

Rating Rationale

Thamel Plaza Hotel & Suits Private Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities –Term Loan	740.00 (Reduced from Rs. 748.59 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–Working Capital Loan	40.00	CARE-NP A4 [A Four] (Credit watch with negative implications)	Reaffirmed and rating continue to be placed on credit watch with negative implications
Short Term Bank Facilities–Non Fund Based Loan	20.00	CARE-NP A4 [A Four] (Credit watch with negative implications)	Assigned and rating placed on credit watch with negative implications
Total Facilities	800.00 (Increased from Rs. 768.59 Mn.)		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has revised the rating to ‘CARE-NP BB-’ from ‘CARE-NP BB’ assigned to the long term bank facilities and reaffirmed rating of ‘CARE-NP A4’ assigned to the short term bank facilities of Thamel Plaza Hotel & Suits Private Limited (TPHS). The ratings continue to remain under credit watch with negative implications.

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of TPHS takes into account delays in repayment of the bank obligations less than 30 days and tight liquidity position coupled with financial risk profile marked by low profitability and weak debt coverage indicators for the initial year of operations. 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 on the backdrop of ongoing Covid-19 pandemic. 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.

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

The ratings also factor in operational stabilization risk and long gestation period associated with hotel industry; susceptibility to cyclical, intense competition and geographic concentration in the hospitality sector. The ratings, however, derive strength from experienced directors and management in related field, association with reputed hotel brand likely to benefit the company in terms of marketing and hotel operations, strategic locational advantage of the hotel, government initiative and support for tourism. Ability of the 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 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. The final construction phase of the hotel was highly impacted due to Covid-19 which led to extend its commercial operation date from February 2020 to January 08, 2021. GoN had provided different relief packages for the business affected by the COVID-19 vide different notices which were availed by TPHS to minimize the stress on the debt obligations of the company.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Delays in repayment of the bank obligations and tight liquidity position

There has been instances of delay by TPHS in payment of its bank loan obligations during FY20 and H1FY21 due to cash flow mismatches which has however, been settled within 30 days. The near-term liquidity profile is also expected to remain stretched as sources of fund for repayment of bank obligations are fully dependent on the additional equity infusion from promoters and additional funds from banks. With the flow of domestic tourism and opening up of lockdown in the country, TPHS expect to increase its operation and expect to improve its tight liquidity position.

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

TPHS is expecting relatively low profit level during the initial years of operation and weak debt coverage indicators due to low occupancy rate and impact of Covid-19 on the tourism sector which is yet to recover. As on July 15, 2020, the overall gearing ratio of the company was at 1.62x which is expected to deteriorate further at the end of FY21 (refer to 12 month's period ending Mid July, 2021) on back of low

profit during the year and increase in the term loans which will be partially offset by expected equity infusion.

Operational stabilization risk and long gestation period associated with hotel industry

The company has recently set up a hotel with capacity of 90 rooms which includes all modern amenities with an aggregate project cost of Rs. 1,393 Mn. 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 no operational record, the ability of the company to attract customers, improve 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. 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 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 TPHS's operations as seen in current situation of Covid-19.

Key Rating Strengths

Promoters having prior experience in tourism industry

The company is managed under the overall guidance of the company's board of directors (BOD) who possess experience in related field. Mr. Shanti Raman Pangei, chairman, has wide experience in hospitality industry. Similarly, other directors of the company have experience in various sectors such as hospitality, banking, hydropower, manufacturing etc. Mr. Nitin Sodhi, General Manager, has extensive work experience of over 14 years with varied exposure in the hospitality industry of India. BOD are further supported by an experienced team across various functions/ departments.

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

The company has entered into 'License Agreement' with Wyndham Hotel Asia Pacific Co. Limited for the international brand of 'Ramada' which is a large multinational mid-scale hotel chain. Ramada brand operates 811 hotels with 114,614 rooms across 63 countries as of December 31, 2018. Under the license agreement, TPHS will get marketing services, system implementation, consultation services etc. This will provide the hotel with an added benefit of established service, large customer base, marketing assistance and already widespread brand recognition to drive hotel guest bookings.

Strategic locational advantage of the hotel

The hotel is centrally located in Thamel which is one of the most popular tourist places in Kathmandu offering various facilities to tourists such as hotels, restaurants & bars, casinos, travel agencies etc. Also, the influx of tourists is high in Kathmandu as it is an entry point for international tourists in the country via flight (~6 kms to International Airport from the hotel) along with being the capital city of Nepal with 7 UNESCO world heritage sites.

Government initiative and support for tourism

Tourism sector remains the prioritized sector of Nepal which has 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 low to national GDP in FY19- 20. In recent Budget Announcement for FY2020/21 by Ministry of Finance, 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 1.19 Mn tourist inflows in CY19. With ~79% of tourist as Non-Indian tourist and ~14% of total tourist arriving for trekking and mountaineering in CY19, Nepal is showcased as 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 0.23 Mn tourists arrived in the country. However, GoN has opened different peaks and trekking trails for foreign trekkers and climbers since October 17, 2020.

About the Company

Thamel Plaza Hotel & Suits Private Limited was incorporated in January 05, 2012. TPHS has constructed a hotel in Thamel, Kathmandu which 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. TPHS is being promoted by total number of 37 shareholders including two institutional promoters and have infused total paid-up equity of Rs. 271 Mn along with share application money of Rs. 189 Mn. as on July 15, 2020.

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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	740.00	CARE-NP BB- (Credit watch with negative implications)
Short Term Bank Facilities	Working Capital Limit	20.00	CARE-NP A4 (Credit watch with negative implications)
Short Term Bank Facilities	Non-Funded Limit	40.00	CARE-NP A4 (Credit watch with negative implications)
Total		800.00	