

Lost Horizon Safari Resort and Spa 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	937	[ICRANP] LB+; assigned
Fund based; Short-term loan limits	(100)	[ICRANP] A4; assigned
Non-fund based; Short-term loan limits	(85)	
Total Loan Limits	937	

* 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 Safari Resort and Spa Private Limited (LHSRS 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 Meghauli, Chitwan and the offtake risks during the stabilization period, once operational. As of mid-January 2024, the project achieved ~55% financial progress and has a limited timeframe against the targeted commercial operations date of April 2025. However, the promoters are yet to inject ~27% of the project's equity requirements, 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 32 million, being a luxury property (albeit likely to moderate once the second phase expansion is carried out). Furthermore, the ratings are also constrained by the growing competition in the region among similar premium properties.

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 Meghauli region, which is popular among domestic as well as foreign tourists visiting Nepal, particularly the famous Chitwan National Park. ICRA Nepal also favorably factors in the Government of Nepal's (GoN's) 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 Meghauli, Chitwan, which is home to Nepal's first National Park viz., the Chitwan National Park, a UNESCO-listed world heritage site. This could augur well for the demand prospects of the business over the long term. Moreover, LHSRS 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 option during construction, 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 ~55% financial progress till mid-January 2024 while the management plans to commence the hotel operations by April 2025. Additionally, timely injection of the balance ~27% 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 485 million as of mid-January 2024, out of increased debt requirement of NPR 937 million). Any unexpected delays/cost overruns towards project completion could accentuate the gaps.

Sizeable debt burden could impact liquidity profile and debt servicing ability – The latest project cost estimate of NPR 1,295 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 32 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 Meghauri, Chitwan 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 pandemic 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

LHSRS is a special purpose vehicle (SPV), set up in November 2019, to own and operate a luxury resort in Meghauri, Chitwan under the brand name of Intercontinental Hotel Group (IHG). The property will comprise 38+2 keys (suite rooms) and is located at the bank of Rapti river (40 entry level luxury rooms proposed to be added in the second phase, currently targeted for December 2026). The company is promoted by Mr. Prasadha Bahadur Pandey and is the part of the Shangri-La Hospitality Group. The hotel management agreement for the project was signed with M/s. InterContinental Hotels Group (IHG) in December 2022, to operate this property under the brand name of “InterContinental Resort Chitwan Meghauri”.

Annexure-1: Instrument details

www.icranepal.com

Instrument (Amount in NPR Million)	Rated Amount	Rating Action
Long-term loan Limits (A)	937	[ICRANP] LB+; assigned
Term loans (existing and proposed)	937	
Short-term loan limits (B)		[ICRANP] A4; assigned
Fund-based; Bridge Gap Loan (within A)	(100)	
Non-fund based; Letter of credit (within A)	(80)	
Non-fund based; Bank Guarantee (within A)	(5)	
Total Loan Limits (A+B)	937	

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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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