

**Rating Rationale**  
**Mountain Glory Private Limited**

**Rating**

Facility	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	570.16 (Decrease from Rs. 640.00 Mn)	CARE-NP BB- [Double B Minus] (Credit watch with negative implications)	Revised from CARE-NP BB [Double B] and rating continue to be placed on credit watch with negative implications
Short Term Bank Facilities	47.80	CARE-NP A4 [A Four] (Credit watch with negative implications)	Assigned and rating placed on credit watch with negative implications
<b>Total Facilities</b>	<b>617.96</b> <b>(Decrease from</b> <b>Rs. 640.00 Mn.)</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has revised the rating to ‘CARE-NP BB-’ for long term bank facilities and assigned rating of ‘CARE-NP A4’ for the short term bank facilities of Mountain Glory Private Limited (MGPL). The ratings continue to remain under credit watch with negative implications.

**Detailed Rationale & Key Rating Drivers**

The revision in the ratings assigned to the long term bank facilities of MGPL takes into account decline in financial profile of the company in FY20 (refers to 12 months’ period ended mid-July 2020, Unaudited) with high losses during the year coupled with stressed liquidity profile of the company. MGPL’s operations were adversely impacted during FY20 on account of lockdown imposed by the Government of Nepal due to Covid-19 pandemic leading to sharp decline in movement of tourists. The operations of the hotel are expected to be muted in the near term with lower generation of revenue, subdued cash flows and deterioration in debt service coverage indicators. The continuation of the rating under ‘Credit watch with negative implications’ factors in the ongoing impact of Covid-19 on the tourism and hospitality sector in the medium term as well as on the operations of the hotel. CRNL shall be continuously monitoring the COVID-19 crisis and its impact on the business, financial risk profile and liquidity position of the company during this period. CRNL may remove the ratings from watch, and would take a final action on the ratings once clarity emerges on these issues.

The ratings also factor in operational stabilization risk and long gestation period associated with hotel industry; susceptibility to cyclicity, intense competition and geographic concentration in the hospitality sector. The ratings, however, derive strength from promoters having prior experience in tourism industry; strategic locational advantage of the hotel; hotel operations likely to benefit from strong marketing efforts and business linkages of promoters; government initiative and support for tourism. Ability of the

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

company to manage growth in operations and revenue with sufficient generation of operational cash-flows to improve its liquidity profile and debt coverage indicators will be the key rating sensitivities. Further, the promoter's ability to infuse required funds and to obtain favorable restructuring/rescheduling terms from the current lenders along with additional funding support will remain key monitoring conditions.

#### ***Impact of Covid-19 on the business of the company***

The outbreak of Coronavirus disease 2019 (Covid-19) which was recognized as Pandemic by World Health Organization on March 11, 2020 has affected Nepal as well. Further, Government of Nepal (GoN) imposed travel restrictions and countrywide lockdown since March 24, 2020 closing most of the organizations and slowing down the economic activities. The lockdown had been extended multiple times with government easing lockdown from June 14, 2020. Also, international flights services which were suspended on March 23, 2020 resumed from September 01, 2020 except three Indian destinations- New Delhi, Mumbai and Bangalore due to high infection rate in India. However, international flight from Kathmandu to Delhi has resumed from December 17, 2020. MGPL was completely shut during the lockdown period and resumed its operation after easing of lockdown with very low occupancy rate. GoN had provided different relief packages for the business affected by the COVID-19 vide different notices which were availed by MGPL to minimize the stress on the debt obligations of the company.

#### **Detailed Description of the Key Rating Drivers**

##### **Key Rating Weaknesses**

##### ***Operation of the company highly impacted due to impact of COVID-19 resulting low revenue and loss in FY20***

MGPL started commercial operation of the hotel with full infrastructure and facilities from July 2019 and FY20 was the first full year of operations which was highly disrupted on account of Covid-19 leading to low occupancy levels and lower generation of revenue. During FY20, MGPL achieved total revenue of Rs. 39 Mn with loss of Rs. 118 Mn being generated on account of high depreciation and interest expenses which was previously capitalized in project cost.

##### ***Weak debt service coverage ratio at the end of FY20 with stressed liquidity***

The debt service coverage indicators are stressed with total debt to gross cash accruals of -ve and interest coverage ratio of -ve 0.28x in FY20 on account of huge interest followed by loss in operation during FY20. The company had leveraged capital structure marked by overall gearing ratio of 2.21x at the end of FY20. Liquidity of the company is stressed on account on sharp decline in revenues with operations being significantly impacted by Covid-19. With low level of occupancy and tourism likely to revive in the near future cash flow from operations of the company are likely to be stretched with generation of losses.

Gearing ratios of the company are expected to further deteriorate assuming impact of Covid-19 situation continue in the near term and additional term loans availed by the company in the current year.

***Operational stabilization risk and long gestation period associated with hotel industry***

The company has recently set up a hotel with capacity of 64 rooms which includes all modern amenities with an aggregate project cost of Rs. 1,173 Mn which is funded at a debt equity ratio of 51:49. Company has started its full-fledged commercial operation from July 2019. Due to impact of COVID-19, hotel was able to operate only for 8.5 months with low occupancy rate and discounted price. After the ease of lockdown, company resumed its operation with the support of domestic tourism at very low occupancy rate. 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, given limited operational record, the ability of the company to attract customers, maintain occupancy level and establish its brand will be crucial rating factor.

***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. Demand of tourist destination like Pokhara and its surrounding areas is increasing on the global tourism market. This has resulted in increase in number of hotels operating in Pokhara which will ultimately result in intense competition that might lead to stagnant ARR despite surge in demand of tourists. Also, occupancy levels and revenue in the hotel industry are susceptible to macroeconomic trends, both in the domestic and global markets. The company's hotel has a single establishment located at Pokhara, 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 MGPL's operations as seen in current situation of Covid-19.

**Key Rating Strengths**

***Promoters having prior experience in tourism industry***

MGPL is managed under the overall guidance of the company's eight board of directors (BOD) who possess experience in related field. Mr. Sunil Bhakta Shrestha, executive chairman, has wide experience in various business sectors such as hydropower, banking, hospitality, trading etc. Mr. Narendra Prajapati, director, has work experience of around 31 years in various industries. BOD are further supported by an experienced team across various functions/ departments.

***Strategic locational advantage of the hotel***

The hotel is located in Dovilla-21, Pokhara which is one of the most attractive tourist destinations of Nepal. With multiple lakes, adventure sports, views of Himalayas and religious spots, it attracts domestic

and international tourist in large numbers. It also serves as gateway for trekkers visiting Annapurna trekking circuit in Annapurna Conservation Area. All season airport of Pokhara (~8 km) is well connected with regular flights to Kathmandu (Capital City of Nepal) and with International Airport (~12 km) under construction which is expected to be built by April 14, 2021; Pokhara acts as a strategic location for the project.

***Hotel operations likely to benefit from strong marketing efforts and business linkages of promoters***

The promoters of the company have prior experience in tourism and hospitality sector which is expected to benefit operations of the hotel. 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. It will also help to offset inherent seasonality risk associated with hotel industry to some extent and also overcome the impact of Covid-19 at a better pace.

***Government initiative and support for tourism***

Tourism sector remains the prioritized sector of Nepal which contributed 2.05% to national gross domestic product (GDP) in FY18-19 till mid-April 2019. However, due to travel restriction imposed by lockdown from March 2020, tourism sector was able to contribute only 1.41% to national GDP in FY19-20 till mid-April 2020. In recent Budget Announcement for FY2020/21, the government has allocated Rs. 1.26 Bn for tourism infrastructure development. Also, Unified Directive of 2020/21, has directed “Class B” and “Class-C” banks within mid-July 2024 to allocate minimum 20% of total credit and minimum 15% of total credit respectively to agriculture, energy, SMEs and tourism sector.

***Increasing trend of tourists in Nepal however with the exceptional decline due to COVID-19***

Inflow of tourist in Nepal has seen continuous growth in last few years with 0.75 Mn tourist visiting Nepal in CY16 which increased to 1.17Mn in CY18 and further increased to 1.19 Mn in CY19. With ~79% of tourist as Non-Indian tourist and ~14% of total tourist arriving for trekking and mountaineering in CY19, Nepal has become one of the preferred destination of tourists for trekking and mountaineering beside being a holiday destination. The effect of COVID-19 was already seen as in CY20, a total of 0.22 Mn tourists arrived in the country until the end of October 2020. However, GoN has opened different peaks and trekking trails for foreign trekkers and climbers since October 17, 2020. Further, hotels are providing different affordable packages to attract domestic tourists.

**About the Company**

Mountain Glory Private Limited was incorporated on May 24, 2007 as a private limited company. MGPL has constructed a hotel property under the commercial name of Mountain Glory Forest Resort & Spa in Pokhara which is sprawled over 7.42 acres of land and a total of 64 room keys. MGPL is being promoted

by a group of eight individual shareholders who are all are directors of the company and have infused total paid-up equity of Rs. 453 Mn as on July 15, 2020.

Brief financials of MGPL for last two years ending FY20 are given below:

(Rs. Million)

For the year ended Mid July	FY19	FY20
	(Audited)	(Provisional)
Income from Operations	23	39
PBILDT	(40)	(13)
PAT	(27)	(118)
Overall Gearing (times)	1.47	2.21
Interest Coverage (times)	(21.94)	(0.28)

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**Annexure 1: Details of the Facilities rated**

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	570.16	CARE-NP BB- (Credit watch with negative implications)
Short Term Bank Facilities	Working Capital Loan	47.80	CARE-NP A4 (Credit watch with negative implications)
<b>Total</b>		<b>617.96</b>	