

## Hotel Eastern Nepal Private Limited

### Ratings

Facilities/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	<b>1,400.00</b> (Increased from 1,045.00)	<b>CARE-NP B+</b> [Single B Plus]	<b>Revised from CARE-NP BB-</b>
Short Term Bank Facilities	<b>34.89</b> (Increased from 25.00)	<b>CARE-NP A4</b> [A Four]	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>1,434.89</b> (One Thousand Four Hundred Thirty-Four Million and Eight Hundred Ninety Thousand Only)		

\* Details of Facilities in Annexure 1

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

### Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the long term bank facilities of HENPL considers slow project execution leading to significant time overrun and cost overrun than earlier envisaged coupled with the partial debt funding risk associated with the project. The ratings 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 rating also factors in susceptibility to cyclical, intense competition and geographic concentration risk pertaining to the hospitality sector and exposure to volatile interest rates. The rating, however, continue to 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 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 greenfield hotel project

The company is setting up a green-field hotel property at an estimated cost of Rs. 2,014 Mn, which is being financed with debt of Rs. 1,400 Mn and equity of Rs. 614 Mn (debt to equity ratio of 70:30). HENPL has achieved financial closure amounting to Rs. 907 Mn and remaining is expected to be tied up soon. Till May 31, 2023, the promoters of the company have infused Rs. 275 Mn out of the total equity component of the project cost. As on May 31, 2023, around 35% of the construction work had been completed. 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 ~2.16x to Rs. 2,014 Mn from initial estimated cost of Rs. 934 Mn. The revision in cost is partly attributable to change in scope of the project coupled with time overrun on account of slow project execution

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and in other CRNL publications.

led subsequent increase in input prices compared to initial estimations. Financial closure for additional debt for revised project cost is still pending. This exposes the company towards funding risk in terms of partial debt yet to be tied-up. The expected COD is now revised to October 2025 (previously, expected COD was July 2023). Timely execution of project without further cost and time overrun will be critical from credit perspective.

#### **Operations stabilization risk and long gestation period associated with hotel industry**

The company is setting up a proposed five-star hotel with 98 rooms capacity which includes all modern amenities, F&B service, 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. Furthermore, the casino unit is under-construction, which is also expected to augur well to boost revenue going forward in the form of rental income and augment occupancy levels.

#### **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.

#### **Exposure to volatile interest rates**

The company's interest rates are based on 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. Higher interest rates than envisaged could result in increase in interest cost and with capitalization of interest cost during construction period will have impact on envisaged project cost. Hence, funding taken by the company is exposed to volatile interest rate.

#### **Key Rating Strengths**

##### **Experienced directors and management team**

HFIN 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 two decade of work 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. 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 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. 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 industry

Tourism sector remains a prioritized sector of Nepal. In Budget Announcement for FY24 by Ministry of Finance, the government has allocated Rs. 11.96 Bn for Ministry of Culture, Tourism and Civil Aviation. 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 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 1,10,444 Sq. ft. of land for casino, banquet with a total of 98 room keys and is proposed to be categorized as a 5-star hotel property. The hotel is expected to start commercial operation from October 2025.

### 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	1,400.00	CARE-NP B+ [Single B Plus]
Short Term Bank Facilities	Fund Based Limit	34.89	CARE-NP A4 [A Four]
<b>Total</b>		<b>1,434.89</b>	

### Contact us

#### Analyst Contact

Ms. Anusha Thapa

+977-01-4012630

[anusha.thapa@careratingsnepal.com](mailto:anusha.thapa@careratingsnepal.com)

Mr. Santosh Pudasaini

+977-01-4012628

[pudasaini.santosh@careratingsnepal.com](mailto:pudasaini.santosh@careratingsnepal.com)

#### Relationship Contact

Mr. Achin Nirwani

+977 9818832909

[achin.nirwani@careratingsnepal.com](mailto:achin.nirwani@careratingsnepal.com)

#### About CARE Ratings:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

#### Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.