to be sustainable.

Net Profit

The net profit of the company has grown from Rs. 3.91 lacs in 2020 to Rs. 61.54 lacs up to Dec'21 growing at a CAGR of 383%. The net profit margin has grown from 6.86% in 2020 to 13.75% up to Dec'21 showing a supernormal growth both in terms of amount and margins. Such a growth does not seem to continue in future.

Finance Cost.

The company do not have any Finance cost. The company although have shown Short-term loans from its Directors but it seems they are interest-free loan.

Financial Measures/Ratios

The financial ratios of the company look highly aggressive in nature.

The Net Profit Margin and EBITDA margin has grown substantially in the year 2021-22 (Up to December) and the margins do not seem to be constant in the coming years.

RoCE of the company has grown at a CAGR of 383% which is highly unsustainable and is still lagging behind its peer. The company's RoCE is expected to fall with increase in capital expenditure which the company is expected to incur because of establishment of a Resort in Gujarat.

Return on Equity (ROE) of the company is at 8.24% up to December 2021 and is expected to fall again due to incorporation of new Equity Capital through IPO. The return grew substantially but still is almost half of its peer.

The company has not been able to maintain its Receivables properly. The Receivables turnover ratio up to Dec'21 was 1.04 showing that the company is maintaining receivables almost equal to the sales it has made.

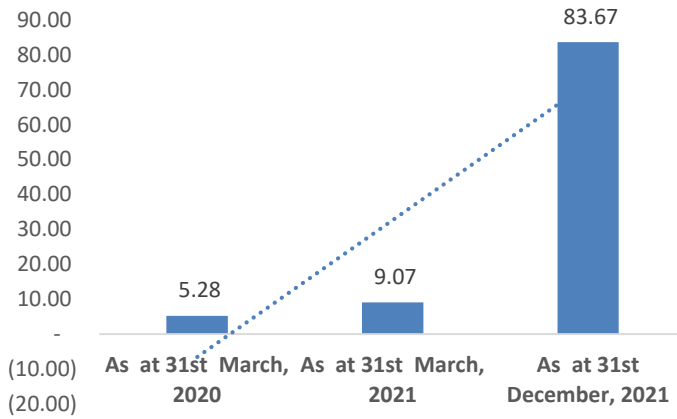
A payable turnover ratio of almost 1 shows that the company is able to get good credit period from its suppliers and is able to manage it properly.

The company although trades agricultural products has not maintained inventory in any of its last 3 Financial Years. This shows that the company might directly source the products to its customers from its supplier place.

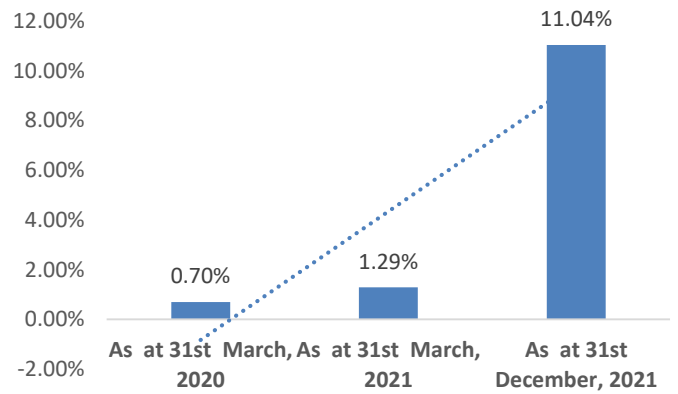
The company has not incurred any debt as of now and is therefore operating at NIL Debt-Equity ratio. However, the company has received a minimum quotation of Rs 1,494.90 lacs as its total cost of Capital Expenditure, it is assumed that the company will opt for Debt Financing increasing the Debt-Equity ratio of the company.

Financial Graph

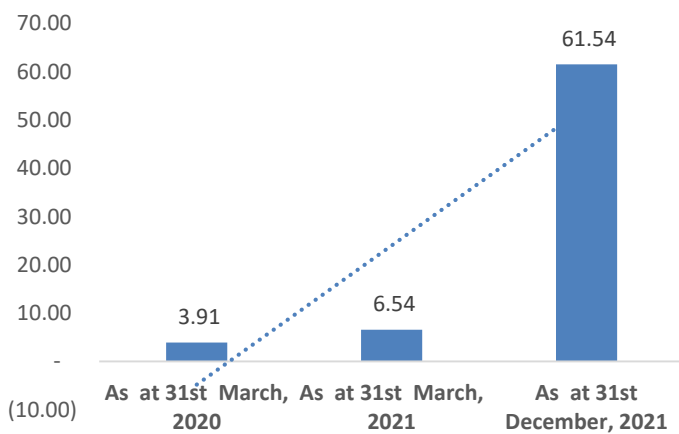
EBITDA (In Lacs)



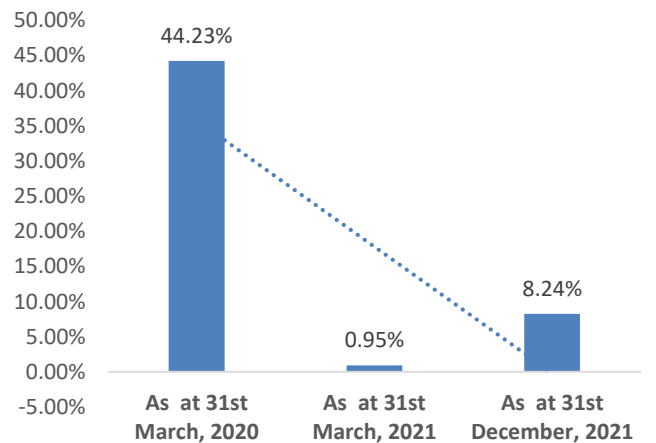
Return on Capital Employed



Net Profit (In Lacs)



Return on Equity



Key Risk Factors

1. SEBI has issued an Interim Order cum Show Cause Notice against the Lead Manager, Fast Track Finsec Private Limited directing it not to take up any new assignment relating to merchant banking activities in the securities market, till further orders from SEBI. However, SEBI has allowed the Lead Manager to complete its pending assignments.
2. The company has a small customer base and more than 90% of its revenue from operations is from its top 8 customers.
3. The company has a lack of storage capacity and therefore is not in a position to maintain any inventory.
4. The company has not entered into any formal agreement with any of the transporters to deliver the product directly to its customers' place and might be at risk of not delivering the products on time.
5. The company is entering into a whole new line of business of operating a resort and since the company does not have any experience in it, there is significant risk involved in the investment.

Track Record of Merchant Banker/Lead manager

The lead manager to the issue is Fast Track Finsec Private Limited and the previous issue details have been taken from the Lead Manager's website and Chittorgarh.com. 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 –

Company	Issue Size (In Cr)	Issue Closing Date	IPO Price/share (INR)	CMP# (INR)
Ascom Leasing and Investment Limited	6.32	Nov 28, 2019	30	79.10
Goblin India Limited	15.2	Oct 04, 2019	52	18.50
Kranti Industries Limited	6.68	Feb 20, 2019	37	58.65
SBL Infratech Limited	2.37	Sep 20, 2021	111	53.00
Jeena Sikho Lifecare Limited	55.5	Apr 7, 2022	150	133.10
Globesecure Technologies Limited	10.13	Jun 02, 2022	29	86.75

#CMP is taken as on 24th June 2022

Out of the 6 listings the lead manager had made in the past, 4 had positive listings and 2 had negative listings.

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 **should avoid** the IPO. The company has only 3 years of track record and has been mostly operating in one geographical region. The revenue is majorly from a few customers only.

The management team is not very well versed with the operations of the business and since the company is entering into a new segment too it needs to have someone who is experienced in that segment and can take that segment of the company forward with his/her expertise.

The profit margins of the company have grown super-normally and raises a big question on their sustainability.

The company is planning to get listed at a P/E of 52.54 which seems to be high looking at the size and performance of the business. Also entering into a new industry of Hospitality such P/E does not seem to be justified.

Disclaimer

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