

## Thamel Plaza Hotel and Suites Limited

### Ratings

Facilities/ Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	770.00	CARE-NP BB [Double B]	Revised from CARE-NP BB-
Short Term Bank Facilities	30.00	CARE-NP A4 [A Four]	Reaffirmed
<b>Total Facilities</b>	<b>800.00</b> <b>(Eight Hundred Million Only)</b>		

\* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has revised the rating assigned to the long term bank facilities of Thamel Plaza Hotel and Suites Limited (TPHS) to 'CARE-NP BB' from 'CARE-NP BB-' and has reaffirmed the rating of 'CARE-NP A4' assigned to the short term bank facilities of TPHS.

### Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the long term bank facilities of TPHS considers improvement in operating performance of the hotel in FY23 (Unaudited; FY refers to the twelve-month period ending mid-July) supported by improvement in occupancy rate and average annual revenue per available room (RevPAR) leading to improved profitability and positive cash accruals. A continued rebound in operating income over the near-term is expected as displayed from positive momentum in operating environment of hospitality sector in H1FY24 (H1 refers to the six-month period ending mid-January) backed by increasing trend in tourist arrivals and growing domestic tourism. However, despite an improving income trend, the ratings continue to be constrained by highly leveraged capital structure and modest debt servicing coverage indicators. The ratings are also constrained by susceptibility to cyclicalities, intense competition and geographic concentration in the hospitality sector and exposure to volatile interest rates. The ratings, however, continue to derive strength from TPHS' experienced directors and management team and its association with a reputed hotel brand, which is likely to continue 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 and profit margins resulting in improved solvency and debt service coverage indicators will be key rating sensitivities.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### Highly leveraged capital structure and modest debt service coverage indicators

The capital structure of the company stood highly leveraged with overall gearing ratio of 3.82x at the end of FY23 (FY22: 3.47x) on account of higher debt levels of the company. The company's diluted tangible net worth owing to net losses during FY23 also led to increasing gearing levels in FY23. Furthermore, interest coverage ratio of the company stood modest at 1.19x during FY23, albeit improved from 0.62x during FY22 supported by increased PBILDT generation amid growing sales. Total debt to Gross Cash Accruals (GCA) stood high at 37.37x during FY23 which improved from negative Total Debt/GCA on account of positive GCA achieved during FY23. Given the relatively high debt levels, the ability of the company to adequately service its debt obligations will continue to depend on its ability to generate sufficient income as envisaged.

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

**Long gestation period associated with hotel industry**

The company has set up a hotel with 90 rooms capacity which includes all modern amenities, F&B service, swimming pool, spa, conference hall and other facilities and has come into operations since January, 2021. Generally, 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. Despite improving operational performance trend, the company reported net losses in FY23. Thus, the company's ability to continue the growth momentum resulting in sustained positive cash accruals over the medium term remains crucial from analytical perspective. TPHS's association with a reputed global hospitality brand is likely to continue to help it attract customers and help improve occupancy level faster vis-à-vis competition.

**Exposure to volatile interest rate**

Relatively high debt levels led to high interest outgo of Rs. 105 Mn for TPHS in FY23 (FY22: Rs. 75 Mn). The company operates under a floating interest rate regime, wherein a premium is added to the monthly base rate, and the interest rate is adjusted accordingly on a monthly basis. The base rates of banks and financial institutions (BFIs) in Nepal are subject to volatility, influenced by the liquidity available in the system, causing fluctuations in interest rates. The company is vulnerable to the impact of these changes, and higher-than-anticipated interest rates could potentially squeeze the company's profit margins.

**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. 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.

**Key Rating Strengths****Experienced promoters 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. Jagannath Gyawali, Chairman, has around a decade of experience in the hospitality industry. Similarly, other directors of the company have wide experience across various businesses. 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 and strategic locational advantage**

TPHS has entered into licensed agreement with Wyndham Hotel Asia Pacific Company Limited (WHAP) for the international brand of 'Ramada encore' which is a large multinational mid-scale hotel chain. Ramada brand operates more than 850 hotels across 60+ 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. 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. Additionally, the hotel is located in Thamel, Kathmandu, which is one of the preferred location for international tourists visiting Nepal with a high influx of visitors each year.

### Improving operating performance trend in FY23, sustained momentum in H1FY24

During FY23, total operating income (TOI) of company grew by ~111% year-on-year to Rs. 236 Mn, attributable to improvement in occupancy rate and RevPAR. Occupancy rate increased to ~69% during FY23 with RevPAR of Rs. 2,184 (vis-à-vis ~36% and Rs. 1,028 respectively during FY22). This increase in room occupancy has also led to additional benefits by enhancing revenue from food and beverage sales. Consequently, PBILDT margin increased to 52.82% in FY23 from 41.78% in FY22. However, the company reported net losses on account of high interest outgo.

The improvement trend in income levels is likely to sustain going forward, barring any significant shocks, given the observed positive trend in tourist inflow in CY23 (CY refers to twelve-month period ending December). The company has booked income of Rs. 130 Mn during H1FY24 with improvement in average occupancy rate to ~72% (H1FY23: ~64%). However, the company's ability to attract enough customers to run the hotel at an optimal occupancy level for a sustained period will continue to remain key for its revenue profile over the medium term.

### Industry Outlook

The tourism sector remains a key priority for Nepal, as evidenced by the Budget Announcement for FY24 by the Ministry of Finance, which has allocated Rs. 11.96 billion to the Ministry of Culture, Tourism, and Civil Aviation. Reflecting the government's commitment to the sector's development, 2023-2033 has been designated as the Tourism Decade, with the goal of positioning Nepal as a Prime Tourist Destination. This focused government support suggests encouraging prospects for the tourism sector over the medium term.

Furthermore, the tourism industry in Nepal has displayed positive momentum in FY23, rebounding from the significant impact of the COVID-19 pandemic in FY21 and FY22. The revival of the hospitality sector is not only attributable to the rise in foreign tourists but also to pent-up demand for leisure and social events, as well as business travel. Increased bookings for weddings and a notable uptick in Meetings, Incentives, Conferences, and Exhibitions (MICE) activities have contributed to the sector's recovery.

Despite global macroeconomic challenges, such as high inflation and elevated interest rates, which may pose near-term obstacles to recovery, key performance indicators like revenue per available room, average room rate, and occupancy rate have shown improvement in FY23 and are anticipated to sustain their positive trajectory. This underscores the resilience and potential of Nepal's tourism sector in navigating the prevailing economic headwinds.

### About the Company

Thamel Plaza Hotel and Suites Limited (TPHS) was incorporated in January 05, 2012 under Company Act, 2006 as a private limited company which was later converted into a public limited company July 13, 2023. TPHS is operating a four-star hotel located in Thamel, Kathmandu, Nepal. The hotel property 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.

### Financial Performance

(Rs. in Million)

For the Period/as at mid-July	FY22 (A)	FY23 (UA)
Income from Operations	112	236
PBILDT Margin	41.78	52.82
Overall Gearing (times)	3.47	3.82
Interest coverage (times)	0.62	1.19
Current Ratio (times)	1.36	1.11
Total Debt/Gross Cash Accruals (times)	Negative	37.37

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	770.00	CARE-NP BB [Double B]
Short Term Bank Facilities	Fund Based Limit	20.00	CARE-NP A4 [A Four]
Short Term Bank Facilities	Non-Fund Based Limit	10.00	CARE-NP A4 [A Four]
<b>Total</b>		<b>800.00</b>	

**Contact us****Analyst Contact**

Ms. Anusha Thapa

+977-01-4012630

[anusha.thapa@careratingsnepal.com](mailto:anusha.thapa@careratingsnepal.com)

Mr. Santosh Pudasaini

+977 9802312855

[pudasaini.santosh@careratingsnepal.com](mailto:pudasaini.santosh@careratingsnepal.com)**Relationship Contact**

Mr. Achin Nirwani

+977 9818832909

[achin.nirwani@careratingsnepal.com](mailto:achin.nirwani@careratingsnepal.com)**About CARE Ratings:**

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

**Disclaimer**

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.