

Hotel Mystic Mountain Private Limited: [ICRANP] L BB/ [ICRANP] A4+ assigned

March 13, 2019

Summary of rated instruments:

Instrument*	Rated Amount (NPR Million)	Rating Action
Fund-based - Long-term loans	505.00	[ICRANP] LBB (Assigned)
Fund-based - Short-term loans	35.00	[ICRANP] A4+ (Assigned)
Non-Fund-based-Short term loans	(1.50)	[ICRANP] A4+ (Assigned)
Total	540.00	

*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) to the NPR 540-million long-term loans (including proposed limits) of Hotel Mystic Mountain Private Limited (MMH). ICRA Nepal has also assigned the short-term rating of [ICRANP] A4+ (pronounced ICRA NP A Four Plus) to the NPR 35-million short-term loan limit of MMH.

Rationale

The assigned ratings factor in hotel's location in a popular tourist destination nearby Kathmandu, the capital city of Nepal. Strong marketing efforts by the company and business linkages of the promoters have helped the hotel generate good visibility during its short track record of operation despite not being affiliated to established hotel chain or franchise. This is also reflected in MMH registering good occupancy rate in its first year of operation (FY2018), albeit on a smaller room base. The rating also factors in good proportion of corporate business (meetings and conferences related occupancies) received by MMH in FY2018 (~25% of annual revenue), which, going forward, could support occupancy and help offset the seasonality of the business to some extent. The ratings also factor in improvement in tourism outlook of the country, following relative improvement in political environment and good growth in tourist arrival in last two years.

However, the ratings remain constrained by MMH's high gearing and consequently lower debt coverage indicators. Rating concerns also arise from the hotel's small scale of operation (72 keys). MMH is a single property hotel which limits the segment and geographical diversification and remains a rating concern. Given the small scale of operation and high debt burden, any slack in occupancy could render the business cash flows inadequate to service the debt obligations in a timely manner. MMH's ability to maintain high occupancy is challenged by intense competition among the hotels in Nagarkot area. The ratings also remain constrained by the seasonality of hotel business which exposes MMH to volatile cash flows. Going forward, ability of the company to maintain or improve occupancy and average room rates (ARR) and protect operating margins will have a bearing on MMH's debt servicing ability.

Key rating drivers

Credit strengths

Prior hotel experience of the owner remains a positive

MMH's owner has ~15 years of experience in hotel industry, including prior experience in senior managerial role in family owned 3-star hotel in Nagarkot, in the vicinity of MMH's current property. Mr. Dhoju is a second-generation hotelier whose prior experience in hotel business, established linkage with local corporates and other potential customer base could support the hotel's business going forward. Moreover, strategic location of the project in Nagarkot, the nearest popular tourist destination from Kathmandu city and four-star status received by the hotel from tourism sector authorities also remains a positive.

Good occupancy during short track record of operation

MMH started operation with 33 rooms in the beginning of FY2018 and increased the number of rooms to 72 by the year end. MMH registered ~60% average occupancy during FY2018, on an average room base of 52 rooms throughout the year. Occupancy was also supported by healthy proportion of business from local corporates (~25% of FY2018 revenue

from corporate bookings for meetings, conferences, etc), given the owner's established linkage with the corporates. However, given the limited track record of the hotel, sustainability of occupancy remains to be seen. Similarly, MMH's ARR during H1FY2019 stood improved at ~NPR 5,500 vis-à-vis ~NPR 3,500 during FY2018, as the promotional tariff in early year was gradually replaced by regular tariff. This is likely to support the operating margin of MMH going forward.

Improvement in tourism sector outlook

The number of foreign tourist arrival in Nepal has increased by 25% annually in the last two years, with Nepal registering over one million tourist arrival in 2018. This stems from improvement in the political scenario in the country and Government of Nepal (GoN's) promotion of tourism sector investment through policy level changes. The GoN has rolled out provisions like tax holiday for large-scale hotel projects, prescribed a lending floor for banks and financial institutions (BFIs) for tourism-related projects among others and has announced Visit Nepal Year 2020 (VNY2020) campaign, targeting to increase the number of tourists to 2 million by 2020. All these remain positives for the hotel and other sectors related to the tourism industry.

Credit challenges

High leverage leading to moderate debt coverage indicators

MMH's gearing stood at ~4 times as on mid-July 2018. MMH has availed higher long-term limits in FY2019 through refinancing, which is expected to deteriorate the gearing and accordingly increase the repayment obligations. On an increased credit limit (under refinancing), total debt/OPBDITA is expected to remain high at 5-6 times over medium term. Given the small scale of operation and moderate scale economies of MMH, higher hotel occupancy and ARR will be key to generating adequate cashflows vis-à-vis debt obligations.

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, major portion of hotel revenue comes from a relatively limited customer segment. Nagarkot area has 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.

Seasonality of the business

Hotel business is relatively seasonal in Nepal with the industry reporting higher occupancies during September-December and March-April (peak seasons) and lower occupancies in remaining months. Seasonal business results in volatile cashflows for MMH which could prove inadequate vis-à-vis debt obligations, especially during the off-seasons. This could necessitate short-term borrowings/ equity injection from promoters to ensure timely debt servicing.

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:

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 hotel. The 72-room hotel commenced operations with 33 rooms on 28th July 2017. The hotel property is located ~30 kilometers east from Kathmandu, in Nagarkot, a small town in the hills surrounding the Kathmandu valley. The property is developed over a plot size of ~3.5 acres and consists of two blocks housing 72 rooms (including 71 rentable rooms). The hotel is under the sole ownership of Mr. Bal Krishna Dhoju, a second-generation hotelier.

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 Department of Tourism, Nepal in March 20, 2018 which is valid for a 5-year period.

Key financial indicators of MMH

	FY2018 (Audited)
Operating Income-OI (NPR Million)	145.76
Profit After Tax (NPR Million)	-4.39
OPBDITA/OI (%)	35.89%
Total Debt/Tangible-net-worth TNW (times)	4.32
Total Outside Liabilities/ TNW (times)	5.94
Total Debt/OPBDITA (times)	7.67
Interest Coverage (times)	2.90
Net-working capital/OI (%)	51.80%

Source: Company data

*working capital bank financing replaced by usance LC from creditors

Annexure-1: Instrument Details

Instrument	Rated amount (NPR Million)	Rating assigned
Fund-based -Long Term Loans (Project loan)	475.00	[ICRANP] LBB
Fund-based -Long Term Loans (Banquet construction)	25.00	[ICRANP] LBB
Fund-based -Long Term Loans (Vehicle Loan)	5.00	[ICRANP] LBB
Fund-based -Short Term Loans (Overdraft)	35.00	[ICRANP] A4+
Non-fund-based-Short Term Loans (Bank Guarantee)	(1.50)	[ICRANP] A4+
Total	540.00	

Analyst Contacts:

Mr. Kishor Prasad Bimali, (Tel No. +977-1-4419910/20)

kishor@icranepal.com

Mr. Sailesh Subedi, (Tel No. +977-1-4419910/20)

sailesh@icranepal.com

Relationship Contacts:

Ms. Barsha Shrestha, (Tel No. +977-1-4419910/20)

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 incorporated on November 11, 2011 and granted license 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 such areas as rating process and methodologies, analytical software, research, training, and technical and analytical skill augmentation.

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For more information, visit www.icranepal.com

ICRA Nepal Limited,

Sunrise Bizz Park, 6th Floor, Dillibazar, Kathmandu-33, Nepal.

Phone:+977 1 4419910/20

Email: info@icranepal.com

Web: www.icranepal.com

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