

## Kalinchowk Darshan Limited

### Ratings

Facility/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Issuer Rating	NA	CARE-NP BB+ (Is) [Double B Plus (Issuer)]	Assigned

*The issuer rating is subject to the company maintaining overall gearing not exceeding 1.0x at the end of FY22.*

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB+(Is)' to Kalinchowk Darshan Limited (KDL). Issuers with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations in Nepal.

### Detailed Rationale & Key Rating Drivers

The rating assigned to KDL is constrained by revenue concentration towards single property exposing KDL's operations to geographic concentration risk, seasonality of revenue, and muted tourism activities amid the intermittent waves of the covid19 pandemic. The rating also factors in project implementation risk related to setting up of the proposed hotel property and exposure to volatile interest rate. The rating, however, derives strength from experienced promoters, strategic location of the project, sustained equity infusion leading to moderate capital structure and debt service coverage indicators. The rating also factors in improving trend in KDL's financial performance marked by cash profits achieved during FY21 (audited, refers to the twelve-month period ended mid-July 2021) and government support for tourism sector.

*Going forward, the ability of KDL to profitably scale up the operations while maintaining the debt service coverage indicators at adequate levels along with execution of the proposed hotel project without significant time or cost overrun will be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

##### Revenue concentration towards single property exposing operations to geographic concentration risk

The company's cable car facility, located in the Kuri valley of Dolakha district of Nepal, is exposed to revenue concentration risk towards single property. This also exposes the company's business operations to geographic concentration risk. Furthermore, the high altitude and mountainous terrain of the place makes it vulnerable to volatile weather. Adverse weather conditions could halt KDL's operations and also increase the risk of higher cost for repair and maintenance, which could impact KDL's profitability. Furthermore, by catering predominantly to the cable car business, revenue and profitability of KDL remain susceptible to the domestic and foreign tourist footfall, which remains a bit unpredictable given the lingering impact of the covid19 pandemic on the overall tourism industry.

##### Seasonality of revenues and small scale of operations

KDL's revenues are largely driven by the flow of tourists in the region, which is dependent on suitability of weather conditions. Historical trend suggests minimal revenues during the months of July-September (monsoon), whereas nearly half the annual revenue is generated during the winter season (November -March) when majority of domestic tourists visit the place to spend holidays in snowy valley of Kuri. The flow of visitors is considerably less during the monsoon season, affected by adverse weather conditions in the region when it is also technically challenging to smoothly operate the cable car.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and in other CRNL publications.

The scale of operations has remained low marked by a total operating income and gross cash accruals of Rs. 37 Mn and Rs. 10 Mn respectively during FY21. The small scale limits the company's financial flexibility in times of stress as profitability remains significantly vulnerable to scale of operations.

#### **Project implementation risk related to setting up of proposed hotel property**

The company is proposing to incur capital expenditure of around Rs 250 Mn during FY23 towards setting up a 35-room hotel property. The capex is to be funded by equity – partly from promoters and partly from the proceeds of proposed Initial Public Offering (IPO). Equity infusion of Rs. 185 Mn from the promoters has already happened during H1FY22 (unaudited, refers to the six-month period ended mid-January 2022) which is currently invested in fixed deposits, which stood at around Rs. 200 Mn as on mid-March 2022. As the project is still in a planning phase with almost half the cost tied up, KDL is exposed to project implementation risk related to the proposed hotel property.

#### **Exposure to volatile interest rate**

The company's interest expense is based on floating rates which reset every quarter. The base rate of the banks and financial institutions in Nepal remains quite volatile as they are impacted by change in liquidity position which leads to change in interest rates. Therefore, funding taken by the company from banks is subject to volatile interest rate.

#### **Key Rating Strengths**

##### **Experienced Promoters**

KDL has a seven-member board of directors with experience in a wide range of sectors including tourism and hospitality. The board is led by Mr. Bal Krishna Shiwakoti, Chairman, who is also a board member in Investment Board of Nepal, and Director in Mega Bank Nepal Limited and Jiri Chiya Udhog (processing of tea). KDL is promoted by 85 individual promoters and one institutional promoter. The board is aptly supported by an experienced management team led by Mr. Ashok Shiwakoti, Chief Executive Officer, who has over 20 years of experience in various industries.

##### **Strategic location of the project**

The site of the cable car project, which is around six-hour drive away from Kathmandu, is one of the major religious destination in Nepal. Kalinchowk Temple, located at the top station of the cable car facility, attracts numerous pilgrimage visitors throughout the year, except the monsoon season when the footfall is low. In addition to this, during the peak winter season, the site attracts many domestic as well as foreign tourists who also visit the place for sightseeing and winter adventure sports. Over the medium -term, tourist footfall, particularly domestic, is expected to further increase, particularly after the currently ongoing black topped road construction in the area is completed.

##### **Sustained Equity Infusion leading to moderate capital structure and debt service coverage indicators**

KDL has been constantly receiving equity infusion from its promoters, leading to comfortable debt equity ratios. As on mid-July FY21, the outstanding debt stood at Rs. 222 Mn against equity share capital of Rs 295 Mn leading to debt-equity ratio of 0.92x. During H1FY22, promoters have infused additional Rs 185 Mn in equity, which is fully paid up. Furthermore, the

company is also in the process of issuing IPO of Rs. 120 Mn, likely to be completed in next 6-9 months. The proceeds of the IPO is likely to be used for the proposed capex or repayment of existing debt.

### **Improving financial performance with cash profits in FY21 despite operations being impacted by covid19 pandemic**

Notwithstanding the ongoing impact of the covid-19 pandemic leading to sluggish tourist footfall in the area, KDL has managed to report positive gross cash accruals during FY21 aided mainly by rationalization of operational expenses. Despite steady revenue levels in FY21 at around Rs 37 Mn, the company has managed to improve PBILDT margin to 65.30% from 49.93% during FY20. Interest coverage ratio was adequate at 1.65 times. The financial performance continued to improve over H1FY22 aided by increased footfall. KDL has generated total revenue of Rs. 21 Mn with footfall of nearly 50,000 visitors during H1FY22 (FY21: Rs. 37 Mn, ~90,000 footfall). The performance is expected to improve further during H2FY22, second-half of the fiscal year being the peak season. The ability of the company to profitably scale up its operations backed by sustained increase in customer footfall will be critical from credit perspective.

### **About the Company**

Kalinchowk Darshan Limited (KDL) is a public limited company, incorporated on January 20, 2015. It is promoted by individual and institutional promoters from different backgrounds for setting up and operating a Cable Car Project at Kalinchowk, Dolakha, Nepal. The project includes about 1 Km long cable car journey, having a total of 4 Gondolas (2 gondolas per system) to transport passengers from the bottom station at Kuri Valley to the Kalinchowk Temple at the top. It has a capacity to transport 192 passengers per hour in one way trip. Brief financial performance of KDL during the past 3 years are given below:

(Rs. Million)

<b>For the year ended Mid-July</b>	<b>FY20 (Audited)</b>	<b>FY21 (Audited)</b>
Income from Operations	37.21	36.94
PBILDT Margin (%)	49.93	65.30
Overall Gearing (times)	0.88	0.92
Interest Coverage (times)	0.94	1.65
Current Ratio (times)	1.11	1.13
Total Debt/Gross Cash Accruals (times)	negative	22.49

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