

Thamel Plaza Hotel & Suits Private Limited

Ratings

Facilities/ Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	770.00	CARE-NP BB- [Double B Minus]	Reaffirmed
Short Term Bank Facilities	30.00	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	800.00 (Eight Hundred Million Only)		

* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the ratings of 'CARE-NP BB-' assigned to the long term bank facilities and 'CARE-NP A4' assigned to the short term bank facilities of Thamel Plaza Hotel & Suits Private Limited (TPHS).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of TPHS continue to remain constrained by its weak financial risk profile marked by negative profitability resulting in highly leveraged capital structure and weak debt service coverage indicators in FY22 (Audited, FY refers to the twelve-month period ending mid-July). The ratings also continue to factor in operational stabilization risk considering the long gestation period generally associated with hospitality industry, susceptibility to cyclical, intense competition and geographic concentration in the hospitality sector and exposure to volatile interest rates. The ratings, however, derive strength from TPHS' experienced directors and management team and its association with a reputed hotel brand, which is likely to benefit the company in terms of marketing and hotel operations. The ratings also factor in strategic locational advantage of the hotel and government initiative and support for tourism sector. Additionally, the ratings also take cognizance of the improving operational performance of the hotel with much improved occupancy rate during 9MFY23 (Unaudited, refers to the nine-month period ended mid-April 2023) over FY22. Resultantly, the company's cash flow from operations has improved substantially so far in FY23, with likely sustained upswing in revenue momentum over the medium-term supported by increasing flow of tourists in Nepal.

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 Weaknesses

Highly leveraged capital structure with weak debt service coverage indicators

The capital structure of the company is highly leveraged with overall gearing of 3.79x at the end of FY22 compared to 2.81x at the end of FY21. The deterioration in overall gearing ratio was on account of accumulated losses eroding the networth to Rs. 260 Mn at the end of FY22 from Rs. 315 Mn at the end of FY21. Further, interest coverage ratio of the company stood modest at 0.62x during FY22 (FY21: Negative 0.39x). Although the company has earlier 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 now that these relaxations are over will depend on its ability to generate sufficient income, which will remain crucial from analytical perspective.

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

Weak financial performance in initial years of operations, albeit improving trend in 9MFY23 backed by increasing occupancy rate

The company reported total operating income (TOI) of Rs. 112 Mn during FY22, its first full year of operations (FY21: Rs. 22 Mn from 6.5 month of operations). The increase in TOI during FY22 was attributable majorly to food & beverage sales (68%) followed by room sales (30%) aided by improvement in occupancy rate to ~36%. The PBILDT margin improved to 41.78% during FY22 from operational losses during FY21. Furthermore, the financial performance has been improving and TPHS has already booked revenue of Rs. 153 Mn during 9MFY23. The average occupancy rate during 9MFY23 improved to 68% from 28% during 9MFY22 supported by operational stabilization of business coupled with increasing flow of tourists into the country. However, with lingering impact of the pandemic and the ongoing liquidity challenges in the economy, the company's ability to attract enough customers to run the hotel at an optimal occupancy level for a sustained period remains to be seen.

Operational stabilization risk and long gestation period associated with hotel industry

The company has set up a hotel with 90 rooms capacity which includes all modern amenities, F&B service, swimming pool, spa, conference hall and other facilities and has come into operations since January, 2021. Generally, 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. However, TPHS'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.

Exposure to volatile interest rate

The company has substantial interest outgo lined up over the next couple of years amid 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. Higher interest rates than envisaged could result in squeezed margins of the company. Hence, funding taken by the company is exposed to volatile interest rate.

Susceptibility to cyclical, 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. 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.

Key Rating Strengths**Experienced directors and management team**

The company is managed under the overall guidance of the company's board of directors (BOD) who possess wide experience in various sectors including hospitality, banking, hydropower, and manufacturing. Mr. Shanti Raman Pangeni, chairman, has an experience of over eight years in the hospitality industry. Similarly, other directors of the company have work experience in various businesses. Mr. Mahesh Phuyal, General Manager, also has varied exposure in the hospitality industry for over a decade. BOD is further supported by an experienced team across various functions/ departments.

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

TPHS has entered into 'Hotel Management Agreement' with Wyndham Hotel Asia Pacific Company Limited (WHAP) for the international brand of 'Ramada encore' which is a large multinational mid-scale hotel chain. Ramada brand operates more than 850 hotels across 60+ countries being one of the preferred choice of world travelers. Under the license agreement, TPHS gets marketing services, system implementation, consultation services etc from WHAP. 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.

Strategic locational advantage of the hotel

The hotel is centrally located in Thamel, Kathmandu with Tribhuvan International Airport at a distance of around 6 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.

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 meetings, incentives, conferencing and exhibitions. 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 tourists 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

TPHS is operating a four-star hotel located in Kathmandu, Nepal. The company was incorporated in January 05, 2012. The hotel property is sprawled over 1170 sq. mt. of land with a total of 90 room keys. The hotel started full-fledged operations from January 08, 2021 under the commercial name of Ramada Encore Kathmandu.

Financial Performance

(Rs. in Million)

Particulars	FY21 (A)	FY22 (A)
Income from Operations	22	112
PBILD T Margin	Negative	41.78
Overall Gearing (times)	2.81	3.47
Interest coverage (times)	Negative	0.62
Current Ratio (times)	0.79	1.36
Total Debt/Gross Cash Accruals (times)	Negative	Negative

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	770.00	CARE-NP BB- [Double B Minus]
Short Term Bank Facilities	Fund Based Limit	20.00	CARE-NP A4 [A Four]
Short Term Bank Facilities	Non-Fund Based Limit	10.00	CARE-NP A4 [A Four]
Total		800.00	

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