

**Rating Rationale**  
**Hotel Saffron C.K. Private Limited**

**Rating**

Facility	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	659.41	CARE-NP BB- [Double B Minus]	Reaffirmed
Short Term Bank Facilities	51.00	CARE-NP A4 [A Four]	Assigned
<b>Total Facilities</b>	<b>790.41</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of ‘CARE-NP BB-’ to the long term bank facilities and assigned ‘CARE-NP A4’ to the short term bank facilities of Hotel Saffron C.K. Private Limited (HSCK).

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of HSCK continue to remain constrained by projected implementation risk associated with the Greenfield hotel project and operational stabilization risk considering 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 in the hospitality sector.

The ratings, however, derive strength from experienced directors, 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 complete the project without time and cost overrun will be key rating sensitivities.*

**Detailed Description of the Key Rating Drivers**

**Key Rating Weaknesses**

***Implementation risk associated with the debt funded greenfield project***

The company is setting up a new hotel and the total cost of project is envisaged at Rs. 1,456 Mn which is proposed to be financed with debt of Rs. 958 Mn and equity of Rs. 498 Mn (debt equity ratio of 66:34). The debt for the same has already been tied up and it is expected that the commercial operations would start from July 2023. Till April 14, 2021, company has incurred Rs. 222 Mn towards construction of the hotel project which was funded by equity Rs. 185 Mn. and by debt of Rs. 37 Mn. The project is at initial stages of implementation with approx. 20% of the construction work completed till April 15, 2021; this exposes the company towards project execution risk in terms of completion of the project with-in the envisaged time and cost.

***Operational stabilization risk and long gestation period associated with hotel industry***

The company is setting up a hotel with 107 rooms capacity which includes restaurants, swimming pool, conference and banquet hall, spa and other facilities. 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

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

premium hotel takes up to three to four years while stabilization of operations may take another two to three years. Going forward, the ability of the company to attract customers, maintain occupancy level, establish its brand name and derive benefit from the hotel as envisaged will be crucial rating factors.

***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. 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 Butwal, 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 HSCK's operations.

**Key Rating Strengths**

***Experienced directors of the company in other businesses***

HSCK is managed under the overall guidance of the company's board of directors (BOD) who possess wide industry experience. Mr. Chunna Prasad Sharma is the Chairman of the company who has wide work experience of 36 years and holds position as Chairman and Director in various other businesses. Similarly, other directors of the company have work experience in various businesses such as manufacturing, packaging, spices, real estate etc. BODs are further supported by an experienced team across various functions/ departments.

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

The hotel is centrally located in Butwal with Bhairahawa Airport at a distance of ~24 kms and Sonauli (Indian Border) at a distance of ~26 km. The influx of tourists is high in Butwal which is closely located to UNESCO's World Heritage Site Lumbini at a distance of ~38 kms. Lumbini is one of the most popular tourist destination of Nepal in terms of frequency of visits and has religious and historical significance which is visited by large number of tourists every year. Also, the hotel site is located opposite of proposed Butwal Mandap, i.e. International Convention and Exhibition Centre having capacity of 10,000 visitors, which is expected to provide additional benefits to achieve the envisaged scale of business.

***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 only 1.41% to national GDP in FY19-20 till mid-April 2020. In recent Budget announcements for FY2021/22 by Ministry of Finance, the government will provide free visa to tourists for a month in a bid to promote tourism and 10 days' vacation holiday to the civil servants. 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. With

the government prioritizing development of travel and tourism in the country, the future prospect of this sector looks encouraging post Covid-19.

***Increasing trend of tourists in Nepal with the exceptional decline due to COVID-19***

Inflow of tourist in Nepal has seen continuous growth in last few years with 0.75 Mn tourist visiting Nepal in CY16 which increased to 1.19 Mn in CY19 representing CARG of 12%. With ~79% (CY19) of tourist as Non-Indian tourist and ~14% (CY19) of total tourist arriving for trekking and mountaineering, Nepal has become one of the preferred destination of tourists for trekking and mountaineering beside being a holiday destination. However, the effect of COVID-19 was seen from December 2019 onwards which led to decline in tourist numbers. However, considering the opening up of economies in the world after vaccination, it is expected that the tourist inflows would increase.

**About the Company**

Hotel Saffron C.K. Private Limited was incorporated on November 21, 2018 and is setting up a new 5-star hotel in Butwal, Rupandehi. The hotel is expected to come into commercial operation from July 2023.

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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	659.41	CARE-NP BB-
Short Term Bank Facilities	Working Capital Loan	50.00	CARE-NP A4
Short Term Bank Facilities	Non-Fund Loan	1.00	CARE-NP A4
<b>Total</b>		<b>790.41</b>	