

Rating Rationale
Annapurna Cable Car Private Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	933.00	CARE-NP BB- [Double B Minus]	Rating assigned and placed on credit watch
Short Term Bank Facilities	20.00	CARE-NP A4 [A Four]	Rating assigned and placed on credit watch
Total Facilities	953.00		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BB-’ to the long-term bank facilities and ‘CARE-NP A4’ to the short-term bank facilities of Annapurna Cable Car Private Limited (ACCPL). CRNL has placed the assigned ratings under ‘credit watch’ with developing implications, following the on-going legal case against the company with regard to the installation of the wire for the ropeway project and would take a view on the rating once the implications of the said developments on the overall credit profile of the company is clear.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of ACCPL is constrained by project implementation and stabilization risk, legal hurdle in the project and significant cost overrun in the project. The rating is also constrained by ACCPL’s exposure to volatile interest rates and seasonality of revenues. The rating, however, derives strength from experienced promoter, strategic location of project, government initiative and support for tourism sector. The ratings also factors in achievement of financial closure for estimated project cost, technical assistance from reputed contractors and positive trend of tourists in Nepal. The ability of ACCPL to timely execute the project without further cost overrun and satisfactory operations thereafter are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Project implementation & stabilization risk

Project is expected to be completed by end of October 2019 and till May 27, 2019, ~73% of the total project cost has been incurred. Though, there is major progress in the project, ACCPL is still exposed to the residual risks associated with project implementation and satisfactory operations thereafter. Timely completion of the project and satisfactory operations thereafter are the key rating sensitivities.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

Legal hurdle in the project

ACCPL is facing legal hurdle in construction of the project with Nepal's Apex court passing a stay order on installation of wire for the time being as few individuals from nearby locality has objected on installing wires above the land owned by them. ACCPL is exposed to the risk of time and cost overrun on back of further delay in completion of the project.

Significant Cost Overrun

Estimated cost for the project has significantly increased by ~68% to Rs. 1509 Mn from initially estimated cost of Rs. 896 Mn. The increase in the cost of the project is mainly attributed to increase in land cost, changes in design of building and additional civil construction works, non-inclusion of Value Added Tax in initial budget, additional requirements of plant & machinery not budgeted initially and increase in Interest During Construction. Timely execution of project without further cost overrun are the key rating sensitivities.

Exposure to volatile interest rate

Nepalese banking sectors are fixing interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions will be change by change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 1-2 year. Therefore, funding from Bank and Financial Institutions are exposed to volatile interest rate.

Seasonality of revenues

ACCPL's revenues are largely driven by weekends, festive seasons, school - college vacations etc. In CY18 ~83% of foreign tourist visiting Nepal were Non-Indian tourists and majority of such tourist arrived during September to April which is also known as trekking season due to appropriate climate, clear visibility of mountains. During the month of May to August, arrival of Non-Indian tourists reduces. Though the count of Indian tourist arrival increases during May to August due to summer vacations, overall tourist arrival is lower during these months. ACCPL is yet to start its operations and its ability to continually attract customers and achieve estimated revenue from different segments, remains to be seen. Furthermore, the footfalls remain vulnerable to discretionary consumer spending.

Key Rating Strengths***Financial closure achieved for the full project cost***

Estimated cost of the project is Rs. 1508 which is proposed to be financed in debt equity ratio of 62:38 (i.e. Rs 933 Mn term loan and Rs 575.22 Mn equity). ACCPL entered into consortium loan agreement on February 23, 2017 with three Banks with Rastriya Banijya Bank Ltd. as Lead Bank for the term loan of Rs. 933 Mn. Out of total equity requirement of Rs. 575.22 Mn, the promoters have infused Rs. 307.72 Mn till May 27, 2019.

Technical assistance from reputed contractors

ACCPL has signed an agreement with Nippon Cable Co. Ltd. (NCCL) for supply of cable car equipment and technical assistance services. NCCL, established in 1953 in Japan, has a long track record of design, production and installation of various types of aerial transport facilities including cable cars. ACCPL also has contracted with Chitawon Construction & Engineering Co. Nepal Private Ltd. (CCE) for civil construction works and installation of towers and cable car equipment for the project. CCE has a vast experience in construction business and it has been operating Nepal's first cable car (Manakamana Cable Car) through its subsidiary since 1998.

Experienced Promoter

ACCPL is promoted by individual promoters including institutional promoters. ACCPL has 3 board of Directors, chaired by Mr. Kalu Gurung. Mr. Kalu Gurung is also a major promoter of ACCPL (holds ~73% as on May 27, 2019). Mr. Gurung has over 25 years of experience in construction business and is also a Director and founder shareholder of different businesses including hydropower, Bank and Finance Institutions.

Strategic location of the project

The site of the project (Pokhara, Nepal) is one of the major tourist destinations in Nepal. With multiple lakes, adventure sports, views of Himalayas and religious spots, it attracts domestic and international tourist in large numbers. It also serves as gateway for trekkers visiting Annapurna trekking circuit in Annapurna Conservation Area. All season airport of Pokhara is well connected with regular flights to Kathmandu (Capital City of Nepal) and with International Airport under construction, Pokhara acts as a strategic location for the project.

Increasing trend of tourists in Nepal

Inflow of tourist in Nepal has seen a continuous growth in last few years with 0.54 Mn tourist visiting Nepal in CY15 which increased to 0.75 Mn in CY16 registering a ~40% growth. Further, it recorded a growth of ~25% in CY17 and ~25% in CY18 with 1.17 Mn tourist inflows. With ~83% (CY18) of tourist as Non-Indian tourist and ~16% (CY18) of total tourist arriving for trekking and mountaineering, Nepal has become one of the preferred destination of tourists for trekking and mountaineering beside being a holiday destination.

Government initiative and support for tourism

Tourism sector remains the prioritized sector of Nepal which has contributed 2.2 per cent to national GDP through foreign exchange earnings from tourism in CY 2018. On a backdrop of over one million tourist visiting Nepal in 2018, 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 2018/19, had directed commercial bank to allocate minimum 25 percent of total credit to priority sector of which 5 percent to tourism.

About the Company

Annapurna Cable Car Private Limited is a Private Limited company, incorporated on March 10, 2010. It is promoted by institutional promoters and individual promoters from different background for setting up Cable Car Project at Sarangkot, Kaski, Nepal. The Project plans to run a ropeway from the bottom station at Seti Bagar, near Fewa Lake to Sarangkot of Pokhara. The project includes about 2.3 km cable car journey, having 18 Gondolas (cable cars) to transport passengers to and from the site.

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Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	933.00	CARE-NP BB- (Credit watch)
Short Term Bank Facilities	Working Capital Loan	20.00	CARE-NP A4 (Credit watch)
Total		953.00	