

Golyan Tower Private Limited: [ICRANP] LB+/A4 assigned

November 27, 2023

Summary of rating action:

Instrument (Amount in NPR million)	Rated Limits	Rating Action
Long-term loan limits (Term Loans)	600	[ICRANP] LB+; assigned
Short-term loan limits (Bridge gap loans - within term loans above)	(200)	[ICRANP] A4; assigned
Total	600	

Rating action

ICRA Nepal has assigned a long term rating of **[ICRANP] LB+** (pronounced ICRA NP L B plus) to the long-term loan limits and also assigned a short term rating of **[ICRANP] A4** (pronounced ICRA NP A four) to the short-term loan limits of Golyan Tower Private Limited (GTPL).

Rationale

The ratings remain constrained by the stabilisation risks for the company's under-construction commercial complex project, mainly given the company's high rental yield targets (annual rental yields at ~12% of project cost). While ~46% of the rentable space is targeted to be leased out to the company's sister concerns, agreements or rental advances had not been executed yet. The company's ability to generate adequate occupancy at the targeted rentals (which are relatively high on account of high project capex), remains to be seen. Additionally, the cost of borrowings remains relatively higher along with a long repayment tenure of 20 years, which would lead to high interest burden especially during initial years of operations amid the debt mix of ~51%. The ratings are also impacted by the execution risks for the remaining project components along with design changes and additional project scope leading to higher costs against the initial estimates. The project is also exposed to funding gaps as ~29% of equity was yet to be injected and hence any unexpected cost overrun towards project completion could accentuate funding gaps. Since the loan repayments are scheduled to start from mid-October 2023 (i.e., prior to project's commercial operations), ICRA Nepal expects timely/adequate funding support from the promoters, in case of exigencies.

Nonetheless, the ratings factor in the company's established promoters' profile, advanced stage of project construction (~81% financial progress till mid-September 2023) and its convenient location. Going forward, the company's ability to complete the project within the estimated cost/ timeline and thereafter report adequate occupancy/margins to cover the debt obligations would remain the key rating sensitivities.

Key rating drivers

Credit Strengths

Part of the established Golyan Group – GTPL is promoted by individuals affiliated with the Golyan Group, which has a long presence across diverse sectors including banking, energy, agriculture, manufacturing, hospitality among others. Experienced background of the promoters and the likely financial flexibility by virtue of GTPL's linkage with the group, also remain the rating positives.

Good location with occupancy support expected from sister concerns – The commercial complex project is being constructed in the Old Baneshwor area, which is conveniently located at close proximity to major city centres. Hence, the locational advantage and the targeted ~46% occupancy from Golyan Group companies remains a major rating anchor.

Credit challenges

Stabilisation risks amid high rental yield targets – Based on the relatively higher expected project cost of ~NPR 1,169 million (~NPR 19,475 per rentable square feet), the company's rental yields at ~12% of project cost from FY2025 onwards, raises concern on the project stabilisation timeline. While fair occupancy can be expected in the furnished spaces (proposed rental of NPR 250 per square feet) allocated to group companies, unfurnished spaces are also targeted to be rented out at NPR 150 per square feet, which remains higher compared to commercial complexes, based on leased land. These concerns are aggravated by the lack of rental agreements so far. Furthermore, the ongoing economic slowdown could also impact initial occupancy levels and the proposed rentals could face competition from older properties with lower debt burden. In case of a lower occupancy than expected, initial loss support requirements could lead to a stretched liquidity as well as debt service indicators. As the debt repayments are to begin shortly from mid-October 2023, timely/adequate funding support from promoters will remain crucial.

Modest execution and funding risk – The project has reported ~81% financial progress till mid-September 2023, amid targets to start operations from January, 2024. Given the limited timeframe remaining, execution risk for the remaining project components also remains an area of concern. Further, the project has already witnessed increase in cost by ~21% from the originally budgeted cost, mainly on account of design changes as well as addition in project scope. Any unexpected delays in project completion could lead to cost overrun and thus further funding gaps amid ~29% of proposed equity yet to be injected. Moreover, the prevailing high borrowing rates could further impact the project cost metrics.

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](#)

About the company

Initially established as Westar Hotels Limited and later converted to private limited company (with name change as well), Golyan Tower Private Limited (GTPL) is constructing a commercial complex in Old Baneshwor, Kathmandu. The project is in advanced stages of construction with targets to start operations by January 2024. GTPL's registered office is in Rabi Bhawan, Kathmandu. Mr. Shakti Kumar Golyan is the company's chairman as well as its largest shareholder, followed by Mr. Basudev Golyan and Mr. Kumud Golyan, among others.

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