

Hotel Saffron C.K. Private Limited

Ratings

Facilities/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	905.95	CARE-NP BB- [Double B Minus]	Reaffirmed
Short Term Bank Facilities	51.00	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	956.95 (Nine Hundred Fifty Six Million and Nine Hundred Fifty Thousand Only)		

* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the ratings of 'CARE-NP BB-' assigned to the long term bank facilities and 'CARE-NP A4' assigned to the short term bank facilities of Hotel Saffron C.K. Private Limited (HSCK).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of HSCK continue to remain constrained by implementation risk associated with the under-construction greenfield hotel project and operations stabilization risk thereafter considering long gestation period associated with hospitality industry. The ratings also factor in susceptibility to cyclical, intense competition and geographic concentration risk pertaining to the hospitality sector and exposure to volatile interest rates. The ratings, however, continue to derive strength from experienced and resourceful promoters of the company in the diversified business, 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 within the envisaged time and cost and satisfactory operations thereafter will be key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Implementation risk associated with the greenfield hotel project

The company is setting up a greenfield hotel property at an estimated cost of Rs. 1,456 Mn, which was proposed to be funded through debt of Rs. 966 Mn and equity of Rs. 490 Mn (debt to equity ratio of 66:34). HSCK has achieved financial closure for loan facility amounting to Rs. 906 Mn. Furthermore, the promoters have already infused Rs. 670 Mn as on mid-April 2023, which is over the committed equity contribution of Rs. 490 Mn. Higher equity funding for the project is likely to lessen financial burden on the company in initial years of operations. As on mid-March 2023, financial progress of the project was around 61% of the estimated cost. Physical progress was around 65%. The expected commercial operation date (COD) is April 2024. Hence, the company remains exposed to the residual risks associated with the ongoing project implementation.

Operations stabilization risk and long gestation period associated with hotel industry

The company is setting up a proposed five-star hotel with 107 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

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

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 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 Butwal, 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.

Key Rating Strengths

Experienced and resourceful promoters of the company

HSCK is managed under the overall guidance of the company's board of directors (BOD) who possess wide industry experience. Mr. Chunna Prasad Sharma, Chairman, has around four decade of cross-sector experience and holds position as Chairman and Director in various other businesses. He is also chairman in Yashoda Foods Private Limited [CARE-NP BBB/A3+]. Similarly, other directors of the company also have strong presence in diversified business such as manufacturing, packaging, spices, real estate etc. The BOD is aptly supported by an experienced team across various functions/departments.

Strategic locational advantage of the hotel

The hotel is centrally located in Butwal with Bhairahawa Airport at a distance of ~24 kms and Sonauli (Indian Border) at a distance of ~26 km. The influx of tourists is high in Butwal which is closely located to UNESCO's World Heritage Site Lumbini at a distance of ~38 kms. Lumbini is one of the most popular tourist destination of Nepal in terms of frequency of visits and has religious and historical significance which is visited by large number of tourists every year. Also, the hotel site is located opposite of proposed Butwal Mandap, i.e. International Convention and Exhibition Centre having capacity of 10,000 visitors, which is expected to provide additional benefits to achieve the envisaged scale of business.

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

Hotel Saffron C.K. Private Limited was incorporated on November 21, 2018 and is constructing a hotel in Butwal which is spread over 5,746 sq. mt. of land with a total of 107 room keys and is proposed to be categorized as a 5-star hotel property. The hotel is expected to start operation from April 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	905.95	CARE-NP BB- [Double B Minus]
Short Term Bank Facilities	Fund Based	50.00	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based	1.00	CARE-NP A4
Total		956.95	

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