

Orchid Holdings Private Limited

Rating

Facilities/ Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	900.00	CARE-NP B+ [B Plus]	Reaffirmed
Short Term Bank Facilities	50.00	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	950.00 (Decreased from 1,000 Million)		

* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP B+' assigned to the long term bank facilities and 'CARE-NP A4' assigned to the short term bank facilities of Orchid Holdings Private Limited (OHPL).

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of OHPL continues to remain constrained by its weak financial risk profile marked by weak profitability and debt coverage indicators. The ratings also factor in operational stabilization risk considering long gestation period associated with hospitality industry, exposure to volatile interest rates and susceptibility to cyclicity, intense competition and geographic concentration in the hospitality sector.

The ratings, however, derive strength from experienced directors and management team, strategic locational advantage of the hotel, government initiative and support for tourism sector. The ratings also factor in the restructuring of loans with favorable repayment obligations to the company.

Going forward, the ability of the company to improve occupancy level and average room rate (ARR) of the hotel on a sustained basis leading to growth in revenues while maintaining healthy profit margins and improving debt service coverage indicators will be key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Weaknesses

Weak financial risk profile marked by operating losses amid the pandemic leading to weak debt coverage indicators

OHPL was able to book total revenue of Rs. 23 Mn in FY21 (audited, refers to the twelve-month period ended mid-July 2022), a sharp decline from the Rs. 82 Mn booked during FY20 as the hotel's operations remained adversely impacted by the covid19 pandemic. Coupled with high operational cost, OHPL booked loss of Rs. 21 Mn at PBILDT level. Furthermore, accounting for the relatively high depreciation and interest expense, the company reported net losses of Rs. 143 Mn during FY21. Operations have been slightly better in FY22 boosted by sequential growth in tourists, albeit still at well below pre-covid levels, coupled with increased contribution from foods and beverage sales. The hotel booked total revenue of Rs. 34 Mn during 8MFY22 (unaudited, refers to the eight-month period ended mid-March 2022).

The overall gearing ratio of the company deteriorated to 3.63x at the end of FY21 from 1.95x as on FY20 on account of higher debt levels coupled with deteriorated net worth amid losses. The hotel has restructured its term loans, as allowed by the Nepal Rastra Bank (NRB) for highly covid19 impacted sectors such as tourism and hospitality, with favorable repayment obligations. Although the company has benefited from the relaxations provided by the NRB, its ability to adequately service

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications.

its debt obligations once the relaxation is over will depend on its ability to generate sufficient income. Operational performance is likely to benefit from the increased tourist inflow expected over the medium term. However, with lingering impact of the pandemic, the company's ability to attract enough customers to run the hotel at an optimal occupancy level remains to be seen and will remain a key monitorable.

Operational stabilization risk and long gestation period associated with hotel industry

The company started commercial operation of the project with full infrastructure and facilities from August 2019. However, the first couple of years of operations have been highly disrupted by the covid19 pandemic with low tourist count leading to below par occupancy levels and consequently lower revenue generation. Furthermore, hotels generally require longer gestation period to recover the associated fixed costs and become profitable. The long gestation period of hotels is on account of the construction of a premium hotel taking up to three to four years while stabilization of operations may take another two to three years. Notwithstanding the impact of the covid19 pandemic, the ability of the company to attract customers, maintain occupancy level, establish its brand and derive benefit from the hotel as envisaged will be crucial from credit perspective.

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

The hotel industry of Nepal is fragmented in nature with 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 management team

OHPL is managed under the overall guidance of the company's board of directors (BOD) who possess wide industry experience. Mr. Sudhir Man Maskey, Managing Director since March 2019, has work experience of over 25 years in various industries including hospitality sector. Similarly, other directors of the company have experience in diversified industries such as manufacturing, banking and financial institutions, education sector, etc. BODs are further supported by an experienced team across various functions/ departments.

Strategic locational advantage of the hotel

The hotel is centrally located in Ravi Bhawan, Kathmandu with Tribhuvan International Airport at around 9 km. The influx of tourists is high in Kathmandu as it is an entry point for international tourists in the country via flight and being one of the most attractive tourist destinations of Nepal which is visited by large number of tourists every year. Also, it is being built in Kathmandu, the capital city of Nepal with 7 UNESCO world heritage sites; known as city of temples and living goddess; close

to the three durbar squares famous for its rich architecture; good infrastructure and approximately 28 kms away from Nagarkot which has a reputation as top spot for enjoying Himalayas view.

Government initiative and support for tourism

Tourism sector remains a prioritized sector of Nepal. In recent Budget Announcement for FY22 by Ministry of Finance, the government has allocated Rs. 0.59 Bn for tourism infrastructure development. Also, Unified Directive of 2020/21, whereby all the banks (type A, B C, D) have to allocate minimum share of their total advances to hospitality sector which augurs well for the sector. Similarly, Monetary Policy of 2021/22 has allowed payment of interest due up to mid-July, 2022 in 2 years with minimum 4 instalments for tourism industry. With the government prioritizing development of travel and tourism in the country, the prospect of this sector looks encouraging over the medium-term despite being marred by the intermittent waves of the covid19 pandemic in the recent past.

About the Company

Orchid Holdings Private Limited was incorporated on November 13, 2007. OHPL has constructed a hotel in Kathmandu which is spread over 9,136 sq. mt. of land with 131 total rooms spread over 14 floors. The hotel is operating under the commercial name of 'Hotel Crowne Imperial' and has been categorized as 4-star hotel by Department of Tourism.

Brief financial performance of OHPL during last 2 years is given below:

(Rs. In Million)

Particulars	FY20 (A)	FY21(A)
Income from Operations	82	23
PBILDT	(12)	(21)
Overall Gearing (times)	1.95	3.63
Interest coverage (times)	Negative	Negative
Current Ratio(times)	1.18	3.76
Total Debt/Gross Cash Accruals(times)	Negative	Negative

A: Audited

Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Term Loan	900.00	CARE-NP B+
Short Term Bank Facilities	Working Capital Loan	50.00	CARE-NP A4
Total		950.00	

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