

**Rating Rationale  
Akama Hotel Private Limited**

**Rating**

Facility/ Instrument	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	1150.00	CARE-NP BB [Double B]	Assigned
<b>Total Facilities</b>	<b>1150.00</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BB (Double B)’ to the long term bank facilities of Akama Hotel Private Limited (AHPL).

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of AHPL are constrained by implementation risk and stabilisation risk associated with the project, expected losses and weak debt coverage indicators for the initial year of operations and competition from existing and new hotel ventures in the same area. The rating, however, derives strength from financially sound, however, limited experience of the promoters in the hotel industry, location advantage, government initiative and support for the tourism, and financial closure achieved for the project cost including cost over run.

Ability of the company to successfully execute the project in time without any further cost overrun and ability of the company to achieve the profitability margins without deterioration in its financial risk profile will be the key rating sensitivities.

**Detailed Description of the Key Rating Drivers**
**Key Rating Weakness**
***Implementation risk and stabilisation risk associated with the project***

AHPL is setting up an 4-star deluxe hotel property at estimated cost of Rs.1655 Mn, the project is at an advanced stage of completion with about 62% (Rs. 1027 Mn (without IDC) of the total cost incurred on the project till mid-July 2018. As on October 12, 2018, 70.94% of the total cost had been incurred. The company has expected its operation from July 2017 but due to strong earthquake on April 2015, border blockade on November 2015 and addition of new facilities in hotel the expected date couldn't be achieved and now AHPL is expecting its soft launching during November 2018 by operating 48 rooms, one restaurant and one banquet hall. Timely completion of the project within the estimated cost and satisfactory operations thereafter are the key rating sensitivities.

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

***Expected losses and weak debt coverage indicators for the initial year of operations***

AHPL is expecting to incur losses during the initial years of operations which will lead to weak debt service coverage indicators. Also, as on July 16, 2018, the overall gearing ratio of the company was at 2.46x which is expected to deteriorate further during FY19 on back of losses during the year and increase in the term loans which will be partially offset by infusion of equity.

***Competition from existing and new hotel ventures in the same area***

The Nepal hotel industry is fragmented in nature with the presence of a number of organized and unorganized players spread across various regions. As per the Nepal Tourism Statistics 2017, there are 125 star hotels and 977 non star hotels with total number of beds of 39833 operating in Nepal. AHPL is located at around 5kms from Nepal's only international airport but there are two other 5-star hotels located in its vicinity. There are eleven 5-star hotels, six 4-star hotels and 35 three-star hotels which are operating in Nepal. However, demand in Kathmandu and its surrounding areas as a touristic destination is increasing on the global touristic market. There is constant growth of tourist in Nepal which is reflected by 25% growth in number to 940218 in FY17 from 753002 in FY16.

**Key Rating Strength*****Financially sound, however, limited experience of the promoters in the hotel industry***

AHPL is promoted by eight individual promoters who are industrialists & traders in national and international market and majority of them are Non Resident Nepalese (NRN's) who belong to Sanima Group and one institutional promoter Sanima Pvt. Ltd. having largest shareholding of 20.48%. The total equity contribution was Rs. 362.5 Mn as on mid-July 2018. It is managed under the overall guidance of the company's Board of Directors (BOD) who possesses wide experience in various industries and are the prominent business person of Nepal. Mr. Binaya Kumar Shrestha is a chairman of the company who has more than 2 decades of experience of involving with local and abroad companies; currently he is Chairman of Sanima Bank Limited, Nepal. AHPL has expected to have synergies from the Sanima Group of companies during its operation which have presence in Commercial Banking, Merchant Banking, Life Insurance, General Insurance, Hydropower etc. The hotel is being managed by General Manager Mr. Raju Shrestha, who has wide experience in Hotel Industry. Although hotel industry is new to this venture group in Nepal but one of the promoter is running a hotel in Kathmandu from the last 5 years.

***Location advantage***

The hotel is being built at 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 and approximately 30Km away from Nagarkot which has a top spot for Himalayans view.

***Government initiative and support for the tourism***

Tourism sector remains the prioritized sector of Nepal which has contributed 3.5 per cent to national GDP. Government has also initiated to organize “Visit Nepal Year -2020” to attract more tourists in Nepal with vision to bring two million tourists by 2020. Also Monetary policy of 2017/18, had directed commercial bank to allocate minimum 25 percent of total credit to priority sector of which 5 percent to tourism only. According to the Hotel Association of Nepal, there will be 52000 rooms in tourist standard hotels of the country by 2020, which is enough to accommodate 1.6 million tourists only. This is leading to the government encouragement to build infrastructure to spread positive message for tourism industry as a whole.

***Financial closure achieved for the project cost including cost over run***

The initial cost of the project during Jan 2016 was estimated at Rs. 942 Mn, which was proposed to be financed with debt of Rs. 500 Mn and rest by equity. Later due to cost escalation in the project, acquisition of additional land around the hotel, additional construction cost for change in the scope of the project and increase in the exchange rates, the project cost was increased to Rs. 1540 Mn for which addition of Rs. 400 Mn debt was sanctioned and financial closure was achieved in Jan 2018. Further, the company taken addition term loan of Rs. 250 Mn to finance the capital expenditure of the project for the purpose of purchase of furniture & fixtures, kitchen equipment’s and other remaining interior works of hotel. The financial closure for the additional term loan achieved on October 8, 2018 which lead to increase in term loan of Rs. 900 Mn to Rs. 1150 Mn and the estimated project cost has reached Rs. 1655 Mn (excluding Interest during construction) to be finance in debt equity mix of 70:30. AHPL has incurred Rs. 1027 Mn (excluding IDC) on the project till mid-July, 2018 as certified by the Chartered Accountant with debt of Rs.737 million and rest by equity contribution by the promoters. The promoters have brought in Rs. 362.5 Mn of equity (out of total commitment of Rs. 500 Mn) as of mid-July, 2018. The hotel is expected to commence operations from November 2018.

***About the Company***

Akama Hotel Private Limited (AHPL) was incorporated in May 2014 and is setting up a 4 star deluxe hotel property at Dhumbarahi, Kathmandu by name of Hotel Akama. AHPL is promoted by individuals and companies who are part of Sanima Group. The project comprises of 108 rooms, conference/ event halls, dinning & bar on the total land of almost 1.13 acres. The total estimated project cost of the hotel is Rs. 1655 Million which is to be financed by 70% debt and rest by equity contribution. The expected Commercial Operation Date (COD) of the project is November 2018. AHPL is located around five kilometers away from the only international airport of Nepal, Tribhuvan International Airport.

**Analyst Contact**

Mr. Shisir Pokharel

[shisir.pokharel@careratingsnepal.com](mailto:shisir.pokharel@careratingsnepal.com)

Tel No.: +977-01-4232610

**Relationship Contact**

Mr. Sajjan Goyal

[sajan.goyal@careratingsnepal.com](mailto:sajan.goyal@careratingsnepal.com)

Tel No.: 9818832909/+977-01-4233436

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**Annexure 1: Details of the Facilities**

<b>Nature of the Facility</b>	<b>Type of the Facility</b>	<b>Amount (Rs. Million)</b>	<b>Rating</b>
Long Term Bank Facilities	Term Loan	1150.00	CARE-NP BB
<b>Total</b>		<b>1150.00</b>	