

## Subha International Hospitality Private Limited: Long-term rating downgraded to [ICRANP] LB and short-term rating of [ICRANP] A4 assigned

January 03, 2024

### Summary of rating action

Instrument (Amounts in NPR million)	Last Rated Amount	Current Rated Amount	Rating Action
Fund based; long-term loan limits (A)	845	795	[ICRANP] LB; downgraded from [ICRANP] LB+
Non-fund based; short-term limits (within A)	-	(0.3)	[ICRANP] A4; assigned
<b>Total</b>	<b>845</b>	<b>795</b>	

Instrument details are provided in [Annexure-1](#)

### Rating action

ICRA Nepal has downgraded the long-term loan rating of Subha International Hospitality Private Limited (SIH) to [ICRANP] LB (pronounced ICRA NP L B) from [ICRANP] LB+ (pronounced ICRA NP L B plus). ICRA Nepal has also assigned a short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to the company's short-term loan limits.

### Rationale

The long-term rating downgrade mainly factors in the increased debt component in the funding mix for the company's under construction five-star project with debt portion now increasing to ~62% from earlier proposed ~47%. Furthermore, the project has also faced delays in construction and is now planning to start operations from a smaller scale of 56 rooms (ultimate plan of 80 rooms), which would result in higher debt burden per available room. Hence, the project's debt coverage metrics are likely to remain muted against earlier expectations. The ratings are also constrained by the execution and funding risks associated with the project which had achieved ~75% financial progress as of November 07, 2023 with only ~56% of the project's equity requirements infused till mid-July-2023 (including promoter advances). Further, the increasing competition in the country's hotel sector with increased level of investments in the recent years, is expected to constrain the revenue growth prospects of the company.

Nonetheless, the ratings factor in the prior business experience and traction of SIH's promoters in the region. In addition, the hotel is proposed to be operated under the brand name 'Lemon Tree Premier' as per the management agreement with Carnation Hotels Private Limited (CHPL), and will be the first five-star property in the region upon commissioning. The brand recall could aid the visibility of the hotel. The rating also positively factors in the project's locational advantage being close to the Indian border, coupled with the planned operations of a casino, which could support the occupancy and revenue prospects. The ratings also favourably factor in the Government of Nepal's (GoN) initiatives to support and boost the demand prospects of the Nepalese tourism industry.

### Key rating drivers

#### Credit strengths

**First five-star property in the region with integrated casino and brand recognition of 'Lemon Tree Premier'** – The project is being constructed in Biratnagar city, the capital of Koshi Province, and is in close proximity to the Indian border. Its strategic location and its standing as the first five-star property in the region, could remain a positive for the long-term demand prospects. Moreover, the proposed casino operations in the hotel could also augment the demand prospects, given the strict gaming laws in India. SIH has entered into an agreement with Carnation Hotels Private Limited (CHPL) to

operate the hotel. CHPL is a subsidiary of Lemon Tree Hotels Limited (LTHL), New Delhi, India, which has an established presence in the Indian market through different brands (such as 'Lemon Tree Premier', 'Citrus Café' and 'Republic of Noodles'). SIH is likely to benefit from the brand recognition of 'Lemon Tree Premier' as well as from the operational and managerial experience of the operator. Additionally, the promoters of the hotel have a traction in the regional market which could aid the initial offtake to some extent.

**Government's support to tourism sector players** – The Government of Nepal (GoN) has taken steps to encourage the private sector's involvement in the tourism sector. The GoN has rolled out provisions like tax holiday for large-scale hotel projects and prescribed a lending floor for banks and financial institutions (BFIs) for tourism-related projects, among others.

### Credit challenges

**Execution and funding risks** – The project is proposed to be developed at a revised project cost of ~NPR 1,284 million for revised capacity of 56 rooms (initial estimated cost of ~NPR 1,516 million for 80 rooms). Till mid-July 2023, ~56% of the overall equity requirement had been injected by the promoters (including promoter advances). The timely infusion of balance equity by the promoters (including the shortfall to cover the gap in the debt component, if any in case of unanticipated cost overrun towards project completion), will remain essential for the timely project development. As of November 07, 2023, SIH had achieved ~75% financial progress. Hence, execution of the project before the start of term loan repayments (due to start after the moratorium period of 2.5 years), will be critical.

**Stabilisation risk, coverage indicators likely to remain suppressed in initial years of operations** – SIH now proposes to utilise NPR 795 million debt to fund the latest cost estimates for 56 rooms (i.e. ~62% debt funding), as against the plan to use debt funding of NPR 713 million (i.e. ~47% debt funding), when last rated for then proposed capacity of 80 rooms. The increased leverage levels of the project along with smaller scale of operations and delayed project completion (now expected to commence operations from June, 2024, as against earlier estimates of June, 2023), are likely to result in muted debt servicing metrics for SIH. Given the company's high debt burden along with moderate revenue expected during the project stabilisation phase, SIH's coverage indicators are likely to remain modest in the early years of operations, which could necessitate the promoter's support for timely debt servicing and managing liquidity. The promoter's ability to infuse timely and adequate funding support in case of exigencies, will remain a key monitorable.

**Increasing industry competition** – The company is expected to face strong competition from existing players with low debt burden as well as with the growing number of new hotels in the region. The 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 operating hotel properties. Given the high operating leverage of the hospitality business, the operating profitability could remain muted vis-à-vis projected estimates for new properties.

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

**Link to the applicable criteria:**

[Corporate Credit Rating Methodology](#)

**Link to the last rating rationale:**

[Subha-International-Hospitality-Private-Limited-Fresh BLR\\_August 2022](#)

### About the company

Subha International Hospitality Private Limited (SIH) is constructing a five-star hotel in Bhrikuti Chowk, Biratnagar of Koshi Province. The property is proposed to have 80 keys (56 rooms during the initial phase of operations), which will be managed and run by Carnation Hotels Private Limited under a hotel operation agreement under the brand name of 'Lemon Tree Premier'. The company was incorporated on January 25, 2011, as Nepal Bazar International Private Limited and operated a departmental store which was closed down in 2019.

Mr. Kabin Shrestha, Mr. Binay Kumar Choudhary Agrawal, Ms. Sita Devi Chaudhary Agrawal and Ms. Ganga Khatiwada are the owners of the company with ownership stakes of 25%, 30%, 40% and 5 %, respectively. Mr. Kabin Shrestha is the Chairman of the company.

### Annexure-1: Instrument details

Instrument (Amounts in NPR million)	Last Rated Amount	Current Rated Amount	Rating Action
<b>Long-term Limits (fund based)</b>			
Term Loans	495	795	[ICRANP] LB; downgraded from [ICRANP] LB+
Bridge gap loans (within Term Loan)	(360)	-	
Term Loan (proposed)	350	-	
<b>Total Long-term limits (A)</b>	<b>845</b>	<b>795</b>	
<b>Short-term Limits (non-fund based)</b>			
Bank guarantee (within long-term limits)	-	(0.3)	[ICRANP] A4; assigned
<b>Total short-term limits (B)</b>	-	(0.3)	
<b>Grand Total (A+B)</b>	<b>845</b>	<b>795</b>	

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### About ICRA Nepal Limited:

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