

Hotel Saffron C.K. Private Limited

Rating

Facilities/ Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	905.95 (increased from 739.41 Mn)	CARE-NP BB- [Double B Minus]	Reaffirmed
Short Term Bank Facilities	51.00	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	956.95		

* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the ratings of 'CARE-NP BB-' assigned to the long term bank facilities and 'CARE-NP A4' assigned 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 project implementation risk associated with the greenfield hotel project and operational stabilization risk thereafter, particularly considering the long gestation period generally associated with hospitality industry. The ratings also factor in susceptibility to cyclicality, intense competition and geographic concentration risk pertaining to the hospitality sector and exposure to volatile interest rates. The ratings, however, continue to derive strength from HSCK's experienced directors, 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 within the envisaged time and cost and satisfactory operations thereafter 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 green-field hotel property at an estimated cost of Rs. 1,456 Mn, which is being financed with debt of Rs. 966 Mn and equity of Rs. 490 Mn (debt to equity ratio of 66:34). HSCK has achieved financial closure amounting to Rs. 905 Mn and remaining Rs. 61 Mn is expected to be tied up soon. Till May 14, 2022, the promoters of the company have already infused almost full of the total equity component of the project cost. As on mid-May, 2022, financial progress was around 35% of the estimated cost corresponding to around 40% of the construction work. The expected commercial operation date (COD) is November 2023. 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 proposed five-star 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 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. Once operational, 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.

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

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.

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. Furthermore, increased bank rates announced in the Monetary Policy for FY23 is likely to add to the upward pressure on interest rates going forward. Any 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 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, Chairman, has 37 years of cross-sector experience 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 supported by a team of experienced professionals.

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 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. 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 covid-19 pandemic in the recent past.

About the Company

Hotel Saffron C.K. Private Limited was incorporated on November 21, 2018 and is constructing a hotel in Butwal which is spread over 5,746 sq. mt. of land with a total of 107 room keys and is proposed to be categorized as a 5-star hotel property. The hotel is expected to start operation from November 2023.

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	905.95	CARE-NP BB-
Short Term Bank Facilities	Fund Based / Non-Fund Based	51.00	CARE-NP A4
Total		956.95	

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