

**Rating Rationale**  
**Swornim Boutique Hotel Private Limited**

**Rating**

Facility	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	725.00	CARE-NP BB [Double B]	Assigned
<b>Total Facilities</b>	<b>725.00</b>		

*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 Swornim Boutique Hotel Private Limited (SBH).

**Detailed Rationale & Key Rating Drivers**

The rating assigned to the bank facilities of SBH is constrained by project implementation risk as the project is in the preliminary stage of construction, expected losses and weak debt coverage indicators in the initial years of operation, competition from existing and new hotels in the same area and exposure to volatile interest rates. The rating, however, derives strength from strong promoter group although limited experience in the hotel industry, association with reputed hotel brand, location advantage, government initiative and support for tourism and financial closure achieved for the project.

Ability of the company to successfully execute the project in time and satisfactory operations thereafter will be key rating sensitivities.

**Detailed Description of the Key Rating Drivers**

**Key Rating Weaknesses**

***Project implementation risk***

SBH is setting up a 3-star premium hotel at an estimated cost of Rs. 1,169 Mn. The project is at an early stage of construction with ~27% of the total cost (Rs. 316 Mn including IDC) incurred till mid-April 2019 and the same has been financed through debt of Rs. 150 Mn and equity of Rs. 166 Mn. The major cost incurred is towards the purchase of land. The company is expecting commercial operation date (COD) of the project during mid- April 2022. Timely completion of the project within estimated cost and satisfactory operations thereafter are the key rating sensitivities.

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

SBH is expected to incur losses during the initial years of operations being the gestation time for a project of this nature. The company is expecting to make profit from third years onwards from the COD. However, cash accruals will be sufficient to cover up debt obligations. Overall gearing ratio of the company is expected to be high on account of initial losses and high term loan for construction of the project.

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

***Competition from the existing hotels in the vicinity***

Hotel industry of Nepal is fragmented in nature with the presence of a number of organized and unorganized players spread across various regions. As per Nepal Tourism Statistics 2017, there are 125 star hotels and 977 non star hotels with total of 39,833 number of beds operating in Nepal. SBH is located at around 4 kms from Nepal's only international airport. There are eleven 5-star hotels, six 4-star hotels and thirty-five 3-star hotels which are operating in Nepal. However, demand of Kathmandu and its surrounding areas as a tourist destination is increasing on the global tourism market. There is constant growth of tourist in Nepal which is reflected by 25% growth during the last year. Hotels of similar category in the vicinity include Fairfield by Marriott, Hotel Yak & Yeti, Doubletree Hilton, Hotel Annapurna etc. which will likely increase the competition.

***Exposure to volatile interest rates***

Nepalese banking sectors are fixing lending interest rate based on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, funding from Bank and Financial Institutions is exposed to volatile interest rate.

**Key Rating Strengths*****Strong promoter group with limited experience in the hotel industry***

SBH is promoted by Mr. Naresh Lal Shrestha and four other individuals who are renowned businessperson of Nepal. Mr. Naresh Lal Shrestha, chairperson of the company, has more than 30 years of experience in export business and construction business. Similarly, Mr. Maheshwor Shrestha, director of the company, has more than 25 years of business experience related to handicrafts products. The company is operating a 20 rooms' hotel since last three years. Thus, the promoters have limited experience in the hotel industry. However, being associated with InterContinental Hotels Group PLC (IHG) for 'Hotel Management Agreement', the key personnel in the hotel will be appointed by IHG with SBH's approval. Further, IHG will provide technical services in addition to reservation and marketing services to SBH. This will provide reasonable assistance to promoters for managing the hotel.

***Association with reputed hotel brand***

SBH has entered into 'Hotel Management Agreement' with InterContinental Hotels Group India Pvt. Ltd. for the management of Holiday Inn Express hotel. Holiday Inn Express is a mid-priced hotel chain brand within the InterContinental Hotels Group. As on December 31, 2018, there are 2,726 Holiday Inn Express hotels with 279,516 rooms worldwide. IHG is responsible for operating the hotel on behalf of its owners. SBH will be required to pay license fee, technical services fee, incentive management fee, system fund contributions and other fees to IHG. Being associated with such global brand will benefit SBH in terms of increased revenues, global business reputation and brand specific resources. Also, the company will have access to state-of-the-art

technology such as mobile booking app, cloud-based hotel solutions and centralised marketing activities to drive hotel guest bookings.

### ***Location advantage***

The hotel 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 30 kms away from Nagarkot which has a reputation as top spot for enjoying Himalayas view.

### ***Government initiative and support***

Tourism sector remains prioritized sector of Nepal which has contributed 3.5 percent 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, has directed commercial banks 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 52,000 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***

The cost of the project is estimated at Rs. 1,169 Mn which is proposed to be financed with debt of Rs. 725 Mn and equity of Rs. 444 Mn. The financial closure for the term loan was achieved on July 16, 2018. SBH has incurred Rs. 316 Mn on the project till mid-April, 2019 and the same is funded through debt of Rs. 150 Mn and equity of Rs. Rs. 166 Mn. The hotel is expected to commence its operation from mid- April 2022.

### ***About the Company***

SBH was incorporated in August 24, 2012 for setting up a hotel. At present, the company is operating 20 rooms’ hotel nearby to the proposed project. The present hotel is proposed to be transferred to a new company. Now, the company is setting up a 3-Star premium hotel property at Tangal, Naxal Road, Kathmandu which will operate under the brand name of ‘Holiday Inn Express’ within the InterContinental Hotels Group PLC. SBH is promoted by Mr. Naresh Lal Shrestha along with four other individuals who are prominent business person of Nepal. The project comprises of 100 rooms spread over G+ 10 floors, restaurant & bar, conference/ event hall, health club on a total land of almost 11,679 sq. ft.

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**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	725.00	CARE-NP BB
<b>Total</b>		<b>725.00</b>	