

Wonders Nepal Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	600.00	CARE-NP BB- [Double B Minus]	Assigned
Total Facilities	600.00		

Details of instruments/facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB-' to the long-term bank facilities of Wonders Nepal Private Limited (WNPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of WNPL is primarily constrained by operations stabilization risk associated with its skywalk tower operations considering relatively long gestation period associated with adventure tourism industry. The rating also factors in susceptibility to cyclical, and geographic concentration risk, financial risk profile marked by low profitability and moderate debt coverage indicators and exposure to volatile interest rates. The rating, however, derives strengths from experienced directors and management team and unique attraction of transparent glass flooring in skywalk tower. The rating also factors in strategic locational advantage of the hotel and government initiative and support for tourism sector.

Going forward, the ability of the company to maintain occupancy level, establish its brand and achieve growth in operations and cash accruals as envisaged will be key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Stabilization risk and long gestation period associated with adventure tourism industry

The skywalk tower started its commercial operations on mid-June 2023. Generally, adventure tourism such as skywalk tower require longer gestation period to recover the fixed costs associated with it and become profitable. Such projects have long gestation period since construction of a skywalk tower takes up to three to four years while stabilization of operations may take another two to three years. Further, construction of skywalk tower calls for a huge investment and have longer gestation periods. Going forward, the ability of the company to attract customers, maintain occupancy level, establish its brand and derive benefit from the skywalk tower as envisaged on a sustained basis will be crucial rating factor.

Susceptibility to cyclical and geographic concentration risk

High peak season for the inflow of tourist in Kathmandu is from September to December and another is from March to May. Since the targeted customers of WNPL are high end tourist, so the tourist will focus on high peak season. Moreover, during rainy season, operation remains low. The occupancy levels and revenue in the adventure tourism industry are susceptible to macroeconomic trends, both in the domestic and global markets. Furthermore, the company's skywalk tower has a single establishment located at Kathmandu, thus exposing operations to geographic concentration risk.

¹Complete definitions of the ratings assigned are available at <https://www.careratingsnepal.com/> and in other CRNL publications

Financial risk profile marked by low profitability and moderate debt coverage indicators

The skywalk tower started full-fledge operations from Mid-June 2023. In FY24, the company achieve Total Operating Income (TOI) of Rs. 125 Mn. With low operational cost during the year, PBILDT of the company was Rs. 97 Mn. But, with high depreciation expenses and interest cost, PAT of the company stands negative at Rs. 0.47 Mn. in FY24.

Furthermore, the capital structure of the company stood moderate with overall gearing ratio at 1.66x at the end of FY24 from 1.76x at the end of FY23. The improvement in gearing ratio is on account of increase in tangible net-worth of the company. The company has low repayment during initial years however, interest expenses stood high at Rs. 66 Mn during FY24. Further, interest coverage stood at 1.47x during FY24. Total debt to GCA stood at 19.30x in FY24 compared to negative 115.51x as on FY23 on account of improvement in gross cash accruals. Debt service coverage indicators remained weak during initial years due to low operations which is expected to improve in future as the company scales up its operation.

Exposure to volatile interest rates

WNPL's interest rate is based on a floating interest rate regime, and interest rate is changed accordingly on a quarterly basis. Any rate hikes could put additional interest burden on the company, squeezing its profitability and impacting its liquidity position although the near-term prospects remain favorable amid declining trend observed in the BFI's base rates over the last quarter or so.

Key Rating Strengths**Experienced and resourceful promoter group**

WNPL has five board of directors chaired by Mr. Prabendra Pokhrel, who has more than a decade of experience in various sectors. He is also the chairman at Wonders Amusement Parks & Attractions Pvt Ltd and Wonders Everest Cable Car Pvt Ltd. Mr. Padam Prasad Neupane, managing director, has more than 30 years of experience. Formerly he had worked as a banker in Nabil Bank Limited. WNPL is part of the Wonder group of companies of Nepal which is involved in operating skywalk tower business in the field of adventure tourism. Directors are aptly supported by experienced management team across various functions/departments.

Strategic locational advantage of the skywalk tower

The skywalk tower is centrally located in Kamaladi, Kathmandu with Tribhuvan International Airport at a distance of around 11 kms. Kamaladi is one of the perfect locations which is located at the center of Kathmandu. The influx of tourists is high in Kathmandu as it is an entry point for international tourists in the country via flight and being one of the most attractive tourist destinations of Nepal which is visited by large number of tourists every year. Also, it is being built in Kathmandu, the capital city of Nepal with 7 UNESCO world heritage sites; known as city of temples and living goddess; close to the three durbar squares famous for its rich architecture.

Unique attraction advantageous for growth

The high-rise skywalk tower is new in the town combined with transparent glass flooring allowing visitors to see the landscape below. Such distinctive attraction can enhance a destination's brand, making it recognizable and appealing. This can lead to increased marketing opportunities and partnerships. Partnerships with corporate houses to conduct various activities can be advantageous in terms of revenue growth and profitability.

Government initiative and support for tourism

Tourism sector remains a prioritized sector of Nepal. In the recent Budget Announcement for FY25 by Ministry of Finance, the government has allocated Rs. 11.91 Bn for Ministry of Culture, Tourism and Civil Aviation. Also, prioritizing the importance of tourism in Nepal, the government has declared 2023-2033 as the Tourism Decade, with an aim of promoting Nepal as a prime tourist destination in the world. With the government prioritizing development of travel and tourism in the country, the prospect of this sector looks encouraging over the medium-term.

About the Company

Wonders Nepal Private Limited (WNPL) is a private limited company incorporated on March 20, 2018. The company is operating 26 storey tall skywalk tower in Kamaladi, Kathmandu. This skywalk tower is the nation's tallest and south Asia's first ever skywalk tower that stands 256 feet tall. The skywalk tower is proposed to accommodate 720,000 visitors per annum.

Financial Performance

(Rs. Million)

For the Period Ended / as at Mid-July,	FY24 (UA)
Income from Operations	125
PBILD Margin (%)	78.02%
Overall Gearing (times)	1.66
Interest Coverage (times)	1.47
Total Debt to Gross Cash Accruals (times)	19.30

UA: Unaudited

Annexure-1: Details of the Instruments/Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Long Term Bank Facilities	Term Loan	600.00	CARE-NP BB-
Total		600.00	

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