

PRESS RELEASE

THE METROPOLITAN HOTEL LIMITED

February 2025

Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Long Term Bank Facilities	1,894.05 (reduced from 1,975.00 Mn)	IRN BB	Upgraded from IRN BB-
Short Term Bank Facilities	85.00	IRN A4	Assigned
Total	1,979.05		

Details of facilities are in Annexure 1 below

Infomerics Nepal has upgraded the rating to IRN BB (Double B) assigned to the long term bank facilities of NPR 1,894.05 Mn from IRN BB- (Double B Minus) and assigned the rating of IRN A4 (A Four) to the short term bank facilities of NPR 85.00 Mn.

Detailed Rationale

The upgradation of ratings assigned to the bank facilities of The Metropolitan Hotel Limited (TMHL) reflects the substantial progress made in the project, with the full commencement of commercial operations of its hotel facilities from January 15, 2025. Additionally, the ratings continue to derive comfort from the strong promoter group and strategic location of the project. The comfort is further bolstered by the brand recognition of an international chain hotel, ensured by the project's management agreement with AAPC Indian Hotel Management Private Limited (Accor Hotels), as well as government initiatives and support for the tourism industry.

However, these rating strengths remains constrained by the company's high debt burden, primarily from debt-funded capex with debt equity mix of ~72:28. The ratings also take note of the operational stabilization risk, exposure to the cyclicity and seasonality as well as intense competition in the hospitality industry. Going forward, the ability of TMHL to stabilize operations, achieve robust occupancy levels, and generate sufficient revenue to cover its debt obligations while improving profitability and financial indicators will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Support from established international hospitality brand and strong promoter group

TMHL has entered into an agreement with Accor group, which is one of the leading hotel chains in the world. The hotel constructed will be operated under Accor's 'Mercure' brand, which is one of the world's prominent mid-scale hotel brand. This partnership ensures the hotel operates under the 'Mercure' brand, enhancing its market presence and guest appeal. The company is backed by experienced leadership of Mr. Desh Bandhu Basnet, Chairman, who brings over 25 years of industry experience and has served as an executive member of various national and international committees. Furthermore, the board of directors is supported by a strong management team with experience in relevant areas of business.

Full commercial operations and strategic locational advantage

TMHL operating under the brand name "Mercure Kathmandu", commenced full commercial operations from January 15, 2025. The total project cost stood at ~NPR 2,813 Mn, funded through a debt-equity mix of ~72:28, with the debt component fully tie up. Located in Sokedhara, Kathmandu district, the hotel offers guests convenient access to key tourist attractions within the city and across the Kathmandu Valley. Its central location allows easy visits to several World Heritage Sites and the vibrant commercial and cultural districts of the city. Additionally, its proximity to Tribhuvan International Airport ensures hassle-free travel to and from Kathmandu.

Key Rating Weaknesses

High debt funded capex; could result in stretched liquidity in the initial years

The project is highly leveraged in terms of capital structure as reflected in the debt equity of ~72:28. 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.

Operational stabilization risk and long gestation period associated with hotel industry

The hotel started its soft opening from November 2024 and full commercial operations commenced from January 15, 2025. Generally, hotels require longer gestation period to recover the fixed costs associated with it and become profitable. Hotel projects have long gestation period since construction of a premium hotel takes up to three to four years while stabilization of operations may take another two to three years. Further, premium hotels call for a huge investment and have longer gestation periods as compared to mid-scale budget hotels. Going forward, the ability of the company to attract customers, maintain occupancy level, establish its brand and derive benefit from the hotel as envisaged will be crucial rating factor.

Intense competition with limited segment and geographic diversification

The hotel industry in Nepal are fragmented with presence of numbers of organized and unorganized players across Kathmandu. Further, impacted by the growing number of new hotels in the country as both investors and the government focus on the growth of the tourism sector. Competition in the sector has also intensified because of the 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. 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, TMHL's capacity to compete with the existing players once operational, remains to be seen.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

Past rating rationale:

[The Metropolitan Hotel Private Limited: Bank Facilities Rating Assigned](#)

About the Company:

The Metropolitan Hotel Limited (TMHL) was incorporated in July 2016 and later converted into public limited company in July 2024. TMHL is a special-purpose-vehicle that owns and operates a 5-star hotel in Sukedhara, Kathmandu offering a total of 105 keys. The construction of the hotel commenced in 2020 and full commercial operations of commenced from January 15, 2025. The total project cost stood at ~NPR 2,813 Mn funded through the debt equity mix of ~72:28. The company has ventured in to the hospitality sector with internationally renowned hotel chain Mercure by Accor and has entered into a comprehensive agreement AAPC India Hotel Management Private Limited (Accor Hotels) for operating under the brand name "Mercure Kathmandu". TMHL is a part of AB Holdings, where Mr. Desh Bandhu Basnet is the chairman holding majority (~45%) stake.

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn)	Ratings
Fund Based Bank Facilities-Term Loan	Long Term	1,894.05	IRN BB
Fund Based Bank Facilities-Working Capital	Short Term	60.00	IRN A4
Fund Based Bank Facilities-Working Capital (Proposed)	Short Term	25.00	IRN A4
Non-Fund Based Bank Facilities-LC/BG ¹	Short Term	(200.30)	IRN BB/A4
Total Facilities		1,979.05	

¹Letter of Credit/Bank Guarantee

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