

Orchid Holdings Private Limited

Rating

Facility	Amount (Rs. In Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	950.00 (Increased from 946.96)	CARE-NP B+ [Single B Plus]	Reaffirmed
Short Term Bank Facilities	50.00 (Increased from 45.00)	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	1,000.00 (One Billion)		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP B+' assigned to the long term bank facilities and 'CARE-NP A4' assigned 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 continue to remain constrained by stabilization risk associated with newly setup hotel considering long gestation period associated with hospitality industry, exposure to volatile interest rates and susceptibility to cyclical, intense competition, and geographic concentration in the hospitality sector. The ratings also took cognizance of subdued operating performance impacted due to recurring lockdown & travel restrictions resulting into very low booking of revenue.

The ratings, however, derive strength from experienced directors, strategic locational advantage of the hotel, government initiative and support for tourism. The ratings also factor the restructuring of loans having favourable repayment obligations providing liquidity cushion to the company.

Going forward, the ability of the company to improve the occupancy level and average room rate (ARR) of the hotel on a sustained basis in view of Covid-19 and fund its interest cost through its operations will be key rating sensitivity.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Weak Financial risk profile marked by low revenue coupled with losses

The hotel started its full-fledged commercial operations from August 2019. After 7 months of operations, the hotel had to shut down its operations due to countrywide lockdown and various restrictions imposed by the Government. The Company was able to book total revenue of Rs. 82 Mn in FY20 (Audited, refers to 12 months' period ended mid- July 2020). However, with high operational cost during the initial years of operations and with low revenue, OHL reported losses before interest, depreciation and taxes of Rs. 13 Mn. Also, with high depreciation expenses and interest cost, PAT of the company stands at negative Rs. 163 Mn. in FY20.

Operational stabilization risk and long gestation period associated with hotel industry

The company has set up a hotel with 131 rooms' capacity which includes all modern amenities, F&B service, swimming pool, conference and banquet hall, health facility, shopping arcade and other facilities. Generally, hotels require longer gestation period to recover the fixed costs associated with it and become profitable. 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

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

another two to three years. Going forward, the ability of the company to attract customers, maintain occupancy level, establish its brand name and derive benefits from the hotel as envisaged will be crucial rating factors.

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 OHPL's operations.

Exceptional decline of tourists 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 in CY19 representing CARG of 12%. With ~79% (CY19) of tourist as Non-Indian tourist and ~14% (CY19) of total tourist arriving for trekking and mountaineering, Nepal has become one of the preferred destination of tourists for trekking and mountaineering beside being a holiday destination. However, the effect of COVID-19 was seen from December 2019 onwards which led to decline in tourist numbers. In CY20, a total of 0.23 Mn. tourists arrived in the country until the end of December which is 19.33% of the total tourists who had visited Nepal last year. However, considering the opening up of economies in the world after vaccination, it is expected that the tourist inflows would increase.

Key Rating Strengths

Experienced directors of the company in other businesses

OHPL is managed under the overall guidance of the company's board of directors (BOD) who possess wide industry experience. Mr. Sudhir Man Maskey, Managing Director since March 2019, has wide work experience of over 25 years in various industries. Similarly, other directors of the company have experience in diversified industries such as manufacturing, bank and financial institutions, education sector, etc. BODs are further supported by an experienced team across various functions/ departments.

Strategic locational advantage of the hotel

The hotel is centrally located in Ravi Bhawan, Kathmandu with Tribhuvan International Airport at a distance of around 8.8 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.

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 only 1.41% to national GDP in FY19-20 till mid-April 2020. In recent Budget Announcement for FY2021/22 by Ministry of Finance, the government will provide free visa to tourists for a month in a bid to promote

tourism and 10 days' vacation holiday to the civil servants. 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. With the government prioritizing development of travel and tourism in the country, the future prospect of this sector looks encouraging post Covid-19.

Restructuring of loans having favourable repayment obligations

The company has recently rescheduled its loan obligations with Banks in line with the cash flow generation and has also deferred its loan repayment till Q3FY23. This restructuring of loans is expected to provide liquidity cushion to the company in times of low level of operations. Furthermore, the interest payments will also be funded by the banks for a period of next 12-18 months in case of any delay in stabilisation of operations due to pandemic.

About the Company

Orchid Holdings Private Limited was incorporated on November 13, 2007. OHPL has constructed a hotel in Kathmandu which is spread over 9,136 sq. mt. of land. The hotel is operating under the commercial name of 'Hotel Crowne Imperial' and has been categorized as 4-star hotel by Department of Tourism.

Financial Performance

For the Period Ended / as at Mid-July,	(Rs. Million)
	2020 (12m, A)
Income from Operations	82
PBILDT Margin (%)	(15.25)
Overall Gearing (times)	1.95
Interest Coverage (times)	(0.10)
Current Ratio (times)	1.18
Total Debt/ Gross Cash Accruals (times)	(8.01)

A: Audited, FY ended mid-July

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	950.00	CARE-NP B+
Short Term Bank Facilities	Overdraft Loan	50.00	CARE-NP A4
Total		1,000.00	

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About CARE Ratings Nepal Limited:

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