

Rating Rationale
Mustang Mountain Home Private Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	636.00	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	25.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	661.00		

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 rating of ‘CARE-NP A4’ to the short-term bank facilities of Mustang Mountain Home Private Limited (MHPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MHPL are constrained by impact of Covid-19 on the travel & tourism industry globally as well as in Nepal, operational stabilization risk and long gestation period associated with hotel industry and time overrun in constructing the hotel followed by project cost overrun. The rating is also constrained by financial risk profile marked by low profitability and weak debt coverage indicators for the initial year of operations, exposure to volatile interest rates and susceptibility to cyclical, intense competition and geographic concentration in the hospitality sector. The ratings, however, derive strength from strong presence of the promoter group in the tourism sector supported by experienced management team and strategic locational advantage of the hotel. The ratings also factor in government initiative and support for tourism and increasing trend of tourists in Nepal before Covid-19 Pandemic. Timely execution of the hotel project without any further cost overrun and satisfactory operation thereafter will be key rating sensitivities.

Impact of Covid-19 on the travel & tourism industry

With outbreak of Coronavirus disease 2019 (COVID-19) recognized as Pandemic by World Health Organization, which has affected Nepal as well, Government of Nepal (GoN) has imposed travel restrictions and countrywide lockdown since March 24, 2020 halting operations of most of the organizations and slowing down of the economic activities. With lockdown imposed by the GoN, construction activities for the hotel project of the company were disrupted resulting extension of commercial operation date. Also, 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 postponed in light of the Covid-19 outbreak. Considering the impact of Covid-19 in the economy of Nepal, GoN has introduced various packages to

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

ease out the impact across different sectors including travel and tourism sector. Further, the Central Bank of Nepal has provided an extension for the repayment of debt obligations and rebate in interest rate by 2% for the fourth quarter ending mid-July 2020 and deferment of the interest and loan installments. The company's ability to achieve its projected revenue, maintain profitability margins and liquidity position will be key rating consideration.

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 resort with 24 rooms capacity which includes all modern amenities, F&B service, spa, conference hall and other facilities with an aggregate project cost of Rs. 935 Mn which is proposed to be funded at a debt equity ratio of 68:32. 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. Going forward, the ability of the company to attract customers, maintain occupancy level at the satisfactory levels, establish its brand and derive benefit from the resort as envisaged will be crucial rating factor. The resort is expected to start its commercial operation from March 2021.

Time overrun in constructing the hotel followed by project cost overrun

Expected Commercial Operation Date (COD) of the resort was May, 2020. However, with outbreak of COVID-19 impacting the tourism sector followed by postponement of construction activities of the resort, expected COD has been shifted to March, 2021. Extension of COD has led to increase in interest during construction (IDC) for the project with which the total project cost has increased from Rs. 786 Mn to Rs. 935 Mn.

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

MHPL is expecting relatively low revenue during the first year of operation. With company not being able to cover its interest and depreciation expenses during initial years of operation, the company is expecting net loss. The company has however projected to have positive Gross Cash Accruals (GCA). The company is expected to have high overall gearing ratio during initial year of operations which is expected to improve in future on account of improvement in capital structure due to scheduled repayment of term loan coupled with accumulation of profits to the network.

Exposure to volatile interest rates

Nepalese banking sector fixes lending interest rate based on quarterly base rate and interest rate can 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 banks and financial institutions is subject 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. Occupancy levels and revenue in the hotel industry are susceptible to macroeconomic trends, both in the domestic and global markets. The company's hotel has a single establishment located at Mustang, 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 MHPL's operations.

Key Rating Strengths

Strong presence of the promoter group in the tourism sector supported by experienced management team

The promoters of MHPL have considerable experience in tourism sector for more than 25 years. MHPL is part of the Yeti group of companies of Nepal which is involved in diversified line of business in the field of tourism. The group has established itself as one stop destination for all activities related to tourism involving all sorts of ticketing and reservation, tours and travels, trekking, mountain expedition, fooding and lodging providing a complete package to domestic as well as foreign tourists. The group has hotels in many tourist places of Nepal, flight services both domestic and international and travel companies providing complete package for trekking and mountain expedition. MHPL is being managed under the overall guidance of the company's eight-member board of directors (BOD) who possess experience in related fields. Mr. Lhakpa Sonam Sherpa, Chairman, has been involved in tourism profession since 1985. He is also the Executive Chairman of Yeti Airlines Private Limited. Mr. Anoj Rimal, Director, is also CEO in Yeti Airlines Private Limited and Tara Air Private Limited.

Strategic locational advantage of the hotel

The hotel is located in Jomsom, Mustang in Dhaulagiri District of Nepal. MHPL is only at a distance of around 1.4 kms from Jomsom Airport which can be reached by a 20-minute flight from Pokhara where International Airport is proposed to be built by 2021. The influx of tourists is high in Jomsom as it is one of the attractive tourist destinations of Nepal. Jomsom is located at an altitude of ~2800 m above sea level. The place is visited by large number of tourists, both domestic and foreign tourists, every year. As per report of Jomsom-based Area office of Annapurna Conservation Area Project (ACAP), a total of 57,565 foreign tourists visited Mustang during FY19 compared to 59,838 during FY18.

Government initiative and support for tourism

Tourism sector remains the prioritized sector of Nepal and income from tourism sector in ratio with gross domestic product was 2.2% in FY19. Also, Monetary Policy of 2019/20, has directed commercial banks to allocate minimum 25% of total credit to priority sector of which 15% should be allocated to energy and tourism sector only. GoN also provided 20% exemption in tax rate for hotel industry with transaction more than Rs. 10 Mn. The government also provides tax holiday for large hotel projects established with capital investment of more than Rs. 1 Bn and providing direct employment to more than 500 individuals. With the government prioritizing development of travel and tourism in the country, the future prospect of this sector looks encouraging post Covid-19.

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. In CY19, 1.18 Mn tourists visited the country. With ~79% (CY19) of tourist as Non-Indian tourist and ~17% (CY19) 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. However, with the recent outbreak of Corona Virus that led to World Health Organization 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

Mustang Mountain Home Private Limited was incorporated in February 5, 2014 and is setting up a resort in Marpha, Mustang with a total of 24 junior suite (deluxe) rooms and will be operating under the commercial name of Moksha Mustang Resort. The resort is expected to come into commercial operation from March 2021 onwards. MHPL is being promoted by total number of 8 individual shareholders with majority of the shareholders belonging to the Yeti Group of companies.

<p>Analyst Contact Mr. Utsav Baral utsav.baral@careratingsnepal.com Tel No.: +977-01-4445473</p>	<p>Group Head Ms. Shalini Sanghai shalini.sanghai@careratingsnepal.com Tel No.: +977-01-4445474</p>	<p>Relationship Contact Mr. Sajan Goyal sajan.goyal@careratingsnepal.com Tel No.: 9818832909/+977-01-4445472/3/4</p>
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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	563.00	CARE-NP BB-
Long Term Bank Facilities	Mid Term Loan	73.00	CARE-NP BB-
Long Term Bank Facilities	Working Capital Loan	25.00	CARE-NP A4
Total		661.00	