

Rating Rationale
Mountain Glory Private Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	640.00	CARE-NP BB [Double B]	Assigned
Total Facilities	640.00		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BB’ to the long term bank facilities of Mountain Glory Private Limited (MGPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MGPL are constrained by stabilization risk related to the operations of the hotel and long gestation period associated with hotel industry; and time overrun in construction of the hotel followed by project cost overrun and untied debt portion. The rating is also constrained by expected losses and weak debt coverage indicators for the initial years of operation; exposure to volatile interest rates; susceptibility to cyclical, intense competition and geographic concentration in the hospitality sector. The ratings, however, derive strength from promoters having prior experience in tourism industry and strategic locational advantage of the hotel. The ratings also factor in strong marketing efforts and business linkages of promoters which is likely to benefit hotel operations, government initiative and support for tourism, and increasing trend of tourists in Nepal.

Ability of the company to maintain healthy profit margins, improve occupancy level and average room rate of the hotel will be key rating sensitivity. Also, timely execution of the hotel project without any further cost overrun will be key rating sensitivity.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Stabilization risk related to the operations of the hotel and long gestation period associated with hotel industry

The company has recently set up a hotel with capacity of 64 rooms which includes all modern amenities, F&B service, swimming pool, spa, conference hall and other facilities with an aggregate project cost of Rs. 1,173 Mn which is proposed to be funded at a debt equity ratio of 55:45. Soft opening of the hotel was done on October 28, 2018 with only 24 operational rooms and basic recreational facilities. Generally, hotels require longer gestation period to recover the fixed costs associated with it and to become profitable. Hotel projects have long gestation period since construction of a premium hotel takes up to three to four years while stabilization of operations may take another two to three years. Going forward, given limited operational record, the ability of the company to attract customers, maintain occupancy level, establish its brand and derive benefit from the hotel as envisaged

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

will be crucial rating factor. The hotel is expected to start its full-fledged commercial operation from December 2019 onwards.

Time overrun of the hotel followed by project cost overrun and untied debt portion

The construction of the hotel project started on November 2014 with an estimated construction period of 35 months. The project was delayed by almost a year since construction of the hotel was hindered mainly due to massive earthquake of Nepal in April, 2015 followed by economic border blockade and delay in bank funding. Estimated project cost significantly increased by ~57% to Rs. 1,173 Mn since the initial estimated cost was based on the preliminary design of the project and as the project progressed later on, cost was determined based on detailed design that resulted in project cost overrun. Further, the project cost increased due to non-inclusion of valued-added tax in initial budget coupled with delay in completion of the hotel within estimated timeframe which subsequently resulted in increase of interest during construction component and pre-operating cost. Out of total debt requirement of Rs. 650 Mn, Rs. 150 Mn debt is yet to be tied up.

Expected losses and weak debt coverage indicators for the initial year of operations

MGPL is expecting to incur losses during the initial years of operation that will lead to weak debt service coverage indicators. Also, as on July 16, 2019, the overall gearing ratio of the company was at 1.46x which is expected to deteriorate further during FY20 on back of losses during the year and increase in the term loans which will be partially offset by infusion of equity.

Exposure to volatile interest rates

Nepalese banking sectors are fixing lending interest rate based on quarterly base rate and interest rate will be changed accordingly on quarterly basis. 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 is exposed to volatile interest rate.

Susceptibility to cyclical, intense competition and geographic concentration risk in the hospitality sector

The hotel industry of Nepal is fragmented in nature with the presence of large number of organized and unorganized players spread across various regions. There is constant growth of tourists in Nepal which is reflected by ~8% growth in number to 0.98 Mn for the period January to October, 2019. Demand of Pokhara and its surrounding areas as a tourist destination is increasing on the global tourism market. However, occupancy levels and revenue in the hotel industry are susceptible to macroeconomic trends, both in the domestic and global markets. The company's hotel has a single establishment located at Pokhara, thus exposing operations to geographic concentration risk. Furthermore, by catering largely to the hotel segment, revenue and profitability remain susceptible to business growth and the dynamics of the hotel industry. Any slowdown in industry may impact MGPL's operations.

Key Rating Strengths***Promoters having prior experience in tourism industry***

MGPL is managed under the overall guidance of the company's eight board of directors (BOD) who possess experience in related field. Mr. Sunil Bhakta Shrestha, executive chairman, has wide experience in various business sectors such as hydropower, banking, hospitality, trading etc. Mr. Narendra Prajapati, director, has work experience of around 30 years in various industries. BOD are further supported by an experienced team across various functions/ departments.

Strategic locational advantage of the hotel

The hotel is located in Dovilla-21, Pokhara which is one of the most attractive tourist destinations of Nepal. With multiple lakes, adventure sports, views of Himalayas and religious spots, it attracts domestic and international tourist in large numbers. It also serves as gateway for trekkers visiting Annapurna trekking circuit in Annapurna Conservation Area. All season airport of Pokhara (~8 km) is well connected with regular flights to Kathmandu (Capital City of Nepal) and with International Airport (~12 km) under construction, Pokhara acts as a strategic location for the project.

Hotel operations likely to benefit from strong marketing efforts and business linkages of promoters

The promoters of the company have prior experience in tourism and hospitality sector which is expected to benefit operations of the hotel. Majority of the promoters of the company operate travels and tours business in Nepal where they cater tourists from different parts of the world. Thus, with their strong market presence and wide reach, they can help to generate revenue by referring tourists to plan their stay at the hotel during their visit in Pokhara. It will also help to offset inherent seasonality risk associated with hotel industry to some extent by maintaining occupancy level during off-season as well.

Government initiative and support for tourism

Tourism sector remains the prioritized sector of Nepal which has contributed 7.9% to national gross domestic product (GDP) in 2018. Government has also initiated to organize "Visit Nepal Year 2020" to attract more tourists in Nepal with vision to bring 2 million tourists by 2020. Also, Monetary Policy of 2019/20, has directed commercial banks to allocate minimum 25% of total credit to priority sector of which 5% to be allocated to tourism sector. The government also provides tax holiday for large hotel projects established with capital investment of more than Rs. 2 Bn. With the government prioritizing development of travel and tourism in the country, the future prospect of this sector looks encouraging.

Increasing trend of tourists in Nepal

Inflow of tourist in Nepal has seen continuous growth in last few years with 0.54 Mn tourist visiting Nepal in CY15 which increased to 0.75 Mn in CY16 registering ~40% growth. Further, it recorded a growth of ~25% in CY17 with 0.94 Mn tourist inflows and ~25% in CY 18 with 1.17 Mn tourist inflows. With ~83% of tourist as

Non-Indian tourist and ~16% of total tourist arriving for trekking and mountaineering in CY18, Nepal has become one of the preferred destination of tourists for trekking and mountaineering beside being a holiday destination.

About the Company

Mountain Glory Private Limited was incorporated on May 24, 2007 as a private limited company. MGPL has constructed a hotel property under the commercial name of Mountain Glory Forest Resort & Spa in Pokhara which is sprawled over 7.42 acres of land and a total of 64 room keys. Soft opening of the hotel was done in October 28, 2018. MGPL is being promoted by a group of eight individual shareholders who are all are directors of the company and have infused total paid-up equity of Rs. 453 Mn as on July 16, 2019.

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Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Rating
Long Term Bank Facilities	Term Loan	490.00	CARE-NP BB
Long Term Bank Facilities (Proposed)	Term Loan	150.00	CARE-NP BB
Total		640.00	