

## Annapurna Cable Car Limited

### Ratings

Facilities/ Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
<b>Issuer Rating</b>	<b>NA</b>	<b>CARE-NP B+ (Is) [Single B Plus (Issuer Rating)]</b>	<b>Assigned</b>
<b>Long Term Bank Facilities</b>	<b>1,056.22</b>	<b>CARE-NP B+ [Single B Plus]</b>	<b>Reaffirmed</b>
<b>Short Term Bank Facilities</b>	<b>20.00</b>	<b>CARE-NP A4 [A Four]</b>	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>1,076.22 (One Thousand Seventy-Six Million and Two Hundred Twenty Thousand Only)</b>		

\* The issuer rating is subject to total debt of the company not exceeding Rs. 1,100 Mn at the end of FY24 (FY refers to the twelve-month period ending mid-July)

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned issuer rating of 'CARE-NP B+ (Is)' to Annapurna Cable Car Limited (ACCL). Issuers with this rating are considered to offer high risk of default regarding timely servicing of financial obligations, in Nepal.

CRNL has also 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 ACCL.

### Detailed Rationale & Key Rating Drivers

The ratings assigned to ACCL and its bank facilities are constrained by its weak financial risk profile marked by net losses and stressed debt service coverage indicators during FY23 (Audited). The ratings also factor in revenue concentration towards single property exposing ACCL's operations to geographic concentration risk, short track record of operations, seasonality of revenue and exposure to volatile interest rates.

The ratings, however, derive strength from experienced directors and management team, strategic locational advantage of the cable car project and government initiative and support for tourism sector. The ratings also take cognizance of the near-term recovery trend of the tourism sector Nepal, which is likely to continue going forward boosted by increasing trend in tourist arrivals and growing domestic tourism.

*Going forward, the ability of the company 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

#### Weak financial risk profile marked by net losses and weak debt service coverage indicators during initial year of operations

ACCL commenced its full-fledged commercial operations from the beginning of FY23. The company achieved total operating income (TOI) of Rs. 81 Mn in FY23. The capacity utilization was low around ~9%, with total footfall of 1,28,392 (41,446 international visitors). Similarly, PBILDT margin was 34.43% during FY23. However, the company incurred net loss in FY23 on account of high interest expenses. Since the project is in nascent stage of operations, stabilization/streamlining of its operations in coming years remains to be seen. Hence, the ability of the company to profitably scale up its operations

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

backed by sustained increase in customer footfall to run the ropeway at an optimal capacity utilization will remain a key monitorable.

Since the company is in the initial years of operations and yet to achieve its breakeven which has resulted into below unity interest coverage ratio and negative total debt/GCA during FY23. Comfort is being taken from strong financial flexibility of promoter group which is also reflective from the regular infusion during FY23 to support financial obligations. The promoters brought in Rs. 307 Mn in FY23, which also led to improved overall gearing ratio of 1.10x at the end of FY23 from 1.36x at the end of FY22. However, the ability of the company to achieve sufficient cash accruals to cover debt servicing from operations will be crucial from analytical perspective.

### **Revenue concentration towards single property exposing operations to geographic concentration risk**

The company's cable car service has a single establishment located at Pokhara, thus exposing operations to geographic concentration risk. Furthermore, located at the place of Nepal that receives highest rainfall makes it vulnerable to volatile weather. Adverse weather conditions could halt ACCL's operations and also increase the risk of higher cost for repair and maintenance, which could impact ACCL's profitability. Furthermore, by catering predominantly to the cable car business, revenue and profitability of ACCL remain susceptible to the domestic and foreign tourist footfall, which remains unpredictable.

### **Seasonality of revenues**

ACCL's revenues are largely driven by holiday seasons, mainly festive seasons and vacations, which impacts the inflow of tourists in Nepal. In CY22, ~66% (CY21: ~57%) 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. 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.

### **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**

#### **Experienced directors and management team**

ACCL is promoted by individual as well institutional promoters. The company has five members in its Board of Directors, chaired by Mr. Kalu Gurung, also a major promoter of ACCL. Mr. Gurung has more than 25 years of experience in diversified industries. He is also the Chairman of Roadshow Real Estate Private Limited (CARE-NP B+/A4) and Roadshow Investment Private Limited (CARE-NP BB-/A4). BOD is further supported by an experienced team across various functions/ departments.

### **Strategic locational advantage**

The cable car project is in Pokhara, which is just around 9.4 kilometers drive from the Pokhara International Airport. Pokhara is 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. Over the medium-term, tourist footfall, both domestic and foreign, are expected to increase as seen in near recovery trend of tourism sector.

### 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. 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). With the increasing number of tourists in Nepal, tourism sector seems to bounce back soon 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

Annapurna Cable Car Limited (ACCL) was incorporated on March 10, 2010 as private limited company which later converted into public limited company on May 22, 2023. The company 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 July 19, 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.

### Financial Performance

(Rs. Million)

Particulars	FY23 (A)
Income from Operations	81
PBILDT Margin (%)	34.43
Overall Gearing (times)	1.10
Interest coverage (times)	0.24
Current Ratio (times)	5.99
Total Debt/Gross Cash Accruals (times)	Negative

A: Audited

### 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	1,056.22	CARE-NP B+ [Single B Plus]
Short Term Bank Facilities	Fund Based Limit	20.00	CARE-NP A4 [A Four]
<b>Total</b>		<b>1,076.22</b>	

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