

Mustang Mountain Home Private Limited

Rating

Facilities/ Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	636.00	CARE-NP B+ [Single B Plus]	Reaffirmed
Short Term Bank Facilities	25.00	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	661.00		

* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP B+' assigned to the long term bank facilities and 'CARE-NP A4' assigned 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 continue to remain constrained by operational stabilization risk considering the long gestation period generally associated with hotel industry. The ratings also factor in MHPL's weak financial risk profile marked by subdued revenue generation on account of disruption in operations due to pandemic leading to weak debt coverage indicators for the initial years of operations. The ratings also consider susceptibility to cyclical, intense competition and geographic concentration risk pertaining to hospitality sector and exposure to volatile interest rates.

The ratings, however, continue to derive strength from strong presence of the promoters group in the tourist sector supported by experienced management team and its association with a reputed hotel brand, which is likely to benefit the company in terms of marketing and hotel operations. The ratings also factor in strategic locational advantage of the hotel and government initiative and support for tourism sector.

Going forward, the ability of the company to improve occupancy level and average room rate (ARR) of the hotel on a sustained basis leading to growth in revenues and profit margins leading to improved debt service coverage indicators will be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Operational stabilization risk and long gestation period associated with hotel industry

Although the hotel is commercially operational, the company is still exposed to stabilization risk associated with its debt-funded greenfield project. The total project cost of Rs. 993 Mn was funded by debt to equity ratio of 76:24. The cost per room is comparatively high due to resort being located at remote Himalayan region, thereby increased the overall cost of the project. Furthermore, hotels generally require longer gestation period to recover the fixed costs associated with it and to become profitable. Stabilization of operations for a large-scale hotel may take another two to three years post commencement of commercial operations. Going forward, MHPLs' association with reputed global hospitality brand 'Shinta Mani' is likely to help it attract customers and help improve occupancy level. However, how swiftly the company can establish its brand and derive benefits from the hotel as envisaged on a sustained basis will be critical from credit perspective.

Weak financial risk profile marked by weak debt coverage indicators for the initial year of operations

MHPL is likely to incur losses during the first few years of operations leading to a financial risk profile characterized by weak, albeit improving, debt service coverage indicators. The company's principal repayments are on ballooning basis with lower

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

repayments in the initial years. However, MHPL's ability to adequately service its debt obligations from operational cash flow, once the bulkier repayments start, will depend on its ability to generate sufficient income. Hence, the ability of the company to profitably scale up the operations leading to improved debt service coverage indicators will remain crucial from analytical perspective.

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.

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. Furthermore, increased bank rates announced in the Monetary Policy for FY23 is likely to add to the upward pressure on interest rates going forward. Any 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

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 tourist places of Nepal, flight services both domestic and international and travel companies. MHPL is being managed under the overall guidance of the company's board of directors (BOD) who possess wide 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. BOD is further supported by an experienced team across various functions/ departments.

Association with reputed hotel brand likely to benefit the company in terms of marketing and hotel operations

MHPL has entered into a 'Hotel Management Agreement' with HMD Asia, a Bangkok based corporation for the international brand of 'Shinta Mani'. Shinta Mani Hotels are a collection of luxury boutique properties designed and curated by designer Bill Bensley. Under the Hotel Management Agreement, HMD Asia will assist MHPL in relation to operate hotel property at its international standards along with providing support in bookings. Being associated with a global brand name like Shinta Mani is likely to provide the hotel with an added benefit of established service, large customer base, marketing assistance and already widespread brand recognition which augurs well for its business prospects over the medium-term.

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 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 Directives 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 had 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 covid-19 pandemic in the recent past.

About the Company

Mustang Mountain Home Private Limited was incorporated in February 5, 2014. MHPL has constructed a resort in Marpha, Mustang which is sprawled over 1170 sq. mt. of land with a total of 29 junior suite (deluxe) rooms. The hotel started full-fledged operations from March 01, 2022 under the commercial name of Moksha Mustang Resort.

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	636.00	CARE-NP B+
Short Term Bank Facilities	Fund Based	25.00	CARE-NP A4
Total		661.00	

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