

Annapurna Cable Car Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	1,056.22	CARE-NP B+ [Double B Plus]	Reaffirmed
Short Term Bank Facilities	20.00	CARE-NP A4 [A four]	Reaffirmed
Total Facilities	1,076.22 (One billion seventy six million and two hundred twenty thousand only)		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP B+' assigned to the long-term bank facilities and the rating of 'CARE-NP A4' assigned to the short-term bank facilities of Annapurna Cable Car Private Limited (ACCPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of ACCPL remain constrained by project stabilization risk associated with its recently operational ropeway project, significant cost overrun and time overrun in the project leading to increased financial burden in the initial years of operations, sluggish trend of tourists albeit on a steady improving trend in recent months, exposure to volatile interest rates and seasonality of the revenues.

The ratings, however, derive strength from experienced promoters, strategic location of the project and favorable government policies to support tourism sector. The rating also takes cognizance of the commencement of operations of the ropeway project in February 2022.

The ability of ACCPL to profitably scale up its operations with increased footfall while maintaining debt service coverage indicators at adequate levels will be the key rating sensitivity.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Project stabilization risk

ACCPL commenced its commercial operations from February 18, 2022, and was operational for only five months in FY22 (FY refers to the twelve-month period ended mid-July). The company generated a total income Rs. 32 Mn in FY22, with Rs. 29 Mn from ticket sales and Rs. 2 Mn as rental income from its land property. The capacity utilization was low at around 14% during the operational period, with total footfall of 90,163 visitors (20,776 foreign visitors). While low footfall can be attributed to the lingering impact of the Covid-19 pandemic leading to less number of tourist arrivals in the country, it is critical for the company to attract more visitors in order to become profitable. ACCPL incurred a net loss of Rs. 3 Mn in FY22 with negative gross cash accruals. The project is in a nascent stage of operations and stabilization/streamlining of its operations in coming years remains to be seen. Operational performance is likely to benefit from the increased tourist inflow expected over the medium term. However, amid lingering impact of the pandemic and other headwinds, the company's ability to achieve enough footfall to run the ropeway at an optimal capacity utilization will remain a key monitorable.

Significant cost overrun resulting additional debt burden to the company

The cost for the ACCPL's cable car project increased significantly by 120% to Rs. 1,973 Mn (final audit pending) from the initial budgeted cost of Rs. 896 Mn. The cost was funded through Rs. 1,073 Mn in debt and Rs. 900 Mn in equity (Rs. 586 Mn yet to be verified). Increase in cost was due to acquisition of additional land, increase in scope of project (additional

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

number of gondolas) and increase in Interest During Construction (IDC) due to time overrun. Time overrun was majorly due to construction activities affected by Covid-19 pandemic. The capital structure of the company is highly leveraged, with overall gearing of 5.16x at the end of FY22. While the gearing ratio is likely to improve after addition of Rs. 586 Mn in the company's equity share capital (which is currently under the process of verification), the increased cost has added additional debt burden to the company, and is likely to put pressure in the debt servicing capability of the company during early years of operations. The company has depended on financial support from its promoters to meet its debt obligation in its initial year of operations and amid sluggish operating environment further support might be required if operational cash flows are not sufficient to meet scheduled repayments.

Sluggish trend of tourists due to lingering impact of COVID-19 and other headwinds

The tourism sector in Nepal continues to be adversely affected by Covid-19 pandemic, reflected by sharp decline in number of tourists for two consecutive years over CY20 (CY refers to the twelve month period ended December) and CY21. The number of tourist arrivals in Nepal declined by 34.30% to 150,962 in CY21. Earlier in CY20, it had declined by 80.70% to 230,085. Despite the number of tourist arrivals rebounded by 149.69% to 370,906 in CY22 due to lower base, it was still significantly lower than pre-pandemic levels. The decline in trend was after a record number of tourist arrivals in CY19 with around 1.2 million tourists. Nepal is considered as one of the preferred destinations of tourists for trekking and mountaineering, which accounted for 10.29% of total tourist arrivals in CY21. Besides, Nepal is also a preferred destination for pilgrimage and holiday, which accounted for 7.40% and 66.80% of total tourist arrivals respectively in CY21. The inflow of tourists in the country is a key factor for the business prospects of companies like ACCPL.

Exposure to volatile interest rate

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. Increased bank rates announced in the Monetary Policy for FY23 is likely to add to the upward pressure on interest rates, which is also evident in the recent rate hike taken by BFIs in October 2022. 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.

Seasonality of revenues

ACCPL's revenues are largely driven by holiday seasons, mainly festive seasons and vacations, which impacts the inflow of tourists in Nepal. In CY21, ~57% (CY20: ~82%) of the foreign tourists visiting Nepal were non-Indian tourists and majority of such tourists arrived during September to April, also known as trekking season due to appropriate climate and clear visibility of mountains. Overall tourist arrivals gradually lower after May, especially with the onset of monsoon season. ACCPL started its commercial operations from February 18, 2022, and was operational for only five months during FY22. The company's ability to continually attract customers and achieve estimated revenue from different tourist segments throughout the year remains to be seen. Furthermore, the footfalls remain vulnerable to discretionary consumer spending, which is expected to remain lower in the short to medium term owing to inflationary pressures and slowdown in economic activities.

Key Rating Strengths

Experienced Promoters

ACCPL is promoted by individual as well institutional promoters. The company has three members in its Board of Directors, chaired by Mr. Kalu Gurung, also a major promoter of ACCPL. Mr. Gurung has more than 25 years of experience in diversified industries. He is also the Chairman of Roadshow Real Estate Private Limited and Roadshow Investment Private Limited.

Strategic location of the project

The site of the cable car project is in Pokhara, one of the major tourist destinations in Nepal. With multiple lakes, adventure sports, religious spots and close view of Himalayas, the city is an attraction for domestic as well as international tourists. It also serves as a gateway for trekkers visiting Annapurna trekking circuit in Annapurna Conservation Area, which also attracts a large number of tourists every year. With a domestic airport well connected with regular flights to the capital city and an international airport under construction, Pokhara serves as a strategic location for the project.

Government initiative and support for tourism

Despite the contribution of tourism sector on Nepal's Gross Domestic Product (GDP) was only 0.20% in FY21 (FY20: 1.50%), tourism sector remains a prioritized sector of Nepal. Earlier upto FY19, the sector had been contributing around 2% to the GDP. In the budget announcement for FY23 by Ministry of Finance, government has allocated Rs. 9.38 Bn for tourism sector, with an additional Rs. 900 Mn for 'Tourism Infrastructure Development Program'. Furthermore, with Gautam Buddha International Airport in Bhairahawa recently commencing its operations and Pokhara International Airport expected to come into operation by the end of FY23, number of tourist arrivals is expected to increase going forward. Due to the government's priority in development of travel and tourism in the country, the future prospect of this sector looks encouraging post Covid-19.

About the Company

Annapurna Cable Car Private Limited, incorporated on March 10, 2010, is promoted by individual as well as institutional promoters from different backgrounds for development and operation of a cable car project at Sarangkot, Pokhara, Nepal. The project came into operation on February 18, 2022, and runs a ropeway from the bottom station at Seti Bagar near Fewa Lake to the top station at Sarangkot Hill. The ropeway includes 2.3 km cable car journey having 17 gondolas (cable cars) to transport passengers to and from the site.

Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Fixed Term Loan	1,056.22	CARE-NP B+
Short Term Bank Facilities	Working Capital Loan	20.00	CARE-NP A4
Total		1,076.22	

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