Mountain Glory Private Limited

Rating

Facilities/ Instrument	Amount (Rs. in Million)	Ratings[1]	Rating Action
Long Term Bank Facilities	570.11 (Decreased from Rs. 570.16 Mn)	**CARE-NP B+ [B Plus]**	Rating Revised from CARE-NP BB- to CARE-NP B+ and removed from credit watch with negative implications
Short Term Bank Facilities	47.80	**CARE-NP A4 [A Four]**	Reaffirmed and removed from credit watch with negative implications
Total Facilities	**617.91 (Decreased from 617.96 Million)**		

** Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has revised the rating to "CARE-NP B+" for long term bank facilities and reaffirmed rating of "CARE-NP A4" for the short-term bank facilities of Mountain Glory Private Limited (MGPL). The ratings have been removed from "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 deterioration in the financial risk profile of the company during FY21 (unaudited, refers to the twelve-month period ended mid-July 2021) marked by high operational losses during FY21, amid the lingering impact of the covid19 pandemic, resulting in highly leveraged capital structure and stressed liquidity profile of the company. The ratings are also constrained by operation stabilization risk and long gestation period associated with hotel industry, expected losses and weak debt coverage indictors for the initial years of operations. The ratings also factor in exposure to volatile interest rates and susceptibility to cyclicality, intense competition and geographic concentration in the hospitality sector.

The ratings, however, continue to derive strength from experienced promoters in tourism industry and strategic locational advantage of hotel. The ratings also factor in hotel operations likely to benefit from professional management set-up, business linkages of promoters and government initiative and support for tourism.

Going forward, the 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 and to obtain favorable restructuring/rescheduling terms from the current lenders along with additional funding support will remain key monitoring conditions.

Detailed description of the key rating drivers

Key Rating Weaknesses

Highly leveraged capital structure with weak debt service coverage ratio

The capital structure of the company is highly leveraged with overall gearing of 2.91x at the end of FY21 compared to 1.76x respectively at the end of FY20. The deterioration in the gearing levels has resulted from increased debt of Rs.100 Mn coupled with net loss of Rs. 110 Mn eroding the networth to Rs. 237 Mn at the end of FY21 from Rs. 346 Mn at the end of FY20. Amid decreased operational efficiency, the company reported PBILDT level losses over during FY21. Although the company has benefited from the relaxations provided by the Nepal Rastra Bank to the highly covid19 impacted sectors such as tourism and hospitality, its ability to adequately service its debt obligations once the relaxation is over will depend on its

[1]Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications.

ability to generate sufficient income. Operational performance is likely to benefit from the increased tourist inflow expected over the medium term. However, with lingering impact of the pandemic, the company's ability to attract enough customers to run the hotel at an optimal occupancy level remains to be seen and will remain a key monitorable.

Operational stabilization risk and long gestation period associated with hotel industry

The company started commercial operation of the project with full infrastructure and facilities from July 2019. However, the first couple of years of operations have been highly disrupted by the covid19 pandemic with low tourist count leading to below par occupancy levels and consequently lower revenue generation. Furthermore, hotels generally require longer gestation period to recover the associated fixed costs and become profitable. The long gestation period of hotels is on account of the construction of a premium hotel taking up to three to four years while stabilization of operations may take another two to three years. Notwithstanding the impact of the covid19 pandemic, the ability of the company to attract customers, maintain occupancy level, establish its brand and derive benefit from the hotel as envisaged will be crucial from credit perspective.

Weak financial risk profile marked by decline in operating income coupled with continuous loss amid the pandemic

Total revenue of the company declined 44% year on year to Rs. 22 Mn in FY21 compared to Rs. 39 Mn in FY20 with decline in average annual occupancy rate to 9.95% in FY21 from 16.92% in FY20 on account of lingering impact of the covid19 pandemic leading to lesser tourist arrival, both domestic as well as foreign. During FY21, the hotel generated majority of the income from food and beverage sales (~53% of total income) to events such as conference meetings and weddings followed by room lodging and service (~44%). The revenue from room service decline majorly by 58% to Rs. 9 Mn compared to Rs. 21 Mn in FY21.

Susceptibility to cyclicality, intense competition and geographic concentration risk in the hospitality sector

The hotel industry of Nepal is fragmented in nature with large number of organized and unorganized players spread across various regions. Prior to the pandemic, demand of tourist destination such as Pokhara, where MGPL is located, and its surrounding areas is increasing on the global tourism market. This had resulted in increase in number of hotels operating in the city of Pokhara which will ultimately result in intense competition that might lead to stagnant ARR 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. Furthermore, the company's hotel has a single establishment located at Pokhara, thus exposing operations to geographic concentration risk.

Interest rate risk

The company's interest expense is based on floating rates which reset every quarter. The base rate of the banks and financial institutions in Nepal remains quite volatile as they are impacted by change in liquidity position which leads to change in interest rates. Therefore, funding taken by the company from banks is subject to volatile interest rate.

Key Rating Strengths

Promoters having prior experience and established networking in tourism industry

MGPL is managed under the overall guidance of the company's board of directors (BOD) who possess experience in related fields. The company has eight directors in its board. Mr. Sunil Bhakta Shrestha, executive chairman, has wide experience in various business sectors such as hydropower, banking, hospitality and trading. 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. BODs are further supported by an experienced professional management team with extensive prior experience in the hospitality industry.

Strategic locational advantage of the hotel

The hotel is located in Dovilla-21, Pokhara, Nepal with Pokhara Airport at a distance of around 8 kms. The hotel is 12 Km away from the proposed third international airport to be built in Pokhara by April 14, 2021. The influx of tourists is high in Pokhara as it is one of the most attractive tourist destinations of Nepal. It is a gateway to the globally known trekking region Annapurna. The city is also popular for its beautiful landscapes and adventure sports. Due to this, Pokhara is a popular tourist destination in Nepal which is visited by large number of tourists every year.

Government initiative and support for tourism

Tourism sector remains the prioritized sector of Nepal. In recent Budget Announcement for FY22 by Ministry of Finance, the government has allocated Rs. 0.59 Bn for tourism infrastructure development. Also, Unified Directive of 2020/21, has directed "Class B" and "Class-C" banks to allocate minimum 20% of total credit and minimum 15% of total credit, respectively, to agriculture, energy, SMEs and tourism sector by mid-July 2024. Similarly, Monetary Policy of 2021/22 has allowed payment of interest due up to mid-July, 2022 in 2 years with minimum 4 instalments for tourism industry. With the government prioritizing development of travel and tourism in the country, the prospect of this sector looks encouraging over the medium-term despite being marred by the intermittent waves of the covid19 pandemic in the recent past.

The company has deferred interest since fourth quarter of FY21 availing the relaxations provided by the NRB through monetary policy for FY22. Accordingly, CRNL has not recognized this instance as a default, as the same was permitted by the NRB.

About the Company

Mountain Glory Private Limited (MGPL) was incorporated in May 24, 2007 under Company Act, 2063. MGPL has constructed a hotel in Pokhara which is sprawled over 7.42 acres of land and a total of 64 room keys. The hotel is operating under the commercial name of Mountain Glory Forest Resort & Spa located in Dovilla -21, Pokhara, Nepal and has been categorized as Tourist Standard Hotel by Ministry of Culture, Tourism & Civil Aviation.

Brief financial performance of MGPL during last 3 years is given below:

(Rs. In Million)

Particulars	FY19 (A)	FY20 (A)	FY21(UA)
Income from Operations	23	39	22
PBILDT	(41)	(46)	(75)
Overall Gearing (times)	1.47	1.76	2.91
Interest coverage (times)	(21.94)	(31.93)	(0.39)
Current Ratio(times)	5.24	1.98	2.33
Total Debt/Gross Cash Accruals(times)	(12.83)	(23.58)	(14.18)

A: Audited; UA: Unaudited

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	570.11	CARE-NP B+
Short Term Bank Facilities	Working Capital Loan	47.80	CARE-NP A4
Total		**617.91**	

Contact us

Analyst Contact
Ms. Anusha Thapa
Contact No.: 977-01-4012628
Email: anusha.thapa@careratingsnepal.com

Mr. Santosh Pudasaini
Contact No.: +977-01-4012629
Email: santosh.pudasaini@careratingsnepal.com

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

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