

Rating Rationale

Hotel Chitwan Private Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	947.00	CARE-NP BB+ [Double B Plus]	Assigned
Short Term Bank Facilities	30.30	CARE-NP A4+ [A Four Plus]	Assigned
Total Facilities	977.30		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BB+ (Double B Plus)’ to the long term bank facilities and ‘CARE-NP A4+ (A Four Plus)’ to the short term bank facilities of Hotel Chitwan Private Limited (HCPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of HCPL are constrained by execution risk and stabilisation risk associated with the project along with moderate occupancy levels, exposure to volatile interest rates, risk of renewal of leases in timely manner and single property risk and competition from existing hotels and supermarkets in the vicinity. The ratings, however, derive strength from financially sound promoters and experienced management team in the hotel industry, locational advantage, reputed brand for the hotel, diversified revenue model, government initiative and support for tourism. The ratings also factored in financial closure achieved for funding the project cost including cost over run. Timely completion of the project and satisfactory operations thereafter will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weakness

Execution risk and stabilisation risk associated with the project

The project is at an advanced stage of completion with about 77% of the total cost incurred on the project till November 2, 2018. The commercial operation of the project is expected from April 1, 2019. Although, the major works related to construction of the mall, retail spaces and the hotel is completed, the interior and finishing works related to the hotel area are in process. The booking for retail spaces has been started with moderate 58% of the total retail space is already being booked by the tenants which includes national and International Brands like Baskin N Robbins, Gini & Jony, Kids Planet, Kelme, Being Human, Nike, Sketchers, Puma, Vans etc.

¹ Complete definitions of the ratings assigned are available at www.careratingsnepal.com.

Exposure to volatile interest rates

Nepalese banks fix interest rates on lending, based on quarterly published base rates by the banks. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, funding from Bank and Financial Institutions are exposed to volatile interest rates.

Risk of Renewal of leases in timely manner and single property risk

Although the company has been able to secure lease tie-ups for 58% of the retail space, yet being exposed to the local demand/supply scenario in the commercial real estate sector and vagaries of economic cycles, the company remains exposed to rollover risks and shall remain a rating sensitivity. Also, the cash flows of the company are dependent on the lease rentals and hotel revenue from a single property, thereby exposing the company to revenue concentration risk.

Competition from the existing hotels and supermarkets in the vicinity

The Nepal hotel industry is fragmented in nature with the presence of a number of organized and unorganized players spread across various regions. According to Office of Municipal Executive of Bharatpur, there are 50 tourist standard hotels and 150 general hotels/lodge in Bharatpur. Also, the retail space may face competition from existing Mall and Supermarkets in the nearby vicinity. However, being the one of the first integrated mall in the area will give them competitive advantage.

Key Rating Strength***Financially sound promoters and experienced management team in the hotel industry***

HCPL is a part of Chaudhary Group (CG Group), promoted by two individual promoters and one institutional promoter. CG Group is a multi-national conglomerate having presence in over 30 countries and is based in Nepal. It has diversified business interests including Financial services, Insurance, FMCG, Automobile, Education, Hospitality, Hotels and resorts, Energy, Consumer Electronics, Cement manufacturing and real estate. CG Group is chaired by Mr. Binod Chaudhary, the only billionaire of Nepal. In the real estate division, the company has already completed 3 residential projects in Kathmandu comprising of 180 flats and 237 Houses.

HPCL is managed under the overall guidance of the company's Chairman, Mr. Nirvana Kumar Chaudhary, who possesses wide experience in various industries who is a prominent business person of Nepal. Mr. Nirvana Kumar Chaudhary, son of Mr. Binod Chaudhary, is Managing

Director of CG Group since April 2010 and has working experience of more than a decade in various organizations.

CG group is operating CG-Retreat Golf course resort (10 rooms), 25 Kms from CG Landmark and Meghauli Serai, A Taj Safari (30 rooms) operated by Taj Safari Limited part of CG Group at 33 Kms from CG Landmark. CG group has their own industrial park at around 25 Kms from the CG Landmark which have manufacturing plants and CG-Retreat resort (10 rooms). Further, the synergies are expected from their other institutions and industries related to CG Group in the nearby vicinity.

Reputed brand for the hotel

The hotel is proposed to be managed by hospitality arm of Chaudhary Group, under “The Fern” brand. “The Fern” currently has presence in over 40 properties in India (in all major cities and tourist destinations of India), Nepal (Kathmandu), and Seychelles. The company proposed to entered into a 15 years’ agreement with Concept Hospitality Private Limited which own hotel brands by name of “The Fern”, “The Zinc” and “Beacon”.

Financial closure achieved for the project cost including cost overrun

The initial cost of the project was estimated at Rs. 1414 million, which was proposed to be financed with 50% debt of Rs. 707 million and 50% equity. Later due to price escalation in materials and furniture & equipment, additional VAT amount, increase in the interest during construction etc., the project cost was increased to Rs. 1738 million which is proposed to be funded by 55% long term debt of Rs. 947 million (additional loan of Rs. 240 million) and rest by equity infusion from the promoters. During January 2019, the existing bankers of the company has sanctioned additional term loan of Rs. 240 Mn for the cost overrun in the project. HCPL has incurred Rs. 1331 million on the project till November 2, 2018.

Location advantage

The property is centrally located in Bharatpur, Chitwan near Narayangadh, with Chitwan National Park (CNP), a UNESCO world heritage site; located at a distance of 23 kms. CNP having diversified flora and fauna is famous for its wildlife with ~15 thousand monthly visitors and more than 1.5 lakh visitors annually. Also, Devghat, a holy place according to Hindu mythology, is visited by about half a million people from Nepal and India is situated at a distance of 8 kms. The targeted revenue of the mall and hotel will be from the tourists and locals of the

city and nearby areas. Bharatpur Metropolitan City is located at the center of East-West highway and is also the headquarter of Chitwan district.

Diversified Revenue Model

The project is proposed to derive revenue from the hotel and the retail area. The hotel is proposed to derive revenue from room rentals, food and beverages, banquet hall, spa and health club. The retail spaces derive revenue from retail rentals, maintenance charges, advertisements and parking.

Government initiative and support for tourism

Tourism sector remains the prioritized sector of Nepal which has contribution of 3.5 per cent to national GDP. Government has also initiated to organize “Visit Nepal Year -2020” to attract more tourists in Nepal with vision to bring two million tourists by 2020. Also Monetary policy of 2017/18, had directed commercial bank to allocate minimum 25 percent of total credit to priority sector of which 5 percent to tourism only. According to the Hotel Association of Nepal, there will be 52000 rooms in tourist standard hotels of the country by 2020, which is enough to accommodate 1.6 million tourists only. This is leading to the government encouragement for building infrastructure for tourism industry.

About the Company

Hotel Chitwan Private Limited (HCPL) was incorporated in May 1980 and is presently setting up a multi brand shopping mall cum hotel property at Bharatpur, Chitwan by name of CG Landmark. The project is built on the total land of ~0.62 acres with built up area of ~1.8 lakhs sq. feet. The building will have 70 retail shops, multiplex, food court and also houses a hotel with 48 rooms, fine-dine restaurant, outdoor dining, banquet and conference hall with 300 pax capacity; roof-top swimming pool, gym and spa and parking facility. HCPL is located at 1 km from Bharatpur Airport, ~150 kms from Kathmandu, ~118 kms from Sonauli border, UP, India and 133 kms from Raxaul border, Bihar, India.

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Annexure 1: Details of the Facilities

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	947.00	CARE-NP BB+
Short Term Bank Facilities	Overdraft Loan	30.00	CARE-NP A4+
Short Term Bank Facilities	Bank Guarantee	0.30	CARE-NP A4+
Total		977.30	