

Hotel Eastern Nepal Private Limited

Rating

| Facilities/ Instrument | Amount (Rs. in Million) | Ratings ¹ | Rating Action |
|----------------------------|----------------------------|---|---------------|
| Long Term Bank Facilities | 1,045.00 | CARE-NP BB- [Double B Minus) | Assigned |
| Short Term Bank Facilities | 25.00 | CARE-NP A4 (A Four) | Assigned |
| Total Facilities | 1,070.00 | | |

** Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned ratings of 'CARE-NP BB-' to the long-term bank facilities and 'CARE-NP A4' to the short-term bank facilities of Hotel Eastern Nepal Private Limited (HENPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of HENPL are constrained by implementation risk associated with the hotel project and stabilization risk considering long gestation period associated with hospitality industry. The ratings also factor in susceptibility to cyclicality, intense competition and geographic concentration in the hospitality sector and exposure to volatile interest rates. The ratings, however, derive strength from experienced directors and management team, strategic locational advantage of the hotel, and government initiative and support for tourism sector.

Going forward, the ability of the company to complete the project without time and cost overrun and satisfactory operations thereafter will be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Implementation risk associated with the hotel project

The company is setting up a green-field hotel property at an estimated cost of Rs. 934 Mn, which is proposed to be financed with debt of Rs. 659 Mn and equity of Rs. 275 Mn (debt to equity ratio of 71:29). HENPL has achieved financial closure amounting to Rs. 612 Mn and remaining is expected to be tied up soon. Till April 14, 2022, the promoters of the company have already infused 100% of the total equity component of the project cost. As on mid-April, 2022, around 77% of the construction work had been completed. The expected commercial operation date (COD) is July 2023. Hence, the company remains exposed to the residual risks associated with the ongoing project implementation.

Operational stabilization risk and long gestation period associated with hotel industry

The company is setting up a hotel with 87 room capacity which includes all modern amenities, F&B service, casino, swimming pool, conference and banquet hall, spa and other facilities. Generally, hotels require longer gestation period to recover the associated fixed costs and become profitable. The long gestation period of hotels is on account of the construction of a premium hotel taking up to three to four years while stabilization of operations may take another two to three years. Notwithstanding the impact of the covid19 pandemic, the ability of the company to attract customers, maintain occupancy level, establish its brand and derive benefit from the hotel as envisaged will be crucial from credit perspective.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications.

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 Jhapa, 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.

Interest rate risk

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy, with substantial upward pressure on interest rates in the last 2-3 quarters. Any further significant rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

Key Rating Strengths**Experienced directors and management team**

HENPL is managed under the overall guidance of the company's board of directors (BOD) who possess wide industry experience. The board is chaired by Mr. Dipak Khadka who has more than 20 years of experience in power, hospitality and other sectors. He is also Chairperson at Menchhiyam Hydropower Limited (CARE-NP BB), Hotel Forest Inn Private Limited (CARE-NP BB-) and has been associated with various companies at the board level. BODs are supported by a team of experienced professionals.

Strategic locational advantage of the hotel

The hotel is centrally located in Dhulabari, Jhapa which is around 3 Km away from Chandragadi Airport, Bhadrapur, Mechi Bhairahawa Airport. The influx of tourists is promising in Dhulabari which is closely located to border town of India State West Bengal at a distance of just 6 km which is also a major attraction for Indian tourist. In order to promote tourism, Nepal government had listed out different location of Jhapa as tourist destination for which Tourism Ministry has allocated over Rs. 480 million for promotion of those destinations. Also, the hotel site is located approximately 15 Km away from Pathibhara Devi temple, one of the significant temples in Eastern Nepal.

Government initiative and support for tourism

Tourism sector remains a prioritized sector of Nepal. In recent Budget Announcement for FY23 by Ministry of Finance, the government has allocated Rs. 9.38 Bn for tourism infrastructure development. Also, Unified Directive of 2020/21, whereby all the banks (type A, B C, D) have to allocate minimum share of their total advances to hospitality sector which augurs well for the 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 prospect of this sector looks encouraging over the medium-term despite being marred by the intermittent waves of the covid19 pandemic in the recent past.

About the Company

Hotel Eastern Nepal Private Limited (HENPL) was incorporated on April 27, 2018 under the Company Act, 2006. HENPL is constructing a hotel in Dhulabari, Jhapa which is spread over 1,01,077 Sq. ft. of land which will include 12,000 Sq. ft. for casino and 8,000 Sq. ft. for banquet with a total of 87 room capacity (suit and deluxe room) and is proposed to be categorized as a 5-star hotel property. The hotel is expected to start commercial operation from July 2023.

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 | 1,045.00 | CARE-NP BB- |
| Short Term Bank Facilities | Fund Based Limits | 25.00 | CARE-NP A4 |
| Total | | 1,070.00 | |

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