

## R & R Hotels and Resorts Private Limited: [ICRANP] LBB-/[ICRANP] A4 assigned

December 14, 2020

### Summary of rated instruments

Instrument*	Rated Amount (NPR Million)	Rating Action
Long-term loans; fund based	810	[ICRANP] LBB- (Assigned)
Short-term loans; fund based	20	[ICRANP] A4 (Assigned)
<b>Total</b>	<b>830</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA Nepal has assigned the long-term rating of [ICRANP] LBB- (pronounced ICRA NP L double B minus) to the NPR 810-million long-term loans of R & R Hotels and Resorts Private Limited (R&R). It has also assigned the short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to the NPR 20-million short-term loan limit of R&R.

### Rationale

The ratings assigned to R&R, the special purpose vehicle (SPV), which owns and operates Vivanta Kathmandu, a 4-star property in Lalitpur, Kathmandu Valley, factor in the company's strong parentage with a 75% stake held by the Chaudhary Group<sup>1</sup> through CG Hospitality Holdings Nepal Private Limited<sup>2</sup>. The ratings also factor in the expectation of timely liquidity and funding support to R&R from the promoter group during the hotel stabilisation phase, given their financial strength and established track record in multiple sectors including the hospitality industry.

The ratings also consider Vivanta Kathmandu's strategic location and the management of the property by Indian Hotels Company Limited (ICHL) under the terms of a long-term hotel management contract. The strong brand recall of Vivanta by Taj and ICHL's expertise in hotel operation management remain a positive for the project's offtake and the longer-term outlook. The ratings also favourably factor in the Government of Nepal's (GoN) initiatives to provide support and boost the demand prospects of the Nepalese tourism industry.

The ratings, however, are constrained by the negative outlook for the hotel industry, given the evolving Covid-19 pandemic situation. The hotel's offtake has been severely impacted by the pandemic, which resulted in subdued occupancy levels and revenues in FY2020 (first full year of operations). Given the high debt burden, this has led to a deterioration in R&R's debt repayment capacity. Although the ad hoc moratorium on debt repayment until mid-January 2021, granted by the lender bank (upon the central bank's direction), has alleviated the immediate pressure on debt repayment, the project is likely to require external funding support to manage cash flow mismatches in the medium term. To that end, the company's strong parentage provides comfort.

The ratings also take cognizance of the excess supply resulting in intense competition among the hotels in the Kathmandu region, which has constrained the average room rates (ARRs) and the occupancy levels of the operating properties. Given the subdued demand outlook, competition is likely to intensify further in the medium term, which could moderate the revenue profile of new properties vis-à-vis projected estimates. R&R's financial profile and debt repayment capacity over the medium term will depend on the management's ability to meet the targeted occupancy and revenue per available room (RevPAR) and control the operating costs. Rating concerns also arise from R&R's limited segment and geographical diversification, which could prolong the business recovery period.

<sup>1</sup> Among other business ventures, the Chaudhary Group owns a controlling interest in Nabil Bank Limited (rated AA- by ICRA Nepal) through their offshore holding company – NB International Limited

<sup>2</sup> CG Hospitality Holdings Nepal Pvt Ltd is the hospitality wing of the Chaudhary Group; the Group also has CG Hospitality Global that owns ~100 hotel properties across countries including India, Sri Lanka, the Maldives, Dubai, China and the Philippines

## Key rating drivers

### Credit strengths

**Strong parentage with established record in hospitality sector** – R&R is a joint venture (JV) between the Chaudhary Group and the NE Group, two established business houses in Nepal which hold 75% and 25% stakes, respectively, in R&R through their respective holding companies viz. CG Hospitality Holdings Nepal Private Limited and Sibkrim Land and Industrial Company Private Limited. The Chaudhary Group, the major stakeholder in R&R, is one of the strong business houses in Nepal with a long presence and strong track record across multiple sectors such as manufacturing, trading, and the financial services sector (*including controlling interest in Nabil Bank Limited, the oldest private sector bank with a long-term issuer rating of AA- by ICRA Nepal*). The Group also has a strong presence in the hospitality sector in Nepal as well as foreign countries. Its subsidiary, CG Hospitality Global, owns and operates multiple hotel properties across Asia, Africa, and the Middle East in JVs with foreign brands. The Group also owns a 5-star resort in Chitwan (Nepal), which is operating since 2016 under the franchise of Taj Safari.

**Strong brand recognition of ‘Vivanta by Taj’** – R&R has entered a long-term hotel management contract with ICHL. The agreement allows the use of the Vivanta brand by R&R. The hotel’s operation and management are also looked after by the officers deputed by ICHL. The association with ICHL and the use of its brand offer better visibility to R&R.

**Strategic location** – Vivanta Kathmandu is in the Lalitpur district of Kathmandu Valley. It is conveniently located near the only international airport in Kathmandu and is close to several corporate offices and the offices of diplomatic missions. Therefore, the strategic location of the property remains a positive for its long-term prospects.

### Credit challenges

**Nascent stage of operations; extensive impact of Covid-19 in the near term to delay stabilisation** – The property became operational in January 2019 and is yet to stabilise. The ongoing global pandemic led to subdued occupancy for Vivanta Kathmandu (~26% for FY2020, the first full year of operation), resulting in moderate cash flows vis-à-vis the operating cost and debt repayment obligations. Amid the evolving pandemic situation, R&R’s revenue profile for FY2021 is also likely to remain constrained. The relaxation accorded by the central bank to hotel sector players through the ad hoc extension of the moratorium till mid-January 2021 remains a comfort. The central bank’s provision also allows for further deferral of principal repayments by up to two years through a corresponding extension of the overall loan repayment tenure, which could mitigate the default risk arising from a weak offtake. Nonetheless, the resolution of the ongoing pandemic will be critical for the return of the hospitality industry to normalcy and will accordingly affect R&R’s financial profile.

**Sizeable debt burden to constrain liquidity and debt servicing ability; necessitates timely restructuring or funding support from promoters** – R&R’s gearing level remains on the higher side, driven by the 65:35 debt equity ratio for the project. Given the expectation of subdued revenues due to the ongoing pandemic and the nascent stage of operations, the company is likely to require external funding support to meet its debt obligations. The management’s ability to negotiate suitable rescheduling/restructuring of the existing credit facilities will have an impact on R&R’s debt repayment capacity. Moreover, the promoters’ ability to provide funding support during such periods will also remain essential for the company’s liquidity profile. The management’s ability to reschedule/restructure loans on favourable terms and the promoters’ ability to provide funding support during the stabilisation phase remain key rating sensitivities.

**Increasing industry competition and margin pressure** – Over the last few years, the hotel sector in Kathmandu Valley has witnessed an excess supply of new properties. However, due to the slow growth in demand vis-à-vis supply, the industry competition has intensified resulting in the moderation of the operating metrics of the hotel properties. The pandemic and reduction in discretionary travel could lead to a further moderation in demand. Given the high operating leverage of the hospitality business, the operating profitability could be adversely impacted vis-à-vis projected estimates for newly set-up properties such as Vivanta Kathmandu.

**Limited geographical and segmental diversification** – Vivanta Kathmandu is a single upscale property hotel and is thus exposed to any adversities in the local market, including new supply addition and event risks, among others.

**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

Incorporated in April 2014, R & R Hotels and Resorts Private Limited (R&R) is a special purpose vehicle (SPV) that owns and operates a 4-star property in Jhamsikhel, Lalitpur viz Vivanta Kathmandu. The hotel commenced operations on January 17, 2019. R&R has a management/operations contract with Indian Hotels Company Limited for 18 years (extendable) from the date of commencement.

R&R is a JV between the Chaudhary Group (through CG Hospitality Holdings Nepal Pvt Ltd) and the NE Group (through Sibkrim Land and Industrial Company Private Limited) with a 75:25 shareholding ratio.

## Key financial indicators

	<b>FY2019 (Audited)</b>	<b>FY2020 (Provisional)</b>
Operating Income-OI (NPR million)	81.4	176.2
OPBDITA <sup>3</sup> /OI (%)	-39.4%	11.5%
Total Debt/Tangible Net Worth (TNW; times)	2.1	3.1
Total Outside Liabilities/TNW (times)	2.5	3.5
Total Debt/OPBDITA (times)	-24.2	39.4
Interest Coverage (times)	-0.9	1.1
DSCR <sup>4</sup>	-0.9	0.6
NWC <sup>5</sup> /OI (%)	92%	37.6%
Current Ratio (times)	1.6	1.5

## Annexure-1: Instrument details

<b>Instrument</b>	<b>Rated Amount (NPR million)</b>	<b>Rating Action</b>
Long-term limits (A)	<b>810.00</b>	[ICRANP] LBB- (Assigned)
Fund-based limits (project term loan)	800.00	
Hire purchase loan	10.00	
Short-term Limits B)	<b>20.00</b>	[ICRANP] A4 (Assigned)
Fund-based limits; Overdraft	20.00	
<b>Total (A+B)</b>	<b>830.00</b>	

<sup>3</sup> Operating profit before depreciation, interest, tax and amortisation

<sup>4</sup> Debt service coverage ratio

<sup>5</sup> Net working capital intensity

**Analyst Contacts:**

**Mr. Sailesh Subedi**, (Tel No. +977-1-4419910/20)  
[sailesh@icranepal.com](mailto:sailesh@icranepal.com)

**Ms. Neha Baral**, (Tel No. +977-1-4419910/20)  
[neha@icranepal.com](mailto:neha@icranepal.com)

**Relationship Contacts:**

**Ms. Barsha Shrestha**, (Tel No. +977-1-4419910/20)  
[barsha@icranepal.com](mailto:barsha@icranepal.com)

**About ICRA Nepal Limited:**

ICRA Nepal Limited, the first Credit Rating Agency of Nepal, is a subsidiary of ICRA Limited (ICRA) of India. It was licensed by the Securities Board of Nepal (SEBON) on October 3, 2012. ICRA Nepal is supported by ICRA Limited through a technical support services agreement, which envisages ICRA helping ICRA Nepal in areas such as rating process and methodologies, analytical software, research, training, technical and analytical skill augmentation.

Our parent company, ICRA Limited, was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies.

For more information, visit [www.icranepal.com](http://www.icranepal.com)

**ICRA Nepal Limited,**

Sunrise Bizz Park, 6th Floor, Dillibazar, Kathmandu, Nepal.

**Phone:**+977 1 4419910/20

**Email:** info@icranepal.com

**Web:** www.icranepal.com

All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA Nepal.

ICRA Nepal ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. The ICRA Nepal ratings are subject to a process of surveillance which may lead to a revision in ratings. Please visit our website ([www.icranepal.com](http://www.icranepal.com)) or contact ICRA Nepal office for the latest information on ICRA Nepal ratings outstanding. All information contained herein has been obtained by ICRA Nepal from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Nepal in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion and ICRA Nepal shall not be liable for any losses incurred by users from any use of this publication or its contents