

Rating Rationale
Orchid Holdings Private Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	946.96	CARE-NP B+ [Single B Plus]	Assigned
Short Term Bank Facilities	45.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	991.96		

Details of Facilities in Annexure 1

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

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of OHPL are constrained by project stabilization risk and long gestation period associated with hotel industry and time overrun of the hotel project followed by project cost overrun. The rating is also constrained by financial risk profile marked by net loss and weak debt coverage indicators for the initial year of operations; exposure to volatile interest rates; susceptibility to cyclicity, intense competition and geographic concentration in the hospitality sector. The ratings, however, derive strength from experienced board and management team, strategic locational advantage of the hotel and low project implementation risk associated with the hotel project. The ratings also factor in government initiative and support for tourism; and increasing trend of tourists in Nepal.

Ability of the company to achieve healthy profitability, improve occupancy level and average room rate (ARR) of the hotel on a sustained basis will be key rating sensitivity.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Project stabilization risk and long gestation period associated with hotel industry

The company has set up a hotel with 131 rooms capacity which also includes restaurants, swimming pool, conference and banquet hall and other facilities with an aggregate project cost of Rs. 1,774 Mn which is funded at a debt equity ratio of 56:44. The company soft launched the hotel with 51 rooms on April 16, 2019 and all 131 rooms came to operation on August 01, 2019. Generally, hotel projects have long gestation period since construction of a premium hotel takes up to three to four years while stabilization of operations may take another two to three years. Going forward, ability of the company to attract customers, improve the occupancy level and establish its brand will be crucial rating factor.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

Time overrun of the hotel followed by project cost overrun

Expected commercial operation date of the hotel was May 2018, which was delayed by more than one year on account of lack of skilled labour, shortage of construction materials and other technical reasons. Further, aggregate project cost has significantly increased by ~58% to Rs. 1,774 Mn mainly due to time overrun of the hotel project coupled with increase in interest during construction component, pre-operating expenses and upgradation/ improvement in initial plan of the hotel. Till January 15, 2020, debt of Rs. 947 Mn and equity of Rs. 775 Mn has been infused in the project along with loan from promoters/ directors amounting to Rs. 1.60 Mn. Tie-up for remaining term loan amount of Rs. 45 Mn is under process.

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

The company is expecting losses during the initial years of operation that will lead to weak debt service coverage indicators. Also, as on July 16, 2019, the overall gearing ratio of the company was at 1.30x which is expected to deteriorate further at the end of FY20 (refer to 12 month's period ending Mid July, 2020) on back of loss during the year and increase in the term loans which will be partially offset by infusion of equity.

Exposure to volatile interest rates

Nepalese banking sectors are fixing lending interest rate based on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, funding from Bank and Financial Institutions is exposed 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 the presence of large number of organized and unorganized players spread across various regions. There is constant growth of tourists in Nepal which is reflected by ~8% growth in number to 0.98 Mn for the period January to October, 2019. Demand of Kathmandu and its surrounding areas as a tourist destination is increasing on the global tourism market. However, occupancy levels and revenue in the hotel industry are susceptible to macroeconomic trends, both in the domestic and global markets. The company has a single hotel establishment located at Kathmandu, thus exposing operations to geographic concentration risk. Furthermore, by catering largely to the hotel segment, revenue and profitability remain susceptible to business growth and the dynamics of the hotel industry. Any slowdown in industry may impact OHPL's operations.

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

The company is managed under the overall guidance of its four board of directors (BOD) who possess wide industry experience. Mr. Sudhir Man Maskey, managing director, has wide work experience of over 24 years in

various industries. Similarly, other directors of the company have experience in various sectors such as finance, real estate, trading, manufacturing etc. Mr. Bharat Joshi, general manager, has extensive work experience of over 38 years with varied exposure in the hospitality industry of Nepal. BODs are further supported by an experienced team across various functions/ departments.

Strategic locational advantage of the hotel

The hotel is located at Ravi Bhawan, Kathmandu with Tribhuvan International Airport at a distance of around 9 kms. Also, the influx of tourists is high in Kathmandu as it is an entry point for international tourists in the country via flight along with being the capital city of Nepal with 7 UNESCO world heritage sites and approximately 28 kms away from Nagarkot which is also famous with the tourists.

Fully operational hotel project

The hotel came into full operation on August 01, 2019 with 131 operational rooms, swimming pool, restaurants, conference rooms/ events halls etc. At present, only Chinese Specialty Restaurant is yet to start and the same is expected to come into operation at the beginning of March 2020. However, the project is still exposed to the residual risks associated with its satisfactory operations with regard to ability of the company to generate adequate hotel revenue as projected, achieve healthy profitability margins and occupancy levels.

Government initiative and support for tourism

Tourism sector remains the prioritized sector of Nepal which has contributed 7.9% to national gross domestic product in 2018. Government has also initiated to organize “Visit Nepal Year 2020” to attract more tourists in Nepal with vision to bring 2 million tourists by 2020. Also, Monetary Policy of 2019/20, has directed commercial banks to allocate minimum 25% of total credit to priority sector of which 5% to be allocated to tourism sector. The government also provides tax holiday for large hotel projects established with capital investment of more than Rs. 2 Bn. With the government prioritizing development of travel and tourism in the country, the future prospect of this sector looks encouraging.

Increasing trend of tourists in Nepal

Inflow of tourist in Nepal has seen continuous growth in last few years with 0.54 Mn tourist visiting Nepal in CY15 which increased to 0.75 Mn in CY16 registering ~40% growth. Further, it recorded a growth of ~25% in CY17 with 0.94 Mn tourist inflows and ~25% in CY 18 with 1.17 Mn tourist inflows. With ~83% of tourist as Non-Indian tourist and ~16% of total tourist arriving for trekking and mountaineering in CY18, Nepal has become one of the preferred destination of tourists for trekking and mountaineering beside being a holiday destination. However, visitors from China accounted for second highest in number of 0.17 Mn tourists in CY18 (i.e. ~15%). With the recent outbreak of Corona Virus that led to World Health Organization (WHO) declaring global health emergency, it is expected that travel and tourism industry in Nepal as well as around the world will be adversely impacted in CY20.

About the Company

Orchid Holdings Private Limited was incorporated on November 13, 2007. The company has constructed a 4-star hotel in Kathmandu with a total of 131 room keys operating under the commercial name of ‘Hotel Crowne Imperial’. Commercial operation date of the hotel was August 01, 2019. The company is being promoted by 16 equity shareholders including one institutional promoter who have infused total paid-up equity of Rs. 344 Mn as on July 16, 2019.

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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	946.96	CARE-NP B+
Short Term Bank Facilities	Overdraft Loan	45.00	CARE-NP A4
Total		991.96	