

PRESS RELEASE

JAGDAMBA HOSPITALITY GROUP PRIVATE LIMITED July 2022

Ratings

Instruments/ Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	5,012.00	IRN B+	Assigned
Short Term Bank Facilities	10.00	IRN A4	Assigned
Total	5,022.00		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the long term rating of IRN B+ (B Plus) to the long term bank facilities of NPR 5,012 Mn. and IRN A4 (A Four) to the short term bank facilities of NPR 10 Mn.

Detailed Rationale

The ratings assigned to Jagdamba Hospitality Group Private Limited (JHGPL), derives comfort from the ideal location of the project being in the heart of Kathmandu City and the brand recognition ensured by the project's management agreement with Hilton Worldwide Manage Limited. JHGPL is also expected to benefit from the operators' expertise in the hotel management, compensating the promoters limited experience in the field of hotel industry, running high-end hotels. Further, the ratings also take note on the Government initiative and support to tourism industry.

These rating strengths, however, are constrained by the project implementation risk as reflected in the financial progress of ~61% as of Mid- April 2022. Given the interim stage in the hotel construction, the risk of timely execution within the estimated budget and high dependence on debt also remains a key concern. The ability of Company to achieve financial closure for an additional debt of NPR 834 Mn amid the current liquidity crisis in banking would remain crucial for smooth project execution. The stabilization risk upon commissioning of the hotel project, given the highly competitive hotel industry also remains a rating concern. Moreover, the ratings also factor in the exposure to volatile interest rates and intense competition in the hotel industry. Going forward, the ability of the company to complete the project without any time or cost overrun will remain as key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Strategic Location of the project

The property is located at the central of Kathmandu City in Naxal, in a close proximity to the major tourist destination both inside and outside valley. In addition, the city is considered the gateway to the Nepalese Himalayas and a beautiful garden to several World Heritage Sites, which remains positive to JHGPL.

Established promoter group with strong promoter profile; albeit not in hotel sector

JHGPL is wholly owned by Mr. Shahil Agrawal, who is also the Managing Director of Shanker Group with more than 20 years of experience in trade and industry. JHGPL also derives strengths from the financial flexibility of the promoter group, belonging to Shanker Group. This group has a diversified presence across various sectors including manufacturing, trading, insurance, hydropower, real-estate and many more. Despite limited experience in operating a hotel business, the owner's experience and expertise in the Nepalese industry is likely to lower the offtake risk for the hotel to some extent.

Brand recognition of Hilton and expertise of hotel manager

JHGPL has entered into the management agreement with Hilton Worldwide Manage Limited- England, owed by Hilton Worldwide Holdings Inc. which is an American multinational hospitality company that manages and franchises a broad portfolio of hotels and resorts. As of June 30, 2020, its portfolio includes 6,215 properties (including timeshare properties) with 983,465 rooms in 118 countries and territories. Hence, expected to mitigate the risk arising from limited hotel experience of the promoter group. JHGPL has also entered into a long term agreement with Hilton Worldwide Manage Limited for use of brand name “Hilton”, that provides the property with the brand recognition and an access to Hilton worldwide reservations system. These are expected to provide the company with added benefits in terms of established network, customer base, marketing and brand recognition.

Government initiative and support to tourism industry

The Government of Nepal has taken an initiative to promote private sector participation in tourism industry. In addition to other regulations, the GoN has also prescribed a lending floor for banks and financial institutions (BFIs) for tourism related projects, allocated funds for tourism infrastructure development and provided a tax holiday for large scale hotel projects. Also, as per monetary policy FY20.21, Development Banks and Finance Companies are required to allocate minimum share of their total credit to agriculture, energy, SMEs and tourism sectors within mid- July 2024, which is further expected to boost the tourism industry going forward.

Key Rating Weaknesses

High implementation risk associated with the project

The project construction was started in late 2018 with the construction period of three years. However, with the outbreak of Covid-19 and its subsequent variant, the estimated completion period was delayed. Also, the original estimated project cost was revised to NPR 6,683 Mn in May 2021 mainly due to project expansion, as the project was supposed to be built under the brand name of “Doubletree by Hilton” comprising of 135 rooms. However, later it was expanded with 39 additional guest rooms totaling 174 rooms to be built under the brand name of “Hilton”. The project funding has already been tied up with the bank in debt equity of 75:25, except for NPR 834 Mn. which is yet to achieve financial closure. Nonetheless, the project had already achieved a financial progress of ~61% as of Mid- April 2022 and is expected to be commissioned in the beginning of FY23.24.

High debt funded capex; could result in stretched liquidity

The project is highly leveraged in terms of capital structure as reflected in the debt equity of 75:25. The revised cost per key of the hotel remains high at ~ NPR 38 Mn (previously ~NPR 28 Mn) and is vulnerable in the event of cost overrun. Until the hotel operation stabilizes, the revenue is expected to remain moderate, affecting the overall margins and profits. With high debt burden in the initial years, the liquidity is expected to remain stretched affecting the debt repayment capacity of the company. Hence, the ability of the promoter for funding the repayment portion remains crucial in the initial year of operation.

Intense competition with limited segment and geographic diversification

The hotel industry is fragmented in nature with the presence of large number of organized and unorganized player across various regions, which increases the stabilization risk for the new hotel industry. There are many hotels in Kathmandu and is further expected to increase, as many are in the pipelines. Also, the proposed hotel project will be a single property in Kathmandu, hence its geographic and market sector diversification remains low. As the hotel industry is largely dependent upon the arrival of foreign tourist, JHGPL’s capacity to compete with the existing players once operational, remains to be seen.

Risk of interest rate volatility

Interest rates are the most closely watched variables in the Nepalese economy. These are mainly floating interest rate on lending by adding certain percentage of premium in a base rate determined quarterly. The interest rate in Nepalese market has remained much volatile and changing in past 2-3 year. Hence, debt from banks and financial institutions are exposed to risk of interest volatility

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

About the Company

Incorporated in 2012, Jagdamba Hospitality Group Pvt. Ltd. (JHGPL) is a special-purpose-vehicle that owns and propose to operate a 5-star hotel in Naxal, Kathmandu with a total of 174 keys. The company has ventured in to hospitality sector with internationally renowned name “Hilton” and has already entered into a comprehensive agreement with Hilton Worldwide Manage Limited for operating under the brand name of “Hilton Kathmandu City Centre”.

The company is fully owned by Mr. Shahil Agrawal, a part of the Shanker Group. The group has a track record of more than 4 decades across various sectors in Nepalese Industry. The new hotel property is expected to be operational by 2023/24.

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn.)	Ratings
Fund Based Bank Facilities- Term Loan	Long Term	4,178.00	IRN B+
Fund Based Bank Facilities- Term Loan (Proposed)	Long Term	834.00	IRN B+
Non Fund Based Bank Facilities-Bank Guarantee	Short Term	10.00	IRN A4
Total Facilities		5,022.00	

Analyst Contacts

Ms. Grishma Dhungana

Tel No.+977-1-4483304/4485906

grishma.dhungana@infomericsnepal.com

Mr. Utsav Baral

Tel No.+977-1-4483304/4485906

utsav.baral@infomericsnepal.com

Relationship Contact

Mr. Rabin Pudasaini

Tel No.+977-1-4483304/4485906

rabin.pudasaini@infomericsnepal.com

About Infomerics Credit Rating Nepal Limited:

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Infomerics Credit Rating Nepal Limited

Tanka Prasad Marga, Baneshwor Height, Kathmandu

Phone: +977-1-4483304/4485906

Email: info@infomericsnepal.com

Web: www.infomericsnepal.com

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