

**Rating Rationale**  
**City Hotel Limited**

**Rating**

Facility	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	2,767.00	CARE-NP BB [Double B]	Reaffirmed and ratings continue on credit watch
Short Term Bank Facilities	80.30	CARE-NP A4 [A Four]	
<b>Total Facilities</b>	<b>2,847.30</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of ‘CARE-NP BB’ assigned to the long term bank facilities and ‘CARE-NP A4’ assigned to the short term bank facilities of City Hotel Limited (CHL). The ratings under credit watch with negative implications.

*The ratings continue to remain on watch on account of temporary lockdown resulting in adverse impact on hospitality and tourism industry on outbreak of COVID-19 resulting in unfavorable customer sentiments and demand is expected to remain muted in short term. CARE will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear. CRNL may remove the ratings from watch and would take a final action on the ratings once clarity emerges on these issues.*

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of CHL are constrained by residual project execution and stabilization risk associated with its debt-funded greenfield project and long gestation period associated with hospitality industry. The ratings are also constrained by exposure to volatile interest rates; and susceptibility to cyclical, intense competition and geographic concentration related to single property in the hospitality sector.

The ratings, however, derive strength from experienced directors and resourceful promoters, association with reputed hotel brand likely to benefit the company in terms of branding, marketing and operating hotel and strategic locational advantage of the hotel. The ratings also factor in government initiative and support for tourism and increasing trend of tourists in Nepal.

*Going forward, the ability of the company to achieve the envisaged occupancy levels and average room rents (ARRs) along with continued financial support from the promoters are the key rating sensitivities. Furthermore, the company’s ability to complete the project without any further time and cost overrun will also be key rating sensitivities.*

**Detailed Description of the Key Rating Drivers**

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

**Key Rating Weaknesses*****Residual project execution and stabilization risk associated with its debt-funded Greenfield project***

The company is setting up a hotel with 153 rooms capacity which also includes restaurants, banquet, fitness center, spa and swimming pool, conference hall and other facilities. As on February 25, 2021, the company had incurred an expenditure of Rs. 3,569 Mn towards the project which has a total cost of Rs. 4,396 Mn. The expenditure incurred has been funded through term loan of Rs 2,581 Mn and balance from the promoters' contribution. Although, the soft launch is expected in August 2021 and the full-fledged commercial operation is expected to commence operations in next 3 months of soft launch of operations.

Expected commercial operation date of the hotel has already been delayed by one year. Due to increase in scope of projection and delay in commencing operations etc led to increase in cost by ~40% from Rs. 3,147 Mn. This company is exposed towards project execution in terms of partial yet to be tied-up debt, completion of the project with-in the envisaged time and cost. Going forward the pace of the recovery in the economic cycle and stabilization of the hotel operations in competitive markets will be critical for the company's financial risk profile.

***Long gestation period associated with hotel industry and Geographic concentration risk related to single property***

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. Further, premium hotels call for a huge investment and have longer gestation periods as compared to mid-scale budget hotels. Going forward, given association with reputed global hospitality brand, the ability of the company to attract customers, maintain occupancy level, establish its brand and derive benefit from the hotel as envisaged on a sustained basis will be crucial rating factor. The company's hotel has a single establishment located at Kathmandu, thus exposing operations to geographic concentration risk.

***Susceptibility to cyclical, intense competition 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. Occupancy levels and revenue in the hotel industry are susceptible to macroeconomic trends, both in the domestic and global markets. 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 CHL's operations as seen in current situation of Covid-19.

**Key Rating Strengths*****Experienced directors and resourceful promoters***

CHL derives strength from its strong promoter group belonging to Golyan Group. Golyan Group has diversified business interests which includes manufacturing, international trade & services, banking, insurance, real estate, textile, hospitality, energy etc. CHL is managed under the overall guidance of its five-member board of directors (BOD) who possess wide experience in different business sectors. Mr. Shakti Kumar Golyan, chairman, has wide experience in various business sectors and is the director of Golyan Group of industries. Mr. Akshay Golyan, executive director, has work experience of almost one decade in various industries. Mr. Varun Talwar, general manager (GM), is responsible for overall operational management of the hotel and has work experience of over 17 years in the reputed hotel brands in India and Nepal. BODs 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***

CHL has entered into ‘Hotel Management Agreement’ with Hyatt International- South West Asia, Limited which is owned by Hyatt Hotels Corporation (HHC). HHC is a leading global hospitality company having a portfolio of 20 premier brands with more than 950 properties in over 67 countries across 6 continents as of September 30, 2020. Under the Hotel Management Agreement, Hyatt International- South West Asia Limited will assist CHL in relation to completion of the hotel property according to its international standards along with providing supervision in accordance with Hyatt Operating Standards, technical assistance, professional training, customer reservations etc. These services will provide the company with added benefits of established service, large customer base, marketing assistance and already widespread brand name recognition to drive hotel guest bookings. Also, being associated with such global brand will likely benefit CHL in terms of increased revenues, global business reputation and brand specific resources.

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

The hotel is located at Soaltee Mode, Kathmandu with Tribhuvan International Airport at a distance of around 9 kms. Also, the influx of tourists is high in Kathmandu as it is an entry point for international tourists in the country via flight along with being the capital city of Nepal with 7 UNESCO world heritage sites and approximately 28 kms away from Nagarkot which is also famous with the tourists.

***Government initiative and support for tourism***

Tourism sector remains the prioritized sector of Nepal which has contributed 2.05% to national gross domestic product (GDP) in FY18-19 till mid-April 2019. However, due to travel restriction imposed by lockdown from March 2020, tourism sector was able to contribute low to national GDP in FY19- 20. In recent Budget Announcement for FY2020/21 by Ministry of Finance, the government has allocated Rs. 1.26 Bn for tourism infrastructure development. Also, Unified Directive of 2020/21, has directed “Class B”

and “Class-C” banks within mid-July 2024 to allocate minimum 20% of total credit and minimum 15% of total credit respectively to agriculture, energy, SMEs and tourism sector.

**About the Company**

City Hotel Limited, incorporated on December 05, 2007, is setting up a 5-star hotel property located in Soalteemode, Kathmandu which will operate under the brand name of ‘Hyatt Place’ with a total of 153 room keys and belongs to the Golyan Group of companies. The company plans to start commercial operation of the hotel from August 2021 onwards. The company is being promoted by 7 shareholders who have infused total paid-up equity of Rs. 938 Mn as on July 15, 2020.

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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	2,767.00	CARE-NP BB
Short Term Bank Facilities	Overdraft Loan	80.00	CARE-NP A4
Short Term Bank Facilities	Bank Guarantee	0.30	CARE-NP A4
<b>Total</b>		<b>2,847.30</b>	