

Omstone Asia Capital (Nepal) Private Limited: [ICRANP] LB+ assigned

April 20, 2020

Summary of rated instruments:

Instrument*	Rated Amount (NPR Million)	Rating Action
Fund-based; Long-term loans	800.00	[ICRANP] LB+ (Assigned)
Total	800.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA Nepal has assigned the long-term rating of [ICRANP] LB+ (pronounced ICRA NP L B plus) to the NPR 800-million long-term loans (including proposed limits) of Omstone Asia Capital (Nepal) Private Limited (OACPL).

Rationale

The ratings assigned to OACPL, (a special purpose vehicle (SPV) formed to own and operate a proposed 5-star hotel property under the franchise of Dusit Thani) are constrained by the execution risk of the project. Rating concerns also arise due to the high project capex (per-key cost of ~NPR 26 million) as well as high debt financing proportion, resulting in high gearing levels for the company in early few years. This is likely to result in weak debt coverage metrics until the hotel achieves stabilisation, which has been factored into the rating action. The rating also remains constrained by the limited experience of the promoters in operating a high-end hotel. Rating concerns also arise from the hotel's limited segment and geographical diversification and its moderate scale of operation. Given the moderate scale of operation and high debt burden, any slack in the projected occupancy and RevPAR¹ could render the business cash flows inadequate to service the debt obligations in a timely manner. This remains a challenge as the competitive intensity among the hotels in the Kathmandu valley region remains high, because of large number of players operating within a limited geography; more so in the recent period, because of the commissioning of new projects.

Nonetheless, the rating considers the strategic location of the project and brand visibility accorded by the project's tie-up with Dusit Thani². The hotel developers have entered into an agreement for using the brand name Dusit Thani for the hotel. The agreement allows them access Dusit's global reservation systems and draw from the former's expertise in hotel operations management. This is also expected to offset the promoters' limited experience in operating such a high-end hotel. The rating also favourably factors in the Government of Nepal's (GoN) initiatives to boost the tourism industry to increase demand for such (hospitality) projects.

Key rating drivers

Credit strengths

Brand recognition of Dusit Thani

OACPL has entered into a 10-year hotel licensing and management agreement³ with Dusit Overseas Company Limited for the use of the brand name Dusit Thani, for the proposed hotel. In addition to providing brand recognition for the proposed hotel, this also provides access to Dusit's global reservation systems, which is likely to have a positive impact on the occupancy and revenues of the hotel. Moreover, the agreement also provides for Dusit's management of hotel operations, mitigating the risk arising from limited hotel experience of the promoter.

Conducive environment for tourism-related ventures notwithstanding the recently developed negative sentiment

The Government of Nepal (GoN) has taken positive steps to encourage private sector involvement in the tourism sector. The GoN has rolled out provisions like tax holiday for large-scale hotel projects, prescribed a lending floor for banks and financial institutions (BFIs) for tourism-related projects, among others. Although the global and national level lockdowns implemented in the aftermath of Covid-19 outbreak and cancellation of Visit Nepal Year (VNY) 2020⁴ by the GoN has

¹ Revenue per available room

² A Thailand based hospitality group with hotel properties across the south east Asian region.

³ The agreement has been entered for an initial period of 10 years, extendable by further 5+5 years at the discretion of the parties involved. i.e. Dusit Overseas Company Limited and Omstone Asia Capital (Nepal) Private Limited.

⁴ GoN campaign targeting to increase the number of foreign tourists visiting Nepal to 2 million in CY2020 (vs. 1.2 million in CY2019)

created a negative sentiment across the hospitality and tourism sector, the longer term outlook remains positive and therefore the impact on the companies such as OACPL with under-construction properties, is expected to remain lower than the currently operational properties.

Credit challenges

Execution risk associated with the project

The construction of the hotel building started from July 2018 and the hotel is in the mid stages of development. The management expects the project to commence operation during the period December 2020 to July 2021, in phases where the resort portion will be operational in the first phase followed by the villas. Given that the villa revenues will form a major portion of OACPL's revenue profile, its timely commissioning will be critical to ensuring timely debt servicing. The project execution timeline could get stretched because of the nationwide lockdowns imposed after the global outbreak of Covid-19 and its probable impact on the construction activities. Adequate buffer before the commencement of project loan repayment, however, remains a comfort.

High Capex and leveraged capital structure; debt coverage indicators likely to remain weak until project stabilization

Given the relatively high project commissioning cost and a high debt financing proportion (~63% of project cost), OACPL's gearing is likely to remain high in the early few years. Coupled with the stabilization risk (i.e. risk of lower RevPAR in the early years), OACPL's debt coverage indicators in these years is expected to remain weak. These risks to increase further in the event of a major time and cost overrun of the project.

Limited geographical and segmental diversification

The proposed 5-star resort hotel will be a single-property hotel located in the outskirts of the capital city-Kathmandu targeting high-end leisure travellers. The geographical and segment diversification of the company remains low. Given the relatively moderate per capita spending by the tourist visiting the country, generating adequate traffic to the property could remain a challenge.

Analytical approach: For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below:

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Omstone Asia Capital (Nepal) Private Limited (OACPL) was incorporated in December 2014. OACPL is a special purpose vehicle (SPV) set up for developing and operating a 5-star resort property in Dhulikhel (vicinity of Kathmandu city), under the franchise of the Dusit Thani group of hotels (a Thailand-based hospitality Group). OACPL has shareholding from Mr. Vishnu Mor, an Indian origin Dubai-based businessman with major investments in Indian palm oil industry and Mr. Ramesh Hamal (a Nepalese businessman with prior hospitality sector experience across South-east Asia and the Caribbean).

OACPL has entered a management contract with Dusit Thani for a period of 10 years (extendable by another 10 years) from the date of commencement. The resort property is currently under development with targeted commercial operation by mid-July 2021.

Annexure-1: Instrument Details

Instrument	Rated amount (NPR Million)	Rating assigned
Fund-based – Project long term loan with embedded sub-limits	800.00	[ICRANP] LB+
Total	800.00	

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About ICRA Nepal Limited:

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Our parent company, ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies.

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