

Orchid Holdings Limited

Ratings

Facilities/ Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Issuer Rating	NA	CARE-NP B+ (Is) [Single B Plus (Issuer)]	Assigned

* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned issuer rating of 'CARE-NP B+ (Is)' to Orchid Holdings Limited (OHL). Issuers with this rating are considered to offer high risk of default regarding timely servicing of financial obligations, in Nepal.

Detailed Rationale & Key Rating Drivers

The rating assigned to OHL is constrained by its weak financial risk profile marked by net losses resulting in stressed debt service coverage indicators in FY23 (Audited, FY refers to the twelve-month period ending mid-July). The rating also factors in operations 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 rating, however, derive strength from experienced directors and management team, strategic locational advantage of the hotel and government initiative and support for tourism sector. The rating also takes some comfort from the financial support from the promoters during FY23 through additional equity infusion to meet operational and financial requirements of the company. The rating also takes 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 revenues and profitability resulting in improved solvency and debt service coverage indicators will be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Weak financial performance leading to stressed debt service coverage indicators in FY23

OHL's performance in FY23 remained below par despite a year-on-year improvement over FY22. Total operating income (TOI) increased by ~84% to Rs. 122 Mn during FY23 on account of improvement in sales from Meetings, incentives, conferences and exhibitions (MICE) (~58%) followed by room lodging and services (~40%). Similarly, occupancy rate improved to 21.36% in FY23 from 8.53% in FY22. Furthermore, PBILDT margin improved to 10.58% during FY23 from operational losses during FY22. However, the company incurred net losses on account of high interest expense. There was additional equity infusion of Rs. 417 Mn from promoters during FY23, which was partly used to cover losses. Although the overall gearing ratio of the company improved to 2.26x at the end of FY23 from 5.62x at the end of FY21 boosted majorly by the equity infusion, the company's debt service coverage indicators remained weak. Interest coverage ratio stood below 1x in FY23. The company had earlier benefited from the relaxations in debt servicing provided by the Nepal Rastra Bank to the highly Covid19 impacted sectors such as tourism and hospitality. Now that these relaxations are over, OHL's ability to adequately service its debt obligations, will depend on its ability to generate sufficient income, which remained muted during FY23. With increased tourist inflow so far in CY23, operational performance is likely to improve going forward. However, the company's ability to achieve optimal occupancy level remains to be seen. OHL's ability to profitably scale up the operations leading to improved debt service coverage indicators will remain crucial from analytical perspective.

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

Operations stabilization risk

The company has set up a hotel with 131 rooms capacity which includes all modern amenities, F&B service, swimming pool, conference and banquet hall, health facility, shopping arcade and other facilities has come into operations since August 2019. Generally, hotels generally require longer gestation period to recover the associated fixed costs and become profitable. OHL's initial few years of operations have been impacted by the pandemic and its future prospects will hinge on its ability to attract enough customers to maintain occupancy level, establish its brand and derive benefit from the hotel as envisaged.

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**

OHL is managed under the overall guidance of the company's board of directors (BOD) who possess wide industry experience. The company is promoted by institutional promoter and individual promoters involved in diversified industries and majority of one institutional promoter i.e., Asian Life Insurance Company Limited with largest shareholding of 43.19%. Mr. Sudhir Man Maskey, Managing Director, has work experience of over 27 years in various industries including hospitality sector. Similarly, other directors of the company have experience in diversified industries such as manufacturing, banking and financial institutions, education sector, etc. BODs are further supported by an experienced team across various functions/ departments.

Strategic locational advantage of the hotel

The hotel is centrally located in Ravi Bhawan, Kathmandu with Tribhuvan International Airport at 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 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 6 lakh tourists in 8MCY23 (~84% 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

Orchid Holdings Limited (OHL) is operating a four-star hotel located in Kathmandu, Nepal. The company was incorporated as a private limited company in November 13, 2007 under Company Act, 2063 and later converted into a public limited company in July 11, 2022. The hotel property spread over 9,136 sq. mt. of land with a total of 131 room keys. The hotel is operating under the commercial name of 'Hotel Crowne Imperial' located in Ward No-14, Ravi Bhawan, Kathmandu, Nepal.

Financial Performance

(Rs. in Million)

Particulars	FY21 (A)	FY22 (A)	FY23 (A)
Income from Operations	23	66	122
PBILDT Margin	Negative	Negative	10.58
Overall Gearing (times)	3.06	5.62	2.26
Interest coverage (times)	Negative	Negative	0.07
Current Ratio (times)	3.76	1.34	4.15
Total Debt/Gross Cash Accruals (times)	Negative	Negative	Negative

A: Audited

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