

## Mustang Mountain Home Private Limited

### Ratings

Instrument / Facilities	Amount (Rs. Million)	Rating <sup>[1]</sup>	Rating Action
Long-term Bank Facilities	636.00	CARE-NP B+ [Single B Plus]	Revised from CARE NP BB- [Double B Minus]
Short-term Bank Facilities	25.00	CARE-NP A4 [A Four]	Reaffirmed
<b>Total Facilities</b>	<b>661.00</b> <b>[Rs. Six Hundred and Sixty-One Million Only]</b>		

### Details of instrument / facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has revised the rating to 'CARE-NP B+' for the long-term bank facilities and reaffirmed 'CARE-NP A4' for the short-term bank facilities of Mustang Mountain Home Private Limited (MHPL).

### Detailed Rationale & Key Rating Drivers

The downward revision in ratings assigned to the bank facilities of MHPL factors in the weakening of business and financial risk profile on account of disruption in operations due to pandemic. CRNL expects recovery to be slow and gradual. Furthermore, the commencement of commercial operations of the hotel has been delayed due to the ongoing pandemic. The ratings also factor in weakening of liquidity profile of the company with subdued cash flows to service its debt obligations. The ratings continue to be constrained by post implementation stabilization risk and long gestation period associated with hotel industry, and its leveraged capital structure due to debt funded capex which is likely to deteriorate going ahead due to moratorium taken by the company to service its obligations. The ratings are also constrained on account of exposure to volatile interest rates and susceptibility to cyclical, intense competition and geographic concentration in the hospitality sector. The ratings also factor in exceptional decline of tourists due to COVID-19.

The ratings, however, derive strength from significant experience of promoter in the tourism sector supported by experienced management team and strategic locational advantage of the hotel. The ratings also factor government initiative and support for tourism.

*Early stabilization of operations along with the achievement of envisaged revenue and cash flow will be key rating sensitivities. Further, the promoter's ability to infuse required funds to maintain liquidity and timely servicing of the debt obligations will remain key monitorable.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### **Weakening of business and financial risk profile on account of disruption in operations due to pandemic**

The company had incurred an expenditure of Rs. 937 Mn towards the project (setting up a resort) upto January 13, 2021 which had a total cost of Rs. 1,061 Mn. The expenditure incurred has been funded through term loan of Rs. 586 Mn and balance from the promoters' contribution in the form of equity capital and unsecured loans. The soft opening of the hotel was already done in March 2020 and was expected to start full operations from May 2020 onwards. 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, 2022. 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. 1,061 Mn. The

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com)

company's ability to commence commercial operations within expected COD would remain critical. Being a new unit and given the travel restrictions etc, the stabilization and streamlining of operations in timely manner remains to be seen.

***Operational stabilization risk and long gestation period associated with hotel industry***

The company is setting up a resort with 24 rooms capacity in Mustang district of Nepal. The cost per room is comparatively high due to resort being located at remote Himalayan region. Generally, hotels require longer gestation period to recover the fixed costs associated with it and to 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 from analytical perspective.

***Susceptibility to cyclicity, 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.

***Exceptional decline of tourists 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 in CY19 representing CAGR of 12%. With ~79% (CY19) of tourist as Non-Indian tourist and ~14% (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, the effect of COVID-19 was seen from December 2019 onwards which led to decline in tourist numbers. In CY20, a total of 0.23 Mn. tourists arrived in the country until the end of December which is 19.33% of the total tourists who had visited Nepal last year. However, considering the opening up of economies in the world after vaccination, it is expected that the tourist inflows would increase.

***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 providing a complete package to domestic as well as foreign tourists. The group has hotels in many tourists destination of Nepal, flight services both domestic and international and travel companies. 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 group CEO in Yeti Airlines Private Limited and Tara Air Private Limited.

**Strategic locational advantage of the hotel**

The resort is located in Jomsom, Mustang in Dhaulagiri District of Nepal at a distance of around 1.4 kms from Jomsom Airport. Jomsom can be reached by a 20-minute flight from Pokhara where International Airport is being built with which inflow of tourist is further expected to improve. 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.

**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 only 1.41% to national GDP in FY19-20 till mid-April 2020. In recent Budget Announcement for FY2021/22 by Ministry of Finance, the government will provide free visa to tourists for a month in a bid to promote tourism and 10 days’ vacation holiday to the civil servants. 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. Also, Monetary Policy of 2021/22 has allowed payment of interest due up to mid-July, 2022 in 2 years with minimum 4 instalments for tourism industry. With the government prioritizing development of travel and tourism in the country, the future prospect of this sector looks encouraging post Covid-19.

The company has not paid interest for the quarter ending mid-July 2021 and has availed the relaxations provided by the NRB through monetary policy for FY22, for deferment of interest and principal payments. Accordingly, CRNL has not recognized this instance as a default, as the same was permitted by the NRB.

**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 includes all modern amenities, F&B service, spa, conference hall and other facilities. MHPL is being promoted by total number of 8 individual shareholders with majority of the shareholders belonging to the Yeti Group of companies.

**Annexure-1: Details of Instrument / Facilities**

Name of the Instrument / Bank Facilities	Type of the Facility	Amount (Rs. in Million)	Rating assigned
Long Term Bank Facilities	Term Loan	563.00	CARE-NP B+
Long Term Bank Facilities	Mid Term Loan	73.00	CARE-NP B+
Short Term Bank Facilities	Working Capital Loan	25.00	CARE-NP A4
<b>Total</b>		<b>661.00</b>	

## Contact Us

### Analyst

Mr. Utsav Baral

Contact No.: +977-01-4012628

Email: utsav.baral@careratingsnepal.com

### Senior Analyst

Ms. Shalini Sanghai

Contact No.: +977-01-4012629

Email: shalini.sanghai@careratingsnepal.com

### Relationship Contact

Name: Achin Nirwani

Contact No.: +977 9818832909

Email: achin.nirwani@careratingsnepal.com

### About CARE Ratings Nepal Limited:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

### 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.*