

Hotel Barahi Private Limited: Rating reaffirmed

March 27, 2024

Summary of rating action

Instrument (Amount in NPR million)	Previous Rated Limit	Current Rated Limit	Rating Action
Long-term limits	940.00	940.00	[ICRANP] LB+; reaffirmed
Total	940.00	940.00	

Rating action

ICRA Nepal has reaffirmed a long-term rating of [ICRANP] LB+ (pronounced ICRA NP L B plus) to the long-term loan limits of Hotel Barahi Private Limited (HBPL or the company).

Rationale

The rating remains constrained by the company's leveraged capital structure with high debt financing for renovation of existing property in Pokhara as well as newly operational property in Kathmandu. As such, profitability and debt coverage indicators are likely to remain muted until the Pokhara property scales up and Kathmandu property achieves stabilization. The rating also remains constrained by low cash and profit reserves and the weak capital base of the company on account of past losses. As such, the company is likely to require promoter support to meet the near-term debt servicing need. Furthermore, the cyclical nature of the hotel business and the growing competition among hotels have exposed the company to the risk arising from cash flow mismatches, which could affect the company's liquidity and debt repayment capacity.

Nonetheless, the rating assigned to HBPL factors in the commencement of Kathmandu property which has offered geographical diversification to the company. Kathmandu property is housed in a commercial complex which is partly owned by HBPL's subsidiary and leases its space to generate rental revenue, which also offers sectoral diversification to HBPL to some extent. Similarly, the rating considers the revenue improvement reported by the company in FY2023 and H1FY2024 supported by better occupancy and average room rate (ARR). Likewise, the ratings also consider the company's experienced promoter profile with long track record (operating since 1978) and good brand reputation in Nepal.

Going forward, the sustainability of recent improvement in operational revenues over the longer term and liquidity management by the company until the hotel achieve financial self-sufficiency to enable timely debt servicing will remain among the major rating monitorable.

Key rating drivers

Credit strengths

Geographical and segment diversification– HBPL's new property in Thamel Kathmandu is housed in a nine-storey Barahi Plaza in a lease hold land. The plaza consists of shopping mall in the first three stories (owned by 70% subsidiary of HBPL) and a hotel from the fourth onwards (fully owned by HBPL). With the commencement of new hotel property in Kathmandu, HBPL has two four-star properties in major tourist destinations in the country. Commissioning of Barahi plaza in Kathmandu is also expected to aid revenue diversification for HBPL, through lease rental earned by HBPL's subsidiary.

Established brand, experienced promoters and group synergy– HBPL is a family-owned business, owned by Mr. Hari Prasad Poudel and his family, with more than four decades of experience in the hospitality and tourism sectors. HBPL

remains one of the strong hotel brand in Pokhara region. The company at present, has two operational 4-star hotels in Pokhara and Kathmandu. In addition to the Kathmandu and Pokhara property under HBPL, the promoter group also has premium hotel property in Chitwan region. As such, the commissioning of Kathmandu property is likely to add further synergy to the group's overall hospitality business.

Credit challenges

High debt burden and weak reserves results in liquidity pressure – HBPL carries sizeable debt burden at present, given the expense incurred for renovation of Pokhara property as well as fresh capex for the Kathmandu property. As both the properties are yet to gain optimum performance in the post-covid era, HBPL's revenue profile and profitability remains moderate vis-à-vis the debt levels which has stretched its debt coverage indicators. The weakness is likely to continue until the operational properties ramp up their scale and achieve stabilization. The promoters' ability to provide funding support during this period will have a bearing on the hotel's liquidity profile as well as its debt repayment capacity. HBPL's capital and liquidity base also remain weak on account of accumulated losses from the past which renders its overall financial profile weak.

Cyclical industry, vulnerable to general economic slowdown and exogenous factors – Given the reliance on the discretionary nature of spending (especially leisure travel), the travel and tourism industries remain highly susceptible to exogenous shocks like instability, economic downturns, and pandemics such as Covid-19. Further, the tourism industry in Nepal remains seasonal, which could result in volatile cash flows for the company. The company's ability to maintain adequate liquidity buffer to counterbalance the seasonality also remains a concern.

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

Link to previous rating rationale:

[Rationale Hotel Barahi Pvt. Ltd. Fresh BLR 2022](#)

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Hotel Barahi Private Limited (HBPL), established in 1992, is a 4-star hotel in Nepal. The company operates a 4-star hotel in Lakeside, Pokhara and has built another hotel in Thamel, Kathmandu which started its operation in mid-May 2023. The registered office of HBPL is at Baidam-6, Pokhara district, Gandaki Province, Nepal. Further, the company also owns three-storey shopping mall (in same complex as Kathmandu property) through Barahi Housing & Leasing Private Limited, a 70% subsidiary of HBPL.

Key financial indicators

	Audited	Audited	Audited	Provisional
Amount in NPR million	FY2021	FY2022	FY2023	H1FY2024
Operating Income (OI)	16.9	117.4	228.6	236.25
OPBDITA/OI (%)	-197%	-5%	20%	42%
Total debt/Tangible net worth (TNW; times) *	-61.4	-14.2	-14.0	-32.3
Total Outside liability/TNW (times)*	-64.5	-14.8	-14.9	-33.4
Total Debt/OPBDITA (times)	-37.2	-244.1	36.6	13.9
Interest coverage (times)	-0.4	-0.1	0.5	1.1
DSCR (times)	-0.4	-0.1	0.6	1.0
NWC/OI (%)	1060%	129%	52%	47%
Current Ratio (times)	1.4	0.7	0.5	0.6

Source: Company data

*TNW excludes revaluation reserve of NPR 399 million.

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