

## Chhaya Devi Complex Private Limited: [ICRANP] L BB/ [ICRANP] A4+ assigned

September 13, 2018

### Summary of rated instruments:

Instrument*	Rated Amount (NPR Million)	Rating Action
Fund-based - Long-term loans	2,000.00	[ICRANP] LBB (Assigned)
Fund-based - Short-term loans	50.00	[ICRANP] A4+ (Assigned)
<b>Total</b>	<b>2,050.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA Nepal has assigned the long-term rating of [ICRANP] LBB (pronounced ICRA NP L Double B) to the NPR 2,000-million long-term loans (including proposed limits) of Chhaya Devi Complex Private Limited (CDCPL). ICRA Nepal has also assigned the short-term rating of [ICRANP] A4+ (pronounced ICRA NP A Four Plus) to the NPR 50-million short-term loans (overdraft limit) of CDCPL.

### Rationale

The rating considers a strong profile of the promoter, strategic location of the project, low funding risk (entire debt has been tied up<sup>1</sup> and ~89% of the committed equity has been infused till mid-July 2018) and low gearing level of the company. The project comprises a proposed 5-star hotel within a retail shopping/ commercial complex, which will be the first of its kind in Nepal. The developer has sold a major portion of retail/commercial spaces in the complex to raise equity for the completion of the hotel project. This has lowered the debt burden of the company thereby improving the economic feasibility for the hotel project. The developer has entered into an agreement with the Starwood Group for using the brand name, Aloft, for the hotel. The tie-up, besides providing brand recognition, provides access to Starwood's global reservation systems. Also, the developer has awarded the hotel operation contract to an experienced third party (Nidra Hospitality Private Limited, India), offsetting the limited experience of promoters in the high-end hotel industry. The rating also favourably factors in the Government of Nepal's (GoN) initiatives<sup>2</sup> to provide a fillip to the tourism industry to increase demand for such projects.

However, the rating remains constrained by the execution risk of the project. Although the commercial complex is expected to be operational soon, work on the hotel project is in the early stages, which gives rise to the risk of time overrun. Since a major portion of the operating revenues for the company will accrue from the hotel operations, its timely completion will be important to the revenue profile and debt-servicing ability of the company. However, the moratorium period during the construction period (repayment commencing from July 2019, three months after the proposed commissioning of the hotel), coupled with the financial flexibility provided by the strong promoters offers some comfort. The rating also remains constrained by tough competition among the star-category hotels in Kathmandu valley, which is likely to intensify further soon after commissioning of new projects.

Going forward, completion of the project within the scheduled timeline and the budget, ability to stabilise the hotel property and achieve adequate sales and collections thereof will remain key rating factors.

### Key rating drivers

#### Credit strengths

##### Integration of hotel project with retail mall and office space improves the economic feasibility of the hotel

The retail-cum-hotel complex is an estimated NPR 4,948-million project, which is funded in the debt-equity ratio of 41:59. Out of the total project equity of NPR 2,898 million, ~62% was raised through outright sales of retail/commercial space

<sup>1</sup> In addition to the first tranche of term loan of NPR 1 billion, the bank has also released NPR 250 million as bridge gap loan against the second tranche of NPR 1 billion.

<sup>2</sup> E.g. tax holidays for large scaled hotel projects, requiring BFIs to maintain a specified percentage of their lending towards tourism sector etc.

in the complex till mid-July 2018. This has helped the company maintain a low gearing level, lowering the pressure of debt servicing and improving the economic feasibility of the hotel. Moreover, once commissioned, the hotel will be the first of its kind to have an integrated retail mall and commercial space in the same complex, which could be its unique selling proposition (USP).

#### **Hotel project likely to benefit from brand recognition of Aloft and expertise of the hotel operator**

CDCPL has entered into a 10-year licence agreement with Starwood Asia Pacific Hotels and Resorts P. Ltd. (Starwood)<sup>3</sup> for the use of brand name, Aloft, for the proposed hotel. In addition to providing brand recognition for the proposed hotel, this also provides access to Starwood's global reservation systems, which is likely to have a positive impact on the occupancy level and revenues of hotel. Moreover, contract for the hotel operation has been awarded to a third-party operator with experience in managing Starwood branded hotels, mitigating the risk arising from limited hotel experience of the major promoter group.

#### **Strategic location of the complex expected to boost prospect of the hotel as well as the retail complex**

The property is in Thamel area of Central Kathmandu, which has been a major tourist destination over the years. The area is also close to major landmarks in the capital like the royal palace, offices of diplomatic mission and other high-end hotels. In addition to the central location, the complex (built over ~1.75 acres of land) has adequate parking provision. All these factors augur well for the future economic prospects of the retail complex as well as the hotel project.

#### **Inventory of saleable spaces and financial strength of promoters provide financial flexibility to the company**

As of mid-July 2018, the developers continue to retain ~28% (by area) of the sellable retail/commercial space, which can be sold to cover any cost overrun. Moreover, given the financial strength of major promoters including Mr. Prithvi Bahadur Pande (Chairman and major shareholder of Nepal Investment Bank Limited<sup>4</sup>), the ability of promoters to infuse equity also remains good. The promoters plan to sell off the unsold retail/commercial space and gradually downsize project loans in the near future. However, their ability to do so remains to be seen.

#### **Conducive environment for tourism-related ventures**

The Government of Nepal (GoN) has taken positive steps to encourage private sector involvement in the tourism sector. The GoN has rolled out provisions like tax holiday for large-scale hotel projects, prescribed a lending floor for banks and financial institutions (BFIs) for tourism-related projects among others. Moreover, the GoN has also announced Visit Nepal Year 2020 (VNY2020) campaign, targeting to increase the number of tourists to 2 million by 2020 (vis-à-vis estimated ~1 million for 2018). All these remain positives for the hotel and other sectors related to the tourism industry.

### **Credit challenges**

#### **Execution risk associated with the project**

The developer has planned soft launch of the retail complex during the festive season of Dashain and Deepawali (during mid-October 2018) followed by the full-fledged commercial operation of the hotel by mid-April 2019. Although major work related to the retail complex has been completed, work for the hotel area is still in its nascent stages, which remains a concern about the timely commissioning. A major portion of the company's operating revenues will accrue from the hotel operations and so timely commissioning of the same is likely to have a bearing on the overall revenues and debt servicing ability of the company.

#### **Increasing competition among the star hotels**

The hotel industry in Kathmandu remains intensely competitive given many star and tourist standard hotels concentrated in the limited geography of the city. Kathmandu has six 5-star hotels along with many hotels across other star categories. Moreover, different boutique hotels operating in the region offer competition to the large players. Operation of the proposed "Hotel Aloft Kathmandu" is likely to intensify the competition, lowering the margin for all players. Moreover, Fair Field by Marriott, another branded 5-star hotel, is set to commence operations in the near future. Besides, projects like Sheraton, Double Tree-Hilton, Hyatt Place etc are in different stages of commissioning.

<sup>3</sup> A subsidiary of Marriott International. Prior to merger with Marriott, Starwood was an American hotel and leisure company based in Stamford, Connecticut.

<sup>4</sup> Rated A+ for issuer rating by ICRA Nepal.

#### Limited geographical and segment diversification

The proposed 'Hotel Aloft Kathmandu' will be a single-property hotel in Kathmandu and thus will remain exposed to geographical concentration risk. Moreover, given the limited segment diversification, the revenue of the hotel is likely to be driven by high-end tourists. The prospect of the hotel therefore will depend on the improvement of foreign tourist arrival and the hotel's ability to compete with other high-end hotels operating in the area.

**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](#)

#### About the company:

Incorporated in January 2008, Chhaya Devi Complex Private Limited (CDCPL) is a special purpose vehicle (SPV) created for the construction of a commercial complex with an embedded hotel. CDCPL is developing a complex which will house a retail mall, office space and a proposed 5-star hotel with 167<sup>5</sup> rooms, over a plot size of about 1.75 acres<sup>6</sup> in the Thamel area, central Kathmandu. A major portion of the retail mall and office space has been sold out (the developer retained a few to sell or rent out later).

Major promoters of CDCPL include Mr. Prithvi Bahadur Pande, Mr. Nirmal Pradhan, Mr. Deepak Man Sherchan, Mr. Mijas Bhattachan, Mr. Maheshwor Prakash Shrestha, M/S Syakar Trading Concern and M/S Himalayan Infrastructure Fund. Mr. Maheshwor Prakash Shrestha<sup>7</sup> is the Managing Director of the company.

The hotel has been licensed by Starwood Properties Singapore for the use of brand name, Aloft (to be named as "Hotel Aloft Kathmandu"). The developer has entered into an agreement with Nidra Hospitality P. Ltd (India) for management of the hotel operations.

#### Annexure-1: Instrument Details

Instrument	Rated amount (NPR Million)	Rating assigned
Fund-based -Existing Term Loans	1,000.00	[ICRANP] LBB
Fund-based -Proposed Term Loans*	1,000.00	[ICRANP] LBB
Fund-based-Existing Short-term Loans (overdraft)	50.00	[ICRANP] A4+
<b>Total</b>	<b>2,050</b>	

\*NPR 250 million bridge gap loan has been released against the proposed limit.

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<sup>5</sup> Although the hotel property will have 168 rooms, only 167 will be available for guests

<sup>6</sup> ~14 ropani

<sup>7</sup> Mr. Shrestha is an alternate director in ICRA Nepal, representing Himalayan Infrastructure Fund Limited.

**About ICRA Nepal Limited:**

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