

Nepalese Hotel Industry - An overview

May 17, 2020

| Industry Analysis

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The Nepalese hospitality industry along with tourism continues to be one of the key segments driving the growth of the services sector in the Nepalese economy. Currently, Nepalese economy ranks 101th in the world in terms of GDP as of FY19 as per IMF (2019 estimates). Travel and tourism sector contribute about US\$ 8.9 trillion (y-o-y growth of 3.5%) as per World Travel & Tourism Council's (WTTC), providing employment to about 330 million persons in 2019 globally. Also, travel & tourism industry earns an average of 25% of the total foreign exchange for the country.

In the study, CARE Ratings Nepal has analyzed the Nepalese hotels & tourism industry for the past years to see the changes it has gone through and to understand the major factors affecting the industry in terms of demand and pricing. The industry has been viewed in comparison to other SAARC countries as well.

Sections covered in the report

- History of the industry
- Concepts used
- Operating models
- Inventory position – Existing
- World Tourism & Nepal
- Nepal Tourism
- Challenges faced by the industry
- Emerging market trends
- Financial performance
- Taxes & policies
- Covid-19 impact

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History of Hospitality and Tourism Industry in Nepal

The history of hospitality industry dates all the way back to the Colonial period in the late 1700s. Things have however changed quite a lot since then. The hospitality industry has experienced significant development over the years. The industry that we know today began to take form in the early 1950s, leading the way for growth into the dynamic industry. Actual development of hospitality and tourism industry in Nepal started after 104 years' autocracy of Rana regime ended in 1950 and Nepal being officially open for tourism from 1951. Timeline for various significant events in development of tourism and hospitality industry in Nepal has been tabulated as under:

1949	<ul style="list-style-type: none"> • Bill Tillman became the first genuine trekking tourist of Nepal.
1950	<ul style="list-style-type: none"> • Maurice Herzog led the 1950 French Annapurna expedition that climbed Mt. Annapurna leading Mt. Annapurna become the first mountain over 8000m high ever to be summited.
1951	<ul style="list-style-type: none"> • Nepal was officially opened for Tourism. • 'Nepal Hotel', the first hotel in Nepal, was established in Patan.
1952	<ul style="list-style-type: none"> • Swiss Geologist Tony Hagen was employed by GoN for mapping geography of Nepal. • First international hotel, "Royal Hotel" was opened in Nepal by Boris Lisanevich.
1953	<ul style="list-style-type: none"> • Himalayan Airways, the first airlines established in Nepal. • Tenzing Sherpa and Sir Edmund Hillary conquered Mt. Everest, the world's highest peak.
1958	<ul style="list-style-type: none"> • Incorporation of Nepal Airlines Corporation (formerly known as RNAC).
1959	<ul style="list-style-type: none"> • Nepal became a member of International Union of Official Travel Organization.
1964	<ul style="list-style-type: none"> • Colonel Jimmy Roberts founded Mountain Travel Nepal, the first commercial trekking company.
1965	<ul style="list-style-type: none"> • Mountain Travel, the first tour company was established in Nepal.
1966	<ul style="list-style-type: none"> • The first travel trade association of Nepal, Hotel Association Nepal (HAN) was established for supporting government in decision-making process pertaining to tourism of Nepal. • Hotel Soaltee, Nepal's first five-star hotel, was established. • Nepal Association of Travel Agents (NATA) was established to formulate sound business principal and to regulate the travel industry in Nepal.
1972	<ul style="list-style-type: none"> • Tourism Master Plan was drafted. • Nepal Academy of Tourism and Hotel Management (NATHM) (previously known as HMTTC) was established for developing human resources and enhancing the standard of quality in tourism and hospitality services by providing craft and supervisory level skill-oriented trainings.
1973	<ul style="list-style-type: none"> • Chitwan National Park, the first national park in Nepal, was established.
1978	<ul style="list-style-type: none"> • Tourism Act 2035 was enacted and Ministry of Tourism was established.
1979	<ul style="list-style-type: none"> • Trekking Agencies' Association of Nepal (TAAN) was established to devise sound business principles as well as regulate the trekking sector.
1980	<ul style="list-style-type: none"> • The Royal Trek for HRH the prince of Wales was conducted.
1989	<ul style="list-style-type: none"> • Nepal Association of Rafting Agencies (NARA) was established to provide information about rafting trip.
1995	<ul style="list-style-type: none"> • Tourism Policy 2052 formulated.
1997	<ul style="list-style-type: none"> • Nepal Tourism Board 2053 enacted paving the way for public private partnerships in the tourism sector of Nepal.
1998	<ul style="list-style-type: none"> • Visit Nepal Year 1998 was celebrated. • Nepal Tourism Board was established.
1999-2001	<ul style="list-style-type: none"> • From 1999 tourism started to decline because of a decade long Maoist insurgency due to which negative message went viral all over the world. Other incidences like hijack of Indian Airlines fleet from TIA (Tribhuvan International Airport) in 1999, Royal Massacre in 2001

	and King Gyanendra taking over the power and suspending constitution, affected the Tourism industry negatively.
2002	<ul style="list-style-type: none"> • Destination Nepal Campaign was launched.
2004	<ul style="list-style-type: none"> • Regional Tourism Campaign was launched.
2006	<ul style="list-style-type: none"> • Peace Accord among the political force was signed. • HAN and the trade unions signed agreed for implementation and distribution of Service Charges.
2007	<ul style="list-style-type: none"> • Visit Pokhara Year was observed.
2010	<ul style="list-style-type: none"> • Homestay Operation Procedures 2010 was passed by Ministry of Culture, Tourism & Civil Aviation (MoCTCA).
2011	<ul style="list-style-type: none"> • Nepal Tourism Year 2011 was launched. • 49th World Congress of International Hotel and Restaurant Association (IHRA) held in Kathmandu.
2012	<ul style="list-style-type: none"> • Visit Lumbini Year 2012 was launched.
2015	<ul style="list-style-type: none"> • Massive earthquake hit Nepal on 25th of April. • However, during mid-August, a new slogan “Nepal is safe” started circulating in international market for the promotion of the areas not affected by earthquake like Pokhara, Annapurna region, Lumbini and Chitwan.
2016	<ul style="list-style-type: none"> • New Constitution of Nepal passed by the Constitution Assembly.
2020	<ul style="list-style-type: none"> • Visit Nepal Year 2020 was launched. However, due to ongoing pandemic of COVID-19, same was called off during March 2020.

(Table 1: Nepalese Hospitality & Tourism Industry – The History)

Classification of Hotels in Nepal

With the aim to provide and maintain contemporary standards of facilities and services, Department of Tourism under the Ministry of Culture, Tourism and Civil Aviation has a voluntary scheme for approval of Hotel Projects categorized under 5 – Star, 4 – Star, 3 – Star, 2 – Star, 1 – Star, Tourist Standard and Tourist Resort. The classification is valid for the period of 5 years and the same can be renewed upon expiry.

The Nepalese Hotel Industry can be further broadly classified under 3 major heads:

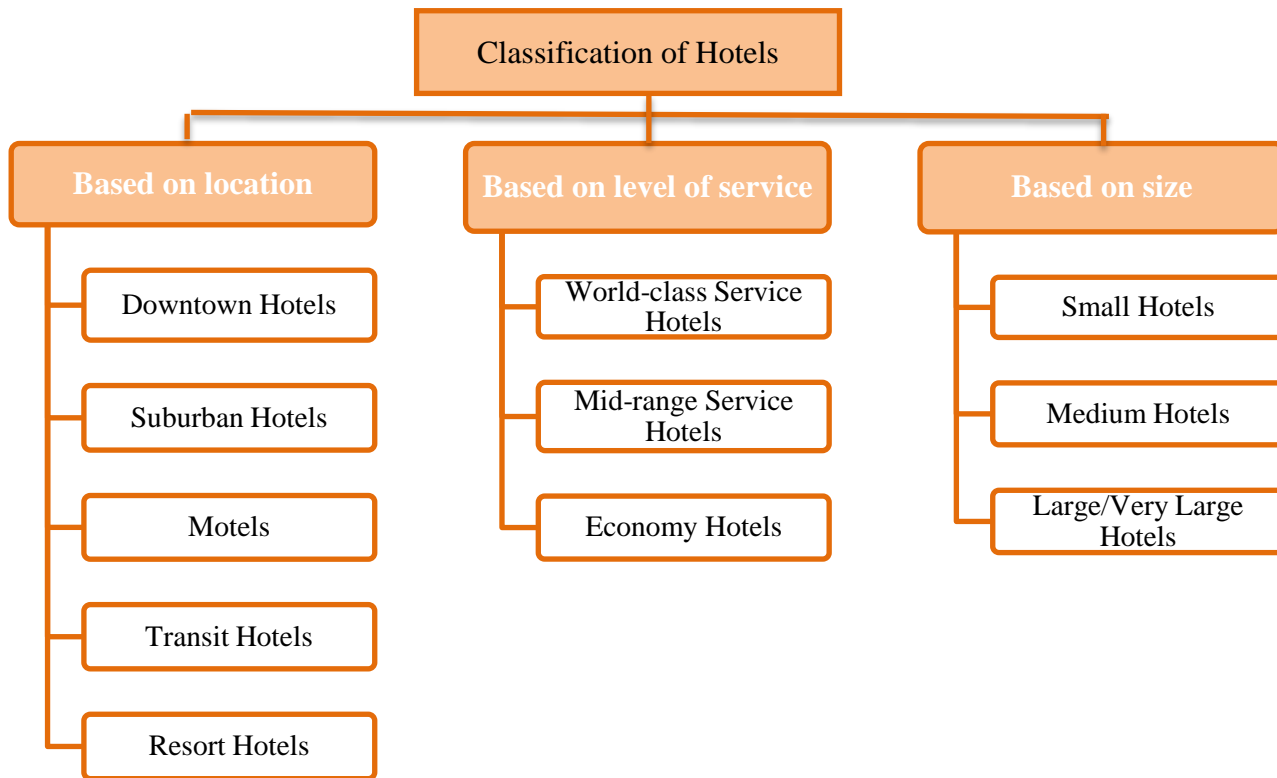


Chart 1: Classification of Hotels

Other Emerging Concepts

1. Timesharing industry

- A time share is a form of vacation ownership of property. Units may be on a partial ownership, lease or a 'right to use' basis where the sharer has no claim to the ownership of the property. The concept of 'timeshare' as an innovative way for increasing holiday choice became popular in Europe in the 1960s. Under this concept, the use and costs of running the property (hotel) are shared among the owners.
- Instead of booking a resort every year for a week or two, or purchasing a property, timeshare offers buyers the ability to buy rights of occupancy in a property, usually in multiples of a week, for a set period. After purchasing their holiday time and using it, they can pass it to their friends and relatives, or rent it out.

The industry offers various purchase options to meet consumers' requirements for vacation variety and flexibility.

1. Fixed-week: The most common type of timeshare where units are sold for use during a fixed week of the year.
2. Floating week: This could be any week during a certain season of the year.
3. Rotating or flex-week: Under this, in an attempt to give all owners a chance for best weeks, the weeks are rotated forwards or backwards through the calendar, so in year 1 the owner has week 25, then in year

2 the owner has week 26 and week 27 in the week after that.

4. **Points Program:** Annually, the program gives the owner the points equal to the level of ownership and the owner has the flexibility to use these points as currency to make their travel arrangements.

Timeshare owners have the option to holiday in different resorts if the memberships are affiliated to an exchange company. Interval International is the existing exchange company in Nepal.

2. Service Apartments

- Service apartments are fully furnished apartments available for short-term or long-term stay providing all the luxuries of a premium hotel such as room service, laundry service, fitness centre, etc. and have larger rooms and more space at a far more competitive rate. The apartments are usually equipped with full kitchens, Wi-Fi and other in-house amenities.
- These apartments are ideal for people who do not have to stay for long durations to set up a home but also long enough to want to live a normal life while experiencing luxuries of a 5-star hotel. Also, no rental deposits are required in this case unlike ordinary residential leases which typically binds people for a year or and involve an 11-month rental deposit.

Business professionals, executives who may be on local or international work assignments (project related) are frequent users of this facility. However, they are available to general public as well.

Operating Models

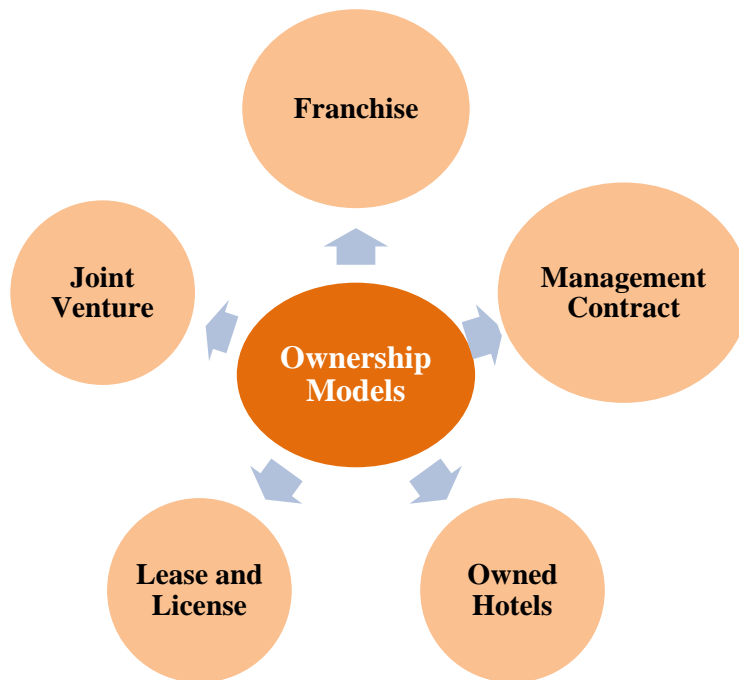


Chart 2: Operating models

Classification of Customer segments

1. Business traveler

- The business traveler is a businessman or a corporate executive travelling for business purposes. This segment includes corporates, both domestic and foreign. This practice is on a rise due to the economic upswing in Nepal. It can also be attributed to the increased business opportunities internationally.
- The business travelers can be divided into two categories based on their duration of stay; first, the business traveler who travels for a short duration. These travelers come mostly for a meeting or a conference. They are time-conscious and willing to be price-insensitive. Such customers are ready to pay higher price in exchange for flexibility of being able to book a room at the last minute.
- The other category is the business traveler who travels for a mid-to-long-term duration. They travel mostly for working on a project. Such customers may or may not have a pre-planned journey; therefore, they may or may not be price sensitive. Nowadays, such people prefer serviced apartments.

2. Leisure travelers

- The leisure traveler could either be a foreigner or a domestic traveler whose primary purpose of visit is holiday or site seeing. Among non-business foreign tourists, the primary motivation for visiting Nepal is largely cultural and religious attraction followed by conferences and conventions, tourist attractions like beaches, wild life, hill resorts, etc.
- Usually, leisure travelers are part of a package run by a tour operator. Their duration of stay varies from short to medium term. Such customers are price-sensitive and are willing to give up some flexibility for the sake of a more inexpensive room.
- Number of domestic travelers is also increasing due to the growing economy and rising income levels. As per report of WTTC, there was 87% leisure spending and 13% business spending during 2018. Apart from these, travelers travel for various other purposes such as healthcare, education, research, urban development and recreational purposes.

A tabular representation of arrival of tourist for the year 2011-2018 has been tabulated below:

Year	Holiday Pleasure	Trekking & Mountaineering	Business	Pilgrimage	Official	Conv./ Conf.	Others	Not Specified	Total
2011	425,721	86,260	17,859	63,783	24,054	10,836	37,311	70,391	736,215
	(57.8)	(11.7)	(2.4)	(8.7)	(3.3)	(1.5)	(5.1)	(9.6)	100.0
2012	379,627	105,015	24,785	109,854	30,460	13,646	48,540	91,165	803,092
	(47.3)	(13.1)	(3.1)	(13.7)	(3.8)	(1.7)	(6.0)	(11.4)	100.
2013	437,891	97,309	30,309	40,678	39,881	15,952	62,214	73,381	797,616
	(54.9)	(12.2)	(3.8)	(5.1)	(5.0)	(2.0)	(7.8)	(9.2)	100.0
2014	395,849	97,185	24,494	98,765	32,395	13,432	53,728	74,271	790,118
	(50.1)	(12.3)	(3.1)	(12.5)	(4.1)	(1.7)	(6.8)	(9.4)	100.0

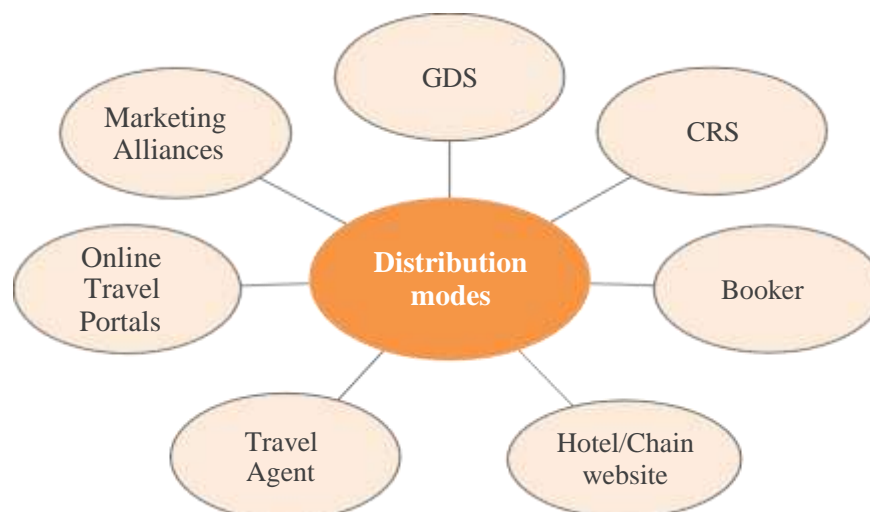
Year	Holiday Pleasure	Trekking & Mountaineering	Business	Pilgrimage	Official	Conv./ Conf.	Others	Not Specified	Total
2015	3,86,065	9,162	20,876	14,996	21,479	9,038	77354		538,970
	71.63	1.70	3.87	2.78	3.99	1.68	14.35		100.0
2016	489,451	66,490	24,322	82,830	21,310	12,801	55,797		753,002
	65.0	8.83	3.23	11.0	2.83	1.7	7.41		100
2017	658,153	75,217	NA	141,033	NA	NA	65,815		940,218
	70.0	8.0		15.0			7		100
2018	703,843	187,692	NA	169,180	NA	NA	112,357		1,173,072
	60.0	16.0		14.4			9.6		100

*Source: Nepal Tourism Statistics 2018 published by MoCTCA in May 2019.

(Table 2: Arrival of tourist by purpose of visit)

Distribution channels

(Chart 3: Distribution channels)



1. Global Distribution System (GDS)

- A GDS is a network operated by a company that enables the electronic reservation systems between the travel service providers (hotels, airlines, car rental companies, etc) and the travel agencies (travel agents and the public) to provide and avail travel related services.

2. Centralized reservation system (CRS)

- The CRS is a computerized system that stores and distributes information to carry out transactions related to air travel, car rentals, hotel bookings and other related services through which reservations can be made.

3. Booker/Hotel representative

- The travel manager, executive assistants working directly with the hotel/chain that are the link between the traveler and the service provider (hotel/ airlines, etc) usually make corporate bookings.

4. Tour agent/Travel agent (booking via GDS/CRS)

- A travel agent is someone who provides travel and tourism services to the public on behalf of the suppliers such as activities, airlines, car rentals, cruise lines, package tours, etc. Some agents besides dealing with the ordinary tourists also have a separate department looking after the corporate/business travelers.

5. Online Travel Portals

- Online travel portals have increasingly become one stop shop for all the travel related services with the emergence of e-commerce. These are websites dedicated to travel related transactions such as flight ticket bookings, hotels and travel packages. Again, these travel websites are connected to GDS/CRS systems that enable them to offer lowest rates prevalent in the distribution network.

6. Marketing alliances

- Hotels are often associated with marketing alliances. Such alliances provide the hotels get direct access to the online reservation network, promotions and the internet coverage.

Industry characteristics

The industry can be classified as business and leisure destinations from the point of view of the hospitality sector. It should be noted that the two are not mutually exclusive as some locations have a fair mix of business and leisure travelers. The demand dynamics are quite different for both the segments.

Cyclicality

The hospitality industry is cyclical in nature. i.e., during positive cycles the industry witnesses' periods of sustained growth and sees healthy average room rates (ARRs) and occupancy rates (ORs). Until the economy goes through a downturn or if there is excess supply, the trend continues. When recession sets in, the ORs begin to decline followed by the ARR.

While the macro-economic factors affect the business destinations (RevPARs– revenue per available room, growth is sensitive to the macro-economic indicator such as the nominal GDP, inflation, lending rates, etc), the leisure destinations show a greater sensitivity to non-economic factors such as natural calamities, terror attacks, health related travel warning, etc. (decline in FTA in 2015 was largely on account of the devastating earthquake). However, due to increased domestic and international trade activities and various initiatives taken by the government during FY16, the number of foreign travelers in the country has increased. This has been reflecting in the overall RevPARs.

Seasonality

The hotel industry demand is seasonal in nature. Though the peak season for both business and leisure destinations is the same (January – March), during the remaining year both demonstrate different behaviors. While the business destinations maintain constant ORs from April – November. However, in December, a sharp correction is witnessed in the business destinations as it coincides with the international holiday period. Leisure destinations on the other hand register lower ORs during May - October period,

while the occupancy rates improve in December on account of holiday season.

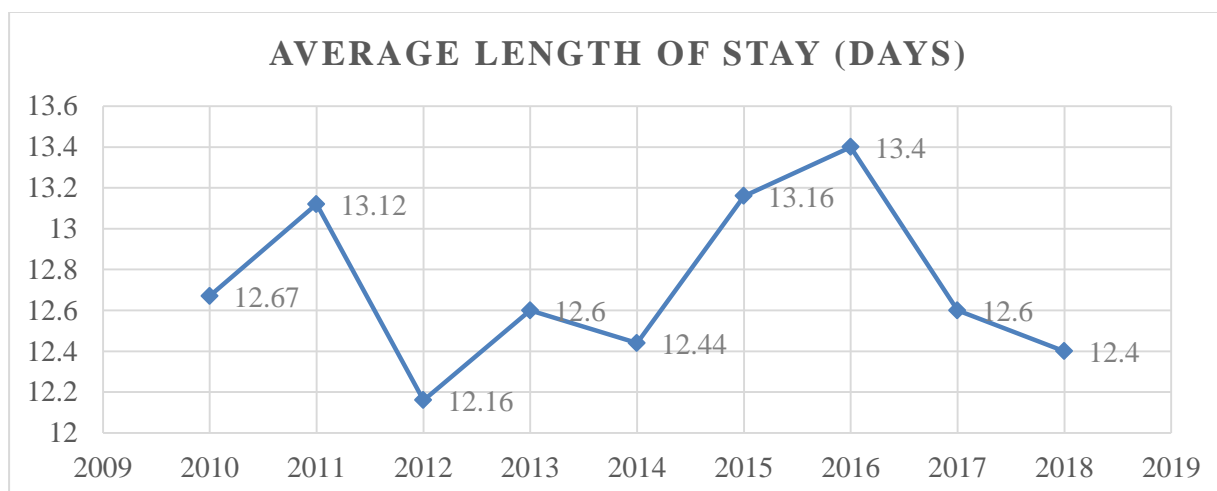
Average Length of stay (ALOS)

Details of tourist arrival and ALOS from 2000 to 2018 is given below:

Year	Number	Average Length of Stay (Days)
2010	602,867	12.67
2011	736,215	13.12
2012	803,092	12.16
2013	797,616	12.60
2014	790,118	12.44
2015	538,970	13.16
2016	753,002	13.4
2017	940,218	12.6
2018	1,173,072	12.4

The ALOS of the tourists is in the decreasing trend which decreased from 12.6 days in 2017 to 12.4 days in 2018. ALOS of tourists was 13.4 days in 2016. In addition to the decreasing trend of ALOS, per capita spending of foreign tourists is also decreasing. Per capita spending of foreign tourists was USD 54 in 2017 which decreased by about 23% to USD 44 in 2018. Both ALOS and per capita spending of foreign tourists fell despite increase in number of tourists in the country which is also due to revenue leakage and lack of recording of all the transactions due to extensive use of online platforms for doing business. It is crucial that the focus of the government as well as involved stakeholders should be to attract high spending tourists in Nepal as well as make efforts to increase footfall of tourists.

Line graph of average length of stay of foreign tourists over last nine years is given below:



Source: Nepal Tourism Statistics – Ministry of Culture, Tourism and Civil Aviation

Existing Inventory of Hotels

There has been expansion in the hotel business as it is one of the important sector in the country. The number of star rated hotels has reached 135 in FY19 with total number of 5- star hotel reaching to 14. As per the Hotel Association of Nepal (HAN), the country now has the capacity of 40,856 room capacity to accommodate ~2.5 Mn guests. Apart from star rated hotels, tourist standard hotels followed by homestays is also rapidly growing in Nepal. Back in 2011, star hotels in Nepal was just 117 with 909 tourist standard hotels and 150 homestays. The number has now increased to 129 star hotels with 1,125 tourist standard hotels in 2018. There was rapid growth in hotel development in Nepal and number of beds and hotel rooms were likely to increase as the new hotels starts their operations. In Nepal, star hotels, boutique hotels and resorts are the main properties that accommodate for high end foreign and domestic tourists. Apart from it, tourist standard hotels and homestays tend to accommodate for economically minded hotel customers.

Details of Star Hotel and Tourist Standard Hotel in Nepal along with bed capacity is given below:

Year	Star Hotel		Tourist Standard		Total	
	Hotel	Bed	Hotel	Bed	Hotel	Bed
2004	110	10715	886	28392	996	39107
2005	110	10715	896	28669	1006	39384
2006	105	9763	502	14497	607	24260
2007	105	9763	512	14897	617	24660
2008	96	9320	573	16743	669	26063
2009	97	9369	647	19124	744	28493
2010	103	9125	686	20517	789	29342
2011	106	9323	721	21457	827	30780
2012	107	9371	746	22286	853	31657
2013	117	9506	909	25017	1026	34523
2014	118	9554	957	26625	1075	36179
2015	116	9710	957	27240	1073	36950
2016	120	10071	985	28171	1062	38242
2017	125	10697	977	29136	1101	39833
2018	129	11146	1125	29710	1254	40856

Details of Tourist Industry and Guide in Nepal is given below:

Year	Travel Agency	Trekking Agency	Rafting Agency	Tourist Transportation Service	Tour Guide	Trekking Guide	River Guide
2012	2,239	1,598	52	31	0	0	100

2013	2,450	1,761	60	50	3,141	9,741	131
2014	2,611	1,903	61	59	3,335	10,436	131
2015	2,768	2,018	66	67	3,507	11,358	187
2016	3,444	2,367	72	72	3,717	13,049	207
2017	3,824	2,637	73	72	3,876	13,831	230
2018	3,508	2,649	73	77	4,126	16,248	253

Table 3: Some of the Top Brands in Hotel Industry in Nepal

Top Hotel brands in Nepal	
Soaltee Crowne Plaza	Marriott
Hotel Annapurna	Hyatt
Hyatt Regency	Sheraton Hotels & Resorts
Radisson Hotel	Hilton Hotels
Hotel Yak & Yeti	The Fern
Tiger Palace Resort	Taj
Kathmandu Marriot Hotel	InterContiental Hotels Group
Hotel Shangri-la	Wyndham Hotels
The Everest Hotel	Aloft
	Courtyard

Nepal Tourism and SAARC countries

In the recent report published by World Economic Forum (WEF) ‘Travel and Tourism Competitiveness Index 2019’, the situation of Nepal appears to be weak in the index. The report shows that Nepal has not been able to get enough benefits from the tourism sector despite being rich in cultural and natural resources such as the birthplace of Gautam Buddha, highest peak in the world, mesmerizing wildlife and forests, trekking routes, second richest water resources etc.

Nepal is ranked 102nd in the list that is prepared by the WEF covering 140 countries around the world. Even among the SAARC countries, Nepal is seen as weak and only Pakistan and Bangladesh are behind Nepal in SAARC nations. Bangladesh is ranked 120th and Pakistan is ranked 121st among 140 countries in the list of WEF. Sri Lanka is ranked 77th above Nepal while India is ranked 34th in the list and top among SAARC countries. However, Maldives, Bhutan and other countries are not included in the WEF, and thus are not included in this list, although these countries are making great progress in the travel and tourism sector.

Travel and Tourism Competitiveness of Nepal and SAARC countries as per The Travel & Tourism Competitiveness Index 2019 is given below:

Countries Indicators	Nepal	Bangladesh	India	Pakistan	Sri Lanka
Overall Ranking Out of 140	102	120	34	121	77
Enabling Environment	102	108	98	119	79
Travel & Tourism Policy and Enabling	87	123	69	122	84
Infrastructure	122	109	55	99	78
Natural and Cultural Resources	56	105	9	87	52
Business Environment	113	94	39	93	79

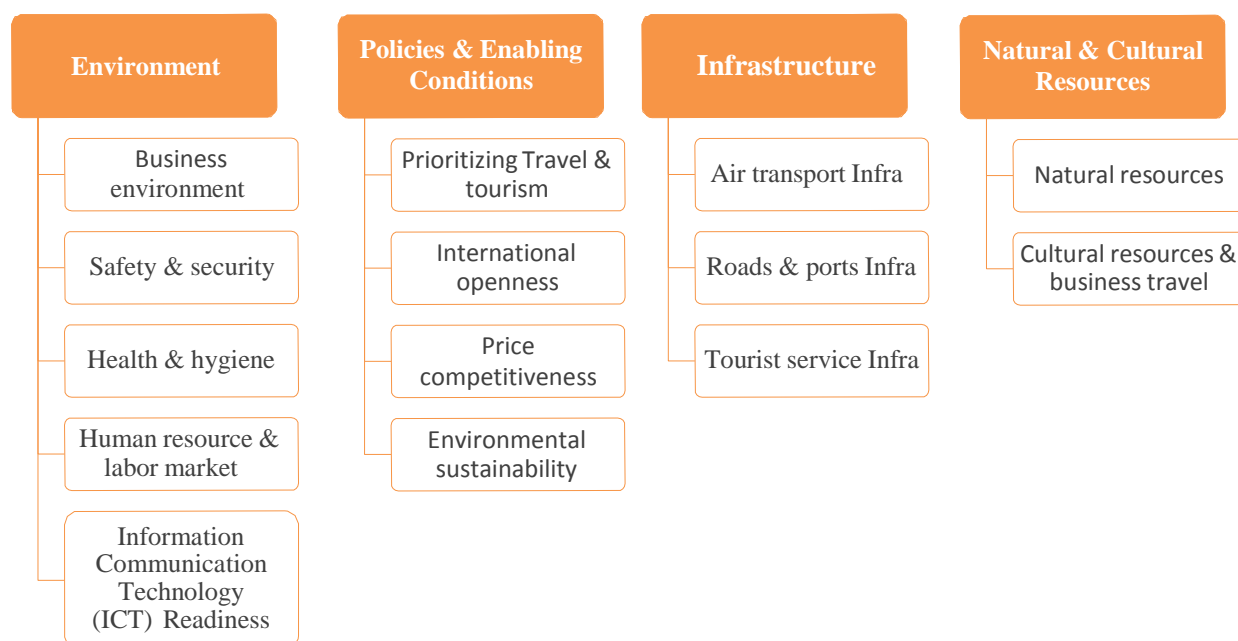
Safety and Security	91	105	122	134	78
Health and Hygiene	106	103	105	101	72
Human Resources and Labour Market	83	120	76	135	84
ICT Readiness	108	111	105	123	103
Prioritization of Travel & Tourism	48	121	94	119	30
International Openness	101	114	51	122	100
Price Competitiveness	15	85	13	37	74
Environmental Sustainability	134	116	128	129	102
Air Transport Infrastructure	93	111	33	96	69
Ground and Port Infrastructure	131	60	28	73	52
Tourist Service Infrastructure	126	133	109	112	92
Natural Resources	33	109	14	110	43
Cultural Resources and Business Travel	102	75	8	56	66

Major indicators showing position of Nepal in the world:

Sectors	Ranked first	Position of Nepal
Development of Tourism infrastructure	Switzerland	102
Tourism friendly policy	New Zealand	87
Infrastructure	America	122
Natural and cultural heritage	China	56
Business Environment	Hong Kong	113
Safety and Security	Finland	91
Health and Hygiene	Austria	106
Human resource and labor market	America	83
ICT readiness	Hong Kong	108
Prioritization of Tourists	Malta	48
International openness	New Zealand	101
Price competitiveness	Iran	15
Environment sustainability	Switzerland	134
Air transport Infrastructure	Canada	93
Ground and port infrastructure	Hong Kong	131
Tourist service infrastructure	Portugal	126
Natural resources	Mexico	33
Cultural heritage and business travel	China	102

World Tourism & Nepal

Chart 4: Factors affecting Tourism



Source: World Economic Forum

Nepal ranks 102nd position on the Travel & Tourism Competitiveness Index 2019 out of the total 140 countries as per World Economic Forum.

Global Travel & Tourism (T&T) GDP grew by about 3.9% during 2018, outperforming the global economy that grew by 3.2% during the year. Below table provides a summary and forecasts with regard to contribution of T&T of Nepal to GDP during the year.

NEPAL	2017 USD mn ¹	2017 % of total	2018 Growth ²	USD mn ¹	2028 % of total	Growth ³
Direct contribution to GDP	982.5	4.0	4.9	1,500.0	4.2	3.8
Total contribution to GDP	1,919.8	7.8	5.2	2,948.6	8.2	3.9
Direct contribution to employment ⁴	498	3.2	3.9	638	3.4	2.1
Total contribution to employment ⁴	1,027	6.6	4.2	1,323	7.0	2.1
Visitor exports	713.3	28.0	5.3	1,251.0	32.0	5.2
Domestic spending	947.5	3.9	4.3	1,384.9	3.9	3.4
Leisure spending	1,418.6	3.4	4.2	2,230.2	3.5	4.2
Business spending	242.3	0.6	8.1	405.7	0.6	4.5
Capital investment	170.7	2.3	7.6	289.5	2.5	4.7

¹2017 constant prices & exchange rates; ²2018 real growth adjusted for inflation (%); ³2018-2028 annualized real growth adjusted for inflation (%); ⁴000 jobs

Below table provides a summary and forecasts with regard to contribution of T&T of worldwide to GDP during the year.

WORLDWIDE	2017 USDbn1	2017 % of total	2018 Growth2	USDbn 1	2028 % of total	Growth3
Direct contribution to GDP	2,570.1	3.2	4.0	3,890.0	3.6	3.8
Total contribution to GDP	8,272.3	10.4	4.0	12,450.1	11.7	3.8
Direct contribution to	118,454	3.8	2.4	150,139	4.2	2.2
Total contribution to employment ⁴	313,221	9.9	3.0	413,556	11.6	2.5
Visitor exports	1,494.2	6.5	3.9	2,311.4	6.9	4.1
Domestic spending	3,970.5	5.0	4.1	6,051.5	5.8	3.9
Leisure spending	4,233.3	2.5	4.1	6,605.3	2.8	4.1
Business spending	1,230.6	0.7	3.8	1,756.1	0.8	3.2
Capital investment	882.4	4.5	4.8	1,408.3	5.1	4.3

¹2017 constant prices & exchange rates; ²2018 real growth adjusted for inflation (%); ³2018-2028 annualized real growth adjusted for inflation (%); ⁴000 jobs

International Tourist Arrival (ITA)

In 2017, international tourist arrivals (ITA) worldwide registered a growth of 6.8% y-o-y, as compared to a growth of 3.7% during the preceding year. The ITA stood at 1,323 million in 2017, 1,239 million in 2016 and about 1,195 million in 2015. **France** continued to maintain the top position in terms of the arrivals in 2017, followed by **USA, Spain, China, Italy, UK, Germany, Mexico, Thailand and Turkey**. These top 10 countries accounted for over 41.6% share in the total international tourist arrivals. In terms of regions, Europe accounted for the highest tourist arrivals of over 671 million, growing by over 8.4% y-o-y in 2017, followed by Asia & the Pacific region with 323 million tourists, Americas with about 2017 million tourists, Africa with 63 million tourists and the Middle East with 58.2 million tourists.

In terms of international tourism receipts, USA, Spain, France, Thailand, Italy, UK, Australia, Germany, Macao (China) and Japan occupied the top 10 positions during 2017 accounting for a share of about 48% of the total world tourism receipts.

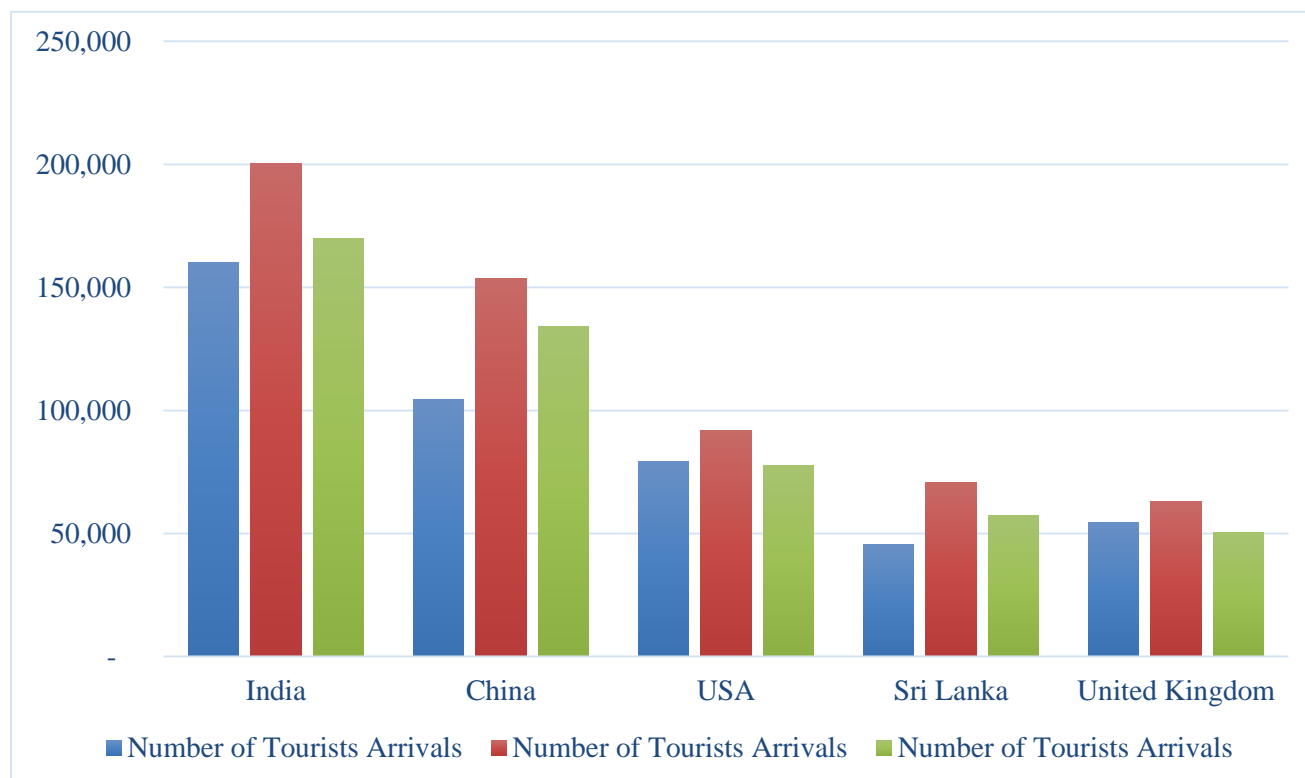
Table 4: Nepal's Share in ITA & Tourism receipts

Year	International Tourist Arrivals (in Million)			World Tourism Receipts (in US\$ Billion)		
	World	Nepal	Nepal's share	World	FEE in Nepal	Nepal's share
2010	974	0.60	0.06%	1,099	0.38	0.03%
2011	1,013	0.74	0.07%	1,231	0.42	0.03%
2012	1,070	0.80	0.08%	1,275	0.38	0.03%
2013	1,123	0.80	0.07%	1,369	0.46	0.03%
2014	1,177	0.79	0.07%	1,445	0.51	0.04%
2015	1,228	0.54	0.04%	1,392	0.51	0.04%
2016	1,272	0.75	0.06%	1,418	0.50	0.04%
2017	1,363	0.94	0.07%	1,536	0.71	0.05%
2018	1,442	1.17	0.08%	1,649	0.74	0.05%

Source: UN World Tourism Organization

As can be seen in the above table, Nepal has been improving its international tourists’ arrival over the period from 0.46 Mn in 2000 to 1.17 Mn in 2018. Also, in terms of world tourism receipts, Nepal’s has improved receipts from USD 0.22 Bn as of 2000 to USD 0.74 Bn in 2018. Factors such as government push to tourism, various promotional and marketing campaigns promoting the country’s vast culture and heritage to attract both domestic tourists as well as foreign tourists, infrastructural development in the country, rupee depreciation leading to comparatively weaker currency for international tourists have enabled the country to make its position in the World tourism.

Details of number of tourists’ arrival by top five countries in 2017, 2018 and 2019 is given below:



Nepalese Tourism

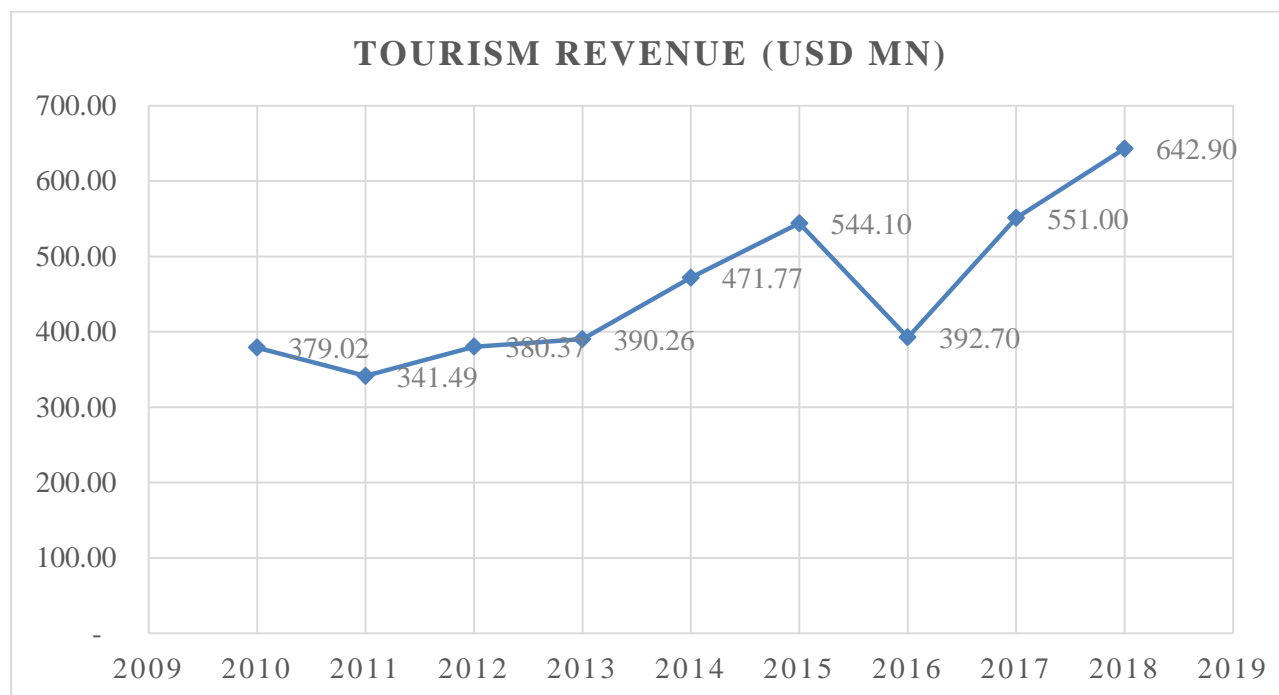
Nepal is predominantly an agricultural country, where 80% of the people depend on agriculture for their livelihood. For the past few years the tourism industry has witnessed drastic growth.. Nepal has been bestowed with the natural beauty. The highest pick of the world: Mount Everest (Sagarmatha) is one of the attractions for everyone around the world. Further, the development of infrastructure and good policies of the government for this sector has attracted more and more people to invest in this sector.

The data published by the World Travel & Tourism Council in 2018 in its report Travel & Tourism: Economic Impact 2018 Nepal, suggests the Travel & Tourism industry in Nepal is going to play an important role in shaping the economy of Nepal. Not only is it going to be a major contributor to employment and wealth, but will also bring in much of the foreign exchange required by the land locked country.

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% (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 for trekking and mountaineering beside being a holiday destination. In CY19, tourist arrival witnessed a growth of about 2% y-o-y to 1.19 Mn travelers.

Details of revenue earned by the Nepalese Tourism from 2010 to 2018 is given below:



Tourists arrival in the country from 2010 till 2019 is given below:

Year	Other Countries	India	Total	% Change
2010	0.48	0.12	0.60	18.2
2011	0.59	0.15	0.74	22.1
2012	0.64	0.17	0.80	9.1
2013	0.62	0.18	0.80	-0.7
2014	0.65	0.14	0.79	-0.9
2015	0.46	0.07	0.54	-31.0
2016	0.63	0.12	0.75	40.0
2017	0.78	0.16	0.94	25.0
2018	0.98	0.19	1.17	25.0
2019	0.99	0.20	1.19	1.7

Details of Tourist Arrival by Major Nationalities from 2010 to 2018 is given below:

Nationality	2010	2011	2012	2013	2014	2015	2016	2017	2018
Australia	16,243	19,824	22,030	20,469	24,516	14,816	25,507	33,371	38,429

Nationality	2010	2011	2012	2013	2014	2015	2016	2017	2018
Bangladesh				22,410	21,851	14,831	23,440	29,060	26,355
Canada	9,322	11,404	13,507	12,132	11,610	6,495	12,491	15,105	17,317
China	46,360	61,917	71,861	113,173	123,805	64,675	104,005	104,664	153,633
France	24,550	26,720	28,805	21,842	24,097	10,885	20,863	26,140	31,810
Germany	22,583	27,472	30,409	22,263	18,028	12,216	23,812	29,918	36,879
India	120,898	149,504	165,815	180,974	135,343	75,124	118,249	160,832	194,323
Italy	10,226	12,621	14,614	9,974	10,347	3,972	9,911	11,840	15,342
Japan	23,332	26,283	28,642	26,694	25,829	14,465	22,979	27,326	29,817
South Korea				19,714	23,205	18,112	25,171	34,301	37,218
Malaysia									22,833
Myanmar							25,796	30,852	41,402
Netherlands	13,471	16,836	15,445	10,516	12,320	4,324	11,453	13,393	15,353
Spain	13,712	16,037	14,549	10,412	13,110	4,307	12,255	15,953	20,214
Sri Lanka	45,531	59,884	69,476	32,736	37,546	43,117	57,521	45,361	69,640
Thailand				40,969	33,422	32,338	26,722	39,154	52,429
U.S.A.	36,425	42,875	48,985	47,355	49,830	53,897	53,645	79,146	91,895
U.K.	35,091	39,091	41,294	35,668	36,759	204,469	46,295	51,058	63,466
Others	168,590	179,158	214,638	78,821	218,639	171,688	119,245	174,460	214,717
Total	602,867	736,215	803,092	797,616	790,118	538,970	753,002	940,218	1,173,072

COVID – 19 Impact on tourism

Perhaps the most visible and immediate impact of Covid-19 is seen in the hotel and tourism sector in all its geographical segments - inbound, outbound and domestic and almost all verticals - leisure, adventure, heritage, MICE, and corporate. Given various travel restrictions imposed by the Nepal Government as well as Governments across the globe, forward bookings for various conferences and leisure travel bookings to foreign destinations have already been cancelled. In Nepal, most of the summer holiday bookings have been cancelled impacting the domestic tourism. The impact on the inbound and outbound passengers is expected to be most severe in the next couple of quarters.

As per report Macroeconomic update published by Asian Development Bank, with the outbreak of the disease, tourist arrivals dipped by 2.0% y/y in January 2020 and 1.0% y/y in February 2020. Hotels and restaurant have been shut temporarily. Overall, travel receipts which supply about 2.0 to 3.0% of GDP will decline this fiscal year. Hotels and restaurant which had GDP growth percent of 7.33% during FY19 is expected to remain negative at 16.30% during FY20.

With a rapid surge of COVID-19 cases and increasing fatalities globally, Visit Nepal Year 2020, an initiation by the GoN with a target to bring 2 million foreign tourists in the country, resulting in infrastructure development and huge public as well as private investments in the tourism and hotel sectors has been cancelled by GoN. Further, GoN announced a series of measures to restrict the spread of virus in the country. On 20 March 2020, the government announced the following measures to contain the spread of COVID-19:

- Suspension of all international flights from March 22 which has extended up to May 31, 2020;

- Halting the operation of long-route public buses from March 23 until further notice;
- Sealing all land border crossings from March 23.

A total of 1.17 Mn tourist arrived to Nepal via air and land routes during the calendar year 2019. Of this, around 32% accounted from India and China only. With GoN suspending all international flights followed by lockdown in various countries, arrival of tourist is majorly being impacted. Every destination in the world now has travel restrictions in place as a result of the coronavirus pandemic. The analysis of all 217 destinations was carried out by the United Nations World Tourism Organization, which said this represents the ‘most severe restrictions on international travel in history’. As a result, Hotel Association Nepal (HAN) has decided to close their operation till mid-November, 2020. The government is working on necessary relief packages for both workers and businesses, which will also be addressed through the programmes and policies of the government and the budget for the upcoming fiscal year.

Challenges faced by the tourism industry in Nepal

1. Government approvals and licenses

- The new constitution of Nepal has demarcated the political domains of federal, provincial and local governments. Authority, responsibilities, resources and benefits pertaining to tourism sector are to be shared by all these governments. The details of such shares are yet to be worked out to avoid confusion among the states and governments. As a result, the clearances of various regulatory matters have to be taken from multiple government bodies. It is tedious and a time-consuming process.
- Hoteliers face regulatory constraint at every step in the process of development of hotels beginning from land acquisition stage to approval by various ministries & association on various matters.

2. Human Capital

- Hotels in Nepal face the continued challenge of shortage of trained employees, especially at the manager and supervisor levels. Most of the companies are falling short of skilled employees for their hotels. Major reason for this shortage is presence of very few organized training and educational institutes for development of skilled employees.
- Retaining the workforce even through training and development in the hotel industry is a tedious task as attrition levels are too high. One of the reasons for this is unattractive wage packages. Though the industry has been growing at a fast pace, hotel management graduates opt to join other sectors like aviation and catering services where they are paid higher.
- Further, formation of trade unions and support from the political parties to such unions has created more challenges for the hotel industry for smooth operation and managing costs.

3. Investment on Tourism Infrastructure and attractions

- Hotels and resorts invest in those areas where there is adequate infrastructure; where there are good airports, good attractions and local culture and heritages. Tourists want to visit those cities which are clean and are

full of well-preserved monuments, they want to trek to those areas where there are good trekking trails and comfortable lodging. They want to go for rafting and kayaking in the clean rivers, to explore wildlife in well-protected sanctuaries and enjoy paragliding where there is a pristine natural ambiance and fresh air. However, development of well facilitated infrastructures and proper environment for travelling has been ongoing on a slow pace.

- Travel and Tourism Competitiveness Index 2018 published by World Economic Forum has found the ground and air transportation efficiency of Nepal at very low (Rank 131) among 140 countries. Success of tourism is essentially dependent on the availability and quality of transportation infrastructure. However, completion of the construction of international airports in Lumbini and Pokhara is taking place at slower pace. Similarly, the process to commence construction of the proposed second international airport in Nijgadh has been facing various challenges.

4. Overcapacity

Hotel industry has received a significant amount of domestic as well as foreign investment in the recent years. While opening of new hotels brings new opportunities in terms of employment, business, incomes and taxes, the new hotels also inflict threats to the existing hotels by increasing the capacity directly affecting the occupancy ratio and making the price competition more intense. According to Department of tourism, the number of star hotels reached 135 in FY19 compared to 125 in FY18. Fueled by the hope that Visit Nepal 2020 would draw two million tourists, various hotels are still in the pipeline. According to industry insiders, more than Rs45 billion has been injected into the hospitality industry. As per HAN, tourist numbers have not grown in line with the existing number of hotels and as a result, hotels are eating into each other's market shares. During CY19, tourist arrival witnessed a growth of about 2% y-o-y to 1.19 Mn travelers compared to 1.17 Mn tourist inflow in CY18.

5. Reconstruction

Way forward the devastating earthquake of April 25, 2015 rendered severe damages to the tourism sector of Nepal. Hotel industry sustained the maximum loss due to the earthquake, more than 86% of the total losses of the tourism sector. In addition to the private properties, innumerable monuments, shrines and archaeological sites had been destructed. Reconstruction of the private and public properties and revival of the tourism business should be the number one priority of national, provincial and local governments.

6. MICE Tourism

Way forward Nepal has a tremendous potential for Meetings, Incentives, Conventions and Exhibition (MICE) tourism. However, lack of support from Government of Nepal in respect of some tax incentives to the MICE operators and lack of exploration of the possibility to build a convention center on public-private partnership model has been a major challenge.

7. Under estimation of economic impact of Tourism

Way forward Ministry of Culture, Tourism and Civil Aviation and National Planning Commission need to initiate the system of Tourism Satellite Account (TSA) in order to accurately measure the economic impact of tourism. According to the data released by Central Bureau of Statistics, the hotel and restaurant sector

contributes almost 2% to Nepal GDP. Apparently, the contribution from entire tourism sector should be much more than that. In the absence of TSA, tourism is perceived as a low-yield sector and does not get the priority, attentions and incentives, which it truly deserves.

8. Insufficient International Promotion, focus on India and China

The present trend the targets of Tourism Vision 2020 and National Tourism Strategic Plan (2016-2025) seem unattainable. Although some global travel media have portrayed Nepal positively, many others reported that most of the tourist attractions in Nepal had been irreparably damaged and now there is not much to see. There are very few effective tourism promotional programs from Nepal Tourism Board to counter the negative news coverage. Most of the promotional programs limited to rituals without producing any tangible outcomes. Huge outbound tourism market is developing in India and China. Nepal tourism can bring significant number of tourists from next door neighbors with right approaches. Because of increasing number of tourists from India and China, there is no so-called off season in Nepal now. Even in monsoon rainy season Indian and Chinese tourists travel to Nepal to enjoy varieties of activities of their likings. Visa fee waiver to Chinese nationals needs to be publicized and message that Nepal is safe and friendly for Indians needs to be publicized specially after post economic blockade situation in Nepal.

9. Homestays

The proliferation of homestays in the urban areas have actually defeated the very spirit of the government's policy to diversify and promote trickle down effects of tourism to rural and remote areas of Nepal. It is observed that the infrastructure, facilities and services of some of the urban homestays resemble luxurious hotels but are exempted from taxes and other regulations.

Financial Performance

CARE has analyzed the basic revenue and cost structure of the listed hotel companies in Nepal based on 3 companies. Total sales (revenue) of the listed hotels witnessed a y-o-y growth of about 9% in FY19. There was increase in the net profit margin of the companies of about 18% in FY19. The financial profile of the hospitality industry is expected to be adversely affected on account of impact of COVID- 19 on the entire Nepalese as well as the global economy. During FY19, demand for hospitality industry improved on back of improved infrastructure facilities, positive drive of government for improvement of tourism sector, increased involvement of the citizen in the travel and tourism business etc.

Table 5: Industry Sales and Margins

3 companies	Rs Mn			Growth rates (%)
	FY18	FY19	Q2FY20	FY19
Total sales	4,294	4,674	2,041	9%
PBIDT	1,404	1,563	628	11%
PBIDT Margin (%)	33%	33%	31%	
Net Profits	785	925	NA	18%
Net Profit Margin (%)	18%	20%	-	

Note: The industry margins are based on the financial results of 3 listed hotels of Nepal.

Taxes and Policies

Tourism sector remains prioritized sector of Nepal. Normally, businesses in tourism industry are charged with normal income tax rate of 25% and VAT of 13%. However, to promote the tourism industry, GoN has introduced several relaxations and facilities. In recent Budget Announcement for FY2019/20 by Ministry of Finance, the government has allocated Rs. 2.68 Bn for tourism infrastructure development. Also, Monetary Policy of 2019/20, has directed commercial banks to allocate minimum 25% of total credit to priority sector of which 5% should be allocated to tourism sector only. The government also provides tax holiday (i.e. 100% concession for 5 years from commencement of business and 50% concession for next 3 years) for industry related to tourism or international flight operation, established with capital investment of more than Rs. 2 Bn. For already existing business, if capital is increased to Rs 2 Bn and installed capacity is increased by 25% at minimum, 100% concession for 5 years and 50% concession for next 3 years on tax on income generated due to the increase is provided. Further, Dividend Distribution Tax in case of Industry based Tourism sector capitalizing its profit for the purpose of expansion of capacity of industry is fully exempt. Only 85% of applicable tax rate applies to income of tourism service industry listed in the security exchange (i.e. capital market). In order to develop more accommodation facilities for tourists, government of Nepal is encouraging to build sufficient infrastructure to attract more tourist. With the government prioritizing development of travel and tourism in the country, the future prospect of this sector looks encouraging.

Concluding remarks and outlook

- The year 2019 saw significant growth in the number of new hotels in the country with several international chains opening up along with tourist standard hotels. The number of hotel rooms is expected to further grow in the next few years and if the tourist arrivals remain around the same numbers, the industry is expected to witness a situation of over supply impacting the occupancy rates. In CY19, tourist arrival witnessed a meagre growth of about 2% y-o-y to 1.19 Mn travelers.
- In order to meet the target of 2 million visitors for ‘Visit Nepal 2020’, Nepal expected 350,000 Chinese arrivals during the year, however, with the coronavirus outbreak that is unlikely. Further, occupancy rates of hotels in Nepal have plummeted after the outbreak of Coronavirus as India is the largest market source for Nepal followed by China and the US. During the three months period CY2020 (Jan- Mar), the total number of tourist arrivals have already witnessed a significant drop of ~31% to 0.21 Mn travelers as compared to 0.31 Mn travelers during the same period in CY2019.
- Hotels which derives higher share of revenue from foreign passengers and food & beverages segment will be the worst affected. Cost-cutting measures are the need of hour. Hotel entities which will be quick in trimming down the unnecessary costs and implement various efficiency improvement measures will be able to cut down the damage better. Employee costs are one of the largest cost

components of the hotels accounting for about 30-40% of the total expenditure.

- Hotel sector is characterized by long gestation period. Hotel entities with recent expansions or groups with a higher portfolio of new assets compared to mature assets will face additional heat on their already weak financials. With high debt repayments and squeezed profitability, these entities may witness tightening in their liquidity and credit profile. Furthermore, hotels need to revisit their capex plans as the Covid-19 impact is expected to derail the future growth and going to increase the credit risk for the banks.
- While demand of hotels by foreign tourist in European countries is expected to be impacted on account of the ongoing Covid-19 concern, Nepal is expected to benefit from it on the back of positive sentiments for the domestic tourism. Also, MICE led by social and industrial activities together with tourist from other Asian countries expected to be diverted to Nepal to some extent due to comparatively low Covid-19 cases may give a boost to the tourism industry. We expect the momentum to pick up going forward on back of demand from domestic tourism and the industry to register minimal growth in revenues for the industry for FY20-FY21 after opening up of lockdown and economic activities.
- With government efforts to promote Nepal as a safe tourism destination and initiatives like ‘Visit Nepal Year’ promoting the country’s vast culture and safety, adoption of e-visas and visa on arrival, significance of medical tourism, rupee depreciation leading to comparatively weaker currency for international tourists will enable the country to recover its position in the World tourism.

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