

Hotel Forest Inn Private Limited

Ratings

Facilities/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	2,148.00	CARE-NP BB- [Double B Minus]	Reaffirmed
Total Facilities	2,148.00 (Two Thousand One Hundred and Forty Eight Million Only)		

* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB-' assigned to the long term bank of Hotel Forest Inn Private Limited (HFIN).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of HFIN 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 and its association with a reputed hotel brand, which is likely to benefit the company in terms of marketing and hotel operations. The rating also factors in 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. 2,971 Mn, which was proposed to be funded through debt of Rs. 2,131 Mn and equity of Rs. 841 Mn (debt to equity ratio of 72:28). The total debt component of Rs. 2,131 Mn has been tied up. Out of Rs. 841 Mn equity share capital required for project, Rs 713 Mn equity capital (including Rs. 170 Mn advance share capital) has been injected by promoter shareholders till June 04, 2023. As on May 31, 2023, the company has achieved financial progress of ~79%. The expected commercial operation date (COD) is October 2023. As the project is under construction, 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.

Operations stabilization risk and long gestation period associated with hotel industry

The company is setting up a proposed five-star hotel with 102 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-

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

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 presence of 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. 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.

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 Eastern Nepal Private Limited and has been associated with various companies at the board level. The BOD is aptly 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

HFIN has entered into 'License Agreement' with Intercontinental Hotels Group (IHG) for the international hotel brand of 'Holiday Inn' which is an American based mid-scale hotel chain. Holiday Inn Hotel & Resort brand operates 1,192 hotels with 214,597 rooms and 231 hotels in pipeline as on March 31, 2023. Under the license agreement, Holiday Inn Hotel & Resort will assist HFIN 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. HFIN will get booking and marketing services, system implementation, consultation services etc. These services are likely to provide the company with added benefits of established service, large customer base, marketing assistance and already widespread brand name recognition to drive hotel guest bookings.

Strategic locational advantage of the hotel

The hotel is centrally located in Budhanilkantha, Kathmandu with Tribhuvan International Airport at a distance of around 11 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 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 Forest Inn Private Limited (HFIN) was incorporated on November 22, 2010 and is constructing a hotel in Budhanilkantha, Kathmandu which is spread over 1,42,783 Sq. ft. of land with a total of 102 room keys and is proposed to be categorized as a 5-star hotel property. The hotel is expected to start operation from October 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	2,148.00	CARE-NP BB- [Double B Minus]
Total		2,148.00	

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