Hotel Chitwan Private Limited: Long-term rating downgraded, short-term rating reaffirmed

March 27, 2024

Summary of rating action

Instrument	Last rated amount (NPR million)	Current rated amount (NPR million)	Rating action
Fund based; long-term limits	966.1	1,252.5	[ICRANP] LB+; downgraded from [ICRANP] LBB-
Fund based; short-term limits	10.0	10.0	[ICRANP] A4; reaffirmed
Non-fund based; short-term limits	0.4	0.4	[ICRANP] A4; reaffirmed
Total	**976.5**	**1,262.9**	

Instrument details are provided in Annexure-1

Rating action

ICRA Nepal has downgraded the long-term rating for bank loan limits of Hotel Chitwan Private Limited (HCPL) from [ICRANP] LBB- (pronounced ICRA NP L double B minus) to [ICRANP] LB+ (pronounced ICRA NP L B Plus) and reaffirmed the short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to the company's short-term bank limits.

Rationale

The rating downgrade factors in the sustained weakness in the financial profile of the company amid the company's inability to ramp up the hotel operations. The company has continued to report deterioration in the equity base amid losses incurred in the past. This results in a weak leverage indicator in relation to equity as well as scale of operations with TD/TNW of ~8.9 times and TD/OPBDITA of ~34.3 times as on mid-July-2023. Furthermore, the modest revenues for the company have resulted in weak debt coverage indicators. The company has been continuously availing the restructuring/rescheduling of loan accounts (as per central bank directive) since the Covid-era and therefore the debt taken for project capex remains largely unpaid. Unless the company is able to ramp up its hotel operations and achieve material improvement in revenues and cashflows, its ability to meet the debt servicing going forward remains weak. The ratings are also constrained by the short track record of the company's operations. Rising number of new properties in the region as well as across the country is also likely to increase the competitive pressure and increase the offtake risk for HCPL.

Nonetheless, the ratings remain supported by its reputed and resourceful promoters and their experience in hospitality sector. The company is part of the Chaudhary Group that is among the largest and the most prominent business houses in the country with sizeable investments in the hospitality sector; in addition to established presence in financial sector, trading and manufacturing businesses. ICRA Nepal notes the recent management agreement between HCPL and 'The Indian Hotels Company Limited', with plans to operate the hotel under the brand name "Vivanta" by discontinuing the earlier franchise agreement for the use of the brand 'The Fern Residency'. The impact of the rebranding on the financial profile remains to be seen. Some comfort is also offered by relatively diversified revenue profile (hotel and rental) of HCPL. However, broader financial profile improvement is likely to remain dependent on the hotel performance going forward. The ratings also favourably factor in the Government of Nepal's (GoN) initiatives to support and boost the demand prospects of the Nepalese tourism industry.

Key rating drivers

Credit strengths

Good promoter profile – HCPL is fully owned by the Chaudhary Group, through its family members and group companies. The group is one of the established and reputed business houses in Nepal with a strong presence in multiple sectors such as manufacturing, trading, and financial. The group also has a notable presence in the hospitality sector in Nepal as well as foreign countries.

Brand recognition of 'Vivanta'– HCPL has entered a long-term hotel management contract with Indian Hotels Company Limited (ICHL), in January 2024. The agreement provides for the use of brand 'Vivanta' by HCPL as well as operation and management of the hotel property by officers deputed by ICHL. The brand recognition and networking privileges available to HCPL, by virtue of affiliation with ICHL could offer better visibility and help in ramping up the hotel operations; which remains critical for the long-term sustainability of HCPL. The company has discontinued the use of brand name 'The Fern Residency' for its hotel.

Diversified revenue profile – HCPL sources its revenue from the 48-room three-star hotel as well as 70-retail stores under the shopping mall, all embedded in a single complex. Revenue from the mall amounted to ~42% of the total revenue with hotel accounting for ~38% for FY2023; with remaining contributions coming from CAM (common area maintenance) charges, advertisement revenue, utility charges, etc.

Credit challenges

High debt burden and weak debt coverage indicators – The debt levels of the company remain high in relation to its operating income with TD/OBDITA at ~34.3 times as on mid-July-2023. In addition, gearing level of HCPL has increased in FY2023 with TD/TNW at ~8.9 times (~3.3 times as on mid-July-2022) due to erosion of equity base of the company as a result of sustained losses reported by the company since the start of operations. The inability of the company to ramp up its hotel operations has limited its ability to generate revenue and downsize loans. The company has been availing restructuring/rescheduling facilities since Covid-era and principal portion of loans taken for capex remains unpaid.

Short track record of operations and modest scale– The 3-star hotel under HCPL started operations in May 2019, while the mall opened in August 2019. The outbreak of the pandemic in late 2019/early 2020 severely affected both segment of HCPL's business. While the company has reported marginal improvement in revenue post-covid, it is yet to achieve the optimum performance required for operational/financial self-sufficiency. The revenue level of the company in recent years have remained inadequate vis-à-vis the debt burden, resulting in supressed debt coverage indicators. As such, the company will continue to depend on the promoter's support and/or additional bank limits to maintain its debt servicing capability and liquidity.

Increasing industry competition and margin pressure – The company faces strong competition from existing players as well as the growing number of new hotels in the region as well as across the country given the growing investment in the hotel sector in the past few years. Competition in the sector has also intensified because of the slow growth in demand vis-à-vis supply, resulting in a moderation of room tariff, margins and overall operating metrics of the hotel properties. Given the high operating leverage of the hospitality business, this is likely to significantly weaken the operating profitability vis-à-vis projected estimates for all players.

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 last rating rationale:
Hotel-Chitwan-Pvt-Ltd_BLR_Surveillance_Rationale_.pdf

About the company

Incorporated in 1980, Hotel Chitwan Private Limited (HCPL) is the owner and operator of the commercial complex in Bharatpur, Chitwan which comprises of a 48-room 3-star hotel and a commercial mall with 70 retail stores and a multiplex and has a built-up area (BUA) of 180,000 square feet. The company has signed a franchise agreement with 'The Indian Hotels Company Limited', a hotel chain registered in Mumbai, India, in January 2024. The hotel will be operating under the 'Vivanta' brand, under the agreement and the company has discontinued the brand name of 'Fern Residency'. The mall is under the brand name 'CG Landmark'.

Mr. Nirvana Kumar Chaudhary, Mrs. Sarika Chaudhary and M/S. Apollo Capital Investment Pvt. Ltd.[1] are the shareholders of the company with stakes of 53.3%, 6.5% and 40.2%respectively.

Key financial indicators

	FY2020 (Audited)	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Audited)	7M FY2024 (Provisional)
Operating income (OI; NPR million)	74.3	97.7	114.3	128.4	61.2
OPBDITA/OI (%)	0.1%	31.2%	-0.8%	24.2%	10.0%
Total debt/Tangible net worth (TNW; times)*	1.9	2.4	3.9	8.9	15.1
Total outside liabilities/TNW (times)*	2.3	3.1	5.3	12.2	21.3
Total debt/OPBDITA (times)	17866.3	32.4	(1070.3)	34.3	111.4
Interest coverage (times)	0.0	0.4	(0.0)	0.3	0.1
DSCR (times)	0.0	0.4	(0.0)	0.2	0.1
Net working capital/OI (%)	33%	65%	42%	38%	-249%
Current ratio	0.8	0.6	0.4	0.3	0.4

Source: Company data

** Note: net worth excludes revaluation reserve.*

Annexure-1: Instrument details

Instrument	Last rated amount (NPR million)	Current rated amount (NPR million)	Rating action
Fund Based; Long-term Limits			
Term loans	966.1	1,252.5	[ICRANP] LB+; downgraded from [ICRANP] LBB-
Total fund-based; Long-term limits (A)	966.1	1,252.5	
Fund based; Short-term limits			
Overdraft	10.0	10.0	[ICRANP] A4; reaffirmed
Total fund based; Short-term limits (B)	10.0	10.0	
Non-fund based; Short-term limits			
Bank Guarantee	0.4	0.4	[ICRANP] A4; reaffirmed
Total non-fund based; Short-term limits (C)	0.4	0.4	
Grand Total (A+B+C)	**976.5**	**1,262.9**	

[1] Owned by family members of Chaudhary group.

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About ICRA Nepal Limited:

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