

City Hotel Limited

Ratings

Facilities	Amount (Rs. in Million)	Rating ¹	Rating Action
Long-Term Bank Facilities	3,221.81 (Increased from 2,767.00)	CARE-NP BB+ [Double B plus]	Rating Revised from CARE-NP BB to CARE-NP BB+ and removed from credit watch with negative implications
Short-Term Bank Facilities	80.30	CARE-NP A4+ [A Four plus]	Rating Revised from CARE-NP A4 to CARE-NP A4+ and removed from credit watch with negative implications
Total Facilities	3,302.11 (Increased from Rs. 2,847.30)		
Issuer Rating	NA	CARE-NP BB+ (Is) [Double B plus (Issuer)]	Assigned

**The issuer rating is subject to overall gearing ratio of the company not exceeding 3.25x at the end of FY22.*

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned issuer rating of 'CARE-NP BB+ (Is)' to City Hotel Limited (CHL). Issuers with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations, in Nepal. Also, CRNL has revised the rating to 'CARE-NP BB+' from 'CARE-NP BB' for the long-term bank facilities of CHL and to 'CARE-NP A4+' from 'CARE-NP A4' for the short-term bank facilities of CHL. The ratings have also been removed from "credit watch with negative implications".

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to CHL factors in successful commencement of commercial operations of its hotel business leading to the reduction in project implementation risk. However, the ratings continue to be constrained by CHL's operation stabilization risk coupled with long gestation period associated with hospitality industry in general. The ratings are also constrained by exposure to volatile interest rates, susceptibility to cyclical, intense competition and geographic concentration related to single property in the hospitality sector.

The ratings, however, derive strength from experienced directors and resourceful promoters, association of CHL with reputed hotel brand which is likely to benefit the company in terms of branding, marketing and hotel operations. The ratings also factor in strategic locational advantage of the hotel, government initiative and support for tourism, and increasing trend of tourists in Nepal notwithstanding the lingering impacts of the covid-19 pandemic.

Going forward, the ability of the company to achieve the envisaged occupancy levels and average room rents (ARRs) leading to sustained growth in income with improved profitability leading to improvement in overall debt service coverage indicators will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Operation stabilization risk and long gestation period associated with hotel industry with relatively high project cost

Although the hotel is commercially operational, the company is still exposed to stabilization risk associated with its debt-funded greenfield project. Hotels generally require longer gestation period to recover the fixed costs associated with it and to become profitable. Stabilization of operations for a large-scale hotel may take another two to three years post commencement of

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

commercial operations. The total project cost of Rs. 4,389 Mn is funded by debt to equity ratio of 73:27. This relatively high project cost would lead to a high payback period, particularly if stabilization of operations takes longer than envisaged amid the lingering impact of the pandemic. Going forward, CHL's association with reputed global hospitality brand is likely to help it attract customers and help improve occupancy level. However, how swiftly the company can establish its brand and derive benefits from the hotel as envisaged on a sustained basis is critical from credit perspective.

Financial risk profile marked by weak debt coverage indicators for the initial year of operations

CHL is likely to incur losses during the first few years of operations leading to a financial risk profile characterized by weak, albeit improving, debt service coverage indicators. The company's principal repayments are on ballooning basis with lower repayments in the initial years. However, CHL's ability to adequately service its debt obligations from operational cashflow, once the repayments start, will depend on its ability to generate sufficient income. Hence, the ability of the company to profitably scale up the operations leading to improved debt service coverage indicators will remain a key rating sensitivity.

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

The hotel industry of Nepal is fragmented in nature with presence of large number of organized and unorganized players spread across various regions. The number of hotels operating in the city of Kathmandu remains high which will ultimately result in intense competition that might lead to competitive pricing leading to subdued ARR's despite surge in tourists, even when the impact of covid19 normalizes. Also, occupancy levels and revenue in the hotel industry are susceptible to macroeconomic trends, both in the domestic and global markets. Furthermore, the company's hotel has a single establishment located at Kathmandu, thus exposing operations to geographic concentration risk.

Interest rate risk

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 directors and resourceful promoters

CHL derives strength from the financial flexibility of its promoter group belonging to the Golyan Group. Golyan Group has diversified business presence in Nepal which includes manufacturing, international trade & services, banking, insurance, real estate, textile, hospitality, energy etc. CHL is managed under the overall guidance of its board of directors (BOD) who possess wide experience in different business sectors. Mr. Shakti Kumar Golyan, chairman, has wide experience in various business sectors and is the director of Golyan Group of industries. Mr. Varun Talwar, general manager, is responsible for overall operational management of the hotel and has work experience of over 18 years in reputed hotel brands in India and Nepal. BODs are further supported by an experienced team across various functions/ departments.

Successful commencement of commercial operation, albeit at sub-optimal scale amid the pandemic

CHL has successfully started commercial operations on November 15, 2021 leading to low risk associated with project implementation despite the hotel currently undertaking some minor expansions/upgrades. During H1FY22 (refers to the six-month period ended mid-January 2022), the company's gross income was Rs. 33.39 Mn with around three months of operations. Although revenues are on increasing trend, on a month-on-month basis, boosted by increased contribution from the foods & beverage sales, particularly during the wedding season, overall room occupancy remains sub-optimal. However, expected sequential increase in flow of tourists, barring any major wave of the pandemic, coupled with leveraging the global brand is likely to help the company improve its operational performance over the medium term, leading to an improved financial profile.

Association with reputed hotel brand likely to benefit the company in terms of marketing and hotel operations

CHL has entered into a Hotel Management Agreement (HMA) with Hyatt International- South West Asia, Limited, which is owned by Hyatt Hotels Corporation (HHC). HHC is a leading global hospitality company having a portfolio of 20 premier brands with more than 1,150 properties in over 70 countries across 6 continents as of December 31,2021. As per the HMA, Hyatt International-South West Asia Limited has been assisting CHL to complete the hotel property according to its international standards along with providing supervision in accordance with Hyatt Operating Standards, technical assistance, professional training, customer reservations etc. These services are likely to provide the company with added benefits of established service, large customer base, marketing assistance and already widespread brand name recognition to drive hotel guest bookings. Also, being associated with a global brand such as Hyatt will likely benefit CHL in terms of increased revenues, global business reputation and brand specific resources.

About the Company

City Hotel Limited, incorporated on December 05, 2007, is a 5-star hotel property located in Soalteemode, Kathmandu which is operating under the brand name of 'Hyatt Place' with a total of 153 room keys and belongs to the Golyan Group of companies. The company started its commercial operation from November 2021 onwards.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	3,221.81	CARE-NP BB+
Short Term Bank Facilities	Fund Based Limit	80.00	CARE-NP A4+
Short Term Bank Facilities	Non-Fund Based Limit	0.30	CARE-NP A4+
Total Facilities		3,302.11	

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About CARE Ratings Nepal Limited:

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