Chhaya Devi Complex Limited

Ratings

Facilities	Amount (Rs. in Million)	Rating[1]	Rating Action
Issuer Rating	NA	CARE-NP BBB- (Is) [Triple B Minus (Issuer Rating)]	Assigned
Long Term Bank Facilities	1,807.00	CARE-NP BBB- [Triple B Minus]	Assigned
Short Term Bank Facilities	43.00	CARE-NP A3 [A Three]	Assigned
Total Facilities	1,850.00 (One Billion and Eight Hundred Fifty Million Only)		

**The issuer rating is subject to overall gearing ratio of the company not exceeding 1.5x at the end of FY24 (FY refers to twelve-month period ending mid-July).*

CARE Ratings Nepal Limited (CRNL) has assigned the issuer rating of 'CARE-NP BBB- (Is)' to Chhaya Devi Complex Limited (CDCL). Issuers with this rating are considered to offer moderate degree of safety regarding timely servicing of financial obligations, in Nepal. Such issuers carry moderate credit risk.

CRNL has also assigned the rating of 'CARE-NP BBB-' to long term bank facilities and 'CARE-NP A3' to short term bank facilities of CDCL.

Detailed Rationale & Key Rating Drivers

The ratings assigned to CDCL derive strengths from experienced and resourceful promoter group of the company along with its association with a globally well reputed hotel brand, which is likely to benefit the company in terms of marketing and hotel operations over the long-term. The ratings also factor in the sustained improvement in operating performance of the company in FY23 and H1FY24 (H1 refers to the six-month period ending mid-January) marked by increase in overall occupancy levels and Average Room Rate (ARR) aided by growing inflow of tourists in the country and strategic locational advantage of the hotel. Additionally, the ratings also drive comfort from equity infusion in H1FY24, which has been utilized for deleveraging the company's balance sheet, thus improving its overall gearing levels in H1FY24 and lessen debt servicing burden going forward. The ratings also factor in positive outlook for tourism sector over the near to medium term with government initiative for prioritizing tourism. The ratings, however, are constrained by its moderate capital structure and coverage ratios at the end of H1FY24, despite having improved from FY23 levels with higher principal repayments lined up from FY27 onwards. The ratings also factor in the revenue concentration risk from a single property, exposure to volatile interest rates and foreign exchange fluctuation risk and susceptibility to cyclicality and intense competition in the hospitality sector.

Going forward, the ability of the company to achieve the envisaged occupancy levels and average room rates (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 Strengths

Experienced and resourceful promoters

CDCL is managed under the overall guidance of the company's board of directors (BOD) who possess wide experience in different sectors. The company has six directors in its board, chaired by Mr. Prithivi Bahadur Pandey, who has more than four decades of experience in banking sector. He is currently chairman and chief executive director of Nepal Investment Mega Bank Limited and

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

had earlier been involved under different positions in Nepal Rastra Bank and Rastriya Banijay Bank Limited. Mr. Suman Bikram Pandey, Director, has been involved in hospitality sector more than two decades. Mr. Suhrid Raj Ghimire, Director, is Chairman of companies under Continental group which are involved in trading, investment, real estate, construction company. Mr. Maheshwor Prakash Shrestha, Managing Director, is also director of Himalayan Infrastructure Fund and has over two decades of experience in finance and banking sector. BODs are further supported by an experienced team across various functions/ departments.

Improving financial performance in FY23 marked by improved occupancy indicators, sustained momentum in H1FY24

The company's stream of revenue is divided into income from commercial segment (proceeds from outright sale of commercial shops and rental income from casino, cinema hall etc.) and income from hotel operations. During FY21 and FY22, when hotel operations was impacted by the pandemic, substantial portion of the total operating income (TOI) were contributed by outright sale of commercial shops. The company has already sold 69% of total saleable area of commercial segment as on mid-July, 2023. Going forward, the majority of CDCL's income is likely to come from hotel operations, which has been on sequential rebound over FY22, FY23 and H1FY24. Income from hotel operations increased by 65% y-o-y to Rs. 710 Mn during FY23 (FY22: Rs. 431 Mn) with rebound in occupancy rate to 74% during FY23 from 52% during FY22 supported by increasing inflow of tourists in the country post pandemic. Additionally, the company also has a casino unit in its premises, which provides additional income support in the form of rental income besides helping to bring in more customers to the hotel. The company reported net profits and positive gross cash accruals for the last three consecutive fiscal years backed by proceeds from sale of commercial shops despite subdued hotel operations during FY21, FY22 followed by ramping up of hotel operations during FY23. Sustained momentum of improvement in hotel operation is also reflective from its increased occupancy of 77% in H1FY24 and improved Average Room Rate (ARR). CDCL has booked Rs. 368 Mn income from hotel operations during the first half of FY24. Steady improvement in hotel operations is likely over the medium-term buoyed by increasing flow of tourists into the country. However, the company's ability to achieve occupancy rates and ARRs at envisaged levels will remain critical from credit perspective, given few more hotels are expected to come into operation in the capital in upcoming years.

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

CDCL has entered into a License Agreement with Starwood Asia Pacific Hotels and Resorts Private Limited, which is owned by Marriott International. Marriott International is an American based corporation that operates, franchises, and licenses lodging including hotel, residential, and timeshare properties. It has 30 hotel brands with 8,000+ properties containing 1,423,044 rooms across 139 countries. Under License Agreement with Starwood Asia Pacific Hotels and Resorts Private Limited, Starwood grant CDCL right to operate the hotel under Aloft brand and provide certain services as provided to franchised Brand Hotels on a system wide basis with access to Starwood's global reservation systems. 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 will likely benefit CDCL in terms of increased revenues, global business reputation and brand specific resources.

Strategic locational advantage of the hotel

The hotel is centrally located in Thamel, Kathmandu with Tribhuwan International Airport at a distance of around 6.2 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.

Key Rating Weaknesses

Moderate capital structure and coverage indicators, post equity infusion from private equity

Overall gearing ratio of the company stood moderate at 1.04x as on mid- January, 2024, which improved from gearing level of 1.77x as on mid-July 2023 on account of equity infusion from private equity which was utilized entirely for prepayment of term loan. The tangible net worth, which was diluted on account of substantial losses during FY20 being the first year of commercial operations, has since been improving aided by accretion of net profits during the last three consecutive years and stood at Rs. 1,289 Mn at the end of FY23. It further improved to Rs. 1,762 Mn as on mid-January,2024. Other coverage indicators as interest coverage ratio and total debt to GCA stood moderate at 1.78x and 9.84x in H1FY24 respectively (FY23: 1.75x & 13.55x respectively). Although CDCL does not have any scheduled principal repayments for term loan lined up for rest of FY24 and FY25, the company is liable for settlement of deferred interest (by the end of FY24) from the pandemic era as part of the relaxations then provided by Nepal Rastra Bank (NRB). Settlement of these liabilities in timely manner will be key monitorable aspect. Also, the company has ballooning scheduled repayments with higher principal repayments lined up from FY27 onwards, which is likely to put pressure in debt repayment capacity of the company for these periods. However, steady improvement in income from hotel operations is expected from sustained improvement in overall occupancy rates, which is expected to further improve capital structure and debt service coverage indicators over the medium term, barring any major setbacks like the ones seen during the major waves of the pandemic in FY20 and FY21.

Susceptibility to cyclicality and intense competition

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 ARRs 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.

Single property concentration risk

The company derives its income from single property i.e Aloft in Kathmandu. This exposes CDCL to significant amount of concentration risk as its fortunes are linked to the operational and financial performance of the property as well as general economic trends in the geographical area where the hotel is located.

Exposure to volatile interest rate risk

The company’s interest rates are based on 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. Higher interest rates than envisaged could result in squeezed margins of the company. Hence, funding taken by the company is exposed to volatile interest rate. However, some comfort can be taken from lower premium rates to CDCL as compared to other hotel projects in the industry.

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

Chhaya Devi Complex Limited (CDCL) incorporated in January 2008, owns and operates a 167-room capacity five-star hotel integrated with a commercial retail mall. The company was converted into public limited company on June 25, 2021. 51% of total area has been segregated for hotel operations and remaining area has been segregated for commercial complex. The commercial complex came into commercial operation on October 18, 2018 and hotel came into commercial operation on July 17, 2019 after nine months of operation of commercial complex.

Brief financial performance of CDCL during last three consecutive years is given below:

(Rs. in Million)

Particulars	FY21 (A)	FY22 (A)	FY23 (A)	H1FY24 (UA)
Income from Operations	1,874*	846*	837	413
PBILDT Margin (%)	39.64	42.68	47.98	50.83
Overall Gearing (times)	1.98	1.89	1.77	1.04
Interest coverage (times)	5.44	1.64	1.75	1.78
Total Debt/Gross Cash Accruals (times)	3.85	16.55	13.55	9.84

**Includes Rs. 1,700 Mn and Rs. 255 Mn as proceeds from outright sale of commercial shops during FY21 and FY22, respectively.*

A: Audited; UA: Unaudited

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	**Term Loan**	**1,807.00**	**CARE-NP BBB-**
Short Term Bank Facilities	**Working Capital Loan**	**43.00**	**CARE-NP A3**
Total Facilities		**1,850.00**	

Contact us

Analyst Contact
Ms. Monika Rawal
Contact No.: +977-01-4012628
Email: monika.rawal@careratingsnepal.com

Mr. Santosh Pudasaini
Contact No.: 9802312855
Email: pudasaini.santosh@careratingsnepal.com

Relationship Contact
Mr. Achin Nirwani
Contact No.:+977 9818832909
Email: achin.nirwani@careratingsnepal.com

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