

## Bandipur Cable Car and Tourism Limited

(Former Bandipur Cable Car Private Limited)

### Ratings

Facilities/ Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
<b>Issuer Rating</b>	<b>NA</b>	<b>CARE-NP BB (Is) [Double B (Issuer Rating)]</b>	<b>Assigned</b>
<b>Long Term Bank Facilities</b>	<b>1,020.00</b>	<b>CARE-NP BB [Double B]</b>	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>1,020.00 (One Thousand and Twenty Million Only)</b>		

\* The issuer rating is subject to overall gearing not exceeding 0.75x 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 BB (Is)' to Bandipur Cable Car and Tourism Limited (BCTL). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations, in Nepal.

CRNL has also reaffirmed the rating of 'CARE-NP BB' assigned to the long-term bank facilities of BCTL.

### Detailed Rationale & Key Rating Drivers

The ratings assigned to BCTL and its bank facilities are constrained by residual implementation risk associated with its under-construction greenfield cable car and hotel projects and operations stabilization risk thereafter considering long gestation period associated with the hospitality industry. Though there has been significant time overrun and upward revision in costs, majorly due to change in the project's scope, the funding mix remains equity heavy leading to likelihood of lesser financial burden on the company in initial years of operations. The ratings also factor in geographic concentration risk attributed to single property, susceptibility to seasonality and cyclicalities pertaining to the hospitality sector and exposure to volatile interest rates.

The ratings, however, continue to derive strength from experienced promoters and management team, strategic location of the project, technical assistance from an experienced contractor, and government initiative and support for tourism sector.

*Going forward, the ability of company to timely execute of the project within the expected commercial operation date (COD) avoiding any further time or cost overrun will be the key rating sensitivities.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### Residual project implementation risk associated with the greenfield project

The company is setting up a cable car and hotel venture in Bandipur, located in the Tanahu District of Nepal. The entire project is structured into two distinct phases. Phase I encompasses the construction and implementation of the cable car system, along with the establishment of restaurants, the hotel building structure, and parking facilities. Phase II involves the finalization of a Five-star Hotel situated at the summit station of the cable car.

The projected cost for the entire venture is estimated at Rs. 3,100 Mn, with proposed funding comprising Rs. 1,020 Mn in debt and Rs. 2,080 Mn in equity. As of mid-November 2023, the company has made moderate financial progress, achieving around 70% completion for both Phase I and Phase II combined. The cable car project is in its concluding stages, undergoing

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

a trial run at the site, and is anticipated to commence commercial operations from mid-April 2024. The anticipated completion of the hotel project is set for mid-July 2024.

Given that the project is still in the developmental phase, the company faces exposure to the challenge of executing the project within the envisaged timeframe and budget. Furthermore, the company is considering an additional investment of Rs. 480 Mn in other projects under construction in nearby areas. These projects encompass recreational activities such as a skywalk and another cable car initiative, expected to enhance the company's revenue prospects in the forthcoming years. However, due to these investments, the company may experience a higher outflow of funds in the initial years, potentially leading to a strained liquidity position, especially if operational cash flows fall short of expectations.

#### **Time overrun and revision in cost amid increased scope of the project**

The projected cost for the project has increased to Rs. 3,100 Mn, witnessed an increase of 16% from the previous estimated cost. This upward revision primarily stems from an expansion in scope and alterations in the project's design. While the company has managed the increased costs through equity injections from promoters, any additional delays in the initiation of operations and further significant escalations in costs could potentially impact the returns indicators and liquidity position, particularly during the initial operational years. Furthermore, timely execution of project without further cost and time overrun will be critical from credit perspective.

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

The company is setting up a proposed five-star hotel with 80 rooms capacity which includes all modern amenities, F&B service, swimming pool, conference and banquet hall, 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 another two to three years. Further, considering the competitive nature of industry, stabilization and streamlining of revenue by maintaining the envisaged level of occupancy while driving benefits from the association with brand will be crucial from credit perspective.

#### **Geographic concentration risk, susceptibility to seasonality and cyclicity in hospitality sector**

BCTL has a single establishment located at Bandipur, thus exposing operations to single property risk. The company's revenues will be largely driven by weekends, festive seasons, school/college/other institution vacations etc. Majority of foreign tourists visiting Nepal arrive during September to April which is also known as trekking season due to appropriate climate, clear visibility of mountains. Furthermore, by catering largely to the hospitality segment, revenue and profitability remain susceptible to business growth and the dynamics of the hotel industry. Any slowdown in industry may impact BCTL's operations.

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

The company's interest rates are based on a floating interest rate regime, where a certain premium is added to the monthly base rate and interest rate is changed accordingly on a monthly basis. The base rates of the banks and financial institutions (BFIs) in Nepal are subject to volatility, influenced by the liquidity available in the system, causing fluctuations in interest rates. The company is vulnerable to the impact of these changes, and higher-than-anticipated interest rates could potentially narrow the company's profit margins.

## Key Rating Strengths

### Experienced directors and management team

BCTL is promoted by different institutional promoters that includes Bandipur Village Municipality, and a group of individual promoters from different backgrounds. The company has a seven-member in its board chaired by Mr. Ramchandra Sharma who has been involved in real estate, finance and other business sectors for over a decade. The board is aptly supported by a management team experienced in hospitality sector.

### Strategic locational advantage

The site of the project is in Bandipur, Nepal, which is one of the major tourist destinations in Nepal. The hilltop view with clear view of Himalayan range (Dhaulagiri, Annapurna, Machhapuchchre, Manaslu, Ganesh and Langtang) and culturally preserved village with 18th century architectures are key attraction points for both domestic and international tourists. In addition to being located at 140 km to the west of Kathmandu on the way to Pokhara, BCTL's project site also serves as gateway for trekkers visiting Ramkot village and Siddha Cave (one of the largest caves in Nepal). The site is located at a few hours of driving distance from two major international airports in Nepal, Kathmandu International Airport and Pokhara International Airport, which augurs well for the long-term prospects of the project as well.

### Technical assistance from an experienced contractor for cable car operations

BCTL has an agreement with M/s Conveyor & Ropeway Services Private Limited (CRSPL), Kolkata, India. CRSPL is an ISO 9001:2008 certified company involved in design, construction and installation of passenger ropeways for more than four decades. The scope of CRSPL in BCTL's cable car project includes ground survey, design and engineering of the system, supply of equipments and machineries, erection of towers and installation of equipments, testing of the machineries, and maintenance of the cable car system for one year from the date of commissioning. CRSPL till date have successfully executed over 100 ropeway installation projects in five different countries.

## Industry Outlook

The tourism sector remains a key priority for Nepal, as evidenced by the Budget Announcement for FY24 by the Ministry of Finance, which has allocated Rs. 11.96 billion to the Ministry of Culture, Tourism, and Civil Aviation. Reflecting the government's commitment to the sector's development, 2023-2033 has been designated as the Tourism Decade, with the goal of positioning Nepal as a Prime Tourist Destination. This focused government support suggests encouraging prospects for the tourism sector over the medium term.

Furthermore, the tourism industry in Nepal has displayed positive momentum in FY23, rebounding from the significant impact of the COVID-19 pandemic in FY21 and FY22. The revival of the hospitality sector is not only attributable to the rise in foreign tourists but also to pent-up demand for leisure and social events, as well as business travel. Increased bookings for weddings and a notable uptick in Meetings, Incentives, Conferences, and Exhibitions (MICE) activities have contributed to the sector's recovery.

Despite global macroeconomic challenges, such as high inflation and elevated interest rates, which may pose near-term obstacles to recovery, key performance indicators like revenue per available room, average room rate, and occupancy rate have shown improvement in FY23 and are anticipated to sustain their positive trajectory. This underscores the resilience and potential of Nepal's tourism sector in navigating the prevailing economic headwinds.

## About the Company

Bandipur Cable Car and Toursim Limited (BCTL) was incorporated as private limited company on January 6, 2013 and later converted into a public limited company on August 29, 2021. It is promoted by institutional promoters, local

government bodies and individual promoters from different backgrounds and experiences for setting up cable car and hotel at Bandipur, Tanahu District, Nepal. The project has two modalities of services to be offered– first, transportation from base station to hilltop station and vice-versa through cable car and second, lodging & hospitality services through hotel (proposed five star). The project has also been listed as the 'National Priority Project' by National Planning Commission (NPC).

#### **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	1,020.00	CARE-NP BB [Double B]
<b>Total</b>		<b>1,020.00</b>	

#### **Contact us**

##### **Analyst Contact**

Ms. Anusha Thapa

+977-01-4012630

[anusha.thapa@careratingsnepal.com](mailto:anusha.thapa@careratingsnepal.com)

Mr. Santosh Pudasaini

+977 9802312855

[pudasaini.santosh@careratingsnepal.com](mailto:pudasaini.santosh@careratingsnepal.com)

##### **Relationship Contact**

Mr. Achin Nirwani

+977 9818832909

[achin.nirwani@careratingsnepal.com](mailto:achin.nirwani@careratingsnepal.com)

##### **About CARE Ratings:**

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

##### **Disclaimer**

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.