

PRESS RELEASE

APEX HOSPITALITY LIMITED

September 2023

Rating

Facilities	Amount (NPR. Mn)	Rating	Rating Action
Issuer Rating	NA	IRN B+ (Is)	Assigned

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the issuer rating of IRN B+ (Is) [Single B Plus (Issuer)]. Issuer with this rating is considered to have a high risk of default regarding timely servicing of financial obligations.

Detailed Rationale

The issuer rating assigned to Apex Hospitality Limited (AHL) derive strength from presence of an established promoter group along with support from established local brand for operation of the movie theatre and hotel along. The rating also factors in the favorable location of the property and the promising growth in Nepal's hospitality sector. However, these rating strengths are partially offset by project implementation and stabilization risk associated with the project, as well as an extended gestation typically associated with the hospitality sector. Moreover, the hospitality sector's landscape is marked by intense competition, and AHL exhibits a below-average financial profile, primarily due to its early operational years. Going forward, the company's ability to successfully achieve the Commercial Operation Date (COD) for its hotel unit along with timely realization of envisaged benefits from property (hotel and cinema theatre) remains crucial. Also, the company's ability to strengthen its capitalization and coverage indicators with successfully raising of funds via the proposed Initial Public Offering (IPO) will remain a key rating sensitivity.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Support from established local brand in hospitality and established promoter group

AHL is promoted by businesspersons with extensive experience in the trading, manufacturing, hydropower, hospitality and real estate sector among others. Mr. Mukunda Prasad Timilsina is the Chairman of AHL and the board consists of six other directors. Mr. Timilsina has around two decades of experience across various sectors. AHL has established long-term partnerships with two key entities, Siddhartha Business Group of Hospitality Private Limited (SBGH) and Team Quest Private Limited (Team Quest). AHL's proposed two-star hotel will be operated and managed by SBGH under the brand name of "Hotel Siddhartha". Similarly, AHL's agreement with Team Quest, the brand owner of "QFX Cinemas," allows the movie theater to benefit from technical support and operate as a franchise, with AHL's cinema referred to as "QFX Damauli." AHL's collaboration with established entities in their respective field is expected to mitigate the risks associated with the limited experience of AHL's primary promoter group in the hospitality sector.

Locational advantage

AHL is located in Damauli which is the district headquarter of Tanahun District and a developing city of Nepal. Damauli's proximity to major tourist destinations like Bandipur and Pokhara provides opportunity for Damauli to serve as a hub for tourist. Nevertheless, the operation of AHL is anticipated to be affected over the mid-term due to the ongoing construction activities across the Prithivi Highway. AHL also benefits from being the only proposed star hotel in its vicinity and its location as the district headquarter of Tanahu which houses numerous corporate offices, governmental offices and various organizations. This presents AHL with an opportunity to cater to both leisure and business travelers and capture the growing MICE (Meetings,

Incentives, Conferences, and Exhibitions) market. All these factors augur well for the future economic prospects of the movie theatre as well as the hotel project.

Government support and improvement in hospitality sector

Due to the outbreak of COVID-19 and its subsequent variants, the arrival of foreign tourist experienced a drastic decline of 80% in 2020, which was further followed by a ~34% decline in 2021. Fortunately, the tourism sector is bouncing back on its feet with an increase in the number of tourists. Nepal recorded 614,148 foreign tourists in CY2022 and 476,481 in the first six months of 2023. Further, it is expected to increase with the rising number of Chinese tourists. Beijing's decision to allow its citizens to travel to Nepal as tourists from March 2023 is expected to contribute to this increase. Furthermore, the hospitality sector of Nepal remains supported by domestic consumption for services associated with the hospitality sector along with growing domestic demand for recreational and leisure activities. Additionally, the Government has declared the 'Nepal Tourism Decade (2023-2032) Strategic Action Plan' as part of the efforts to revitalize the tourism sector.

Key Rating Weaknesses

Project implementation & stabilization risk along with long gestation period associated with hospitality sector

AHL became partially operational in November 2021 with the operation of the movie theatre. Thus, the movie hall has been operational for around two years with FY23 being the first full year of operation. The occupancy ratio of the movie theatre was ~17% vis-à-vis occupancy ratio of ~40% in FY22. Hence, the business is yet to stabilize and achieve optimum operational parameters. Moreover, the hotel and its allied amenities (1st to 3rd floor) are currently under construction. The hotel is expected to become operational by mid- December 2023. Generally, projects related to hospitality sector require longer gestation period to stabilize operations, recover the fixed costs associated with the project and become profitable. Further, premium hotels call for sizable periodic investments and have longer gestation periods as compared to mid-scale budget hotels. Going forward, the timely completion of the hotel and the subsequent operation of the hotel along with realization of envisioned benefits from the project (hotel and movie theatre) remains a crucial rating factor.

Below-average financial profile, given its initial year of operation

AHL became partially operational in 2021, first 9 months of FY22, with the operations of its Movie Theatre. Currently, the hotel is still under construction and it is expected to become fully operational by mid-December 2023. During FY22, AHL generated TOI of NPR 13 Mn from the movie theatre which grew by ~15% in FY23 to NPR 15 Mn. AHL has incurred operating losses primarily due to low scale of operations of the movie theatre, substantial interest expenses and significant depreciation costs. Consequently, the company reported negative Gross Cash Accruals (GCA) in both FY22 and FY23. AHL's overall gearing ratio in FY23 remains moderate at 1.42x as of FY23. Nevertheless, the debt burden of AHL are expected to further rise with increment in borrowings for the construction of the hotel. In view of AHL's negative operating profit and GCA, the timely completion of the hotel along with realization of envisioned benefits from the overall project (hotel as well as movie theatre) remains crucial.

Intense Competition within the hospitality sector

The hospitality sector remains exposed to competitive pressure given the large number of organized and unorganized players across Nepal. Currently, competition in Damauli remains limited, especially given the absence of a star-rated hotel in the vicinity of AHL. However, the competition is anticipated to increase overtime as both investors and the government focus on the growth of the tourism sector across Nepal. Competition in the sector has also intensified due to relatively slow growth in demand vis-à-vis supply, resulting in a moderation of the operating metrics of the hotel properties. Given the high operating leverage of the hospitality business, the operating profitability could be adversely impacted vis-à-vis projected estimates for new properties.

Analytical Approach: Standalone

Applicable Criteria:

[Issuer Rating Methodology](#)

About the Company:

Apex Hospitality Limited (AHL), previously Apex Multiplex Limited was incorporated on August 11, 2017. AHL owns and operates a 6 story commercial building spreading over a plot size of ~13,155 sq. ft. and it houses two operating movie theatre as a franchise of “QFX Movies”. AHL’s proposed two-star hotel featuring 34 rooms is currently under construction and it has entered into a 5-year agreement for the branding, management and operation of the hotel with Siddhartha Business Group of Hospitality Private Limited (SBGH). Mr. Suman Shrestha (33%), Mr. Mukunda Prasad Timilsina (15%) and Mr. Sudhir Prasad Timilsina (15%) are the major shareholders of AHL as on Mid July 2023.

Financial Indicators (Standalone)

For the year ended* As on	FY22	FY23
	Audited	Unaudited
Total Operating Income (in NPR Mn.)	13	15
EBITDA Margin (%)	Neg	Neg
Interest Coverage Ratio (x)	Neg	Neg
Current Ratio (x)	4.49	1.13
Overall Gearing Ratio (x)	1.43	1.42

*Classification as per Infomerics Nepal standards

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