

Hotel Del' Annapurna Private Limited: [ICRANP] LBB/A4 assigned; ratings on watch with negative implications

July 13, 2020

Summary of rated instruments:

Instrument*	Rated Amount (NPR Million)	Rating Action
Fund-based - Long-term loans	485.00	[ICRANP] LBB @; assigned
Fund-based - Short-term loans	205.00	[ICRANP] A4 @; assigned
Total	690.00	

*Instrument details are provided in Annexure-1

@ Rating placed on watch with negative implications

Rating action

ICRA Nepal has assigned the long-term rating of [ICRANP] LBB (pronounced ICRA NP L double B) to the NPR 485.00 million long-term loans of Hotel Del' Annapurna Private Limited (HAPL). ICRA Nepal has also assigned the short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to the NPR 205 million short-term fund-based limits of HAPL. These ratings are kept on watch with negative implications amid the Covid-19 impact.

Rationale

The watch on assigned ratings with negative implications is on account of the evolving situation following the global Covid-19 pandemic. Travel and tourism are expected to be amongst the hardest hit sectors amid the worldwide travel bans and lockdowns. Amid the pandemic, the discretionary nature of spend (especially leisure travel) is likely to reduce for domestic as well as international tourists. The resultant lower occupancy and visitor inflows would have a significant impact on revenues, operating margins as well as coverage indicators of the company over the medium term. ICRA Nepal expects the hospitality industry to witness one of the longest periods of recovery owing to the likely widespread business slowdown over the next couple of quarters. The extent of impact on HAPL's business will depend on the time taken by tourism and the general business environment to return to normalcy. Sustained deterioration in the operating environment and/or HAPL's inability to resume operations without significant delay could further deteriorate its financial profile and could warrant a rating downgrade.

Nonetheless, the rating assigned to HAPL factors in its long track record (operating since 1965), being one of the established hotel properties in Nepal. Likewise, the unique strategic location of the property at the core city close to numerous corporate houses augurs well for its business. This, along with its experienced promoters and management with their established traction in the local market remain rating positive. The recent regulatory forbearance accorded by the banks (upon central bank's direction) to the borrowers¹, is likely to help the company tide over the near-term liquidity challenges created by the pandemic. The rating also favourably factors in the Government of Nepal's (GoN) recognition of the tourism sector and various initiatives undertaken to boost the sectoral outlook, despite the current negative operating environment for the hotel industry.

However, the rating remains constrained by the deteriorating demand outlook amid increasing competitive intensity over the next one to two years. The Kathmandu region has seen an addition of multiple hotel properties in the last few years with further properties likely to be added over the next two years. This could usher in a regime of stagnation in the revenue per available room (RevPAR) levels of the hotel industry, thereby eroding the financial profile of even the established players like HAPL. The cumulative impact of the decline in revenues and the increased debt-related obligations could weaken HAPL's financial profile and debt-servicing ability over the near term. Rating concerns also arise from the hotel's relatively high reliance on business from foreign guests. With foreign arrivals likely to remain weak over near term, HAPL's occupancy and revenue profile could remain muted.

¹ Such as deferral of interest and instalment repayment falling due in mid-April 2020 to mid-July 2020, among others.

Key rating drivers

Credit strengths

Local brand with long heritage and locational advantage - Operating since 1965, HAPL is one of the established hotel properties in Nepal. HAPL was previously managed by the Indian Hotel Company Ltd., owner of the Taj Chain of Hotels during 1990-2004. It has developed as a brand with decades of operations behind it. HAPL's revenue and profitability has benefitted from the unique location at the core of the city with proximity to numerous corporate houses. These strengths have aided the hotel to maintain a decent level of occupancy (~73% in FY2019 on standalone basis) and an average room rate-ARR (~NPR 9,000 in FY2019) despite increased competition in the Kathmandu region. Its strategic location could remain the hotel's core strength as this has helped it become the preferred choice of business travellers in the post-pandemic era. This is expected to help in picking up the business well upon resumption vis-à-vis its peers.

Experienced promoters - HAPL is also benefitted from its experienced promoter group. It is largely a family-owned business where the Rana family holds ~88% stake of the company. The family has a long experience in owning and operating a high-end hotel and their traction in the local market and with the stakeholders is a positive.

Credit challenges

Covid-19 pandemic effect significant on hospitality sector - Given the discretionary nature of spending (especially leisure travel), the travel and tourism industry has always been highly susceptible to exogenous shocks like wars, terror attacks, diseases and economic meltdowns. The pandemic is expected to have a more severe and broad-based impact on the operating metrics of the company, resulting in negative operating leverage over the medium term. The Covid-19 impact has had an immediate impact on the tourist season falling in March-April 2020 with the impact likely to extend well past the September-December 2020 period, which are the two best seasons for the hotel industry in Nepal. Accordingly, the revenue profile of FY2020 and FY2021 is likely to have a major impact. The relaxations offered by the banking sector regulator so far only provides temporary respite. Hence further support measures, including extension of the moratorium on principal repayments remains to be seen.

Stretched financial profile - With rising debt levels and low net-worth base, HAPL's gearing has sharply increased to ~8.2 times as of mid-April 2020 from ~4.8 times as of mid-July 2019. Given the expected erosion in the revenue potential of the hotel over the near-medium term, HAPL's debt coverage indicators are likely to remain under pressure. Total debt/OPBDITA stood high at ~12 times as of mid-April 2020 while the DSCR mostly remained stretched (0.84 times in FY2019). The company's profitability is likely to remain subdued over the next 1-2 years due to the pandemic effect on the sector. HAPL's financial flexibility also remains weak as the drawing power has mostly been utilised in full. This along with rising debts level and the pandemic impacts on the cash flow stream raises concerns on liquidity.

Majority revenue from the single property and rising competition - HAPL operates an upscale resort – the Annapurna Jagatpur Lodge - as a subsidiary in the Chitwan district. Though this provides geographical diversification going forward, its contribution to HAPL's consolidated revenue has been low (~3% in 9M FY2020) in the limited track record (operating since FY2017). Given the limited segment diversification, HAPL's revenue is also driven by high-end tourists, mostly foreigners. The prospect of the hotel, therefore will depend on the improvement of the foreign tourist arrival and the hotel's ability to compete with other hotels operating in the area.

The hotel sector in the last few years has witnessed a notable rise in the number of high-end properties, some already commissioned and many still under construction. The increased number of upscale properties amid modest improvement in tourism infrastructures, spending capacity and foreign tourist arrival/spending has intensified competition. This is likely to create margin pressure for the established players such as HAPL.

Analytical approach: For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below:

Links to applicable criteria:
[Corporate Credit Rating Methodology](#)
About the company

Hotel Del' Annapurna Private Limited (HAPL), established in 1965, is one of the old 5-star hotels in Nepal. The company manages two other hotels viz., Nepal Hotels Private Ltd. (Fish Tail Lodge in Pokhara, 5-star deluxe resort in Lakeside) and its 100% subsidiary, Annapurna Jagatpur Lodge Private Ltd. in Chitwan. The registered office of HAPL is at Durbar Marg, Kathmandu, Nepal.

HAPL is a single property company that owns and operates a 148-room key hotel in central Kathmandu, ~5 Km from Tribhuvan International Airport, built over a plot of 5.5 acre. AJPL is an upscale resort in Chitwan operating since March-2017. This is a 27-room key property with 20 deluxe rooms and 7 luxurious African tents.

Key Financial Indicators (consolidated)

Amount in NPR million	FY2017	FY2018	FY2019	9MFY2020
	Audited	Audited	Audited	Provisional
Operating income (OI; NPR million)	862.7	986.3	935.5	519.9
OPBDITA/OI (%)	14.4%	24.8%	19.6%	7.8%
Total debt/Tangible net worth (TNW; times)	4.7	3.4	4.8	8.1
Total outside liabilities/TNW (times)	7.7	6.3	9.0	15.2
Total debt/OPBDITA (times)	5.4	2.6	3.5	12.0
Interest coverage (times)	2.1	2.9	2.2	0.9
DSCR (times)	0.9	1.3	0.8	0.4
Net working capital/OI (%)	12.5%	12.8%	14.3%	16.3%

Source: Company data

Annexure-1: Instrument Details

Facilities/Instrument	Rated Amount (NPR million)	Rating Action
Bank loan limits		
Fund-based facilities; Long-term		
Term Loans	227.32	[ICRANP] LBB@; Assigned
Hire Purchase Loan	59.38	[ICRANP] LBB@; Assigned
Total Fund-based-Long term (A)	286.70	
Fund-based facilities; Short-term		
Demand Loan	120.00	[ICRANP] A4@; Assigned
Overdraft Loan	85.00	[ICRANP] A4@; Assigned
Total Fund-based-Short term (B)	205.0	
Fund-based facilities; Long-term (Proposed) (C)	198.30	[ICRANP] LBB@; Assigned
Total limits (NPR Million) (A+B+C)	690.00	

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About ICRA Nepal Limited:

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