

Annapurna Cable Car Private Limited

Ratings

| Instrument / Facilities | Amount (Rs. In Million) | Rating ^[1] | Rating Action |
|------------------------------|---|-----------------------|---------------|
| Long Term Bank Facilities | 1,072.22 [Increased from Rs. 933 Mn] | CARE-NP B+ [B Plus] | Reaffirmed |
| Short Term Bank Facilities | 20.00 | CARE-NP A4 [A Four] | Reaffirmed |
| Total Bank Facilities | 1,092.22 [One thousand ninety-two million and two hundred twenty thousand] | | |

CARE Ratings Nepal Limited (CRNL) has reaffirmed ratings of 'CARE-NP B+' assigned to the long-term bank facilities and 'CARE-NP A4' assigned to short term bank facilities of Annapurna Cable Car Private Limited (ACCPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of ACCPL continues to be constrained by residual project implementation and stabilization risk, significant cost overrun and time overrun in the project, declining trend of tourists due to impact of COVID-19, exposure to volatile interest rates and seasonality of the revenues.

The ratings, however, derive strength from experienced promoter, strategic location of the project and favourable government policies to support tourism sector.

The ability of ACCPL to start the commercial operations without further cost and time overrun and stabilisation of operations thereafter while achieving the envisaged revenue and profitability are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Residual project implementation & stabilization risk

Initial cost of the project was estimated at Rs. 895.92 Mn which was proposed to be financed in the debt equity ratio of 71:29. However, there has been several revisions in the cost resulting the final cost amounting to Rs. 1,903.00 Mn which is funded through Rs. 1,073 Mn term loan and remaining through equity in debt equity ratio 56:43. The total debt amount has already been tied up. Project is expected to be completed in February 2022 and till June 29, 2021, ~85.54% of the total project cost has been incurred. Installation of the cable cars and the rope pulling works has been completed. The company has also started the initial trial runs; however, on account of covid-19 pandemic, the same has not been completed. The company is in process of restarting the trail runs, however, the same is dependent on timely arrival of the technicians from Japan due to travel restrictions.

Though, there is major progress in the project, ACCPL is still exposed to the residual risks associated with project implementation and satisfactory operations thereafter.

Significant Cost and time overrun

Estimated cost for the project has increased by 7% to Rs. 1,903.00 Mn from earlier estimated cost of Rs. 1,780.64 Mn (Initial budgeted cost was Rs. 895.92 Mn). Reason for increase in cost was increase in scope of project which is on account of purchase of additional land, additional plant & machinery and increased in Interest During Construction (IDC) cost due to time overrun. Increase in the budgeted cost is proposed to be financed through the through equity. Also,

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

the project was expected to come in operation in April 2021. However, due to COVID-19, the expected COD has now been revised to February 2022.

Declining trend of tourists due to impact of COVID-19

Inflow of tourist in Nepal has seen continuous growth in last few years with 0.94 Mn tourist visiting Nepal in CY17 which increased to 1.17 Mn in CY17 registering ~25% growth. Further, it recorded a growth of ~2% in CY19 with 1.19 Mn tourist inflows. However, there has been significant decline in the tourist visiting Nepal by ~80% in CY20 with 0.23 Mn tourist inflows. With ~82% (CY20) of tourist as non-Indian tourist and ~18% (CY20) of tourist as Indian 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.

The tourism sector was adversely affected by COVID-19 as only first three months of FY20 was open for arrivals of tourist as a result there was significant decline in tourist inflow by ~80%. The number of expeditions permitted team was considerably decreased by ~92% in 2020 due to Covid 19, from 1921 team to 153 team. However, GoN has opened different peaks and trekking trails for foreign trekkers and climbers as on September 2021.

Exposure to volatile interest rate

Nepalese banking sectors are fixing floating interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions will be change by change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 1-2 year. Therefore, funding from Bank and Financial Institutions are exposed to volatile interest rate.

Seasonality of revenues

ACCPL's revenues is expected to be largely driven by domestic as well as foreign tourist. In FY20 ~82% (FY19: 79%) 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 which might led to some stress in liquidity during off season. 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 Strength

Experienced Promoters

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. Mr. Gurung has more than 25 years of experience in construction business, he is Chairman and Promoter of Roadshow Real Estate Pvt. Ltd. and is also a Director in 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.

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 has allocated 0.59 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. Similarly, 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.

Technical assistance from well-known contractors

ACCPL had 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.

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.

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 | 1,072.22 (Increased from 933) | CARE-NP B+ |
| Short Term Bank Facilities | Working Capital Loan | 20.00 | CARE-NP A4 |
| Total | | 1,092.22 | |

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