

**Press Release
Akama Hotel Private Limited**

Ratings

Facilities/Instruments	Amount (Rs. in Million)	Rating¹	Rating Action
Long term Bank Facilities	1150.00	CARE-NP B+; ISSUER NOT COOPERATING* (Single B Plus; ISSUER NOT COOPERATING*)	Revised from CARE-NP BB Removal of credit watch with negative implications “Issuer not cooperating; Based on best available information” (Notice of Withdrawal)
Total	1150.00		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CRNL has been seeking information from Akama Hotel Private Limited (AHPL) to monitor the rating(s) vide e-mail communications/letters dated March 05, 2020; March 06, 2020; March 17, 2020; June 09, 2020 and June 22, 2020 along with numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant Securities Board of Nepal (SEBON) guidelines, CRNL has reviewed the rating on the basis of the best available information which however, in CRNL’s opinion is not sufficient to arrive at a fair rating. If after the monitoring of the rating there is no cooperation from the Client, then thereafter, CRNL may withdraw the rating. Further, the revision in ratings assigned to bank facilities of AHPL takes into account negative impact of COVID-19 on the business of the company. The rating on Akama Hotel Private Limited bank facilities will now be denoted as **CARE-NP B+; ISSUER NOT COOPERATING* (Notice of Withdrawal)**.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

Detailed description of the key rating drivers

At the time of last rating on December, 2018, the following were the rating strengths and weaknesses:

Key Rating Weaknesses

Implementation risk and stabilization 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

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

*Issuer did not cooperate; Based on best available information

completion of the project within the estimated cost and satisfactory operations thereafter are the key rating sensitivities.

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 Strengths

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.

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Annexure-1: Details of Bank Facilities

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating assigned along with Rating Outlook
Long Term Bank Facilities	Term Loan	1,150.00	CARE-NP B+ Issuer not cooperating (Notice of Withdrawal)
Total		1,150.00	

**Issuer did not cooperate; based on best available information*