

Veda Hospitality Private Limited

Ratings

Facilities/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	3,000.00	CARE-NP BB- [Double B Minus]	Assigned
Total Facilities	3,000.00 (Three Billion Only)		

* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB-' to the long-term bank facilities of Veda Hospitality Private Limited (VHPL)

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of VHPL is primarily constrained by implementation risk associated with its under-construction hotel project and operations stabilization risk thereafter considering long gestation period associated with hospitality industry. The ratings also factor in susceptibility to cyclical risk, revenue concentration risk from a single property, intense competition.

The ratings, however, derive strength from the experienced and resourceful promoters of the company, association of VHPL with reputed global hotel brand which is likely to benefit the company in terms of branding, marketing and hotel operations. The rating also factors in 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 greenfield hotel project

VHPL is setting up a new hotel at an estimated cost of Rs. 4,006 Mn, which is proposed to be financed with debt of Rs. 2,988 Mn and equity of Rs. 1,018 Mn (debt to equity ratio of 75:25). Debt portion of the funding mix is yet to be tied up, while the promoters of the company have infused 20% of equity (Rs. 206 Mn out of Rs. 1,018 Mn) till November end 2023. Swift financial closure for the debt as envisaged will be a key monitorable.

The project is in nascent stages with land acquisition has been completed as on November 2023. It is expected that commercial operation will commence from July 2027. Given the preliminary stage of the project coupled with needs to secure financing for its debt component, the company remains exposed to the risks associated with the implementation of the under-construction project within the envisaged time and cost.

Stabilization risk owing to long gestation period associated with hotel industry

The company is in process of constructing a new hotel with 200 rooms capacity which includes all modern amenities, F&B service, swimming pool, conference and banquet hall, spa and other facilities. Generally, hotels typically have an extended gestation period before recovering associated fixed costs and achieving profitability. The prolonged gestation period is attributed to the construction phase, which for a premium hotel can span three to four years, followed by an additional two to three years for operational stabilization. The success of the venture, as envisioned from a credit perspective, hinges on

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

the company's ability to attract customers, maintain occupancy levels, establish its brand, and derive anticipated benefits from the hotel will be crucial from credit perspective.

Susceptibility to cyclical and intense competition in the hospitality sector

Occupancy levels and income prospects within the hotel industry are vulnerable to macroeconomic trends, both domestically and globally. As witnessed during the COVID-19 pandemic, similar occurrences could significantly impact the hospitality sector, given its reliance on tourist footfall in the country/region. The company's proposed hotel, situated in Lumbini, exposes its operations to the risk of revenue concentration from a single property. By predominantly serving the hotel segment, the company's revenue and profitability will remain susceptible to the growth dynamics and challenges within the hotel industry and more specific to the region.

Additionally, the competitive landscape in the hotel industry around the Lumbini region is expected to intensify over the medium term, with the entry of several new properties likely in the next 3-5 years. This would heighten the competition in the region and the importance of effective strategies to maintain its market position and financial performance in the evolving environment would be critical for the company to maintain stable return indicators.

Key Rating Strengths

Experienced and resourceful promoter group

VHPL derives strength from the financial flexibility of its promoter group belonging to the Golyan Group. Golyan Group has diversified business presence in Nepal which includes manufacturing, hydroelectricity projects, international trade & services, banking, insurance, real estate, textile, hospitality, energy etc. The company is managed under the overall guidance of Ms. Surabhi Golyan, who is also director of Golyan Group Limited. Golyan Group of Companies also operates City Hotel Limited (CARE-NP BB+/A4+), a 5-star hotel property operating under the brand name of 'Hyatt Place' with a total of 153 room keys whose commercial operation started from November 2021 onwards. Group's already established experience and market presence in hotel business is likely to provide assistance to generate revenue through referrals and other promotions. BOD is further supported by an experienced professional management team.

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

VHPL has entered in a Hotel Management Agreement (HMA) with Hyatt International-South West Asia, Limited, a associate of Hyatt Hotels Corporation (HHC), for managing the operation of its hotel under the brand name "Hyatt Regency." HHC, a prominent global hospitality company, has a portfolio of 20 premier brands and over 1,300 properties in more than 76 countries across 6 continents as of September 30, 2023. According to the terms of the HMA, Hyatt International South West Asia Limited will support VHPL in completing the hotel property to meet international standards. This assistance includes providing supervision in accordance with Hyatt Operating Standards, technical assistance, professional training, and handling customer reservations etc.

These services are expected to yield advantages for the company, including access to an established service framework, a broad customer base, marketing assistance, and the leverage of the well-recognized Hyatt brand name. All of this would contribute to driving hotel guest bookings and favourable revenue indicators. Furthermore, the association with the premier global brand, Hyatt Regency, is likely to enhance VHPL's global business reputation and provide access to brand-specific resources, which bodes well for the income prospects of the company.

Strategic locational advantage of the resort

The hotel is centrally located in Lumbini with Bhairahawa Airport at a distance of ~7.9 kms and Nautanwa Railway Station in Uttar Pradesh at a distance of ~37.9 km. The influx of tourists is high in the area on account of UNESCO's World Heritage

Site Lumbini. Lumbini is one of the most popular tourist destinations of Nepal in terms of frequency of visits and has religious and historical significance which is visited by large number of tourists every year. Also, it is preferred location for casino destination close to Indian borders with tighter regulations in the neighboring Indian states of Uttar Pradesh & Bihar. The region also remains an attractive alternative for corporate meetings, offsites and wedding destinations for Nepal, which is expected to provide benefits to the company to achieve the envisaged scale of business.

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

Veda Hospitality Private Limited (VHPL) incorporated on December 29, 2022, is owned by Golyan Hotel Limited, one of the companies under the Golyan Group. VHPL is developing a 5-star Hotel in Mayadevi Rural municipality, Lumbini, Nepal at the birthplace of Gautam Buddha to be built up in 2,91,791 square feet with 200 rooms along with a Restaurant, Swimming pool, Spa, and Casino in first phase. The project is to be promoted as an upscale leisure & wedding destination five-star resort. The hotel is expected start commercial operation from July 2027.

Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Proposed Loan	3,000.00	CARE-NP BB- [Double B Minus]
Total		3,000.00	

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