

## Barahi Sedi Limited: Ratings reaffirmed

July 1, 2024

### Summary of rating action

Instrument (Amount in NPR million)	Previous Rated Limits	Current Rated Limit	Rating Action
Long-term – fund-based limits	2,330	2,330	[ICRANP] LB; reaffirmed
Short-term – fund-based limits	50	50	[ICRANP] A4; reaffirmed
<b>Total</b>	<b>2,380</b>	<b>2,380</b>	

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

### Rating Action

ICRA Nepal has reaffirmed the long-term rating of [ICRANP] LB (pronounced ICRA NP L B) and a short-term rating of [ICRANP] A4 (pronounced ICRA NP A Four) to the bank loan limits of Barahi Sedi Limited (BSL/the company).

### Rationale

The ratings continue to remain constrained by the inherent project execution risks for the under constructional five-star hotel in Pokhara, given its mid-stage construction progress (69% financial progress as of May 2024). Considering the relatively slow progress than expected and the approaching deadline for IDC<sup>1</sup> (interest during construction) capitalization, the risks associated with time and cost overruns remain high, which could impact the project's overall financial profile going forward. The rating also takes note of the funding risks given yet-to-be infused promoter equity (~22% of the project equity) as well as possibility of funding gap amid probability of cost overrun. Financing of the gap through additional debt could further weaken its already highly leveraged capitalization profile (debt-equity mix of 75:25 for the current budgeted cost of NPR. 3,100 million) and created debt servicing pressure once operational. The company's ability to arrange funds to ensure timely completion of the project remains to be seen. Likewise, the offtake risk for the project upon commissioning is also expected to remain high, given the large number of operational and under-development hotel properties within the limited geography of Pokhara City. Moreover, the cyclical/seasonal nature of the hotel business also exposes the company to the risk arising from cash flow mismatch, which may affect its liquidity and debt repayment capacity.

Nonetheless, the rating continues to take comfort of the experienced promoters with long track record in the tourism and hospitality industry of Nepal with flagship name 'Barahi' under the Group. This is expected to generate traction with the customers, once operational. Likewise, the rating also takes comfort from the project's strategic location at Pokhara, one of the major tourist destinations in Nepal and Government of Nepal's (GoN) initiatives to provide support and boost the demand prospects of the Nepalese tourism industry.

Going forward, the ability of the company to timely complete the project by managing the execution and funding risk and promoters' ability to support the project during the construction as well as early operational stages will remain among the major rating monitorable.

### Key Rating Drivers

#### Credit Strengths

**Established brand and experienced promoter profile** – The Barahi Sedi Limited is promoted by the Barahi hospitality group which owns and operates a four-star 'Hotel Barahi Private Limited' (rated [ICRANP] LB+) in Pokhara and also owns multiple operational/under-development projects in major tourist destinations across the country such as Chitwan, Kathmandu, Pokhara and Lumbini. BSL is a family-owned business wherein the major promoters (Mr. Hari Prasad

<sup>1</sup> IDC is till March 2025 or COD, whichever is earlier.

Poudel and his family) have over four decades of experience in the hospitality & tourism sectors. Experienced promoters and brand recall of 'Barahi' are expected to support the hotel's business prospects.

**Government support for tourism-sector players** – The Government of Nepal (GoN) has taken measures such as granting interest capitalisation during construction, tax holiday for large-scale hotel projects, lending floor for banks and financial institutions (BFIs) for tourism-related projects, to promote private sector investments in the sector. The Government support, along with the locational advantage (Pokhara being one of the major tourist destinations of the country), are expected to support the long-term outlook of the hotel industry in Pokhara including BSL.

## Credit Challenges

**Project execution and funding risk** – The hotel project is in its mid-stages of development with ~65% progress in civil structures. However, Mechanical, Electrical and Plumbing equipment (MEP) and interior designing, is yet to start and its timeline will have a bearing on project completion. Given the mid-stage of project development and approaching expiry of IDC period (valid till March 2025), the likelihood of time and cost escalations remain high. Funding risk also arises as ~22% of the project equity from promoters remains to be infused. The company's ability to extend the IDC budget/timeline and mitigate other risks inherent with project development will have a direct impact on project commissioning.

**High debt burden to stretch liquidity and debt servicing metrics during stabilisation phase** – The project cost is budgeted to be developed at the cost of ~NPR 3,100 million through 75% debt financing. Given the likely cost escalations, the debt component could witness further increase. High debt and weak cashflows expected during the stabilization phase could exert pressure on the liquidity and its debt servicing capacity. The promoters' ability to provide funding support during such period will have a bearing on the hotel's operations and liquidity.

**Cyclical industry, vulnerable to general economic slowdown and exogenous factors** – Given the reliance of the hotel industry on the discretionary nature of spending (especially leisure travel), it remains highly susceptible to exogenous shocks like instability, economic downturns, and pandemics such as Covid-19. Further, the tourism industry in Nepal remains seasonal, which could result in volatile cash flows for the company. The company's ability to maintain 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.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

**Links to previous rating rationale:**

[Rationale Barahi Sedi Limited Fresh BLR 2022](#)

## About the Company

Incorporated as a private limited company in December 2018, Barahi Sedi Limited (BSL) was later converted to public limited in July 2022. BSL is developing a five-star hotel with 150 keys including 10 executive suites, a casino and 11 service houses. The hotel property is spread across ~7.5acre (63 ropanis) and consists of guest accommodation building, main lobby, reception, two restaurants and one exclusive bar, three conference halls, two board room, spa, sauna and health centre, casino block, administrative block, and mechanical room. The hotel is in its mid stages of development, with civil works in advanced stage in 3 blocks out of 4.

The hotel property is at Sedi height, Pokhara, and is conveniently located vis-à-vis Pokhara Airport. The hotel is promoted by eight individuals with ~75% stake owned by Mr. Hari Prasad Paudel and his three family members.

## Annexure-1: Instrument details

Instrument (Amounts in NPR Million)	Previous Rated Amount	Current Rated Amount	Rating Action
<b>Long-term limits (A)</b>	<b>2,330</b>	<b>2,330</b>	[ICRANP] LB; reaffirmed
Fund-based facilities; Term Loan (TL)	2,330	2,330	
<b>Short-term limits (B)</b>	<b>50</b>	<b>50</b>	[ICRANP] A4; reaffirmed
Fund-based; Overdraft	50	50	
Fund-based; Bridge gap loan (within TL)	(650)	(650)	
Non-fund-based; Letter of credit (within TL)	(100)	(100)	
<b>Total (A+B)</b>	<b>2,380</b>	<b>2,380</b>	

## Analyst Contacts

**Mr. Sailesh Subedi** (Tel No. +977-1-4519910/20)

[sailesh@icranepal.com](mailto:sailesh@icranepal.com)

**Mr. Purushottam Sedhai** (Tel No. +977-1-4519910/20)

[purushottam@icranepal.com](mailto:purushottam@icranepal.com)

**Mr. Shahil Shrestha** (Tel No. +977-1-4519910/20)

[shahil.shrestha@icranepal.com](mailto:shahil.shrestha@icranepal.com)

## Relationship Contacts

**Ms. Barsha Shrestha** (Tel No. +977-1-4519910/20)

[barsha@icranepal.com](mailto:barsha@icranepal.com)

## About ICRA Nepal Limited

ICRA Nepal Limited, the first Credit Rating Agency of Nepal, is a subsidiary of ICRA Limited (ICRA) of India. It was licensed by the Securities Board of Nepal (SEBON) on October 3, 2012. ICRA Nepal is supported by ICRA Limited through a technical support services agreement, which envisages ICRA helping ICRA Nepal in areas such as rating process and methodologies, analytical software, research, training, technical and analytical skill augmentation.

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.

For more information, visit [www.icranepal.com](http://www.icranepal.com).

### ICRA Nepal Limited,

Sunrise Bizz Park, 6th Floor, Dillibazar, Kathmandu, Nepal.

**Phone:** +977 1 4519910/20

**Email:** [info@icranepal.com](mailto:info@icranepal.com)

**Web:** [www.icranepal.com](http://www.icranepal.com)

All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA Nepal.

ICRA Nepal ratings should not be treated as a recommendation to buy, sell, or hold the rated debt instruments. The ICRA Nepal ratings are subject to a process of surveillance which may lead to a revision in ratings. Please visit our website ([www.icranepal.com](http://www.icranepal.com)) or contact the ICRA Nepal office for the latest information on ICRA Nepal ratings outstanding. All information contained herein has been obtained by ICRA Nepal from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Nepal, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion and ICRA Nepal shall not be liable for any losses incurred by users from any use of this publication or its contents.