

Hotel Forest Inn Private Limited

Rating

| Facilities/ Instrument | Amount (Rs. in Million) | Ratings ¹ | Rating Action |
|---------------------------|----------------------------|---|---------------|
| Long Term Bank Facilities | 1,430.00 | CARE-NP BB- [Double B Minus) | Assigned |
| Total Facilities | 1,430.00 | | |

* 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 Hotel Forest Inn Private Limited (HFIN).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of HFIN is constrained by implementation risk associated with the hotel project and stabilization risk considering long gestation period associated with hospitality industry. The rating also factors in susceptibility to cyclicity, intense competition and geographic concentration in the hospitality sector and exposure to volatile interest rates. The rating, however, derives strength from experienced directors and management team, strategic locational advantage of the hotel, and government initiative and support for tourism sector.

Going forward, the ability of the company to complete the project without time and cost overrun and satisfactory operations thereafter will be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Implementation risk associated with the hotel project

The company is setting up a green-field hotel property at an estimated cost of Rs. 2,595 Mn, which is proposed to be financed with debt of Rs. 1,868 Mn and equity of Rs. 727 Mn (debt to equity ratio of 72:28). HFIN has achieved financial closure amounting to Rs. 1,408 Mn and remaining is expected to be tied up soon. As on April 11, 2022, the promoters of the company have infused Rs. 547 Mn out of the total equity component of the project cost. As on mid-April, 2022, around 90% of the construction work had been completed. The expected commercial operation date (COD) is October 2022. Hence, the company remains exposed to the residual risks associated with the ongoing project implementation.

Operational stabilization risk and long gestation period associated with hotel industry

The company is setting up a hotel with 115 room capacity which includes all modern amenities, F&B service, swimming pool, conference and banquet hall, spa and other facilities. Generally, hotels require longer gestation period to recover the associated fixed costs and become profitable. The long gestation period of hotels is on account of the construction of a premium hotel taking up to three to four years while stabilization of operations may take another two to three years. Notwithstanding the impact of the covid19 pandemic, the ability of the company to attract customers, maintain occupancy level, establish its brand and derive benefit from the hotel as envisaged will be crucial from credit perspective.

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

The hotel industry of Nepal is fragmented in nature with large number of organized and unorganized players spread across various regions. The number of hotels operating in Kathmandu remains high which will ultimately result in intense competition

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications.

that might lead to competitive pricing leading to subdued ARR's despite surge in tourists, even when the impact of covid19 normalizes. Also, occupancy levels and revenue in the hotel industry are susceptible to macroeconomic trends, both in the domestic and global markets. Furthermore, the company's hotel has a single establishment located at Kathmandu, thus exposing operation to geographic concentration risk.

Interest rate risk

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy, with substantial upward pressure on interest rates in the last 2-3 quarters. Any further significant rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

Key Rating Strengths

Experienced directors and management team

HFIN is managed under the overall guidance of the company's board of directors (BOD) who possess wide industry experience. The board is chaired by Mr. Dipak Khadka who has more than 20 years of work experience in power, hospitality and other sectors. He is also Chairperson at Menchhiyam Hydropower Limited (CARE-NP BB), Hotel Eastern Nepal Private Limited (CARE-NP BB-/A4) and has been associated with various companies at the board level. BODs are supported by a team of experienced professionals.

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 Intercontinental Hotels Group (IHG) for the international hotel brand of 'Holiday Inn' which is an American based mid-scale hotel chain. Holiday Inn Hotel & Resort brand operates 1,192 hotels with 215,841 rooms and 251 hotels in pipeline as on March 31, 2022. Under the license agreement, Holiday Inn Hotel & Resort will assist HFIN in relation to completion of the hotel property according to its international standards along with providing supervision in accordance with IHG's standards, technical assistance, professional training, customer reservations etc. HFIN will get booking and marketing services, system implementation, consultation services etc. This will provide the hotel with an added benefit of established service, large customer base, marketing assistance and already widespread brand recognition to drive hotel guest bookings.

Strategic locational advantage of the hotel

The hotel is centrally located in Budhanilkantha, Kathmandu with Tribhuvan International Airport at a distance of around 11 km. The influx of tourists is high in Kathmandu as it is an entry point for international tourists in the country via flight and being one of the most attractive tourist destinations of Nepal which is visited by large number of tourists every year. Also, it is being built in Kathmandu, the capital city of Nepal with 7 UNESCO world heritage sites; known as city of temples and living goddess; close to the three durbar squares famous for its rich architecture; good infrastructure and approximately 28 kms away from Nagarkot which has a reputation as top spot for enjoying Himalayas view.

Government initiative and support for tourism

Tourism sector remains a prioritized sector of Nepal. In recent Budget Announcement for FY23 by Ministry of Finance, the government has allocated Rs. 9.38 Bn for tourism infrastructure development. Also, Unified Directive of 2020/21, whereby

all the banks (type A, B C, D) have to allocate minimum share of their total advances to hospitality sector which augurs well for the sector. Similarly, Monetary Policy of 2021/22 has allowed payment of interest due up to mid-July, 2022 in 2 years with minimum 4 instalments for tourism industry. With the government prioritizing development of travel and tourism in the country, the prospect of this sector looks encouraging over the medium-term despite being marred by the intermittent waves of the covid19 pandemic in the recent past.

About the Company

Hotel Forest Inn Private Limited (HFIN) was incorporated on November 22, 2010 and is constructing a hotel in Budhanilkantha, Kathmandu which is spread over 1,42,783 Sq. ft. of land which will include 1,17,161 Sq. ft. for building with a total of 115 room capacity (103 deluxe room, 6 suite rooms and 6 king size room) and is proposed to be categorized as a 5-star hotel property. The hotel is expected start commercial operation from October 2022.

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 | 1,430.00 | CARE-NP BB- |
| Total | | 1,430.00 | |

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