Hotel Diyalo Private Limited

Ratings

Facilities/ Instrument	Amount (Rs. in Million)	Ratings[1]	Rating Action
Long Term Bank Facilities	650.00	CARE-NP B+ [Single B Plus]	Revised from CARE-NP BB-
Short Term Bank Facilities	50.00	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	700.00 (Seven Hundred Million Only)		

** Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has revised the rating assigned to the long term bank facilities of Hotel Diyalo Private Limited (HDPL) to 'CARE-NP B+' from 'CARE-NP BB-' and has reaffirmed the rating of 'CARE-NP A4' assigned to the short term bank facilities of HDPL.

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the long term bank facilities of HDPL considers modest financial performance of the company in FY23 (Unaudited, FY refers to the twelve-month period ending mid-July) leading to higher than expected deterioration in its capital structure and modest debt service coverage indicators amid negative cash accruals. The ratings continue to remain constrained by operations stabilization risk given the generally long gestation period associated with hotel industry, exposure to volatile interest rates and susceptibility to cyclicality, intense competition in the hospitality sector.

The ratings, however, continue to derive strengths from experienced promoters of the company in various businesses including hospitality, association with reputed hotel brand and strategic locational advantage and government initiative and support for tourism industry. 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 revenues and profitability margins resulting in improved solvency and coverage indicators will be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Weak financial risk profile marked by net losses during FY23

Although the company reported sequential improvement in its operating performance in FY23 on a year-on-year basis, it remained below par with occupancy rate of around 38% (FY22: 34%). Total operating income (TOI) increased by ~25% y-o-y to Rs. 123 Mn during FY23 attributed to improvement in room sales coupled with rental income received from in house casino unit. PBILDT margin increased to 35.35% in FY23 from 33.16% in FY22. The improvement in PBIDLT margin mainly attributed to economies of scale. However, amid high interest outgo, the company incurred net losses during FY23. 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 crucial from credit perspective.

Furthermore, the capital structure of the company stood highly leveraged with overall gearing of above 11x at the end of FY23, deteriorated from 6.09x at the end of FY22. The deterioration in overall gearing ratio was on account of accumulation of losses incurred during the year which resulted into erosion of the net worth base.

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

Interest coverage ratio stood weak at below unity in the last 2 FYs (FY22-FY23). Furthermore, total debt to GCA (gross cash accruals) ratio of the company remained negative at 18.47x in FY23 due to negative gross cash accruals. However, comfort was taken from promoter group and infusion in the form of director's loan to meet the financial obligations, during FY22-FY23. 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 60 rooms capacity which includes all modern amenities, F&B service, spa, conference hall, casino and other facilities. The hotel has come into operations since April 2019. 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, HDPL'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 cyclicality, intense competition and geographic concentration risk in the hospitality sector

The hotel industry of Nepal is fragmented in nature with the presence of large number of organized and unorganized players spread across various regions. The occupancy levels and revenue in the hotel industry are susceptible to macroeconomic trends, both in the domestic and global markets. The company's hotel located in Birgunj, thus exposing operations to geographic concentration risk. Furthermore, by catering largely to the hotel segment, revenue and profitability remain susceptible to business growth and the dynamics of the hotel industry.

Key Rating Strengths

Experienced directors of the company in various businesses

The company is managed under the overall guidance of the company's board of directors (BOD) who possess experience in various fields. Mr. Sunil Kumar Rungata is the Chairman and Managing Director, and has experience of over 26 years in trading and manufacturing sector through various companies. Mr. Vishal Patwari, director, has around two decades of experience in trading and manufacturing sectors. He is also a director in Ma Durga Foods Private Limited [CARE-NP BB-/A4], Jagdamba Enterprises Private Limited [CARE-NP BB+/A4+] and Jagdamba Construction & Developers Private Limited. Ms. Lila Aggrawal, director, has over one decades of experiences in manufacturing sector. She is also associated with different companies in the capacity of director. BOD is further supported by an experienced team across various functions/ departments.

Strategic locational advantage

The hotel is located in Birgunj, Parsa district of Nepal. Birgunj is one of the fastest developing metropolitan cities in Nepal and is also known as the 'Gateway to Nepal' and 'Commercial Capital of Nepal'. Its strategic location could remain the hotel's core strength as this would be preferred choice of business travelers and for business events in the post-pandemic era. Therefore, influx of tourists as well as business related visits is high in Birgunj, Nepal thereby providing opportunity to HDPL to cater to leisure as well as business tourists and cater to Meetings, incentives, conferences and exhibitions (MICE).

Association with reputed hotel brand likely to benefit the company in terms of marketing and hotel operations
HDPL has entered into a licensed agreement with "Lords Inn Hotel and Developers Limited (Lords)" and is operating the hotel under the name 'Diyalo Lords Plaza'. Lords is mid-segment hotel chain in India and owned by Lords Hotels & Resorts and operates over 40 hotel properties spread across India and Nepal. This will provide the hotel with an added benefit of established service, large customer base, proven experience, marketing assistance and brand name recognition to drive hotel guest bookings.

Industry Outlook
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. With the government prioritizing development of travel and tourism in the country, the prospect of this sector looks encouraging over the medium-term.
Furthermore, 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 over 8 lakh tourists in 10MCY23 (~71% 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
HDPL was incorporated as a private limited company and constructed a hotel in Adarsh nagar, Birgunj, Nepal. The hotel is spread over 2.05 acres of land with a total of 60 rooms and other amenities. HDPL is four-star hotel operating under the commercial name of 'Diyalo Lords Plaza'.

(Rs. in Million)

Particulars	FY21 (A)	FY22 (A)	FY23 (UA)
Income from Operations	54	98	123
PBILDT Margin	19.85	33.16	35.25
Overall Gearing (times)	3.97	6.04	11.93
Interest coverage (times)	0.18	0.57	0.54
Current Ratio(times)	0.85	0.67	0.64
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	650.00	CARE-NP B+ [Single B Plus]
Short Term Bank Facilities	Fund Based Limit	50.00	CARE-NP A4 [A Four]
Total		**700.00**	

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