

Lost Horizon Private Limited: [ICRANP] LB+/A4 assigned

March 04, 2024

Summary of rating action

Instrument (Amounts in NPR Million) *	Rated Amount	Rating Action
Long-term loan limits	1,004	[ICRANP] LB+; assigned
Fund based; Short-term loan limits	70	[ICRANP] A4; assigned
Non-fund based; Short-term loan limits	2	
Total Loan Limits	1,076	

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

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 of Lost Horizon Private Limited (LHPL or the company) and a short-term rating of [ICRANP] A4 (pronounced ICRA NP A Four) to its short-term loan limits.

Rationale

The ratings are mainly constrained by the execution and funding risks for the company's proposed luxury resort in Begnas, Pokhara and the offtake risks during the stabilization period, once operational. As of mid-January 2024, the project achieved ~56% financial progress and has a limited timeframe against the targeted commercial operations date of December 2024. However, the promoters are yet to inject ~37% of the equity, while the debt funding for the cost overrun portion also remains to be tied up. Any unexpected delays in debt funding arrangement and equity infusion could have a bearing on the project's timeline. The ratings are also impacted by the relatively higher debt financing proportion (~72% debt) for the project, which also has a higher per key cost of ~NPR 39 million, being a luxury property (albeit likely to moderate once the second phase expansion is carried out).

However, the ratings are comforted by the company's association with the InterContinental Hotels Group (IHG, one of the major European hotel groups) through the hotel management agreement, enabling the company to share the established brand name of IHG. The franchise association could enhance the initial revenue traction of the property, which could also be aided by the promoter's prior experience in owning and operating multiple hotel properties (albeit not in the luxury segment). Further, the ratings derive comfort from the project's favourable location in the Begnas region, which is popular among domestic as well as foreign tourists visiting Nepal. ICRA Nepal also favourably factors in the Government of Nepal's (GoN) initiatives to provide support and boost the demand prospects of the Nepalese tourism industry. Going forward, the company's ability to complete the project within the anticipated cost/timeline and thereafter, maintain adequate occupancy/margins would remain the key rating sensitivities.

Key rating drivers

Credit strengths

Established brand presence of IHG, experienced promoters and favourable location – The company is constructing a luxury resort in Begnas, Pokhara, which remains a highly-frequented location in one of the major tourist centres of the country. This could augur well for the demand prospects of the business over the long term. Moreover, LHPL has entered into a marketing and management agreement with InterContinental Hotel Group (one of the leading European hotel groups) to operate this property under the IHG brand name. This could provide wider visibility for the property, especially during the early years of operations, in addition to the expected support from the past industry experience of the promoter group, viz., the Shangri-La Hospitality Group, which had two hotel projects in Kathmandu and Pokhara (5-star and 4-star category respectively, with both currently undergoing reconstruction stages).

Government support for the tourism sector – The GoN has been taking multiple positive steps to develop the country's

tourism sector, which remains its key priority. These include prescribing a lending floor for banks and financial institutions (BFIs) for tourism-related projects, interest capitalisation options during construction, the recent announcement of the Visit Nepal decade, and extended support to recover from the pandemic impact, among others. The long-term outlook also remains positive for the sector considering the presence of two large populous nations as neighbours.

Credit challenges

High execution and funding risks – The project’s execution risks remain high as the project had just achieved ~56% financial progress till mid-January 2024 while the management plans to commence the hotel operations by December 2024. Additionally, timely injection of the balance of ~37% equity would also remain critical in achieving the expected project commissioning timeline. The project also underwent significant design changes and scope revisions following the onboarding of IHG as a partner, leading to a sizeable debt funding gap for the overrun portion (sanctioned limit of NPR 724 million as of mid-January 2024, out of increased debt requirement of NPR 1,076 million). Any unexpected delays/cost overruns towards project completion could accentuate the gaps.

Sizeable debt burden could liquidity profile and debt servicing ability – The latest project cost estimate of ~NPR 1,495 million is proposed to be financed through ~72% debt, which is likely to impact coverage metrics during the initial years of operations, in case the revenues are lower than anticipated. Additionally, the relatively higher project commissioning cost (per key cost of ~NPR 39 million, being a high-end luxury property proposed initially in small scale of 40 rooms, which is to be expanded to 80 rooms in the second phase, as targeted for December 2026) and moderate scale of operations/revenue expectations in the initial years are likely to exert pressure on the liquidity and debt servicing capacity of the company during these years. ICRA Nepal expects timely and adequate funding support from the promoters in case of exigencies and this would also remain a key rating sensitivity.

Project offtake risk with limited geographical/segment diversification – The hotel industry in Begnas, Pokhara is getting highly competitive, given the presence of multiple existing properties in the region. Pricing pressure could be exerted by the older and established properties with low debt burden, thus accentuating the offtake risk. The project would also be exposed to limited segmental/geographical diversification avenues, despite the promoter group proposing to operate multiple hotel properties in different geographies.

Cyclical industry, vulnerable to general economic slowdown and exogenous factors – Given the dependence of the hospitality industry on discretionary spending (especially leisure travel), the tourism industry remains highly susceptible to exogenous shocks like political instability, economic downturns, and pandemics such as Covid-19. Further, the tourism industry in Nepal remains seasonal, which could add volatility to the company’s cash flows. The company’s ability to consistently maintain an adequate liquidity buffer to counterbalance the seasonality also remains to be seen.

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

LHPL is a special purpose vehicle (SPV) set up in October 1996 to own and operate a luxury resort in Begnas, Pokhara under the brand name of Intercontinental Hotel Group (IHG). The property will comprise 38+2 keys (suite rooms) and is located above Begnas lake (40 entry level luxury rooms proposed to be added in the second phase, currently targeted for December 2026). The promoters of the company, Mr. Prasadha Bahadur Panday and Mr. Prabin Bahadur Panday, are siblings who have equal ownership of the company, and are part of the Shangri-La Hospitality Group. The hotel management agreement for the project was signed with M/s. InterContinental Hotels Group in December 2022 to operate this property under the brand name of InterContinental Resort Pokhara Begnas.

Annexure-1: Instrument details

Instrument (Amount in ~NPR Million)	Rated Amount	Rating Action
Long-term loan Limits (A)		[ICRANP] LB+ (Assigned)

Instrument (Amount in ~NPR Million)	Rated Amount	Rating Action
Auto loan	12	
Term loan (existing and proposed)	992	
Short-term loan limits (B)		
Fund based; Bridge Gap Loan (within A)	(100)	[ICRANP] A4 (Assigned)
Fund based; Demand Loan	50	
Fund based; Overdraft facility	20	
Non-fund based; Irrevocable Letter of credit (within A)	(150)	
Non-fund based; Bank Guarantee	2	
Total Loan Limits	1,076	

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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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