

Press Release

Pinnacle Resorts Private Limited

March 28, 2023

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	71.20	ACUITE BBB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	71.20	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) to the Rs. 71.20 Cr bank facilities of Pinnacle Resorts Private Limited (PRPL). The outlook is '**Stable**'.

Rating Rationale

The rating notably takes into account the improvement in the operational performance of the hotel property in FY22 on account of the resumption in demand amid the waning impact of Covid-19. The rating also continues to derive comfort from the experienced management and strong promoter background and the established position of the hotels in the premium hotel segment in Gulmarg and the strong brand image being the only 5-star rated property, The Khyber Himalayan Resort & Spa, continue to be favourably factored into the rating. The rating also factors in the adequate liquidity profile of the company along with its healthy financial risk profile. However, these strengths are constrained by exogenous factors like political instability in Jammu & Kashmir and various macroeconomic conditions, which leads to its inherent cyclicity in the sector.

About the Company

Incorporated in 2007, M/s. Pinnacle Resorts Private Limited (PRPL) is engaged in the hotel business in Gulmarg, Jammu and Kashmir. PRPL is part of the 'Khyber Group', in Jammu and Kashmir. The Khyber" is t he only 5 st ar Ski-resort propert y in Gulmarg, located at an elevat ion of 8,825 ft . in the Pir Panjal range of the Himalayas. The company started its commercial operations in December, 2012 under the leadership of Mr. Umar Khurshid Trumboo, Mr. Khalil Quayoom Trumboo and Mr. Yunus Quayoom Trumboo. The promoters have over a decade of experience in hospitality business. Khyber, is a preferred destinat ion for celebrit ies, polit icians, business t ycoons and corporat e houses. PRPL's resort has been operating from the past 10 years in the luxury segment category where it has 85 rooms with occupancy level around 81% in 11MFY23 v is-à-v is 68% in FY22.

Analytical Approach

Acuite has considered the standalone view of business and financial risk profiles of PRPL to arrive at this rating.

Key Rating Drivers

Strengths

Experienced management and established presence in hospitality industry

The management of Pinnacle Resorts Private limited (PRPL) have over a decade of experience in the hospitality business and are credited with the launch of India's first Luxury Ski-Resort, The Khyber Himalayan Resort & Spa, in Gulmarg. Mr. Umar Khursid Trumboo, one of the director in the company, has actively contributed to the growth and popularity of the brand. PRPL is supported by a team of professionals in finance, marketing and hotel management division, and employs over 200 staff members and 20 team members at the Corporate Office. The promoters have over a decade experience in the Hospitality industry. The Khyber Himalayan Resort is located in Gulmarg at an altitude of 2,690 m (8,825 ft) in the Himalayas. It is the only 5 star-rated resort amidst others in Gulmarg. The company enjoys competitive advantage in terms of its location, brand name, expertise and professional management.

Acuité believes the company will continue to benefit from its established presence in Gulmarg, strong brand recognition and the promoter's extensive experience in the hospitality industry.

Improving nature of Occupancy Rates & ARR coupled with healthy growth in Operating performance

PRPL's property have shown an improvement in the occupancy level in the FY2022 as compared to FY21. The occupancy of the hotels started increasing after the relaxation of the pandemic restrictions in FY2022 and for the current year FY2023, the occupancy has been in the range of 80-90%. The average room rent has been in the range of Rs.30000-40000 and ARR is high during peak winter from December-March. The operations remained complete washout during Q1 & Q2 of FY21 due to the restrictions in lockdown. But the operations resumed slowly since September 2021, domestic leisure travel was the driving force behind the road to recovery in demand coupled with an increase in business travel. The occupancy rate was significantly low in the month of May, 2022 which stood at 10% mainly because of the Omicron wave. The company witnessed healthy recovery post that aided by leisure, transient demand, weddings and gradual pick-up in business travel followed by easing of restrictions on social gatherings.

Acuite believes that the revenue of the company is expected to improve on account of the expected improvement in occupancy levels backed by completed renovation.

Healthy Financial Risk Profile

The financial risk profile of the company is marked by moderate network, moderate gearing level and comfortable debt protection metrics. The tangible network stood at Rs 30.32 crore as on 31st March, 2022 as compared to Rs 11.57 crore in the previous year. The gearing (debt-equity) stood at 2.49 times in FY 2022 as compared to 7.08 times in the previous year. The coverage indicators stood comfortable marked by Interest coverage ratio (ICR) which stood at 5.59 times for FY 2022 as compared to 2.43 times in FY 2021. Debt service coverage ratio (DSCR) stood at 2.68 times in FY 2022 as compared to 1.02 times in FY 2021. Net cash accruals to total debt (NCA/TD) stood at 0.31 times in FY 2022. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.18 times as on March 31, 2022 as against 8.04 times as on March 31, 2021. The Debt-EBITDA stood at 1.98 times in FY 2022. Acuité believes that going forward the financial risk profile of the company will improve backed by steady accruals and no major debt funded capex plans.

Weaknesses

Working Capital Operations

The operations of PRPL are of working capital intensive nature marked by GCA days of 165 days in FY2022 as against 227 days in FY2021. GCA days are marked by moderate debtor

days of the company which stood at 11 days in FY2022 as against 34 days in FY2021 and inventory days stood at 32 days in FY2022 as against 38 days in FY2021. The High GCA days emanates from the high other Current Asset of Rs.17.02 Cr in FY22 which mainly consists of advances given to suppliers.

Acuite believes that the working capital operations of the group will remain at same level over the medium term given the nature of the industry.

Susceptibility to cyclicalities in the hospitality industry and regional concentration in operations

The hotel and resorts industry is vulnerable to downturns in the domestic and international economies. During an economic slowdown, revenue per available room of premium hotels is likely to be impacted more significantly than that of mid-scale or economy hotels. Geographical concentration renders the company more susceptible to cyclicalities in business and to any business exigency or political issues in the area of Jammu & Kashmir that may lead to a sharp decline in operating revenue.

Rating Sensitivities

- Improvement in the operations while improving momentum in occupancy levels and ARR of the hotel property
- Significant deterioration in the financial risk profile of the company

Material covenants

None

Liquidity Position Adequate

The company's liquidity is adequate marked by net cash accruals stood at Rs 23.35 Cr as on March 31, 2022 as against current maturity of Rs.4.44 Cr over the same period. The unencumbered cash and bank balances of the company stood at Rs. 12.69 Cr as on March 31, 2022 as compared to Rs. 4.46 Cr as on March 31, 2021. The current ratio stood at 1.43 times as on March 31, 2022. The average fund-based working capital utilisation also remained NIL during the last 9 months till December 2022 with a credit balance in CC every month end. The company has generated positive fund flow from operations over the past 2 years. PRPL's operations are moderately working capital intensive marked by Gross Current Assets (GCA) of 165 days for FY2022 and 227 days for FY2021. Acuite believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuite believes that the company will maintain a 'Stable' outlook and continue to benefit over the medium term with respect to the extensive experience of management and established brand presence of 'The Khyber Himalayan Resort & Spa'. The outlook may be revised to 'Positive', in case the company is able to increase its occupancy levels while maintaining a stable credit risk profile. Conversely, the outlook may be revised to 'Negative' in case there is significant drop in occupancy levels or any deterioration of financial risk profile.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	78.74	27.15
PAT	Rs. Cr.	18.23	0.99
PAT Margin	(%)	23.15	3.64
Total Debt/Tangible Net Worth	Times	2.49	7.08
PBDIT/Interest	Times	5.59	2.43

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

None

Any other information

None

Applicable Criteria

- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
The Jammu and Kashmir Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.20	ACUITE BBB Stable Assigned
The Jammu and Kashmir Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	70.00	ACUITE BBB Stable Assigned

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About Acuité Ratings & Research

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