

Thamel Plaza Hotel & Suits Private Limited

Rating

Facilities/ Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	770.00 (increased from 740.00 Mn)	CARE-NP BB- [Double B Minus]	Reaffirmed and removed from credit watch with negative implications
Short Term Bank Facilities	30.00 (decreased from Rs. 60.00 Mn)	CARE-NP A4 [A Four]	Reaffirmed and removed from credit watch with negative implications
Total Facilities	800.00		

* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the ratings of 'CARE-NP BB-' assigned to the long term bank facilities and 'CARE-NP A4' assigned to the short term bank facilities of Thamel Plaza Hotel & Suits Private Limited (TPHS). The ratings have been removed from "credit watch with negative implications" factoring in an increasingly stable operating environment for the hotel industry in Nepal during the current fiscal year. Despite lingering impact of the pandemic, the hotel's operations are likely to rebound over the medium term aided also by steady influx of tourists as seen in the recent months.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of TPHS continue to remain constrained by operational stabilization risk considering the long gestation period generally associated with hospitality industry. The ratings also factor in TPHS' modest financial risk profile marked by net losses and weak debt coverage indicators during FY21 (Audited, refers to the twelve-month period ended mid-July 2021) albeit likely on a rebound trail over FY22-FY23. The ratings also consider susceptibility to cyclicality, intense competition and geographic concentration in the hospitality sector and exposure to volatile interest rates. The ratings, however, derive strength from TPHS' experienced directors and management team and its association with a reputed hotel brand, which is likely to benefit the company in terms of marketing and hotel operations. The ratings also factor in strategic locational advantage of the hotel and government initiative and support for tourism sector.

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 sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Operational stabilization risk and long gestation period associated with hotel industry

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 commercial operations. The total project cost of Rs. 1,393 Mn was funded by debt to equity ratio of 66:34. Going forward, TPHS' 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.

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

Financial risk profile marked by negative profitability and weak debt coverage indicators during the initial year of operations

TPHS achieved total operating income of Rs. 22 Mn in FY21 in its initial year of operation for six months. However, with high operational cost and depreciation, the company reported net losses of Rs. 97 Mn during FY21. Although the hotel's operations have picked up, particularly during the second half of FY22, the overall financial performance for FY22 is likely to remain below par with sequential improvement likely from FY23 onwards, barring any other major disruption.

Overall gearing ratio of the company stood at 2.81x in FY21 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 covid-19 impacted sectors such as tourism and hospitality, with favourable repayment obligations. Although the company has benefited from the relaxations provided by the NRB, its ability to adequately service 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.

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 covid-19 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

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy, with substantial upward pressure on interest rates in the last 2-3 quarters. Any further significant rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

Key Rating Strengths**Experienced directors and management team**

The company is managed under the overall guidance of the company's board of directors (BOD) who possess wide experience in various sectors including hospitality, banking, hydropower, and manufacturing. Mr. Shanti Raman Pangeni, chairman, has an experience of over seven years in the hospitality industry. Mr. Mahesh Phuyal, General Manager, also has varied exposure in the hospitality industry for over a decade. BOD is further supported by an experienced team across various functions/ departments.

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

The company has entered into 'License Agreement' with Wyndham Hotel Asia Pacific Company Limited (WHAP) for the international brand of 'Ramada' which is a large multinational mid-scale hotel chain. Ramada brand operates 850 hotels across 70 countries being one of the preferred choice of world travelers. Under the license agreement, TPHS gets marketing services, system implementation, consultation services etc from WHAP. This provides the hotel with an added benefit of established service, large customer base, marketing assistance and already widespread brand recognition to drive hotel guest bookings.

Strategic locational advantage of the hotel

The hotel is centrally located in Thamel, Kathmandu with Tribhuvan International Airport at a distance of around 6 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 FY23 by Ministry of Finance, the government has allocated Rs. 9.38 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 covid-19 pandemic in the recent past.

About the Company

Thamel Plaza Hotel & Suites Private Limited was incorporated in January 05, 2012. TPHS has constructed a hotel in Thamel, Kathmandu which is sprawled over 1170 sq. mt. of land with a total of 90 room keys. The hotel started full-fledged operations from January 08, 2021 under the commercial name of Ramada Encore Kathmandu.

Brief financial performance of TPHS during last 1 years is given below:

(Rs. In Million)

Particulars	FY21 (A)
Income from Operations	22
PBILDT	(23)
Overall Gearing (times)	2.81
Interest coverage (times)	Negative
Current Ratio(times)	0.79
Total Debt/Gross Cash Accruals(times)	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	770.00	CARE-NP BB-
Short Term Bank Facilities	Fund Based	20.00	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based	10.00	CARE-NP A4
Total		800.00	

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