

PRESS RELEASE

APEX HOSPITALITY LIMITED

November 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Rating	Rating Action
Issuer Rating	NA	IRN BB- (Is)	Upgraded from IRN B+ (Is)

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has upgraded the issuer rating to IRN BB- (Is) [Double B Minus (Issuer)]. Issuer with this rating is considered to have a moderate risk of default regarding timely servicing of financial obligations.

Detailed Rationale

The upgrade in the rating assigned to Apex Hospitality Limited (AHL) is primarily attributed to the commencement of its hotel operations from September 2024. The rating is further supported by the backing of a well-established promoter group and the association with a recognized local brand for operating the hotel and movie theatre. Additionally, the favorable location of the property and the promising growth prospects of Nepal's hospitality sector contribute to the positive outlook.

These strengths, however, are constrained by the project stabilization risks associated with AHL's recently operational hotel property, as well as the long gestation period typically observed in the hospitality industry. Furthermore, the sector is highly competitive, and rating also takes note of AHL's below-average financial profile.

Going forward, the company's ability to stabilize operations and realize the expected benefits from its hotel and movie theatre will be critical. Moreover, successfully raising funds through the proposed Initial Public Offering (IPO) and strengthening its capitalization and coverage metrics will remain key rating sensitivities.

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 eight other directors. Mr. Timilsina has around two decades of experience across various sectors. AHL has built strong partnerships with two prominent entities: Siddhartha Business Group of Hospitality Private Limited (SBGH) and Team Quest Private Limited (Team Quest). SBGH manages and operates AHL's proposed two-star hotel under the "Hotel Siddhartha" brand, leveraging its expertise in hospitality. Similarly, through an agreement with Team Quest, AHL's movie theatre operates as a franchise under the well-known "QFX Cinemas" brand, marketed locally as "QFX Damauli." This partnership provides technical support and enhances the theatre's operational standards. These collaborations with established and reputable entities in their respective fields are expected to significantly benefit AHL by enhancing its operational efficiency and brand reputation.

Locational advantage

AHL is located in Damauli, the district headquarters of Tanahu District and a developing city in Nepal. Its strategic location near major tourist destinations such as Bandipur and Pokhara positions Damauli as a potential hub for tourism. Along with that Damauli, being the administrative center of Tanahu, provides a distinct advantage. The area hosts numerous corporate and governmental offices as well as various organizations, creating a steady demand for hospitality services from both business and

leisure travelers. Additionally, AHL is well-positioned to capitalize on the growing Meetings, Incentives, Conferences, and Exhibitions (MICE) market, which could further drive demand for its facilities. These factors collectively strengthen the long-term economic prospects of AHL's movie theatre and hotel operations.

Key Rating Weaknesses

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

AHL began partial operations in November 2021 with the launch of its movie theatre, achieving full commercial operations in September 2024 following the completion of its hotel project. As a result, the movie theatre has been operational for approximately three years, with FY23 marking its first full year of operation, while the hotel commenced commercial operations from early FY25. The occupancy rate of the movie theatre improved to approximately 32% in FY24, compared to ~17% in FY23. However, the business is still in the process of stabilizing and achieving optimal operational efficiency. 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. Moving forward, the successful stabilization of hotel operations, increased occupancy rates, and the realization of the expected benefits from the project (including the hotel and movie theatre) will be key monitorable factors.

Below average financial profile, given its initial year of operations

The company's total operating income (TOI) increased by ~35%, from ~NPR 15 Mn in FY23 (A) to ~NPR 21 Mn in FY24 (UA), driven primarily by the improvement of movie theatre's occupancy. This growth also led to the improvement in EBITDA margin from 1.62% in FY23 to 21.60% in FY24. However, the hotel segment reported net losses due to substantial interest expenses, depreciation costs, and its initial limited scale of operations, resulting in negative gross cash accruals (GCA) over the last three fiscal years (FY22–FY24). AHL's overall gearing ratio increased from 1.43x at the end of FY23 to 1.79x at the end of FY24 due to additional loans for hotel construction, while the Total Outside Liabilities to Net Worth (TOL/TNW) ratio rose from 1.63x to 2.10x during the same period. The company plans to issue an IPO worth NPR 240 million to the general public, which is expected to improve its capital structure upon successful completion. Given the negative cash flows, the successful scaling of hotel operations and the realization of anticipated synergies from the project remain crucial for improving AHL's financial performance.

Intense Competition within the hospitality sector

The hospitality sector in Nepal faces significant competitive pressures due to the presence of numerous organized and unorganized players. Currently, competition in Damauli, where AHL operates, is relatively limited, particularly due to the absence of a star-rated hotel in the area. However, competition is expected to intensify over time as both private investors and the government continue to prioritize the development of Nepal's tourism sector. 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](#)

Past Rating Rationale:

[Apex Hospitality Limited: Bank Facilities Rating Assigned](#)

About the Company:

Apex Hospitality Limited (AHL), previously Apex Multiplex Limited was incorporated on August 11, 2017. The company owns and operates a six-story commercial building spanning approximately 43,460 square feet. The facility includes two movie theatres operating as a franchise under the "QFX Movies" brand. In September 2024, AHL commenced commercial operations for its proposed two-star hotel, which features 34 rooms. The hotel is managed under a five-year agreement with Siddhartha Business Group of Hospitality Private Limited (SBGH) for branding, management, and operations, leveraging SBGH's expertise in the hospitality industry.

Financial Indicators (Standalone)

For the year ended* As on	FY22	FY23	FY24
	Audited	Audited	Unaudited
Total Operating Income (in NPR Mn.)	13	15	21
EBITDA Margin (%)	Neg.	1.62	21.60
Interest Coverage Ratio (x)	Neg.	0.02	0.43
Current Ratio (x)	4.49	1.15	1.08
Overall Gearing Ratio (x)	1.60	1.43	1.79

*Classification as per Infomerics Nepal standards

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