

Mustang Mountain Home Limited

Ratings

Facilities/ Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	651.00 (increased from 636.00)	CARE-NP B+ [Single B Plus]	Revised from CARE-NP B and removed from Issuer Not Cooperating category
Short Term Bank Facilities	10.00 (decreased from 25.00)	CARE-NP A4 [A Four]	Reaffirmed and removed from Issuer Not Cooperating category
Total Facilities	661.00 (Six Hundred Sixty-One Million Only)		

* Details of Facilities in Annexure 1

In the absence of minimum information required for the purpose of rating, CARE Ratings Nepal Limited (CRNL) was unable to express an opinion on the rating of Mustang Mountain Home Limited (MMHL) and in line with the extant SEBON guidelines, CRNL had revised the rating of bank facilities of the company to 'CARE-NP B/A4; ISSUER NOT COOPERATING*'. However, the company has now submitted the requisite information to CRNL. CRNL has carried out a full review of the ratings and the ratings stand at 'CARE-NP B+/A4'.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MMHL continue to remain constrained by residual risk associated with project implementation amid ongoing project modification, likely modest debt service coverage indicators for the initial years of operations amid stabilization risk considering the long gestation period generally associated with hotel and resort industry. The ratings also factor in single property risk, susceptibility to seasonality and cyclicity in hospitality sector and exposure to volatile interest rates. The ratings, however, continue to derive strength from established presence of the promoter group of MMHL in the tourism sector supported by experienced management team, MMHL's association with a reputed hotel brand, which is likely to benefit the company in terms of marketing and hotel operations. The ratings also factor in strategic locational advantage of the hotel and government initiative and support for tourism sector. The ratings also take cognizance of the near-term recovery trend of the hospitality sector Nepal, which is likely to continue going forward boosted by increasing trend in tourist arrivals and growing domestic tourism.

Going forward, timely commencement of commercial operations of the project as envisaged with swift stabilization of operations thereafter leading to generation of expected revenue will be the key rating sensitivities. Also, the ability of the company to improve debt service coverage indicators through its operations will be key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Operations stabilization risk and long gestation period associated with hotel industry

The company is setting up high end luxury resort with 29 suite rooms capacity which includes all modern amenities, F&B service, extra activities including trekking, horse riding, rock climbing, cycling, archery, hiking, helicopter tours, wellness and other facilities. The resort was partially operational during FY22 (FY refers to the twelve-month period ending mid-July) with the commercial name Moksha Mustang Resort. Presently, MMHL has entered into license agreement with Shinta Mani Hotels and the company is carrying out modifications and upgradation works which is in line with brand specifications. Total project cost incurred till September 2023 was Rs. 1,399 Mn which was funded by debt equity ratio of 61:39. The hotel will fully

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

operate from its new brand name "Shinta Mani Mustang" after completion of upgradation works. Since major part of the project has been completed and expected to commence operations from December 2023 onwards, the company is exposed to project stabilization risk.

Generally, hotels and resorts require longer gestation period to recover the associated fixed costs and become profitable. Long gestation period is on account of the construction of a premium resort taking up to three to four years while stabilization of operations may take another two to three years. Going forward, MMHLs' association with reputed global hospitality brand is likely to help it attract customers and help improve occupancy level. However, how swiftly the company can establish its brand and derive benefits from the hotel as envisaged on a sustained basis will be critical from credit perspective.

Weak debt service coverage indicators during initial year of operations

The company is yet to start its full-fledged operations, hence likely to incur losses during the first few years of operations leading to weak debt service coverage indicators. The company's principal repayments are on ballooning basis with lower repayments in the initial years. However, MMHL's ability to adequately service its debt obligations from operational cash flow, once the bulkier repayments start, will depend on its ability to generate sufficient income. However, comfort is taken from strong financial flexibility of promoter group to support financial expenses, as needed as demonstrated through equity infusions in the past. The ability of the company to achieve sufficient cash accruals to cover debt servicing from operations will be crucial from analytical perspective.

Single property risk, susceptibility to seasonality and cyclicity in hospitality sector

MMHL has a single establishment located at Mustang, thus exposing operations to single property risk. The company's revenues witness high seasonality, with revenues spiking in two major tourist seasons (September to November and May to July). Since Mustang is located in remote area, any unpredictable weather condition and natural disaster during peak season could lead to disruption in road access and constraints from airline services. These could limit the tourist footfall and thus impact financial profile during peak period. Furthermore, by catering largely to the hospitality segment, revenue and profitability remain susceptible to business growth and the dynamics of the hotel and resort industry. Any slowdown in industry may impact MMHL's operations.

Exposure to volatile interest rates

The company has substantial interest outgo lined up over the next couple of years amid high debt levels. The company's interest rates are based on 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. Higher interest rates than envisaged could result in squeezed margins of the company. Hence, funding taken by the company is exposed to volatile interest rate.

Key Rating Strengths

Strong presence of the promoter group in the tourism sector supported by experienced management team

The promoters of MMHL have considerable experience in tourism sector for more than 25 years. MMHL is part of the Yeti group of companies of Nepal which is involved in diversified line of business in the field of tourism. The group has established itself as one stop destination for all activities related to tourism involving all sorts of ticketing and reservation, tours and travels, trekking, mountain expedition providing a complete package to domestic as well as foreign tourists. The group has hotels in many tourist places of Nepal, flight services both domestic and international and travel companies. MMHL is being

managed under the overall guidance of the company's board of directors (BOD) who possess wide experience in related fields. Mr. Lhakpa Sonam Sherpa, Chairman, has been involved in tourism profession since 1985. He is also the Executive Chairman of Yeti Airlines Private Limited. BOD is further supported by an experienced team across various functions/ departments.

Association with reputed hotel brand likely to benefit the company in terms of marketing and hotel operations

MMHL has entered into a 'Hotel Management Agreement' with HMD Asia, a Bangkok based corporation for the international brand of 'Shinta Mani'. Shinta Mani Hotels are a collection of luxury boutique properties designed and curated by designer Bill Bensley. Under the Hotel Management Agreement, HMD Asia will assist MMHL in relation to operate hotel property at its international standards along with providing support in bookings. Being associated with a global brand name like Shinta Mani is likely to provide the hotel with an added benefit of established service, large customer base, marketing assistance and already widespread brand recognition which augurs well for its business prospects over the medium-term.

Strategic locational advantage of the resort

The resort is located in Jomsom, Mustang in Dhaulagiri District of Nepal at a distance of around 1.4 kms from Jomsom Airport. Jomsom is located at an altitude of ~2,800 m above sea level and can be reached by a 20-minute flight from Pokhara International Airport. The influx of tourists is high in Jomsom as it is one of the attractive tourist destinations of Nepal. The location is popular for trekking and adventure, breathtaking view of some of the highest snowcapped peaks in the world, including the Nilgiri Himal. Also, the resort site is located approximately 24 Km away from Muktinath temple, one of the significant temples in Nepal. MMHL is one of the high-end luxury resorts in its location, thus likely to witness good tourist footfall during visit season.

Industry Outlook

Tourism sector remains a prioritized sector of Nepal. In Budget Announcement for FY24 by Ministry of Finance, the government has allocated Rs. 11.96 Bn for Ministry of Culture, Tourism and Civil Aviation. Also, prioritizing the importance of tourism in Nepal, the government has declared 2023-2033 as the Tourism Decade, with an aim of promoting Nepal as a prime tourist destination in the world. With the government prioritizing development of travel and tourism in the country, the prospect of this sector looks encouraging over the medium-term.

Furthermore, tourism sector in Nepal has been on a rebound trail in FY23 after being hardly hit by the covid-19 pandemic for most of FY21 and FY22. The number of tourist arrivals, which had been nearly zero since April 2020, started picking up to reach nearly 17,000 in January 2022 and has continued to grow since. As per Nepal Tourism Board (NTB), tourist arrivals improved to over 6 lakh tourists in CY22 (CY refers to twelve-month period ending December) from ~1.5 lakh in CY21 (CY20: 2.3 lakh). The growth trend has continued into CY23 with over 6 lakh tourists in 8MCY23 (~84% year-on-year growth). Apart from growth in foreign tourists, the revival of the hospitality sector in Nepal over the near-term can also be attributed to pent-up demand for leisure/social events and business travel, supported by increased bookings on account of weddings and significant uptick in Meetings, incentives, conferences and exhibitions. Key performance indicators such as revenue per available room, average room rate, and occupancy rate have been improving in FY23 and are expected to sustain going forward as well notwithstanding the macroeconomic headwinds globally amid high inflation and spiked interest rates, which could dampen the prospects of recovery over the near-term.

About the Company

Mustang Mountain Home Limited (MMHL) was incorporated as a private limited company in February 05, 2014 and later converted into a public limited company in July 12, 2023. The company is setting up a high-end luxury resort which spread over 35,103 sq. mt. of land with a total 29 suites room capacity in Marpha, Mustang, Nepal. The resort is expected start full-fledged operation December 2023 onwards under the commercial name of "Shinta Mani Mustang".

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	651.00	CARE-NP B+ [Single B Plus]
Short Term Bank Facilities	Fund Based	10.00	CARE-NP A4 [A Four]
Total		661.00	

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About CARE Ratings:

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