

PRESS RELEASE**BHAIRAHAWA GARDEN RESORT PRIVATE LIMITED****July 2024****Ratings**

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Long Term Bank Facilities	1,000.00	IRN BB-	Assigned
Short Term Bank Facilities	20.00	IRN A4	Assigned
TOTAL	1,020.00		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the rating of IRN BB- (Double B Minus) to the long term bank facilities of NPR 1,000.00 Mn and the rating of IRN A4 (A Four) to the short term bank facilities of NPR 20.00 Mn.

Detailed Rationale

The ratings assigned to bank facilities of Bhairahawa Garden Resort Private Limited (BGR) derive strength from the strategic location of the project and the promoter's prior experience in the hospitality industry. The ratings also factor in the partial hotel property's soft launch, moderate financial progress of the project and government initiative and support towards tourism industry. These rating strengths are however constrained by project implementation risk as reflected in the financial progress of ~80% as of mid-June 2024. 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 hospitality industry. Going forward, the ability of the company to complete the remaining project on time and satisfactory operations thereafter will remain be key rating sensitivities.

Detailed Description of Key Rating Drivers**Key Rating Strengths****Experienced promoter and management team**

The company is promoted by a single shareholder Mr. Nirmal Shrestha, who holds more than three decades of experience in hospitality and tourism sector. Mr. Birendra Kumar Gupta, General Manager, having more than two decades of experience. Further, the management team includes several other experienced members who play crucial roles in the day-to-day activities of the company. These team members bring diverse backgrounds and specialized skills to the table, collectively contributing to the strategic direction and operational efficiency of the organization.

Moderate financial progress

Out of total project cost of ~NPR 1,251 Mn, financial progress of ~80% has been achieved till mid-June 2024. The company achieved its soft launch in February 2024 and full commercial operations is expected to commence by mid-August 2024. The project funding structure involves a debt-equity mix of ~75:25, with the partial debt component currently in the final stage of approvals.

Strategic locational advantage

The hotel is located in Bhairahawa of Rupandehi district and has achieved its soft opening in February 2024 with full commercial operation expected to start from mid-August 2024. Guests staying at Bhairahawa Garden Resort can enjoy close proximity to several notable attractions and landmarks. Lumbini, a UNESCO World Heritage site and a significant pilgrimage destination, is just a short drive away. Moreover, the presence of a casino in the hotel premises is expected to augment the demand prospects of the hotel business in the future. Given its close proximity to Indo-Nepal border (~5 Kms) the casino is expected to act as an incentive for tourists, especially Indian tourists, given the strict gambling laws in India and the liberal gaming laws in Nepal for foreigners. The integration of the

casino's operations with the hotel is expected to generate synergies for the hotel through captive guests and rental revenue from casino operator.

Key Rating Weaknesses

Project implementation and operational stabilization risk

The company initiated construction of the hotel in early 2020 with an estimated cost of ~NPR 1,251 Mn. As of mid-June 2024, the project has achieved ~80% financial progress, nearing completion. BGR began its soft opening in February 2024, offering 38 rooms, a restaurant, swimming pool, and conference hall. The remaining 34 rooms, banquet facilities, and casino are still under construction and are slated to commence full operations by mid-August 2024. The timely completion and subsequent operational stability will be closely monitored. Timely completion and successful stabilization of operations thereafter will remain monitorable. Also, hotels generally require longer gestation period to recover the associated fixed costs and become profitable. Furthermore, demand risk is expected to moderate as the industry is highly fragmented owing to low entry barriers with minimum capital and technology requirement. Going forward, the ability of the company to timely complete construction work and thereafter attract customers, maintain occupancy level, establish its brand and derive benefit from the hotel as envisaged will be crucial rating factor.

Below average financial profile, given its initial year of operation

In FY24, BGR reported Total Operating Income (TOI) of ~NPR 22 Mn and EBITDA of around ~NPR 2 Mn. However, the long-term solvency of the company was impacted by significant debt-funded capital expenditures in a debt-equity ratio of 75:25. Consequently, the overall gearing ratio stood at 2.96x by the end of FY24. The overall gearing ratio is expected to deteriorate further as additional debt is projected to be utilized for the completion of the project.

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. The proposed hotel project will be a single property in Bhairahawa; hence its geographic and market sector diversification remains low. As the hotel industry is largely dependent upon the arrival of foreign tourist, BGR's capacity to compete with the existing players once operational, remains to be seen.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

About the Company:

Bhairahawa Garden Resort Private Limited (BGR) is a special-purpose-vehicle that owns and propose to operate a 4-star hotel in Bhairahawa, Rupandehi with a total of 72 keys. The company is fully owned by Mr. Nirmal Shrestha. The project has already achieved more than 80% of the financial progress till mid-June 2024. The hotel began its soft opening in February 2024, with full operations expected to commence by mid-August 2024.

Financial Indicators (Standalone)

For the year ended* As on	FY24**
	Unaudited
Total Operating Income (in NPR Mn.)	22
EBITDA Margin (%)	35.01
Interest Coverage Ratio (x)	2.45
TOL/TNW (x)	7.64
Current Ratio (x)	0.17
Overall Gearing Ratio (x)	2.96

*Classification as per Infomerics Nepal standards

** During FY24, the project was partially operational for ~6 months

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn)	Ratings
Fund Based Bank Facilities-Term Loan (Proposed)	Long Term	1,000.00	IRN BB-
Fund Based Bank Facilities-Working Capital (Proposed)	Short Term	20.00	IRN A4
Total Facilities		1,020.00	

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About Infomerics Credit Rating Nepal Limited:

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