

Hotel Ichchha Limited: [ICRANP-IR] BB assigned

July 03, 2025

Summary of rating action

Instrument	Rated limit	Rating Action
Issuer Rating	NA	[ICRANP-IR] BB; assigned

Rating action

ICRA Nepal has assigned an issuer rating of [ICRANP-IR] BB (pronounced ICRA NP issuer rating double B) to Hotel Ichchha Limited (HIL or the company). Issuers with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations. The rating is only an opinion on the general creditworthiness of the rated entity and not specific to any particular debt instrument.

Rationale

The assigned rating mainly factors in the company's controlled leverage levels, primarily through major equity enhancement in recent years, which has led to satisfactory coverage metrics with total debt to OPBDITA of ~3.5 times and adjusted DSCR of ~3.0 times for FY2024. Despite a sharp moderation in operating profit margins (OPM) during 9MFY2025, the DSCR still remained modest at ~1.2 times, primarily owing to the reduced debt burden, further aided by declining borrowing rates. The company plans to significantly reduce its term debt burden from the proposed IPO proceeds, while the equity being raised from promoters (prior to IPO) is being utilised to fund incremental capex/manage the cash flows in the interim. The rating also draws comfort from HIL's sizeable rental income from casino (~33% of 9MFY2025 revenues) and its improving occupancy (~42% in 9MFY2025, which however still remains modest despite the improvements from ~29% in FY2024) amid its location in an industrial town, close to the Indo-Nepal border. In addition to the long-term advantages expected from its certification as the region's first five-star project (since March 2023), the rating also favorably factors in the Government of Nepal's (GoN's) initiatives to support and boost the demand prospects of the Nepalese tourism industry.

The rating, however, remains constrained by the company's limited track record (operational as a four-star hotel since 2017, until its upgrade to five-star category in March 2023) and weak average room rates (ARR) leading to modest revenue base (with further decline reported in 9MFY2025). Its single property reliance heightens exposure to geographical concentration risks, along with the concerns regarding the high revenue dependence upon banquet and events (~29% of FY2024's revenues), which is susceptible to volatility (as seen in 9MFY2025). Amid the sizable equity enhancement in recent years, the company has also extended a considerable advance to directors for acquiring land in support of capital expansion, leading to spike in working capital intensity (net working capital to operating income ratio at ~208% as of mid-April 2025) and hence its incremental capex plans for renovations/new constructions are likely to create sustained liquidity pressures over the near to medium term. Given the fragmented nature and cyclicity of the hotel industry, pricing pressures in a competitive market and the ability to withstand fluctuations in interest rate, also remain among the rating concerns. Going forward, the company's ability to enhance its scale of operations, sustain the relatively high OPM (despite the drop in 9MFY2025) and improve its coverage metrics, along with the timely completion of IPO and utilisation of the proceeds for debt downsizing as planned, will be the key rating sensitivities.

Key rating drivers

Credit strengths

Controlled leverage levels through recent/ongoing equity enhancements – Given the modest revenues/margins vis-à-vis the debt obligations leading to sizable losses and muted coverage metrics, the company opted to significantly enhance its equity (through existing as well as new shareholders) from NPR 200 million as of mid-July 2023 to ~NPR 1,200 million as of mid-June 2025 (increasing further from ~NPR 886 million till mid-April 2025). The incremental equity has been used towards capex (mainly addition of a nearby plot and renovation of rooms), reduction of short-term debts from directors

and manage the cash flow deficits in debt servicing in the interim. The company has further plans of raising NPR 300 million through IPO, which will largely be used towards lowering its term debt burden (~NPR 409 million as of mid-April 2025). The promoters' ability to raise equity and augment the company's cash flows remains a positive, in addition to their involvement in education and real estate sectors among others.

Improving occupancy, albeit still remaining modest – HIL reported improved occupancy in 9MFY2025 to ~42%, from ~29% in FY2024, notwithstanding a drop in ARR by ~15%. However, despite the improvements, the occupancy and ARR (~NPR 4,054 for 9MFY2025) remains modest for a five-star project and its ability to improve the same, in line with ongoing renovations/capex remains to be seen. Nonetheless, its sizable rental income from casino (~33% of 9MFY2025 revenues) compliments its overall revenues and aids its debt servicing capacity (DSCR of 1.2 times for 9MFY2025). The project is based in an industrial town, close to the Indo-Nepal border, which along with its likely first mover advantages of being the only five-star property in the region, could remain the long-term positives.

Government's support for the tourism sector players – GoN has implemented several favourable initiatives to bolster the country's tourism sector, which remains its strategic priority. Key measures include setting a minimum lending threshold for banks and financial institutions (BFIs) for tourism-related projects, offering interest capitalisation during construction phases, declaration of 'Visit Nepal Decade 2023-2033', and extended support to aid the industry's recovery from the pandemic. Further, the country's foreign tourist arrivals (FTAs) have already rebounded to the pre-pandemic levels, which remains a positive. The long-term outlook for the sector also remains optimistic, bolstered by Nepal's geographic advantage, neighbouring two populous nations—India and China.

Credit challenges

Limited track record and modest revenue base – HIL has a limited operational track record (as a four-star hotel since 2017 and as a five-star category since March 2023) and its scale of operations remains modest so far, despite the enhancement in recent years. Its OPM also remained relatively high at ~74% in FY2024, which however dipped to ~54% in 9MFY2025 amid drop in banquet based revenues. Hence, the sustainability of the revenue/margins over a longer timeframe remains to be seen amid the rising competition.

Stretched liquidity and lack of diversification across geographies – The company's working capital intensity has sharply spiked during 9MFY2025 to ~208% from ~60% in FY2024, largely due to advance to directors of ~NPR 203 million for land procurement as a part of capital expansion strategy. Furthermore, incremental/ongoing capex for renovation and constructions are likely to pressurize capitalization and coverage metrics, until the loan downsizing proposal from IPO is completed. The company's dependence on a single property makes it vulnerable to considerable geographical concentration risks, in addition to the competitive pressures from established and planned hotels in the vicinity, which may lead to pricing pressures (as reflected in weak ARR metrics) and/or adversely affect the occupancy levels and consequently the company's profitability.

Fragmented and cyclical nature of hotel industry, also exposed to macroeconomic risks – The hospitality sectors' high susceptibility to demand cyclicity and high competition in a fragmented nature of industry exposes HIL to cash flow uncertainties, in addition to the interest rate volatility in Nepal. Moreover, external shocks such as recent aircraft accidents and natural disasters could impact FTAs and negatively impact the booking levels. Further, the company's ability to tackle elongated economic downturns remains a key rating monitorable.

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

Link to the applicable criteria:

[Issuer Rating Methodology](#)

About the company

Hotel Ichchha Limited (HIL), a five-star hotel with 97 keys in Simara, Bara was incorporated as a private limited company in September 2015, and was converted into a public limited company on June 03, 2024. The hotel was granted a five-star license in March 2023 (earlier 4-star). HIL's registered office is at Tinkune, Kathmandu and it was promoted by Mr.

Ichchha Bahadur Wagle and his family members/associates. The promoter group is also engaged in sectors such as real estate, education, etc. among others.

Key financial indicators

	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Audited)	FY2024 (Audited)	9MFY2025 (Provisional)
Operating income (OI; Revenues in NPR million)	24	60	108	171	108
OPBDITA/OI (%)	-7%	9%	48%	74%	54%
Total debt/tangible net worth (TNW; times)	-426.6	6.0	5.3	1.2	0.5
Total outside liabilities/TNW (times)	-463.0	6.8	5.7	1.5	0.6
Total debt/OPBDITA (times)	-346.2	93.4	11.0	3.5	5.5
Interest coverage (ICR; times)	-0.1	0.2	2.6*	6.4*	2.8
DSCR (times)	-0.1	0.2	2.6*	4.3*	1.2
Net working capital/OI (%)	111%	-14%	24%	60%	208%#

**The interest incurred on the loans availed for the capex was capitalised for accounting purposes, however, had to be paid for banking purposes at ~NPR 14 million and ~NPR 13 million during FY2023 and FY2024 respectively. Including the same, adjusted ICR and DSCR would have been 1.5 and 1.5 times respectively for FY2023 and 3.9 and 3.0 respectively for FY2024. Adjusted ICR and DSCR unavailable for 9MFY25 due to lack of information.*

Spiked on account of sizable, short-term advances of ~NPR 203 million towards directors for land acquisition aiming capacity enhancement.

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