

## Kalinchowk Darshan Limited

### Ratings

Facility/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Issuer Rating	NA	CARE-NP BB+ (Is) [Double B Plus (Issuer)]	Reaffirmed

*The issuer rating is subject to the company maintaining overall gearing not exceeding 1.00x at the end of FY23.*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB+(Is)' assigned to Kalinchowk Darshan Limited (KDL). Issuers with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations in Nepal.

### Detailed Rationale & Key Rating Drivers

The rating assigned to KDL remains constrained by revenue concentration towards single property exposing KDL's operations to geographic concentration risk, seasonality of revenue and small scale of operations, project implementation risk related to setting up of the proposed hotel property and exposure to volatile interest rates. The rating, however, continues to derive strengths from experienced promoters, strategic location of the project and sustained equity infusion leading to moderate capital structure and debt service coverage indicators. The rating also factors in improving trend in KDL's financial performance marked by positive net profits achieved during FY22 (Audited, FY refers to the twelve-month period ending mid-July), and the company's recently concluded IPO issue of Rs. 120 Mn.

*Going forward, the ability of KDL to profitably scale up the operations while maintaining the debt service coverage indicators at adequate levels along with execution of the proposed hotel project without significant time or cost overrun will be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

#### Revenue concentration towards single property exposing operations to geographic concentration risk

The company's cable car facility, located in the Kuri valley of Dolakha district of Nepal, is exposed to revenue concentration risk towards single property. This also exposes the company's business operations to geographic concentration risk. Furthermore, the high altitude and mountainous terrain of the place makes it vulnerable to volatile weather. Adverse weather conditions could halt KDL's operations and also increase the risk of higher cost for repair and maintenance, which could impact KDL's profitability. Furthermore, by catering predominantly to the cable car business, revenue and profitability of KDL remain susceptible to the domestic and foreign tourist footfall, which remains unpredictable.

#### Seasonality of revenues and small scale of operations

KDL's revenues are largely driven by the flow of tourists in the region, which is dependent on suitability of weather conditions. Historical trend suggests minimal revenues during the months of July-September (monsoon), whereas nearly half the annual revenue is generated during the winter season (November -March) when majority of domestic tourists visit the place to spend holidays in snowy valley of Kuri. The flow of visitors is considerably less during the monsoon season, affected by adverse weather conditions in the region when it is also technically challenging to smoothly operate the cable car. The scale of operations has remained low in FY22, albeit improved, marked by a total operating income and gross cash accruals of Rs. 57 Mn and Rs. 30 Mn respectively during FY22. The small scale limits the company's financial flexibility in times of stress as profitability remains significantly vulnerable to scale of operations.

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

**Project implementation risk related to setting up of proposed hotel property**

The company is proposing to incur capital expenditure of around Rs. 250 Mn over FY23-FY26 towards setting up a 35-room hotel property. The capex is to be funded by equity, where promoters have already infused Rs. 185 Mn in FY22 and Rs. 120 Mn have been raised via Initial Public Offering (IPO) which was concluded recently. The infused funds are currently invested in fixed deposits, which stood at around Rs. 277 Mn as on mid-March 2022. As the project is still in a planning phase with almost entire cost tied up, KDL is exposed to project implementation risk related to the proposed hotel property.

**Key Rating Strengths****Experienced Promoters**

KDL has a seven-member board of directors with experience in a wide range of sectors including tourism and hospitality. The board is led by Mr. Bal Krishna Shiwakoti, Chairman, who is also a board member in Investment Board of Nepal, and Director in Mega Bank Nepal Limited and Jiri Chiya Udhog (processing of tea). The board is aptly supported by an experienced management team led by Mr. Ashok Shiwakoti, Chief Executive Officer, who has over 20 years of experience in various industries.

**Strategic location of the project**

The site of the cable car project, which is around six-hour drive away from Kathmandu, is one of the major religious destinations in Nepal. Kalinchowk Temple, located at the top station of the cable car facility, attracts numerous pilgrimage visitors throughout the year, except the monsoon season when the footfall is low. In addition to this, during the peak winter season, the site attracts many domestic as well as foreign tourists who also visit the place for sightseeing and winter adventure sports. Over the medium-term, tourist footfall, particularly domestic, is expected to further increase, particularly after the currently ongoing black topped road construction in the area is completed.

**Improving financial performance with positive net profitability in FY22, with growth momentum continuing in H1FY23**

In FY22, KDL managed to report positive net profit for the first time since it was operational, aided mainly by rationalization of its operational expenses. KDL's total income in FY22 grew by 54.04% to Rs. 57 Mn, while PBILDT margin remained stable at 65.51%. The rise in total income was aided by increase in footfall to 132,000 visitors in FY22 from 90,000 visitors in FY21. Interest coverage ratio was also adequate at 1.93x in FY22, improving from 1.65x in FY21. The financial performance continued to improve in H1FY23 aided by increased footfall. KDL generated total revenue of Rs. 26 Mn with footfall of over 65,000 visitors in H1FY23 (H1FY22: Rs. 21 Mn with footfall of nearly 50,000 visitors). The performance is expected to improve further during H2FY23, second half of the fiscal year being the peak season. The ability of the company to profitably scale up its operations backed by sustained increase in customer footfall will be critical from credit perspective.

As on mid-July FY22, the outstanding debt stood at Rs. 203 Mn against equity share capital of Rs 480 Mn leading to debt-equity ratio of 0.46x. During FY22, promoters had infused Rs. 185 Mn as equity share capital. Furthermore, the company recently concluded the IPO issue of Rs. 120 Mn in February 2, 2023, proceeds of which are likely to be used for the proposed capex and downsizing the existing long term debt.

**About the Company**

Kalinchowk Darshan Limited (KDL) is a public limited company, incorporated on January 20, 2015. It is promoted by individual and institutional promoters from different backgrounds for setting up and operating a Cable Car Project at Kalinchowk, Dolakha, Nepal. The project includes about 1 Km long cable car journey, having a total of 4 Gondolas (2 gondolas per system)

to transport passengers from the bottom station at Kuri Valley to the Kalinchowk Temple at the top. It has a capacity to transport 192 passengers per hour in one way trip. Brief financial performance of KDL during the past 3 years are given below:

(Rs. Million)

For the year ended Mid-July	FY20 (Audited)	FY21 (Audited)	FY22 (Audited)
Income from Operations	37	37	57
PBILD Margin (%)	49.93	65.30	65.51
Overall Gearing (times)	0.88	0.92	0.46
Interest Coverage (times)	0.94	1.65	1.93
Current Ratio (times)	1.11	1.13	1.39
Total Debt/Gross Cash Accruals (times)	Negative	22.49	6.39

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