

## Rating Rationale

### Thamel Plaza Hotel & Suits Private Limited

#### Rating

Facility	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	748.59	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	20.00	CARE-NP A4 [A Four]	Assigned
<b>Total Facilities</b>	<b>768.59</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BB’ to the long term bank facilities and ‘CARE-NP A4’ to the short term bank facilities of Thamel Plaza Hotel & Suits Private Limited (TPHS).

#### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of TPHS are constrained by time overrun of the hotel project leading to cost overrun, operational stabilization risk and long gestation period associated with the project. The rating is also constrained by financial risk profile marked by low profitability and weak debt coverage indicators for the initial year of operations; exposure to volatile interest rates; and susceptibility to cyclicality, intense competition and geographic concentration in the hospitality sector. The ratings, however, derive strength from experienced directors and management in related field, association with reputed hotel brand likely to benefit the company in terms of marketing and hotel operations, and strategic locational advantage of the hotel. The ratings also factor in low project implementation risk, financial closure achieved for the project cost, 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

##### *Time overrun of the hotel followed by project cost overrun*

The construction of the hotel started on August 2015 and its commercial opening was delayed by almost two years. There was time overrun in the hotel project since its construction was hindered mainly due to remodelling of different aspects of the hotel and continuous construction improvement plans such as designs, number of rooms, room mix and configuration, construction materials, interior design etc. to comply with the defined standards of Ramada Brand. Also, total project cost has increased by ~10% to Rs. 1,361 Mn mainly due to time overrun of the hotel project resulting in increase in market price of goods, pre-operating expenses and interest during construction component.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com)

***Operational stabilization risk and long gestation period associated with the project***

The company is setting up a hotel with 90 rooms capacity which includes all modern amenities, F&B service, swimming pool, spa, conference hall and other facilities with an aggregate project cost of Rs. 1,361 Mn which is to be funded in debt equity ratio of 55:45 (i.e. Rs. 750 Mn debt and Rs. 611 Mn equity). Generally, hotels require longer gestation period to recover the fixed costs associated with it and 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. Further, premium hotels call for a huge investment and have longer gestation periods as compared to mid-scale budget hotels. Going forward, ability of the company to attract customers, maintain occupancy level, establish its brand and derive benefit from the hotel as envisaged will be crucial rating factor.

***Financial risk profile marked by low profitability and weak debt coverage indicators for the initial year of operations***

TPHS is expecting relatively low profit level 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 1.24x which is expected to deteriorate further at the end of FY20 (refer to 12 month's period ending Mid July, 2020) on back of low profit 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 Kathmandu 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 has a single hotel establishment located at Kathmandu, 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 TPHS's operations.

**Key Rating Strengths*****Experienced directors and management in related field***

The company is managed under the overall guidance of the company's six board of directors (BOD) who possess experience in related field. Mr. Shanti Raman Pangani, chairman, has wide experience in hospitality industry. Similarly, other directors of the company have experience in various sectors such as hospitality, banking, hydropower, manufacturing etc. Mr. Harjeet Wasan, general manager, has extensive work experience of over 27 years with varied exposure in the hospitality industry of India including countries like Singapore, Dubai, Russia and Mongolia. BOD are further supported by an experienced team across various functions/ departments.

***Association with reputed hotel brand likely to benefit the company in terms of marketing and hotel operations***

The company has entered into 'License Agreement' with Wyndham Hotel Asia Pacific Co. Limited for the international brand of 'Ramada' which is a large multinational mid-scale hotel chain. Ramada brand operates 811 hotels with 114,614 rooms across 63 countries as of December 31, 2018. Under the license agreement, TPHS will get marketing services, system implementation, consultation services etc. This will provide the hotel with an added benefit of established service, large customer base, access to state-of-the-art technology, experience, marketing assistance and already widespread brand recognition to drive hotel guest bookings. Further, being associated with well-recognised global hospitality brand will likely benefit the company in terms of increased revenues, global business reputation and brand specific resources.

***Strategic locational advantage of the hotel***

The hotel is centrally located in Thamel which is one of the most popular tourist places in Kathmandu offering various facilities to tourists such as hotels, restaurants & bars, casinos, travel agencies etc. Also, the influx of tourists is high in Kathmandu as it is an entry point for international tourists in the country via flight (~6 kms to International Airport from the hotel) along with being the capital city of Nepal with 7 UNESCO world heritage sites and approximately 27 kms away from Nagarkot which is also famous with the tourists.

***Low project implementation risk***

Till October 17, 2019, Rs. 985 Mn has been incurred on the construction of the hotel which has been financed by debt of Rs. 549 Mn and equity of Rs. 437 Mn. Further, till end of November, 2019, works relating to civil construction and procurement of major machineries/ equipment has already been completed. Presently, works relating to interior design and installation of equipment is in the process. As major part of the project work has already been completed and financial closure for the entire debt portion of Rs. 750 Mn has been achieved, the project implementation risk has reduced significantly. However, the project is still exposed to the residual risks associated with project implementation and satisfactory operations thereafter. The hotel is expected to start its commercial operations at the beginning of February 2020.

**Government initiative and support for tourism**

Tourism sector remains the prioritized sector of Nepal which has contributed 7.9% to national gross domestic product in 2018. Government has also organized “Visit Nepal Year 2020” to attract more tourists in Nepal with vision to bring 2 million tourists in 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 the government prioritizing development of travel and tourism in the country, the future prospect of the 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**

Thamel Plaza Hotel & Suits Private Limited was incorporated in January 05, 2012. The company is setting up a premium hotel property in Thamel, Kathmandu which will operate under the brand name of ‘Ramada Encore Kathmandu Thamel’. The hotel is currently under construction with a total of 90 room keys. Commercial operation date of the hotel is expected at the beginning of February 2020. TPHS is being promoted by total number of 37 shareholders including two institutional promoters and have infused total paid-up equity of Rs. 271 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	748.59	CARE-NP BB
Short Term Bank Facilities	Overdraft Loan	20.00	CARE-NP A4
<b>Total</b>		<b>768.59</b>	