

Swornim Boutique Hotel Private Limited

Rating

Facilities/Instrument	Amount (Rs. in Million)	Rating ¹	Rating Action
Long Term Bank Facilities	990.00	CARE-NP BB- [Double B Minus]	Assigned
Total Facilities	990.00 (Nine Hundred Ninety Million Only)		

* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB- [Double B Minus]' to the long term bank facilities of Swornim Boutique Hotel Private Limited (SBH).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of SBH is constrained by implementation risk associated with the hotel project and stabilization risk thereafter considering long gestation period associated with hospitality industry. The rating also factors in time and cost overrun in the project and susceptibility to cyclical, intense competition and geographic concentration. The rating, however, derives strengths from experienced directors and management team, association with reputed hotel brand likely to benefit the company in terms of marketing and hotel operations, 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 further 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 debt funded greenfield project

The company is setting up a green-field hotel property at an estimated cost of Rs. 1,762 Mn, which is being financed with debt of Rs. 990 Mn and equity of Rs. 772 Mn (debt to equity ratio of 56:44). SBH has achieved financial closure amounting to Rs. 725 Mn and remaining Rs. 265 Mn is expected to be tied up soon. Till mid-January, 2023, the promoters of the company have infused Rs. 367 Mn out of the total equity component of the project cost. This exposes the company towards funding risk in terms of partial debt yet to be tied-up. As on mid-January, 2023, around 70% of the construction work had been completed. The expected commercial operation date (COD) is January 2024. Hence, the company remains exposed to the residual risks associated with the ongoing project implementation and also its completion with-in the envisaged time and cost.

Cost and time overrun of the project

Estimated cost for the project has increased by 50.73% to Rs. 1,762 Mn from initial estimated cost of Rs. 1,169 Mn. The revision in cost is mainly attributable to time overrun amid the covid19 pandemic led disruptions and subsequent increase in input prices compared to initial estimations. Earlier SBH had achieved financial closure amounting debt of Rs. 725 Mn. However, financial closure for additional debt for revised project cost is still pending. The expected COD is now revised to January 2024 (previous COD was April 2022). Timely execution of project without further cost and time overrun will be critical from credit perspective.

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

Operations stabilization risk and long gestation period associated with hotel industry

The company is setting up a proposed three star with 110 rooms capacity which includes restaurants, 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. Once operational, 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.

Susceptibility to cyclical, intense competition and geographic concentration risk in the hospitality sector

The hotel industry of Nepal is fragmented in nature with large number of organized and unorganized players spread across various regions. The number of hotels operating in the city of Kathmandu remains high which will ultimately result in intense competition that might lead to competitive pricing leading to subdued ARR's despite surge in tourists, even when the impact of covid-19 normalizes. Also, occupancy levels and revenue in the hotel industry are susceptible to macroeconomic trends, both in the domestic and global markets. Furthermore, the company's hotel has a single establishment located at Kathmandu, thus exposing operations to geographic concentration risk.

Key Rating Strengths**Experienced promoters of the company**

SBH is managed under the overall guidance of the company's board of directors (BOD) who possess wide industry experience. Mr. Naresh Lal Shrestha, Chairman, has over three decade of cross-sector experience and holds position as director in various other businesses. He is also director in Swornim Boutique Hotel Kathmandu Private Limited which is small scale hotel operational within close proximity of the project. Mr. Maheshwor Shrestha, director, has more than 28 years of business experience related to handicrafts products and also director of Nepal Cancer Hospital & Research Center Pvt. Ltd. The 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

The company has entered into 'License Agreement' with Intercontinental Hotels Group (IHG) for the international hotel brand of 'Holiday Inn Express' which is a mid-priced hotel chain brand within IHG. Holiday Inn Express brand operates 3,059 hotels with 323,096 rooms and 643 hotels in pipeline as on September 31, 2022. Under the license agreement, Holiday Inn Express will assist SBH in relation to completion of the hotel property according to its international standards along with providing supervision in accordance with IHG's standards, technical assistance, professional training, customer reservations etc. SBH will get booking and marketing services, system implementation, consultation services etc. This will provide the hotel with an added benefit of established service, large customer base, marketing assistance and already widespread brand recognition to drive hotel guest bookings.

Strategic locational advantage of the hotel

The hotel is centrally located in Naxal, Kathmandu with Tribhuvan International Airport at a distance of around 4 km. The influx of tourists is high in Kathmandu as it is an entry point for international tourists in the country via flight and being one of the most attractive tourist destinations of Nepal which is visited by large number of tourists every year. Also, it is being built in Kathmandu, the capital city of Nepal with 7 UNESCO world heritage sites; known as city of temples and living goddess; close to the three durbar squares famous for its rich architecture; good infrastructure and approximately 28 kms away from Nagarkot which has a reputation as top spot for enjoying Himalayas view.

Government initiative and support for tourism industry

Tourism sector remains a prioritized sector of Nepal. In Budget Announcement for FY23 by Ministry of Finance, the government has allocated Rs. 9.38 Bn for tourism infrastructure development. Also, as per the Unified Directives of 2022/23, whereby the banks (type B and C) have to allocate minimum share of their total advances to hospitality sector which augurs well for the sector. Similarly, Monetary Policy of 2022/23 had amended refinance procedure to covid-19 impacted industries. With the government prioritizing development of travel and tourism in the country, the prospect of this sector looks encouraging over the medium-term.

About the Company

SBH is a private limited company incorporated on August 24, 2012. SBH is setting up a 3-Star boutique hotel in Tangal, Naxal Road, Kathmandu which spread over 11,831 sq. ft. with a total of 110 room capacity. The hotel is expected start commercial operation from January 2024.

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	990.00	CARE-NP BB- [Double B Minus]
Total		990.00	

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