

## Padma Hospitality Private Limited

### Rating

Facility/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Short Term Bank Facilities	407.60	CARE-NP A4 [A Four]	Assigned
<b>Total Facilities</b>	<b>407.60</b>		

*Details of Facilities in Annexure 1*

Care Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP A4' to the short term bank facilities of Padma Hospitality Private Limited (PHPL).

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of PHPL is constrained by high project implementation risk associated with the debt funded greenfield hotel project and operation stabilization risk considering long gestation period associated with hospitality industry. The rating also factors in susceptibility to cyclical, intense competition and geographic concentration risk in the hospitality sector, and exposure to volatile interest rate risk.

The rating, however, derives strength from the company's experienced promoter, strategic location advantage of the hotel, and government initiative and support for tourism.

*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

PHPL is undertaking green-field project by setting up hotel with an estimated cost of Rs. 2,293 Mn, which is proposed to be financed with debt of Rs. 1,848 Mn and equity of Rs. 445 Mn (debt to equity ratio of 80:20). However, the company is yet to achieve full financial closure for the project. As on mid-July 2022, the promoters of the company have infused total equity of Rs. 140 Mn for the hotel project i.e. 31.81% of the total equity component of the proposed project cost. The expected commercial operation date (COD) of the hotel is January 2026. Since the project is at preliminary stage and the construction has not yet started, the company is exposed to the risks associated with the project implementation.

##### Operation stabilization risk and long gestation period associated with hotel industry

The company is setting up a proposed five-star hotel with 200 rooms capacity with F&B service, swimming pool, conference & banquet hall and other amenities. Generally, hotels require long gestation period to recover the associated fixed costs and become profitable. The long gestation period of hotels is on account of the construction taking upto three to four years, followed by another two to three years for stabilization of operations. 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.

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

**Susceptibility to cyclicality, 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 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.

**Exposure to volatile 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 (Refers to the twelve months period ending mid-July 2023) 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 promoter and management team**

PHPL is promoted by Mr. Raju Prasad Kadel, Chairman, who is also the Chairman of Padma Group of Companies. In addition, Mr. Kadel is also the Chairman in Dhunibesi Adarsha Multiple College and Jagadguru Kripalu Pratisthan, and Senior Vice President in Media Alliance Nepal. Padma Group of Companies was started by Mr. Kadel with a real estate venture called Padma Colony Phase-I in 2003, and is now a group of more than fifteen companies in six sectors. The board is aptly supported by an experienced management team.

**Strategic location advantage of the hotel**

The proposed hotel is located in Thulobharyang, Kathmandu with Tribhuvan International Airport at a distance of around 11km. 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; 1 km away from Swayambhunath Stupa, one of the 7 UNESCO world heritage sites; close to the three durbar squares famous for their rich architecture; good infrastructure and approximately 28 kms away from Nagarkot which has a reputation as top spot for enjoying Himalayas view. The property's prime location in the capital city augurs well for the long-term business prospects of PHPL.

**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 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

Padma Hospitality Private Limited (PHPL) is a private limited company incorporated on December 27, 2020. PHPL is planning to construct a proposed 5-star hotel property called 'Tranquility Royale' in Thulobharyang, Kathmandu with 200 rooms. The construction of the hotel project is expected to start from November 2022.

### Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Short Term Bank Facilities	Fund Based Limit	407.60	CARE-NP A4
<b>Total</b>		<b>407.60</b>	

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### About CARE Ratings:

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