

## Aarya Hotel and Spa Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	722.60	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	27.40	CARE-NP A4 [A Four]	Assigned
Total Facilities	750.00 (Seven Hundred and Fifty Million Only)		

*Details of instruments/facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB-' to the long term bank facilities and the rating of 'CARE-NP A4' to the short term bank facilities of Aarya Hotel and Spa Private Limited (AHPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of AHPL is constrained by implementation risk associated with its under-construction hotel project and operations stabilization risk thereafter considering long gestation period associated with the hospitality industry. The ratings also factor in susceptibility to cyclical, intense competition, geographic concentration, and exposure to volatile interest rates.

The ratings, however, derive strengths from experienced promoter in tourism industry which is likely to benefit the company in terms of professional management setup and establishing marketing channels. The ratings also factor in traditional Newari style architecture built up of the project, which is likely to provide competitive advantage over other properties in the area once operational, 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 partially tied up debt funded project

The company is setting up a four-star hotel at an estimated cost of Rs. 936 Mn, which is being financed with debt of Rs. 702 Mn and equity of Rs. 234 Mn (debt to equity ratio of 75:25). AHPL has achieved financial closure amounting to Rs. 449 Mn. Swift closure of the balance untied portion of debt will be a key monitorable aspect. Till October end, 2023, the promoters have infused Rs. 182 Mn (including advance of Rs. 102 Mn) out of the Rs. 234 Mn equity component of the funding mix. As on October 29, 2023, around ~67% financial progress and ~70% physical progress has been achieved. It is expected that commercial operation date (COD) will commence from June 2024. Hence, the company remains exposed to the residual implementation risks associated with the ongoing project in terms of partial yet to be tied-up debt, project completion within the envisaged time and cost.

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

The company is setting up a proposed four-star hotel with 80 rooms capacity which includes all modern amenities, F&B service, swimming pool, conference hall and heated jacuzzi, 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

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

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 resort as envisaged will be crucial from credit perspective. Furthermore, during initial phases of operations, the capital structure of the company is expected to remain leveraged due to the debt funded project. Attributed to the relatively high debt levels, the company's debt servicing burden is likely to be on the higher side in the initial years, which could lead to stretched liquidity position of the company, further necessitating the need for swift stabilization of business as envisaged once operational.

### **Susceptibility to cyclical, intense competition and geographic concentration risk in the hospitality sector**

The hotel industry of Nepal is fragmented in nature with presence of large number of organized and unorganized players spread across various regions. The number of hotels operating in the city of Kathmandu remains high which will ultimately result in intense competition that might lead to competitive pricing leading to subdued ARR's despite surge in tourists. 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 operations to geographic concentration risk.

### **Exposure to volatile interest rate**

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**

#### **Promoter having prior experience and established networking in tourism industry**

AHPL's sole promoter Mr. Krishna Prasad Simkhada has more than 20 years of experience in the hospitality business. He is also the founder chairperson of Grisha Auto, Auto Park Japan, Everest Food (Chain Restaurant in Japan) and Arya Company Limited. He owns 14 chain restaurants in Japan. Given Mr. Simkhada's long experience in the sector, he has established network with international tour operators. The promoter's market presence and reach in international market is likely to boost AHPL's income prospects. AHPL is further supported by an experienced professional management team with extensive prior experience in the hospitality industry.

#### **Strategic locational advantage of the hotel along with traditional Newari style architecture build up of the project**

The hotel is centrally located in Thamel, Kathmandu with Tribhuvan International Airport at a distance of around 6 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. Furthermore, the hotel is being built up in traditional Newari style architecture with intricate wood carvings and sculptures, handmade bricks, etc., which is expected to be an additional attraction for visiting tourists and thus likely to have a competitive advantage over other hotels in the vicinity.

## Government initiative and support for tourism industry

Tourism sector remains a prioritized sector of Nepal. In the recent 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.

## Industry Outlook

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 over 8 lakh tourists in 10MCY23 (~71% 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 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

Aarya Hotel and Spa Private Limited (AHPL) is a private limited company incorporated on October 30, 2018. AHPL is constructing a hotel in Thamel, Kathmandu which is spread over 614.88 sq. mt. of land with a total of 80 room keys and is proposed to be categorized as a four-star hotel property. The hotel is expected to start operation from June 2024.

## Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of facility	Amount (Rs. In Million)	Ratings
Long Term Bank Facilities	Term Loan	722.60	CARE-NP BB-
Short Term Bank Facilities	Fund/Non-Fund Based Limits	27.40	CARE-NP A4
<b>Total</b>		<b>750.00</b>	

## Contact Us

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