

## Everest Hospitality & Hotel Limited

### Ratings

Facilities/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	2,723.62	CARE-NP BBB- [Triple B Minus]	Assigned
Short Term Bank Facilities	100.00	CARE-NP A3 [A Three]	Assigned
<b>Total Facilities</b>	<b>2,823.62</b> <b>(Two Thousand Eight Hundred Twenty Three Million and Six Hundred Twenty Thousand Only)</b>		

\* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BBB-' to the long term bank facilities and 'CARE-NP A3' to the short term bank facilities of Everest Hospitality & Hotel Limited (EHL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of EHL derive strengths from improving financial profile of the company marked by increasing income and positive gross cash accruals in FY22 (Audited; FY refers to the twelve-month period ending mid-July). The revenue momentum has sustained in H1FY23 (Unaudited; H1 refer to the six-month period ending mid-January) aided by growing inflow of tourists in the country leading to sequentially increasing occupancy rate over FY22 and H1FY23. The ratings also factor in the experienced and resourceful promoter group of the company along with its association with a globally well reputed hotel brand "Marriott", which is likely to benefit the company in terms of marketing and hotel operations over the long-term. Supported by substantial equity infusion by the promoters of the company in FY22, which was majorly used to deleverage the company's balance sheet, the scheduled debt servicing going forward has become more affordable. The ratings also factor in strategic locational advantage of the hotel and government initiative and support for tourism sector. The ratings, however, are constrained by leveraged capital structure with modest coverage ratios coupled with operations stabilization risk given the generally long gestation period associated with hotel industry. Despite sequential upswing in income generation over FY22-H1FY23, improved growth over a sustained period remains to be seen, particularly given the macroeconomic headwinds globally. The ratings also factor in the revenue concentration risk from a single property, exposure to volatile interest rates and foreign exchange fluctuation risk and susceptibility to cyclical and intense competition in the hospitality sector.

*Going forward, the ability of the company to improve occupancy level and average room rate (ARR) of the hotel on a sustained basis leading to growth in revenues and profit margins resulting in improved solvency and debt service coverage indicators will be key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Strengths

##### Experienced and resourceful promoter group

EHL derives strength from its strong promoter group belonging to MS Group of Companies which has strong presence in diversified business like steel, sugar, chemicals, paper, textile mill, real estate, hospitality, banking and insurance. EHL is managed under the overall guidance of the company's board of directors (BOD) who possess wide experience in different

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

business sectors. The company has seven directors in its board chaired by Mr. Sumit Kumar Agarwal who has more than three decades of cross-sector experience. He is also chairman in Bhagawati Steel Industries Private Limited [CARE-NP BBB-/A3] and Director in Nepal Hospitality and Hotel Private Limited which is also operated under the hotel chain of Marriott "Fairfield by Marriott". Mr. Gaurav Agarwal, Managing Director, looks after all the hotels under MS Group. BODs are further supported by experienced teams across various functions/ departments.

### **Improving financial profile marked by growing income and positive gross cash accruals in FY22, sustained momentum in H1FY23**

The company reported total operating income (TOI) of Rs. 1,024 Mn in FY22 with majority of income from room lodging and services (~52%) followed by food and beverage sales from Meetings, Incentives, Conferences and Exhibitions (MICE) events (~41%). The TOI grew by ~243% year-on-year from Rs. 298 Mn in FY21 aided by improvement in occupancy rate at ~49% coupled with increase in Average Room Rate (ARR) to Rs. 13,190 during FY22 (FY21: 20% occupancy rate with ARR of Rs. 9,509). Consequently, PBILDT margin increased to 41.00% in FY22 from 11.37% in FY21 aided by improvement in operations. With steady recovery in tourism sector post pandemic, the inflow of tourists has increased during FY22 which has provide assistance to international brands like "Marriott" to operate better supported by a global operations and marketing chain. Gross Cash Accruals (GCA) improved to Rs. 127 Mn during FY22 from losses of Rs. 162 Mn during FY21. Although EHHL incurred net loss in FY22, sequential improvement going forward is expected, barring any major shocks, given the improving trend in tourist inflow so far in 2023. This is also reflective in the improving operational performance of the hotel in H1FY23. EHHL has already booked revenue of Rs. 745 Mn during H1FY23. The average occupancy rate during H1FY23 is 68% compared to around 36% during H1FY22. Additionally, the company also operates casino unit in its premise which also provides additional revenue support going forward in the form of rental income besides helping in bringing in more customers to the hotel. However, with ongoing liquidity challenges in the economy, the company's ability to achieve occupancy rates and ARRs at envisaged levels will remain critical from credit perspective.

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

EHHL has entered into 'Hotel Management Agreement' with Marriott International, Inc. for the international hotel brand of Marriott. Marriott International is an American based corporation that operates, franchises, and licenses lodging including hotel, residential, and timeshare properties. It has 30 hotel brands with 8,000+ properties containing 1,423,044 rooms across 139 countries. Under the license agreement, Marriott International will assist EHHL in overall operations of the hotel in accordance with Marriott Standards, technical assistance, professional training and development, customer reservations and marketing services. 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 "Marriott" is likely to benefit EHHL in terms of increased revenues, global business reputation and brand specific resources.

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

The hotel is centrally located in Naxal, Kathmandu with Tribhuvan International Airport at a distance of around 4 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.

### **Key Rating Weaknesses**

#### **Leveraged capital structure, although sequential deleveraging in FY22 after subsequent equity infusions**

The capital structure of EHL is leveraged marked by overall gearing ratio of 2.33x at the end of FY22, improving from 5.42x at the end of FY21 on account of substantial prepayment of term loans following equity infusion of Rs. 582 Mn from promoters during FY22. Consequently, tangible net worth of the company increased to Rs. 1,265 Mn at the end of FY22 from Rs. 677 Mn at the end of FY21. Furthermore, interest coverage ratio of the company improved, albeit stood modest, at 1.50x during FY22, compared to 0.18x during FY21 supported by improved profitability which was offset to some extent by increased interest expenses. Total debt to GCA ratio of the company, however, stood high at 23.78x in FY22. Going forward, amid steady improvement in operations, the company's capital structure and debt service coverage indicators are expected to sequentially improve over the medium term, barring any major setbacks like the ones seen during the major waves of the pandemic in FY20 and FY21.

#### **Single property concentration risk**

The company derives its revenues from single property i.e. Marriott in Kathmandu. This exposes EHL to significant amount of concentration risk as its fortunes are linked to the operational and financial performance of the property as well as general economic trends in the geographical area where the hotel is located.

#### **Susceptibility to cyclical and intense competition**

The hotel industry of Nepal is fragmented in nature with 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. Also, occupancy levels and revenue in the hotel industry are susceptible to macroeconomic trends, both in the domestic and global markets.

#### **Exposure to volatile interest rate risk and foreign exchange fluctuation risk**

Relatively high project cost of the hotel has led to high debt levels and consequently high interest outgo. 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. Any further significant rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Furthermore, part of the loan is on US dollar for which the repayment of same are linked to USD, thereby exposing the company to foreign exchange fluctuation risk. However, with certain portion of revenue received in USD, foreign exchange is naturally hedged to some extent.

### **Industry Outlook**

Tourism sector which was hardly hit by the covid-19 pandemic started to bounce back slowly. The number of tourist arrivals, which had been nearly zero since April 2020, started picking up to reach nearly 17,000 in January 2022. The revival can be largely attributed to pent-up demand for leisure and business travel, supported by increased bookings on account of weddings

and significant uptick in MICE. As per report of Nepal Tourism Board (NTB), the growth in tourist arrival reach to over 600,000 tourists in CY22 against 1,49,833 in CY21 (CY20: 230,085 tourists). Furthermore, 2,27,755 foreign tourist visit Nepal in the first three month of 2023. All key performance indicators such as revenue per available room, average room rate, and occupancy rate are expected to reach to pre-pandemic levels by the end of FY23. However, series of events hit the world economy in 2022 contributing to inflationary pressure triggering a global cost-of-living crisis. Recession in the world economy could limit the prospects of recovery in 2023 as expected.

### About the Company

EHHL is operating a five-star premium hotel located in Kathmandu, Nepal. The company was incorporated as a private limited company in February 28, 2013 and later converted into a public limited company in June 29, 2022. The hotel property is sprawled over 1.35 acres of land with a total of 214 room keys and is operating under the commercial name of 'Marriott'.

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

(Rs. In Million)

Particulars	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	837	298	1,024
PBILDT Margin (%)	29.77	10.23	40.60
Overall Gearing (times)	8.40	5.42	2.39
Interest coverage (times)	0.82	0.16	1.48
Current Ratio(times)	1.03	1.41	1.41
Total Debt/Gross Cash Accruals(times)	(23.33)	(22.92)	24.04

A: Audited

### 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	2,723.62	CARE-NP BBB- [Triple B Minus]
Short Term Bank Facilities	Fund Based Limit	100.00	CARE-NP A3 [A Three]
<b>Total</b>		<b>2,823.62</b>	

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