

Rating Rationale
City Hotel Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	2,312.00	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	80.30	CARE-NP A4 [A Four]	Assigned
Total Facilities	2,392.30		

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 City Hotel Limited (CHL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of CHL are constrained by operational stabilization risk and long gestation period associated with hotel industry and time overrun of the hotel followed by project cost overrun. The rating is also constrained by financial risk profile marked by loss and weak debt coverage indicators for the initial year of operations; exposure to volatile interest rates; and susceptibility to cyclicality, intense competition and geographic concentration in the hospitality sector. The ratings, however, derive strength from experienced directors and resourceful promoters, association with reputed hotel brand likely to benefit the company in terms of marketing and hotel operations and strategic locational advantage of the hotel. The ratings also factor in low project implementation risk associated with the hotel project, financial closure achieved for the entire debt component, government initiative and support for tourism and increasing trend of tourists in Nepal. Ability of the company to complete the project without any further time and cost overrun; achieve healthy profit margins, occupancy level and average room rate (ARR) of the hotel on a sustained basis will be key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Operational stabilization risk and long gestation period associated with hotel industry

The company is setting up a hotel with 153 rooms capacity which also includes restaurants, banquet, fitness center, spa and swimming pool, conference hall and other facilities with an aggregate project cost of Rs. 3,147 Mn. Generally, hotels require longer gestation period to recover the fixed costs associated with it and become profitable. Hotel projects have long gestation period since construction of a premium hotel takes up to three to four years while stabilization of operations may take another two to three years. Further, premium hotels call for a huge investment and have longer gestation periods as compared to mid-scale budget hotels. Going forward, given association with reputed global hospitality brand, the ability of the company to attract customers, maintain occupancy level, establish its brand and derive benefit from the hotel as envisaged on a sustained basis will be crucial rating factor. The hotel is expected to start its full-fledged commercial operation from July 2020 onwards.

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

Time overrun of the hotel followed by project cost overrun

Expected commercial operation date of the hotel was April 2020, which has been delayed by ~4 months to July 2020. Further, aggregate project cost has increased by ~12% to Rs. 3,147 Mn mainly due to increase in project expenditures such as civil cost, consultancy and design expenditure, cost of building, electrical and equipment expenditure, interest cost, VAT expenditure etc.

Financial risk profile marked by loss and weak debt coverage indicators for the initial year of operations

The company is expecting losses during the initial year of operation that will lead to weak debt service coverage indicators. Also, as on July 16, 2019, the overall gearing ratio of the company was at 2.45x which is expected to deteriorate further at the end of FY20 (refer to 12 month's period ending Mid July, 2020) due to increase in the term loans which will be partially offset by infusion of equity.

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.

Susceptibility to cyclical, intense competition and geographic concentration risk in the hospitality sector

The hotel industry of Nepal is fragmented in nature with the presence of large number of organized and unorganized players spread across various regions. There is constant growth of tourists in Nepal which is reflected by ~8% growth in number to 0.98 Mn for the period January to October, 2019. Demand of Kathmandu and its surrounding areas as a tourist destination is increasing on the global tourism market. However, occupancy levels and revenue in the hotel industry are susceptible to macroeconomic trends, both in the domestic and global markets. The company has a single hotel establishment located at Kathmandu, thus exposing operations to geographic concentration risk. Furthermore, by catering largely to the hotel segment, revenue and profitability remain susceptible to business growth and the dynamics of the hotel industry. Any slowdown in industry may impact CHL's operations.

Key Rating Strengths***Experienced directors and resourceful promoters***

CHL derives strength from its strong promoter group belonging to Golyan Group. Golyan Group is one of the leading business group of Nepal which is involved in various business activities which includes manufacturing, international trade & services, banking, insurance, real estate, textile, hospitality, energy etc. CHL is managed under the overall guidance of its five-member board of directors (BOD) who possess wide experience in different business sectors. Mr. Shakti Kumar Golyan, chairman, has wide experience in various business sectors and is the director of Golyan Group of industries. Ms. Latika Golyan, executive director, has work experience of

almost two decades in various industries. Mr. Varun Talwar, general manager (GM), is responsible for overall operational management of the hotel and has work experience of over 16 years in the reputed hotel brands in India and Nepal. BODs are further supported by an experienced team across various functions/ departments.

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

CHL has entered into 'Hotel Management Agreement' with Hyatt International- South West Asia, Limited, a Dubai based corporation for the international brand of 'Hyatt Place' which is a smart upscale-select service hotel of international standards owned by Hyatt Hotels Corporation (HHC). HHC is a leading global hospitality company having a portfolio of 20 premier brands with more than 875 properties in over 60 countries across 6 continents as of September 30, 2019. Under the Hotel Management Agreement, Hyatt International- South West Asia Limited will assist CHL in relation to completion of the hotel property according to its international standards along with providing supervision in accordance with Hyatt Operating Standards, technical assistance, professional training, customer reservations etc. These services will provide the company with added benefits of established service, large customer base, marketing assistance and already widespread brand name recognition to drive hotel guest bookings. Also, being associated with such global brand will likely benefit CHL in terms of increased revenues, global business reputation and brand specific resources.

Strategic locational advantage of the hotel

The hotel is located at Soaltee Mode, Kathmandu with Tribhuvan International Airport at a distance of around 9 kms. Also, the influx of tourists is high in Kathmandu as it is an entry point for international tourists in the country via flight along with being the capital city of Nepal with 7 UNESCO world heritage sites and approximately 28 kms away from Nagarkot which is also famous with the tourists.

Low project implementation risk associated with the hotel project

Till January 07, 2020, works relating to civil construction and procurement of major machineries/ equipment has already been completed by the company. Presently, mainly works relating to interior design and furnishing activities, plumbing works, electrical and equipment installations and other related activities is ongoing at the hotel site. As major part of the project work has already been completed, the project implementation risk has reduced significantly. However, the project is still exposed to the residual risks associated with project implementation and satisfactory operations thereafter.

Financial closure achieved for the entire debt component

The total cost of project of Rs. 3,147 Mn is proposed to be financed with debt of Rs. 2,312 Mn and equity of Rs. 835 Mn. The financial closure for the debt portion has been achieved on September 04, 2019. Till December 11, 2019, Rs. 2,735 Mn has already been incurred in construction of the hotel project financed by debt of Rs. 1,950 Mn and equity of Rs. 785 Mn.

Government initiative and support for tourism

Tourism sector remains the prioritized sector of Nepal which has contributed 7.9% to national gross domestic product in 2018. Government has also initiated to organize “Visit Nepal Year 2020” to attract more tourists in Nepal with vision to bring 2 million tourists by 2020. Also, Monetary Policy of 2019/20, has directed commercial banks to allocate minimum 25% of total credit to priority sector of which 5% to be allocated to tourism sector. The government also provides tax holiday for large hotel projects established with capital investment of more than Rs. 2 Bn. With the government prioritizing development of travel and tourism in the country, the future prospect of this sector looks encouraging.

Increasing trend of tourists in Nepal

Inflow of tourist in Nepal has seen continuous growth in last few years with 0.54 Mn tourist visiting Nepal in CY15 which increased to 0.75 Mn in CY16 registering ~40% growth. Further, it recorded a growth of ~25% in CY17 with 0.94 Mn tourist inflows and ~25% in CY 18 with 1.17 Mn tourist inflows. With ~83% of tourist as Non-Indian tourist and ~16% of total tourist arriving for trekking and mountaineering in CY18, Nepal has become one of the preferred destination of tourists for trekking and mountaineering beside being a holiday destination. However, visitors from China accounted for second highest in number of 0.17 Mn tourists in CY18 (i.e. ~15%). With the recent outbreak of Corona Virus that led to World Health Organization (WHO) declaring global health emergency, it is expected that travel and tourism industry in Nepal as well as around the world will be adversely impacted in CY20.

About the Company

City Hotel Limited, incorporated on December 05, 2007, is setting up a 5-star hotel property located in Soalteemode, Kathmandu which will operate under the brand name of ‘Hyatt Place’ with a total of 153 room keys and belongs to the Golyan Group of companies. The company plans to start commercial operation of the hotel from July 2020 onwards. The company is being promoted by 7 shareholders who have infused total paid-up equity of Rs. 780 Mn as on July 16, 2019.

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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	2,312.00	CARE-NP BB
Short Term Bank Facilities	Overdraft Loan	80.00	CARE-NP A4
Short Term Bank Facilities	Bank Guarantee	0.30	CARE-NP A4
Total		2,392.30	