

Oriental Hotels Limited: [ICRANP] LBBB/A3+ assigned

February 12, 2024

Summary of rating action

Instrument* (NPR Million)	Rated Amount	Rating Action
Long-term limits	1,403.3	[ICRANP] LBBB; assigned
Short-term limits	199.7	[ICRANP] A3+; assigned
Total	1,603.0	

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

Rating action

ICRA Nepal has assigned the long-term rating of [ICRANP] LBBB (pronounced ICRA NP L triple B) to the long-term bank loan limits of Oriental Hotels Limited (OHL) and a short-term rating of [ICRANP] A3+ (pronounced ICRA NP A Three plus) to the company's short-term limits.

Rationale

The assigned ratings factor in the long track record of the company, its experienced promoters and established traction in the segment. The brand association with Radisson and the strategic location of the property in central Kathmandu, gives OHL a competitive edge to a certain extent. Furthermore, the company's healthy capitalisation profile and sizable liquid assets (cash and bank balance) strengthens its financial profile and increases its resilience against unfavourable events such as COVID-19 pandemic. Although the company is yet to regain its pre-Covid occupancy/revenue levels, the progressive post-pandemic occupancy/revenue profile and improving tourism sector outlook in recent period offers comfort. ICRA Nepal also positively notes OHL's favourable economies of scale, diversified earnings profile comprising of healthy food and beverages (F&B) revenue, MICE¹ activities and operation of lounge at Tribhuvan International Airport, the only international airport in the capital city, under medium-term agreement. Rating also favourably takes note of OHL's status as a listed company, which increases its ability to raise fund from capital market during need.

Nonetheless, the ratings are constrained by increasing fragmentation and intensifying competition among the hotels in Kathmandu region. This is likely to pressurize occupancies and ARR²s over the near to medium term, until the demand picks up. Some rating concerns also arise from the fresh debt-funded capex done by OHL to add room inventory (serviced apartment), whose performance remains to be seen. Moderate revenue from added capacity amid the increased debt level could result in dilution in the overall profitability, capitalisation and coverage indicators. The rating also factors in the rising proportion of aged debtors (beyond 6 months) which could result in eventual bad debts and OHL's limited geographical and segment diversification, being a single property hotel.

Going forward, the ability of the company to improve its profitability and further strengthen the capitalisation and coverage indicators would be the key rating sensitivities.

Key rating drivers

Credit strengths

Strategic location and economies of scale – OHL is one of the larger operational hotels in Kathmandu with a current inventory of 260 rooms. The targeted completion of currently-under-construction 30-service apartments block by late FY2024/early FY2025, is likely to further increase the hotel's capacity. Given the industry seasonality, this could help OHL better cater to the peak season demand. OHL's revenue and profitability has benefitted from the strategic location (in the embassy district of central Kathmandu) and from favourable economies of scale. Therefore, the capacity expansion and expected improvement in scale economies, could remain a long term positive; the company's ability to maintain occupancy/ARR notwithstanding.

¹ Meetings, incentives, conferences, and exhibitions.

² Average Room Revenues

Experienced promoters and strong brand recognition of ‘Radisson’ – OHL is largely a family-owned business wherein the Shrestha family holds almost entire promoter stake of ~70%. 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 remains a positive. OHL has been operating its hotel property under brand “Radisson” since 1999, as per the franchise agreement with the Radisson group (Singapore). The agreement allows OHL the use of brand name “Radisson” and gives OHL an access to the global reservation system of the Radisson group and draw from the group’s management expertise. The association with the Radisson Group has helped the visibility to OHL’s hotel property.

Good financial profile with diversified earnings and low gearing – Unlike most of the new-age hotel sector players, OHL has a relatively better and well diversified revenue profile. Apart from the room revenues, OHL’s operating income (OI) levels remains strongly supported by food and beverage earnings (supported by banquet operations) and revenue from the executive lounge at the Kathmandu International Airport terminal, managed by OHL under exclusive agreement. Good revenues, adequate profit margins and controlled dividend outflow has helped OHL maintain healthy capitalization profile with low debt levels (notwithstanding the debt taken for recent expansion/renovation projects). As at FY2023 end, the company’s TD/TNW stood at 0.7 times with Net Debt to OPBDITA of 1.2 times (Total Debt to OPBDITA of 2.2 times). All these has helped OHL maintain coverage indicators at adequate levels; with the interest coverage of 3.7 times and debt service coverage ratio of 1.8 times.

On-balance sheet liquidity cushions the company against probable shocks – OHL has been consistently maintaining a sizeable amount of liquid assets in the form of bank deposits. The average cash and bank balance maintained by the company in the past 5 years has been at ~NPR 450 million (over ~NPR 300 million in the last 6-8 months). This coupled with adequate net cash accruals from business operations supports the company’s liquidity profile which remains a rating positive.

Credit challenges

Increasing industry competition and margin pressure – There has been a notable rise in the number of mid to high-end properties in Kathmandu region in the last few years, following the categorization of tourism as priority sector for banking sector lending. Many new hotels have already been commissioned during this period while multiple properties are in various stages of development. This has increased fragmentation and resulted in a temporary overhang in the capacity, as reflected in moderate occupancies reported by major players in the last 1-2 years. As such, there is likely to remain a pressure on occupancies/ARR of the hotel sector players which is likely to suppress the industry margins.

Debt-funded capex likely to strain the coverage indicators until revenue picks up – OHL has carried out debt-funded renovation and extension works on its existing structure in the last few years, in addition to the ongoing debt-funded capex for the additional inventory of serviced apartments. Given the industry competition and margin pressure over the near to medium term, the added debt burden is likely to pressurize the company’s financial and debt-coverage metrics, until the revenue increases commensurately. Revenues are expected to improve following the commissioning of serviced apartments (expected by early FY2025). Nonetheless, OHL’s healthy cash balance and adequate operating profitability is expected to provide necessary cushion in the interim.

Limited geographical and segment diversification – OHL is a single-property hotel in Kathmandu and thus will remain exposed to geographical concentration risk. Moreover, given the limited segment diversification, revenue is driven by high-end tourists, mostly foreigners. The prospect of the hotel, therefore, will depend on the improvement of foreign tourist arrival and the hotel’s ability to compete with other hotels in the region.

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

Oriental Hotels Limited (OHL) is a special purpose vehicle (SPV) that owns Hotel Radisson, Kathmandu which is one of the old five-star hotels operating in Nepal. OHL was incorporated as a private limited company during 1994 before its conversion into a listed public company in 1999. The registered office of OHL is at Lazimpat, Kathmandu-2, Nepal.

OHL is a single property company that owns and operates a 260-key Radisson Kathmandu in central Kathmandu, ~5 Km from Tribhuvan International Airport built over a plot size of 1.6 acre (~6,500 square metre). The hotel is a franchise of the Radisson Group of Hotels, a global chain, with domestic management. OHL's shares are listed and traded in the Nepal Stock Exchange.

Key Financial Indicators

Amount in NPR million	FY2019	FY2020	FY2021	FY2022	FY2023
	Audited	Audited	Audited	Audited	Audited
Operating Income-OI (Revenue in NPR Million)	1,327	788	131	622	1,211
OPBITA/OI (%)	38%	25%	-106%	21%	34%
Total debt/Tangible net-worth-TNW (times)	0.4	0.4	0.7	0.8	0.7
Total outside liabilities/ TNW (times)	0.7	0.8	1.0	1.5	1.4
Total debt/OPBDITA (times)	1.2	3.3	-6.4	7.6	2.2
Net debt/OPBDITA (times)	0.1	0.8	-3.7	4.3	1.2
Interest coverage (times)	12.6	6.3	-3.8	1.7	3.7
DSCR (times)	2.9	1.0	-3.8	0.7	1.8
Net-working capital/OI (%)	6%	18%	135%	7%	8%

Source: Company data

Annexure-1: Instrument Details

Instrument	Rated amount (NPR Million)	Rating action
Long term limits- Term Loans	1,403.3	[ICRANP] LBBB; assigned
Short term limits- Working Capital/Overdraft	199.7	[ICRANP] A3+; assigned
Total	1,603.0	

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