

Hotel Diyalo Private Limited

Ratings

Instruments/ Facilities	Amount (Rs. in Million)	Rating ^[1]	Rating Action
Long Term Bank Facilities	650.00	CARE-NP B+ [Single B Plus]	Assigned
Short Term Bank Facilities	50.00	CARE-NP A4 [A Four]	Assigned
Total Bank Facilities	700.00 (Seven Hundred Million Only)		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned ratings of 'CARE-NP B+' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of Hotel Diyalo Private Limited (HDPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of HDPL are constrained by nascent stage of business operations coupled with stabilization risk associated with newly established hotel and leveraged capital structure. The ratings also factor in long gestation period associated with hotel industry, susceptibility to cyclical, intense competition and geographic concentration in the hospitality sector.

The ratings, however, derive strength from promoters having prior experience in various sectors, association with reputed hotel brand, locational advantages, favourable repayment terms of bank loans, along with favourable government policies and support for tourism sector.

Going forward, the ability of company to achieve the envisaged scale of operations and profitability will be key rating sensitivity. Furthermore, timely and sufficient generation of operational cash-flows to improve its liquidity profile will also act as key rating sensitivity.

Detailed Rationale & Key Rating Drivers

Key Rating Weakness

Nascent stage of business operations

HDPL started with its commercial operations during April 2019 and has a relatively short track record of operation as compared with other established players. The company achieved total operating income of Rs. 65 Mn in the first full year of business operation during FY20 (audited) (FY refer to 12 months' period ended on mid-July). Furthermore, the company has faced issues related to post implementation risk in the form of stabilization of the hotel operations to achieve the envisaged scale of business on account of lockdowns imposed by the government of Nepal due to Covid-19 pandemic. The business operations were impacted significantly and company achieved total operating income of Rs. 52 Mn and reported net losses during FY21 (unaudited).

Leveraged capital structure

HDPL had incurred an expenditure of Rs. 964 Mn for setting up a new hotel including casino in Birgunj, Parsa district of Nepal and the same was funded through term loan of Rs. 650 Mn and balance from the promoters' contribution in the form of equity capital. As on mid-July 2021, the capital structure of the company stood leveraged characterized by high overall gearing of 5.79 times due to debt funded capex and low capital base on account of losses incurred by the company in the initial year of operations.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

Furthermore, to manage the short-term liquidity requirements, HDPL has taken the additional borrowings from banks which also impacted the gearing levels adversely.

Operational stabilization risk and long gestation period associated with hotel industry

The company has set up a hotel with 60 rooms capacity which includes all modern amenities, F&B service, spa, conference hall and other facilities. Generally, hotels require longer gestation period to recover the fixed costs associated with it and become profitable. Hotel projects have long gestation period since construction of a premium hotel takes up to three to four years while stabilization of operations may take another two to three years. Going forward, scaling up operations while achieving the envisaged occupancy level and average room rate (ARR) will be crucial from analytical prospective. Furthermore, with lifting up of the restrictions by the GON which argues favorably for the travel industry and gradual recovery of business is expected in the sector.

Susceptibility to cyclicity, intense competition and geographic concentration risk in the hospitality sector

The company's hotel located in Birgunj and revenue is concentrated towards single property, thereby exposing the business operations to geographic concentration risk. This could exacerbate the risk during any disruption in the normal operations at the given location. The hotel industry of Nepal is fragmented in nature with the presence of large number of organized and unorganized players spread across various regions. The occupancy levels and revenue in the hotel industry are susceptible to macroeconomic trends, both in the domestic and global markets. Furthermore, by catering largely to the hotel segment, revenue and profitability remain susceptible to business growth and the dynamics of the hotel industry.

Exposure to volatile interest rate

Nepalese banking sectors are fixing floating interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions will be changed by change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 1-2 year. Therefore, funding from Bank and Financial Institutions are exposed to volatile interest rate.

Key Rating Strengths

Promoters having experiences in various sectors

The company is managed under the overall guidance of the company's board of directors (BOD) who possess experience in various fields. Mr. Sunil Kumar Rungata is the Chairman and Managing Director, and has experience of over 25 years in trading and manufacturing sector through various companies. Similarly, other directors of the company have wide experience in trading and manufacturing fields. BOD are further supported by an experienced team across various functions/ departments.

Association with reputed hotel brand and locational advantage

The hotel is located in Birgunj, Parsa district of Nepal. Birgunj is one of the fastest developing metropolitan cities in Nepal and is also known as the 'Gateway to Nepal' and 'Commercial Capital of Nepal'. Its strategic location could remain the hotel's core strength as this would be preferred choice of business travelers and for business events in the post-pandemic era. Therefore, influx of tourists as well as business related visits is high in Birgunj, Nepal thereby providing

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opportunity to HDPL to cater to leisure as well as business tourists and cater to Meetings, incentives, conferences and exhibitions (MICE).

HDPL has entered into a licensed agreement with “Lords Inn Hotel and Developers Limited (Lords)” for more than 10 years and is operating the hotel under the name ‘Diyalo Lords Plaza’. Lords is mid-segment hotel chain in India and owned by Lords Hotels & Resorts and operates over 37 hotel properties spread across India and Nepal. This will provide the hotel with an added benefit of established service, large customer base, proven experience, marketing assistance and brand name recognition to drive hotel guest bookings.

About the Company

Hotel Diyalo Private Limited (HDPL) was incorporated as a private limited company and constructed a hotel in Adarsh nagar, Birgunj, Nepal. The hotel is spread over 2.05 acres of land with a total of 60 rooms and other amenities. The hotel is being operated under the name of ‘Diyalo Lords Plaza’.

Financial Performance

For the Period Ended / as at Mid-July,	(Rs. in Million)	
	2020 (12m, A)	2021 (12m, UA)
Total Operating Income	65	52
PBILDT Margin (%)	11.54	28.45
Overall Gearing Ratio (times)	3.44	5.79
Interest Coverage (times)	0.16	0.21
Current Ratio (times)	1.62	1.60
Total Debt/ Gross Cash Accruals (times)	-ve	122.81

A: Audited; UA: Unaudited

Annexure 1: Details of Instrument / Facilities

Name of the Instrument / Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings assigned
Long Term Bank Facilities	Term Loan	650.00	CARE-NP B+
Short Term Bank Facilities	Working Capital Loan	50.00	CARE-NP A4
Total		700.00	

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About CARE Ratings Nepal Limited:

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