

Akama Hotel Limited

Ratings

Facilities/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	1,295.97	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	45.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	1,340.97 (One Thousand Three Hundred Forty Million and Nine Hundred Seventy Thousand Only)		

* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB-' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of Akama Hotel Limited (AHL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of AHL are constrained by its below average financial risk profile marked by weak debt service coverage indicators in FY23 (Unaudited; FY refers to the twelve-month period ending mid-July) owing to modest, albeit improving, cash accruals from operations. Despite sequential improvement in occupancy ratio and operating income in FY23, the company reported net losses amid high interest expenses. The ratings thus factor in operational stabilization risk of the hotel, particularly considering the long gestation period generally associated with hospitality industry. The ratings also factor in AHL's susceptibility to cyclical, intense competition and geographic concentration in the hospitality sector and exposure to volatile interest rates.

The ratings, however, derive strengths from experienced and resourceful promoter group with AHL being a part of the Sanima Group. The ratings also take some comfort from the demonstrated track-record of tangible financial support from the promoters over FY21-FY23, through additional equity infusion, to meet operational and financial requirements of the company. The ratings assume continuation of additional financial support from promoters going forward as well, if needed. The ratings also factor in strategic locational advantage of the hotel, and government initiative and support for tourism sector. The ratings also take cognizance of the near-term recovery trend of the hospitality sector Nepal, which is likely to continue going forward boosted by increasing trend in tourist arrivals and growing domestic tourism.

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 income 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

Below average financial performance, albeit improving trend in FY23

Total Operating Income (TOI) of the company grew by ~75% year-on-year to Rs. 176 Mn during FY23 attributable to growing sales from Meetings, incentives, conferences and exhibitions (MICE) (~61%) followed by room sales (~36%). Occupancy rate improved to 30% during FY23 from 11% during FY22 aided by increasing flow of tourists into the country. Consequently, PBILD margin increased to 39.53% in FY23 from 10.33% in FY22. However, the company incurred net losses

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

on account of high interest expense. 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 and will remain a key monitorable aspect.

Leveraged capital structure with stressed debt service coverage indicators

The capital structure of the company stood leveraged with overall gearing ratio at 2.06x at the end of FY23, improved from 2.23x at the end of FY22. The improvement in overall gearing was on account of additional infusion of equity of Rs. 151 Mn which was partially offset by accumulated losses suffered by the company. Interest coverage ratio stood weak at below unity in the last 2 FYs (FY22-FY23). However, comfort is taken from strong financial flexibility of promoter group to support financial expenses, as needed and its demonstrated intent on deleveraging of the company through equity infusions in the past. The paid-up capital base of the company increased from Rs. 500 Mn at FY21 end to Rs. 930 Mn at FY23 end. Proceeds have been utilized to meet AHL's financial obligations at a time when operational cash flows have been insufficient. The ability of the company to achieve sufficient cash accruals to cover debt servicing from operations will be crucial from analytical perspective.

Operational stabilization risk and long gestation period associated with hotel industry

The company has set up a hotel with 108 rooms capacity which includes all modern amenities, F&B service, swimming pool, spa, conference hall and other facilities and has come into operations since February, 2019. Generally, hotels 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. 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.

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 and resourceful promoter group

AHL derives strength from its strong promoter group belonging to Sanima Group of Companies which has strong presence in diversified businesses like hydropower, hospitality, banking and insurance. The company has five directors on its board

chaired by Mr. Binaya Kumar Shrestha, who has more than two decades of cross-sector experience. He is also chairman of Sanima Middle Tamor Hydropower Limited (CARE-NP BB). Similarly, other directors of the company also have work experience in various businesses. Mr. Bharat Kumar Joshi, General Manager, is responsible for overall operational management of the hotel and has extensive work experience of over four decades in the hospitality industry. BOD is further supported by an experienced team across various functions/ departments.

Strategic locational advantage of the hotel

The hotel is centrally located in Dhumbarahi, Kathmandu with Tribhuvan International Airport at a distance of around 5 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 FY24 by Ministry of Finance, the government has allocated Rs. 11.96 Bn for Ministry of Culture, Tourism and Civil Aviation. Also, prioritizing the importance of tourism in Nepal, the government has declared 2023-2033 as the Tourism Decade, with an aim of promoting Nepal as a prime tourist destination in the world. Furthermore, Nepal Rastra Bank, through amendment in Unified Directives of 2022/23, has allowed rescheduling and restructuring of loans by Class A, B and C Financial Institutions to certain sectors including hospitality. 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 in Nepal has been on a rebound trail in FY23 after being hardly hit by the covid-19 pandemic for most of FY21 and FY22. The number of tourist arrivals, which had been nearly zero since April 2020, started picking up to reach nearly 17,000 in January 2022 and has continued to grow since. As per Nepal Tourism Board (NTB), tourist arrivals improved to over 6 lakh tourists in CY22 (CY refers to twelve-month period ending December) from ~1.5 lakh in CY21 (CY20: 2.3 lakh). The growth trend has continued into CY23 with over 5 lakh tourists in 7MCY23 (~87% year-on-year growth). Apart from growth in foreign tourists, the revival of the hospitality sector in Nepal over the near-term can also be attributed to pent-up demand for leisure/social events and business travel, supported by increased bookings on account of weddings and significant uptick in MICE. Key performance indicators such as revenue per available room, average room rate, and occupancy rate have been improving in FY23 and are expected to sustain going forward as well notwithstanding the macroeconomic headwinds globally amid high inflation and spiked interest rates, which could dampen the prospects of recovery over the near-term.

About the Company

AHL is operating a four-star hotel located in Kathmandu, Nepal. The company was incorporated as a private limited company in May 06, 2014 and later converted into a public limited company in July 03, 2022. The hotel property is sprawled over 1.13 acres of land with a total of 108 room keys and is operating under the commercial name of 'Akama'.

Financial Performance

(Rs. Million)

Particulars	FY21 (A)	FY22 (A)	FY23 (UA)
Income from Operations	20	100	176
PBILDT Margin (%)	Negative	10.33	39.53
Overall Gearing (times)	1.97	2.23	2.06
Interest coverage (times)	Negative	0.08	0.53
Current Ratio (times)	1.39	1.19	1.95
Total Debt/Gross Cash Accruals (times)	Negative	Negative	Negative

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	1,295.97	CARE-NP BB- [Double B Minus]
Short Term Bank Facilities	Fund Based Limit	45.00	CARE-NP A4 [A Four]
Total		1,340.97	

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