

Atithi Suites Private Limited

Rating

Facilities/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	1,000.00	CARE-NP BB- [Double B Minus]	Assigned
Total Facilities	1,000.00 (One Billion 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 Atithi Suites Private Limited (ASPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of ASPL is constrained by project implementation risk associated with its under-construction service apartment project. The rating also factors in saleability risk for ongoing project particularly amid the ongoing muted pace of economic growth and relatively tight financing from Banks and Financial Institutions, inherent risk associated with real estate sector, susceptibility to cyclical and seasonality associated with real estate industry and exposure to volatile interest rates.

The rating, however, derives strength from experienced promoter of the company and favorable location of the project. The rating also factors in stable demand outlook for the real estate sector over the medium term, despite sluggish near-term demand scenario.

Going forward, the ability of the company to timely complete the project within estimated cost, achieving envisaged sales coupled with timely collection of customer receipts will be key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Project implementation risk associated with under construction apartment project

The company is developing a real estate service apartment project at an estimated cost of Rs. 1,377 Mn, which is proposed to be financed with debt of Rs. 787 Mn, promoters' contribution in the form of equity Rs. 190 Mn and unsecured loan Rs. 400 Mn in debt equity mix of 57:43. The full debt portion for the same has not been tied up and the company has sanctioned term loan from banks amounting to Rs. 597 Mn. Till mid-July 2023, the company had achieved financial progress of 47% of the estimated cost. 90% of work related to construction of structural works has been completed and the finishing works including works related to electrical, sanitary and furnishing works is ongoing. The apartment is expected to come into partial operations from mid-January 2024 and full-fledged operations from mid-July 2024. This exposes the company towards project execution in terms of partial yet to be tied-up debt, completion of the project with-in the envisaged time and cost.

Marketing and Saleability risk

Marketing risk is largely determined by parameters such as location and construction quality of the projects, track record of the developer in selling the similar type projects or projects in a given micro-market, comparison of quoted price vis-à-vis current market rate, and competition from projects. While, such parameters provide an understanding about the market

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

standing of the developer, inference for future sales is also drawn by considering various critical parameters such as booking status, registrations and sales velocity. Higher booking ratio implies favourable market standing of the project. The company is constructing total of 51 rooms (BHK1 13 rooms, BHK2 26 rooms and BHK3 11 rooms and 1 health club) in 2 towers. Since the bookings of the apartment has just started with only minimal booking advances received and no apartment sold till date, this exposes ASPL towards marketing and saleability risk. Also, scheduled servicing of the debt availed for the construction of the project would be dependent on the company's ability to sell the houses at the envisaged rates within the expected timeframe. The apartments are expected to operate in service apartment complex business model, whose hospitality will be managed by Atithi Resort & Spa Private Limited by entering into sale and lease back transaction with owners of apartment. Demand for such service apartments is majorly driven from Non- Resident Nationals (NRN) and is comparatively low currently in terms of investment among investors.

Inherent risk associated with real estate sector

Increasing preference of the people, especially the non-resident nationals towards investment in real estate sector coupled with people's preference towards ready-to- move in homes are expected to be a major demand driver for the sector in the coming years. However, as developers will continue to focus on reducing their present inventory, before launching new projects, the demand trend in the industry plays a crucial role. Monetary Policy for FY24 continues to maintain various contractionary policies to limit the investment of funds towards real estate sector and release the funds to be directed towards productive sector. The loan to value ratio against the collateral of land and houses which was 40% inside Kathmandu valley and 50% outside valley has been reduced to 30% within Kathmandu valley and 40% outside Kathmandu valley for overdraft loans, mortgage loans, property loans, and personal term loans. Tighter financing norms coupled with relatively higher interest rates could deter demand scope for real estate sector over the near-term.

Cyclicity and seasonality associated with real estate industry and exposure to volatile interest rate

The life cycle of a real estate project is long and depends upon the state of the economy at every point in time, right from land acquisition to construction to actual delivery, has an impact on the project. This capital-intensive sector is extremely vulnerable to the economic cycles. Currently, slowdown in sales and increased input costs has increased liquidity concerns for highly leveraged players. The company is exposed to the cyclicity associated with real estate sector which has direct linkage with the general macroeconomic scenario, interest rates and level of disposable income available with individuals. The real estate sector is sensitive to the economic cycle and interest rates. Adverse movement in interest rate affects the real estate players in both ways - by hampering demand as well as increasing the cost of construction. With cost of ownership elevated amid higher interest rates, buyers could choose to postpone their purchase decisions, which could impact the salability of projects under inventory.

Key Rating Strengths

Experienced promoter of the company

ASPL is managed under the overall guidance of Mr. Bharat Raj Sharma, Managing Director, who has a decade of work experience in various businesses including hotel, real estate, clothing, beverage, food and herbal products. He is also promoter and director of Atithi Resort & Spa Private Limited, a 50-room capacity hotel in Pokhara operational since 2012. Mr. Sharma also has prior ties with Temple Tree Resort and Spa, a well-known resort in Pokhara. Board of Directors are further supported by an experienced team across various functions/ departments.

Favourable Location

The apartment is centrally located in Lakeside, Pokhara, Kaski. One of the finest locations from tourism and investment aspects, close proximity to Pokhara city with availability of different facilities gives an additional advantage for the people who want to invest in the vacation residence property. The place is well connected to Prithivi highway road.

Industry Outlook

Real estate has been one of the main sectors for banks' lending over the years. Relatively inelastic supply of land and limited viable investment opportunities have led to increased demand for real estate properties, particularly in urban areas. The investment in apartments and colonies has also been increasing due to change in people preference towards ready to move homes as compared to self-constructed houses. The real estate industry like ASPL is likely to benefit from stable uptick in demand over the medium term although demand outlook remains muted over the near-term amid macroeconomic headwinds.

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). Amid increasing number of tourist arrivals, demand outlook for service apartment occupancy looks positive in near term.

About the Company

Atithi Suites Private Limited (ASPL) incorporated on December 09, 2020 is constructing a Luxury Apartment for which spread over 72,303 Sq. ft. of land which will include apartment with a total of 51 room capacity (BHK1 13 rooms, BHK2 26 rooms and BHK3 11 rooms and 1 health club) in 2 towers. The Luxury Apartment will have other facilities including health club, rooftop infinity pool, restaurant, children play areas, basement parking area and will be fully furnished.

Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Fund Based Limit	1,000.00	CARE-NP BB- [Double B Minus]
Total		1,000.00	

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