

Rating Rationale
Annapurna Cable Car Private Limited

Rating

Particulars	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	933.00	CARE-NP B+ [Single B Plus]	Revised from CARE-NP BB- [Double B Minus] and removed from credit watch
Short Term Bank Facilities	20.00	CARE-NP A4 [A Four]	Reaffirmed and removed from credit watch
Total Facilities	953.00		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has revised the rating to ‘CARE-NP B+’ from ‘CARE-NP BB-’ assigned to the long-term bank facilities and reaffirmed the rating of ‘CARE-NP A4’ assigned to the short-term bank facilities of Annapurna Cable Car Private Limited (ACCPL). The ratings have been removed from ‘credit watch’ with developing implications considering the company has already resolved the issue of disputed land for installing wires and the court case has been withdrawn as on February 06, 2020.

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of ACCPL takes into account the significant cost overrun and time overrun in the project and project implementation and stabilization risk pending final installation works. The ratings further constraint by exposure to volatile interest rates and seasonality of the revenues. The rating, however, derives strength from experienced promoter, strategic location of project, financial closure for estimated project cost. The ratings also factor in achievement of technical assistance from reputed contractors and government initiative and support for tourism sector. 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

Significant Time and Cost Overrun

The estimated cost for the project has significantly increased by 18.01% to Rs. 1,780.64 Mn from estimated cost of 1,508.92 Mn (Initial budgeted cost was Rs. 895.92 Mn). The increase in the cost was mainly due to increase in land acquisition cost, additional of plant & machinery not budgeted initially and increased in Interest During Construction (IDC) cost due to time overrun on back of COVID-19. Increase

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

in the budgeted cost is proposed to be financed through the loan amount of Rs. 140 Mn and the remaining through equity. Timely execution of project without further cost overrun is the key rating sensitivity.

Project implementation & stabilization risk

The project is expected to be completed by April 14, 2021 and till January 13, 2021, ~94.03% of the total project cost has been incurred. The rope pulling works is pending as on January 13, 2021 which will be started after the arrival of personnel from Nippon Cable for supervising installation of wire in the ropeway. The personnel are expected to arrive in February 2021. Though, there is major progress in the project, ACCPL is still exposed to the residual risks associated with project implementation and satisfactory operations thereafter given the high cost of the project. Timely completion of the project and satisfactory operations thereafter are the key rating sensitivities.

Seasonality of revenues

ACCPL's revenues are largely driven by weekends, festive seasons, school - college vacations etc. In FY19 ~79% (FY18: 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

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 ~72% as on July 15, 2020). Mr. Gurung has over 25 years of experience in construction business, he is chairman of Roadshow Real-estate Pvt. Ltd and is also a Director and promoter of Mountain Hydro Nepal Limited.

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 which attracts a lot of tourists. 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.

Financial closure achieved for the full project cost

Estimated cost of the project is revised to Rs. 1,780.64 Mn (earlier Rs. 1,508 Mn) which is proposed to be funded through Rs. 1,073 Mn term loan and remaining through equity in debt equity ratio 60:40. ACCPL achieved financial closure on February 23, 2017 for the term loan of Rs. 933 Mn and for additional amount of Rs. 140 Mn as on August 11, 2020. Out of total equity requirement of Rs. 707.64 Mn, the promoters have infused Rs. 607.75 Mn till January 13, 2021. As on January 13, 2021, ACCPL has incurred Rs. 1,674.27 Mn (including Rs. 204.58 Mn advances) project cost.

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 had contracted with Chitawon Construction & Engineering Co. Nepal Private Ltd. (CCE) for civil construction works and installation of towers. 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. Further, the company has contracted with the Synergy Nepal Engineering Construction Pvt. Ltd. for the rope pulling works. Rope pulling works is to be started after the arrival of personnel from Nippon Cable Co. Ltd for supervising installation of wire. However, due to travel restriction on back of Covid-19 pandemic, the personnel from the contractor were not able to arrive as a result the work has been halted and lead to significant ime and cost overrun.

Increasing trend of tourists in Nepal however with the exceptional decline due to COVID-19

Inflow of tourist in Nepal has seen continuous growth in last few years with 0.75 Mn tourist visiting Nepal in CY16 which increased to 1.19 Mn tourist inflows in CY19. With ~79% of tourist as Non-Indian tourist and ~14% of total tourist arriving for trekking and mountaineering in CY19, Nepal is showcased as one of the preferred destination of tourists for trekking and mountaineering besides being a holiday destination. The effect of COVID-19 was already seen as in CY20, a total of 0.23 Mn tourists arrived in the country. However, GoN has opened different peaks and trekking trails for foreign trekkers and climbers since October 17, 2020.

Government initiative and support for tourism

Tourism sector remains the prioritized sector of Nepal which has contributed 2.05% to national gross domestic product (GDP) in FY18-19 till mid-April 2019. However, due to travel restriction imposed by lockdown from March 2020, tourism sector was able to contribute low to national GDP in FY19- 20. In recent Budget Announcement for FY2020/21 by Ministry of Finance, the government has allocated Rs.1.26 Bn for tourism infrastructure development. Also, Unified Directive of 2020/21, has directed "Class B" and "Class-C" banks within mid-July 2024 to allocate minimum 20% of total credit and minimum 15% of total credit respectively to agriculture, energy, SMEs and tourism sector.

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.

Analyst Contact Ms. Elisha Lamichhane elisha.lamichhane@careratingsnepal.com Tel No.: +977-01-4012628	Group Head Mr. Shisir Pokharel shisir.pokharel@careratingsnepal.com Tel No.: +977-01-4012629	Relationship Contact Mr. Sajan Goyal sajan.goyal@careratingsnepal.com Tel No.: 9818832909/+977-01-4012628/29/30
---	--	---

Disclaimer
CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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 B+ (Removed from Credit Watch)
Short Term Bank Facilities	Working Capital Loan	20.00	CARE-NP A4 (Removed from Credit watch)
Total		953.00	