

Le Glamour Luxury Resort and Wellness Spa Private Limited

Ratings

Facilities/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	800.00	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	60.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	860.00 (Eight Hundred Sixty Million Only)		

* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB-' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of Le Glamour Luxury Resort and Wellness Spa Private Limited (LGPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of LGPL is primarily constrained by implementation risk associated with its under-construction luxury resort 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 and exposure to volatile interest rates. The ratings, however, derive strengths from experienced promoter in tourism industry which likely to benefit the company in terms of professional management setup and established marketing channels. The ratings also factor in boutique high-end luxury nature of the project, which is first of its kind in Pokhara providing likely competitive advantage once operational, strategic locational advantage of the resort, 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 partially debt funded greenfield project

The company is setting up a green-field luxury resort property at an estimated cost of Rs. 1,558 Mn, which is being financed with debt of Rs. 800 Mn and equity of Rs. 758 Mn (debt to equity ratio of 51:49). LGPL has achieved financial closure amounting to Rs. 620 Mn and remaining Rs. 180 Mn is expected to be tied up soon. Till mid-July 2023, the promoters of the company have infused Rs. 620 Mn (including advance of Rs. 370 Mn) out of the Rs. 758 Mn equity component of the funding mix. As on mid-July 2023, around 74% financial progress has been achieved. The expected full-fledged commercial operation date (COD) is September 2024. Hence, the company remains exposed to the residual risks associated with the ongoing project implementation within the envisaged time and cost.

Operational stabilization risk and long gestation period associated with hotel and resort industry

The high-end luxury resort LGPL is setting up has 27 suites room and 3 villas which includes all modern amenities, F&B service, swimming pool, jacuzzi, library, meditation hall, children play station, conference and banquet hall, spa and other facilities. The resort is expected to be a global standard five-star property. Generally, hotels and resorts require longer gestation period to recover the associated fixed costs and become profitable. Long gestation period is on account of the construction of a premium resort taking up to three to four years while stabilization of operations may take another two to

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

three years. Once operational, the ability of the company to attract customers, maintain occupancy level, establish its brand and derive benefit from the resort as envisaged will be crucial from credit perspective.

Geographic concentration risk, susceptibility to cyclical and intense competition in the hospitality sector

The hotel and resort industry of Nepal is fragmented in nature with large number of organized and unorganized players spread across various regions. The number of hotels and resorts operating in the city of Pokhara 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 hospitality industry are susceptible to macroeconomic trends, both in the domestic and global markets. Furthermore, the company's resort has a single establishment located at Pokhara, thus exposing operations to geographic concentration risk.

Exposure to volatile interest rate

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

Promoter having prior experience and established networking in tourism industry

LGPL derives strength from its strong promoter and also being a part of Kailash Group of Companies, which has good presence in tourism sector of Nepal. The group is involved in tours and travel agency, heli services and boutique hotels in tourism sector. Besides tourism sector, the group is also involved in construction material business. LGPL is managed under the overall guidance of Mr. Tashi Gurung, Managing Director, who has more than 26 years of experience in related business. He is also a founder chairperson of Kailash Group Nepal. Promoter's strong market presence and wide reach in international market will provide assistance to generate revenue by referring tourists to plan their stay at the resort during their visit in Pokhara. BOD is further supported by an experienced professional management team with extensive prior experience in the hospitality industry.

Strategic locational advantage of the resort

The resort is located in Methlang Hill of Sarangkot, Pokhara, Nepal which is just around 8.4 kilometers drive from the Pokhara International Airport. The resort is located in the top location of Pokhara with 360 Degree Views of Sunrise, Mountain, Fewa Lake, Pokhara City, Sunset, City Night View. The influx of tourists is high in Pokhara as it is one of the most attractive tourist destinations of Nepal. It is a gateway to the globally known trekking region Annapurna which begins from various points around Pokhara and therefore allows travelers to plan their stay at Pokhara. The city is also popular for its adventure sports such as skydiving, paragliding, ultralight flights, bungee jumping, mountain biking, rafting accompanied with beautiful landscapes of Fewa Lake, Begnas Lake, Sarangkot, giant Himalayan range, Mountain views such as Annapurna, Dhaulagiri and Machhapuchhre (Fishtail) etc. Due to this, Pokhara is a popular tourist destination in Nepal which is visited by large number of tourists every year.

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, prioritizing the importance of tourism in Nepal, the government has declared 2023-2033 as the Tourism Decade, with an aim of promoting Nepal as a prime tourist destination in the world. With the government prioritizing development of travel and tourism in the country, the prospect of this sector looks encouraging over the medium-term. Furthermore, Nepal Rastra Bank, through amendment in Unified Directives of 2022/23, has allowed rescheduling and restructuring of loans by Class A, B and C Financial Institutions to certain sectors including hospitality. This is likely to provide some near-term liquidity relief to players in the hospitality sectors.

Industry Outlook

Tourism sector in Nepal has been on a rebound trail in FY23 after being hardly hit by the covid-19 pandemic for most of FY21 and FY22. The number of tourist arrivals, which had been nearly zero since April 2020, started picking up to reach nearly 17,000 in January 2022 and has continued to grow since. As per Nepal Tourism Board (NTB), tourist arrivals improved to over 6 lakh tourists in CY22 (CY refers to twelve-month period ending December) from ~1.5 lakh in CY21 (CY20: 2.3 lakh). The growth trend has continued into CY23 with over 5 lakh tourists in 7MCY23 (~87% year-on-year growth). Apart from growth in foreign tourists, the revival of the hospitality sector in Nepal over the near-term can also be attributed to pent-up demand for leisure/social events and business travel, supported by increased bookings on account of weddings and significant uptick in Meetings, incentives, conferences and exhibitions. Key performance indicators such as revenue per available room, average room rate, and occupancy rate have been improving in FY23 and are expected to sustain going forward as well notwithstanding the macroeconomic headwinds globally amid high inflation and spiked interest rates, which could dampen the prospects of recovery over the near-term.

About the Company

Le Glamour Luxury Resort and Wellness Spa Private Limited (LGPL) is a private limited company incorporated on May 07, 2009. The company is setting up a high-end luxury resort which spread over 131,351 sq ft of land with a total 27 suites room and 3 villas capacity in Methlang Hill of Sarangkot, Pokhara, Nepal. The resort is expected start commercial operation from September 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	800.00	CARE-NP BB- [Double B Minus]
Short Term Bank Facilities	Fund Based Limit	60.00	CARE-NP A4 [A Four]
Total		860.00	

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