

## Hotel Mystic Mountain Private Limited: Ratings upgraded to [ICRANP] LBB+/A4+

April 22, 2024

### Summary of rating action

| Instrument*<br>(Amount in NPR Million) | Last Rated | Current Rated | Rating Action                             |
|--|------------|---------------|---|
| Fund-based - Long-term limit           | 525        | 525           | [ICRANP] LBB+; upgraded from [ICRANP] LBB |
| Fund-based - Short-term limit          | 35         | 35            | [ICRANP] A4+; upgraded from [ICRANP] A4   |
| <b>Total</b>                           | <b>560</b> | <b>560</b>    |   |

\* Instrument details are provided in [Annexure-1](#)

### Rating action

ICRA Nepal has upgraded the long-term rating assigned to Hotel Mystic Mountain Private Limited (MMH) to [ICRANP] LBB+ (pronounced ICRA NP L double B plus) from [ICRANP] LBB (pronounced ICRA NP L double B). ICRA Nepal has also upgraded the short-term rating to [ICRANP] A4+ (pronounced ICRA NP A four plus) from [ICRANP] A4 (pronounced ICRA NP A four).

### Rationale

The rating upgradation factors in the sustained recovery in the hotel's post-pandemic operational and financial profile. This is reflected in MMH's healthy revenue and margins reported in FY2022 and FY2023, driven by an improved average occupancy and Revenue per available rooms (RevPAR) levels. The improvement in revenue and margins has supported the company's debt coverage ratios. The rating also continues to take note of its favourable location and good visibility of the property. The industry traction stemming from the promoters' long experience in the hotel business, knowledge of the local market and customer relations also remain among the rating positives.

Nonetheless, the ratings remain constrained by leveraged capital structure on account of losses sustained during the pandemic era. This is reflected in the higher total debt/total net worth and total debt/OPBDITA ratios. Rating concerns also arise on account of moderate scale of the property. As such, any slack in the occupancy is likely to have a higher impact on profitability given the operating leverage (fixed cost) associated with the hotel operations. Rating concerns also arise on account of the limited segmental and geographical diversification of the hotel property, the competition emanating from existing and new properties in the area and seasonality associated in the tourism/hospitality business.

ICRA Nepal notes the management plan to expand the room capacity through debt funded capex. Going forward, the ability of the management to maintain the RevPAR level on a higher scale, commensurate with increased debt burden will remain as rating monitorable.

### Key rating drivers

#### Credit strengths

**Strategic location of the hotel property and improving visibility** – MMH's only hotel property is located at Nagarkot, which is one of the popular travel destinations close to Kathmandu, the capital city. MMH's property visibility has been on an improving trend in recent years, which has supported the footfall, occupancy, and revenue levels for the company.

**Experienced promoter** – The hotel’s owner, Mr. Balkrishna Dhoju is a second-generation hotelier with over 20 years of experience in the hotel industry. Before setting up MMH, Mr. Dhoju served as General Manager in a 3-star hotel in Nagarkot region. Mr. Dhoju has a good traction amongst the industry stakeholders including potential corporate/individual customers, which augurs well for the hotel’s business, going forward.

**Sustained improvement in post-pandemic operational and financial profile** – Following the slump caused by the COVID-19 pandemic till FY2021, the company has been able to report progressive revenues during FY2022 and FY2023, continuing into FY2024 as well. This was supported by improved operational metrics of the hotel. For FY2023, the hotel reported an average occupancy of ~73% with an average annual revenue per available room (RevPAR) of ~NPR 6,300 (vs. 60% and ~NPR 3,900 in FY2022, respectively). The increased revenue with relatively stable operating profit margins has supported the company’s incremental net profitability as well as debt coverage indicators and liquidity position.

### **Credit challenges**

**High debt burden vis-à-vis the operational scale** – The debt level associated with MMH is on the higher side, which coupled with the low capital base on account of losses during the pandemic era results in a high gearing ratio despite the recent improvement. The TD/TNW reported by the company for FY2023 stands at 3.4 times, which is still indicative of a leveraged capital profile. At the same time, the hotel operates on a small scale and therefore the ability to maintain a healthy occupancy and room rates on an ongoing basis will remain essential for maintaining the financial profile and debt servicing ability, given the ballooning repayment of principal on the project debt.

**Limited geographical/ segment diversification and competitive intensity** – Hotel Mystic Mountain is a single-property hotel in Nagarkot and is, therefore, exposed to geographical concentration risk. At the same time, a major portion of the hotel revenue comes from a relatively small customer segment comprising of leisure tourists. The Nagarkot area has a plethora of hotels across different segments, which increases the competitive intensity for MMH. Older and established hotels in the region with lower debt burden could exert pricing pressure on MMH, which could affect the financial profile of the company.

**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](#)

**Link to previous rating rationale:**

[Rationale- Hotel Mystic Mountain-Fresh BLR-March 2023](#)

### **About the company**

Hotel Mystic Mountain Private Limited (MMH) was incorporated in May 2013. Its registered office is located at Mandan Deupur, Kavrepalanchowk. MMH owns and operates a four-star resort-type 72-room hotel. It commenced operations with 33 rooms on July 28, 2017. MMH is an independent hotel without any affiliation to foreign or domestic hotel chains. The hotel has been certified as a four-star property by the Department of Tourism, Nepal.

The hotel property is located ~30 kilometres east of Kathmandu, in Nagarkot, a small town in the hills surrounding the Kathmandu valley. The property is developed over ~5 acres with multiple blocks housing 72 rooms and related hotel amenities. The hotel is under the sole ownership of Mr. Bal Krishna Dhoju, a second-generation hotelier.

## Key financial indicators of MMH

|   | FY2019<br>(Audited) | FY2020<br>(Audited) | FY2021<br>(Audited) | FY2022<br>(Audited) | FY2023<br>(Audited) |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| Operating income (OI; Sales in NPR million) | 222                 | 148                 | 93                  | 252                 | 330                 |
| OPBITDA/OI (%)                              | 41.3%               | 38.6%               | 22.2%               | 48.2%               | 48.0%               |
| Total debt/Tangible net worth (TNW; times)  | 6.0                 | 6.9                 | 16.5                | 6.5                 | 3.4                 |
| Total outside liabilities/TNW (times)       | 7.9                 | 8.6                 | 19.8                | 8.0                 | 4.1                 |
| Total debt/OPBITDA (times)                  | 5.4                 | 8.9                 | 25.7                | 4.3                 | 3.0                 |
| Interest coverage (times)                   | 1.9                 | 1.4                 | 0.5                 | 2.6                 | 2.8                 |
| DSCR (times)                                | 1.3                 | 0.9                 | 0.4                 | 1.3                 | 1.5                 |
| Net working capital/OI (%)                  | 6%                  | 6%                  | -2%                 | -4%                 | 1%                  |

Source: Company data

## Annexure-1: Instrument Details

| Instrument (NPR Million)                         | Last Rated Limits | Current Rated Limits | Rating assigned                           |
|--|-------------------|----------------------|---|
| Fund-based -Long-term Loans- Existing            | 483               | 525                  | [ICRANP] LBB+; upgraded from [ICRANP] LBB |
| Fund-based -Long-term Loans- Proposed            | 42                | -                    |   |
| Fund-based -Short-term Loans                     | 35                | 35                   | [ICRANP] A4+; upgraded from [ICRANP] A4   |
| Non-fund based Short-term Loans (Bank Guarantee) | (1.50)            | (1.5)                |   |
| <b>Total</b>                                     | <b>560</b>        | <b>560</b>           |   |

## Analyst Contacts:

**Mr. Sailesh Subedi** (Tel No. +977-1-4519910/20)  
[sailesh@icranepal.com](mailto:sailesh@icranepal.com)

**Ms. Neha Baral** (Tel No. +977-1-4519910/20)  
[neha@icranepal.com](mailto:neha@icranepal.com)

## Relationship Contacts:

**Ms. Barsha Shrestha** (Tel No. +977-1-4519910/20)  
[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 licenced 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, and 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 4519910/20



**Email:** [info@icranepal.com](mailto:info@icranepal.com)

**Web:** [www.icranepal.com](http://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