

Mountain Glory Private Limited

Ratings

Facilities/ Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	604.59 (Increased from 570.11)	CARE-NP B+ [Single B Plus]	Reaffirmed
Short Term Bank Facilities	47.80	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	652.39 (Six Hundred Fifty Two Million Three Hundred and Ninety Thousand Only)		

* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the ratings of 'CARE-NP B+' assigned to the long term bank facilities and 'CARE-NP A4' assigned to the short term bank facilities of Mountain Glory Private Limited (MGPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MGPL continue to remain constrained by its weak financial risk profile marked by operating losses amid the lingering impact of the Covid19 pandemic resulting in highly leveraged capital structure and stressed liquidity profile of the company, albeit improving occupancy rate during FY22 (Unaudited; FY refers to the twelve-months period ended mid-July). The ratings are also constrained by operation stabilization risk and long gestation period associated with hotel industry, exposure to volatile interest rates and susceptibility to cyclicality, intense competition and geographic concentration in the hospitality sector.

The ratings, however, continue to derive strength from experienced promoters in tourism industry likely to benefit from professional management set-up, strategic locational advantage of hotel and government initiative and support for tourism industry.

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 and profit margins leading to improved debt service coverage indicators will be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Highly leveraged capital structure with weak debt service coverage indicators

The capital structure of the company is highly leveraged with overall gearing of 3.79x at the end of FY22 compared to 2.95x at the end of FY21 (Audited). The deterioration in overall gearing ratio was on account of increased debt coupled with net loss of Rs. 113 Mn which resulted into erosion of the networth base to Rs. 192 Mn at the end of FY22 from Rs. 233 Mn at the end of FY21. Although the company has benefited from the relaxations provided by the Nepal Rastra Bank to the highly Covid 19 impacted sectors such as tourism and hospitality, 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. Hence, the ability of the company to profitably scale up the operations leading to improved debt service coverage indicators will remain crucial from analytical perspective.

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

Weak financial risk profile marked by operating losses, albeit improving occupancy rate

The company reported increase in total operating income (TOI) by 164% to Rs. 56 Mn during FY22 from Rs. 22 Mn during FY21. The increase in TOI during FY22 was on account of improvement in average annual occupancy rate to 20.15% (PY: 9.95%) aided by more Meetings, Incentives, Conferencing, Exhibitions (MICE) during the year. During FY22, the hotel generated majority of the income from food and beverage sales (~54% of total income) to MICE followed by room lodging and service (~46%). Despite improvement in scale of operations, PBILDT stood negative at Rs. 9 Mn in FY22 compared to loss of Rs. 14 Mn in FY21 with high operational cost during the year. Furthermore, with high interest and depreciation outgo, PAT of the company stands at negative Rs. 113 Mn. 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 July 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.

Exposure to volatile interest rate

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 few quarters. A contractionary monetary policy for FY23 coupled with increasing inflation has only added to the upward pressure on interest rates, resulting in the rate hikes taken by BFIs in the first quarter of FY23. 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.

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. Prior to the pandemic, demand of tourist destination such as Pokhara, where MGPL is located, and its surrounding areas is increasing on the global tourism market. This had resulted in increase in number of hotels operating in the city of Pokhara which will ultimately result in intense competition that might lead to stagnant ARR 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 Pokhara, thus exposing operations to geographic concentration risk.

Key Rating Strengths

Promoters having prior experience and established networking in tourism industry

MGPL is managed under the overall guidance of the company's board of directors (BOD) who possess experience in related fields. The company has eight directors in its board. Mr. Sunil Bhakta Shrestha, executive chairman, has wide experience in various business sectors such as hydropower, banking, hospitality and trading. Majority of the promoters of the company operate travels and tours business in Nepal where they cater tourists from different parts of the world. Thus, with their strong market presence and wide reach, they can help to generate revenue by referring tourists to plan their stay at the hotel during their visit in Pokhara. BODs are further supported by an experienced professional management team with extensive prior experience in the hospitality industry.

Strategic locational advantage of the hotel

The hotel is located in Dovilla-21, Pokhara, Nepal with Pokhara International Airport at a distance of around 12 kms which has come into operation from January 01, 2023. The influx of tourists is high in Pokhara as it is one of the most attractive tourist destinations of Nepal. It is a gateway to the globally known trekking region Annapurna. The city is also popular for its beautiful landscapes and adventure sports. Due to this, Pokhara is a popular tourist destination in Nepal which is visited by large number of tourists every year.

Government initiative and support for tourism industry

Tourism sector remains a prioritized sector of Nepal. In Budget Announcement for FY23 by Ministry of Finance, the government has allocated Rs. 9.38 Bn for tourism infrastructure development. Also, Unified Directives 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 2022/23 had amended refinance procedure to covid-19 impacted industries. Additionally, development banks and finance companies are allowed to extend loan to tourism sector till the end of FY24. 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

MGPL was incorporated in May 24, 2007 under Company Act, 2063. MGPL has constructed a hotel in Pokhara which is sprawled over 7.42 acres of land and a total of 64 room keys. The hotel is operating under the commercial name of Mountain Glory Forest Resort & Spa located in Dovilla -21, Pokhara, Nepal and has been categorized as Tourist Standard Hotel by Ministry of Culture, Tourism & Civil Aviation.

Brief financial performance of MGPL during last 3 years is given below:

(Rs. in Million)

Particulars	FY20 (A)	FY21(A)	FY22(UA)
Income from Operations	39	22	56
PBILD Margin	(60.90)	(65.54)	(16.63)
Overall Gearing (times)	1.76	2.95	3.79
Interest coverage (times)	Negative	Negative	Negative
Current Ratio(times)	1.98	2.25	1.88
Total Debt/Gross Cash Accruals(times)	Negative	Negative	Negative

A: Audited; UA: Unaudited

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	604.59	CARE-NP B+ [Single B Plus]
Short Term Bank Facilities	Fund Based Limit	47.80	CARE-NP A4 [A Four]
Total		652.39	

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