

## City Hotel Limited

### Ratings

Facilities	Amount (Rs. in Million)	Rating <sup>1</sup>	Rating Action
<b>Issuer Rating</b>	<b>NA</b>	<b>CARE-NP BB+ (Is) [Double B plus (Issuer Rating)]</b>	<b>Reaffirmed</b>
<b>Long-Term Bank Facilities</b>	<b>3,176.29 (Decreased from 3,221.81)</b>	<b>CARE-NP BB+ [Double B plus]</b>	<b>Reaffirmed</b>
<b>Short-Term Bank Facilities</b>	<b>80.30</b>	<b>CARE-NP A4+ [A Four plus]</b>	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>3,256.59 (Three Thousand Two Hundred Fifty Six Million and Five Hundred Ninety Thousand Only)</b>		

*\*The issuer rating is subject to overall gearing ratio of the company not exceeding 3.25x at the end of FY23.*

*Details of instruments/facilities in Annexure-1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating of 'CARE-NP BB+ (Is)' assigned to City Hotel Limited (CHL). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations, in Nepal.

Also, CRNL has reaffirmed the rating of 'CARE-NP BB+' assigned to the long term bank facilities and 'CARE-NP A4+' assigned to the short term bank facilities of CHL.

### Detailed Rationale & Key Rating Drivers

The ratings assigned to CHL continue to be constrained by CHL's limited track record of operations with operation stabilization risk given the long gestation period associated with hospitality industry. Despite year-on-year improvement in occupancy rates, the company's debt service coverage ratios are expected to remain modest over the next couple of years amid high interest expense owing to the relatively high project cost of the hotel. The ratings also factor in the leveraged capital structure of the company, its exposure to volatile interest rates, and susceptibility to cyclical and intense competition in the hospitality sector. The ratings also consider the concentration risk owing to revenue generation from a single property.

The ratings, however, derive strength from the experienced and resourceful promoters of the company, association of CHL with reputed global hotel brand which is likely to benefit the company in terms of branding, marketing and hotel operations. The ratings also factor in the improving trend of operating income of the hotel in FY22 (Audited, FY refers to the twelve-month period ending mid-July) and H1FY23 (Unaudited, H1 refers to the six-month period ending mid-January). A continued rebound in operating income over the near-term is expected from sustained improvement in overall occupancy rates coupled with expected rental income from the casino unit in its premise. The ratings also consider the strategic locational advantage of the hotel, and government initiative and support for tourism. Furthermore, the ratings also take cognizance of the forthcoming Initial Public Offering (IPO) of the company, already approved by Securities Board of Nepal, to provide some liquidity cushion over the near-term.

*Going forward, the ability of the company to achieve the envisaged occupancy levels and average room rents (ARRs) leading to sustained growth in income with improved profitability leading to improvement in overall debt service coverage indicators will be the key rating sensitivities. Furthermore, timely financial support from promoters will also be key rating sensitivity.*

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and other CARE publications

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

### **Key Rating Weaknesses**

#### **Operations stabilization risk**

The company has set up a hotel with 153 rooms capacity which includes all modern amenities, F&B service, spa, conference hall, casino and other facilities. Although the hotel is commercially operational since November 2021, the company is still exposed to stabilization risk associated with its debt-funded greenfield project. Hotels generally require longer gestation period to recover the fixed costs associated with it and to become profitable. However, CHL's association with reputed global hospitality brand is likely to continue to help it attract customers and help improve occupancy level faster vis-à-vis competition.

#### **Leveraged capital structure with weak debt service coverage indicators**

Overall gearing ratio of the company stood leveraged at 2.55x at the end of FY22 (FY21: 2.12x) on account of higher debt levels coupled with deteriorated net worth amid losses. CHL's interest coverage ratio remained below unity in FY22. Total debt to GCA stood negative at the end of FY22. The company is in process of issuing IPO of Rs. 167.40 Mn, approval of which has been received from Securities Board of Nepal in March 2023. Post issuance, this is expected to provide near-term liquidity buffer to the company. However, given the relatively higher interest outgo lined up for the next couple of years, financial support from promoters could be required to meet any shortfall in debt servicing.

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

The hotel industry of Nepal is fragmented in nature with presence of large number of organized and unorganized players spread across various regions. The number of hotels operating in the city of Kathmandu remains high which will ultimately result in intense competition that might lead to competitive pricing leading to subdued ARR's 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 Kathmandu, thus exposing operations to geographic concentration risk.

#### **Exposure to volatile interest rate risk**

The company has substantial interest outgo lined up over the next couple of years amid relatively high debt levels. The company's interest rates are based on a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. Sustained high interest rates, as seen over the last year or so, add to the interest burden of the company, squeezing its profitability and impacting its liquidity position. However, Nepal Bankers Association's decision to lower premium on loans by 1% from March 2023 could provide some relief. Nevertheless, funding taken by the company remains exposed to volatile interest rate.

### **Key Rating Strengths**

#### **Experienced directors and resourceful promoters**

CHL derives strength from the financial flexibility of its promoter group belonging to the Golyan Group. Golyan Group has diversified business presence in Nepal which includes manufacturing, hydroelectricity projects, international trade & services, banking, insurance, real estate, textile, hospitality, energy etc. CHL is managed under the overall guidance of its board of directors (BOD) who possess wide experience in different business sectors. Mr. Shakti Kumar Golyan, chairman, has wide experience in various business sectors and is the director of Golyan Group of industries. Mr. Akshay Golyan, Managing Director, has almost a decade long experience in manufacturing and real estate sector. He is also the managing director of Reliance Spinning Mills Limited [CARE-NP A-/A2+] and director of Westar Properties Limited (residential property with 212 apartments introduced in 2008).

**Improving operations backed by increasing occupancy**

CHL started its full-fledged commercial operations from November 2021. During FY22, the company reported total operating income (TOI) of around Rs. 194 Mn with the majority of income achieved from Room lodging and services (~40%) followed by food and beverage sales from Meetings, incentives, conferences and exhibitions (MICE) events (~56%). The PBILDT margin stood at 16.02% which is expected to increase with improvement in occupancy ratio in coming years. The average occupancy ratio during FY22 stood low at around 26%. Consequently, with high operational cost and depreciation, the company reported net losses of Rs. 45 Mn during FY22. The hotel's operations continue to ramp up, evident also during H1FY23 with TOI of Rs. 215 Mn supported by improving occupancy ratio at ~48%. Further improvement in operations is likely over the medium-term buoyed by increasing flow of tourists into the country.

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

CHL has entered into a Hotel Management Agreement (HMA) with Hyatt International- South West Asia, Limited, which is owned by Hyatt Hotels Corporation (HHC). HHC is a leading global hospitality company having a portfolio of 20 premier brands with more than 1,200 properties in over 70 countries across 6 continents as of December 31, 2022. As per the HMA, Hyatt International-South West Asia Limited has been assisting CHL to complete the hotel property according to its international standards along with providing supervision in accordance with Hyatt Operating Standards, technical assistance, professional training, customer reservations etc. These services are likely to provide the company with added benefits of established service, large customer base, marketing assistance and already widespread brand name recognition to drive hotel guest bookings. Also, being associated with a global brand such as Hyatt will likely benefit CHL in terms of increased revenues, global business reputation and brand specific resources.

**Strategic locational advantage of the hotel**

The hotel is centrally located in Soalteemode, Kathmandu with Tribhuvan International Airport at a distance of around 9 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 industry**

Tourism sector remains a prioritized sector of Nepal. In Budget Announcement for FY23 by Ministry of Finance, the government has allocated Rs. 9.38 Bn for tourism infrastructure development. Also, as per the Unified Directives of 2022/23, whereby the banks (type B and C) have to allocate minimum share of their total advances to hospitality sector which augurs well for the sector. Similarly, Monetary Policy of 2022/23 had amended refinance procedure to covid-19 impacted industries. With the government prioritizing development of travel and tourism in the country, the prospect of this sector looks encouraging over the medium-term.

**About the Company**

City Hotel Limited, incorporated on December 05, 2007, is a 5-star hotel property located in Soalteemode, Kathmandu which is operating under the brand name of 'Hyatt Place' with a total of 153 room keys and belongs to the Golyan Group of companies. The company started its commercial operation from November 2021 onwards.

Brief financial performance of CHL during FY22 is given below:

(Rs. in Million)

Particulars	FY22 (A)
Income from Operations	194
PBILDT Margin (%)	16.02
Overall Gearing (times)	2.55
Interest coverage (times)	0.65
Current Ratio (times)	3.35
Total Debt/Gross Cash Accruals (times)	-ve

A: Audited

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	3,176.29	CARE-NP BB+ [Double B Plus]
Short Term Bank Facilities	Fund Based Limit	80.00	CARE-NP A4+ [A Four Plus]
Short Term Bank Facilities	Non-Fund Based Limit	0.30	CARE-NP A4+ [A Four Plus]
<b>Total Facilities</b>		<b>3,256.59</b>	

#### Contact us

##### Analyst Contact

Ms. Sarina Khakurel

Contact No.: +977-01-4012628

Email: [sarina.khakurel@careratingsnepal.com](mailto:sarina.khakurel@careratingsnepal.com)

Mr. Santosh Pudasaini

Contact No.: +977-01-4012630

Email: [pudasaini.santosh@careratingsnepal.com](mailto:pudasaini.santosh@careratingsnepal.com)

##### Relationship Contact

Mr. Achin Nirwani

Contact No.: +977 9818832909

Email: [achin.nirwani@careratingsnepal.com](mailto:achin.nirwani@careratingsnepal.com)

#### About CARE Ratings Nepal Limited:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

#### Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.