

Universal Tours and Travels Private Limited: [ICRANP] LBB+/A4+ assigned

April 15, 2024

Summary of rating action

| Instrument | Rated Amount (NPR Million) | Rating Action |
|--------------------------------------|----------------------------|---------------------------|
| Long-Term Loan Limits | | |
| Fund Based - Term Loans -NPR | 111.08 | [ICRANP] LBB+; (assigned) |
| Short-Term Loan Limits | | |
| Fund-based; Working Capital loan | 210.00 | [ICRANP] A4+ (assigned) |
| Non-Fund-based; Bank Guarantee - NPR | 700.00 | |
| Non-Fund-based; Bank Guarantee - USD | 3.00 | |
| Total NPR million | 1,021.08 | |
| Total USD million | 3.00 | |

Rating action

ICRA Nepal has assigned a long-term rating of [ICRANP] LBB+ (pronounced ICRA NP L double B plus) to the long-term loan limits of Universal Tours and Travels Private Limited (UTT), and a short-term loan rating of [ICRANP] A4+ (pronounced ICRA NP A four plus) to the company's short-term loan limits.

Rationale

The assigned ratings factor in the long operational track record (since 1978) of UTT as well as its long associations with reputed airlines (Fly Dubai, Korean Air and Emirates at present) as a general sales agent (GSA) for both passenger/cargo business originating from Nepal. The GSA agreement provides UTT with steady source of commission income on all outbound passenger/cargo business from Nepal. This, coupled with the experienced promoters and management team and their traction in the local market, has helped UTT's business growth over the years. The recovery in international air traffic post-Covid and growing footfall of foreign tourists, coupled with the Government's focus on the tourism sector (e.g., declaration of Visit Nepal Decade for FY2023-2032) support incremental business outlook for UTT.

Nonetheless, the ratings remain constrained by UTT's moderate liquidity profile as reflected in its current ratio. This stems from the history of moderate profitability (especially during the Covid-affected period) and dividend withdrawal in FY2023. Although the coverage indicators of the company have improved in FY2023, its sustainability remains to be seen (given the historically moderate coverage indicators). Rating concerns also arise from the short-term nature of GSA agreement (albeit, partly offset by the long-term association with the airlines) and vulnerability of UTT towards any change in the terms related to commission/incentives under the agreement. Moreover, seasonality/cyclicity of the foreign tourism business and its dependence on geo-political and regulatory risks remain other concerns.

Going forward, UTT's ability to scale-up its business and sustain the improvement in its financial profile over the longer term will remain the key rating driver.

Key rating drivers

Credit strengths

Long track record and experienced promoters/management team – UTT is one of the major players in international air ticketing business in Nepal with over four decades of track record and experienced promoters. The company also has a long track record as a GSA for three major airlines in Nepal. Over the years, the company has achieved good visibility, established a strong agency network as well as linkages with foreign airlines which remains a positive for growth and sustainability of the business.

Exclusive agreement with pre-defined incentives from airlines – UTT has entered into the GSA agreements with the three airlines for Nepal, which qualifies UTT for incentives/commission on all passenger/cargo business originating from Nepal at pre-defined rates. Revenue in FY2023 remained fairly distributed among the three airlines, reducing the concentration risk. Further, the company plans to expand and diversify its business by adding GSA of new airlines in Nepal, which remains a positive for the long-term sustainability and growth of UTT's business.

Positive demand outlook – The business outlook for the overall industry remains positive, given the tourism potential of Nepal, post-Covid recovery in air-travel and increasing trend of Nepalese going abroad for leisure, study and/or work. The Government of Nepal's recent announcement to mark FY2023-2032 as a tourism decade remains a positive for the overall tourism sector and travel business.

Credit challenges

Dependence on partner airlines and short-term nature of GSA agreement – Although UTT has acted as a GSA for its partner airlines for a long period, the underlying GSA agreements are of short-to-medium term tenure. As such, UTT's business is susceptible to the revision in incentive plans under the GSA agreement by the airlines. Moreover, UTT's performance is also dependent on the financial health and stability of the partner airlines.

Limited track record of post-Covid recovery – Although UTT's financial profile has improved post-Covid, with commensurate improvement in airlines traffic in and out of Nepal, the sustainability of improvement over a longer time remains to be seen. Given the small revenue base and reserve position, any slack in incremental revenue profile could moderate the financial profile and liquidity of the company. With the company planning to expand its GSA coverage across new airlines, its incremental working capital management (including debtor management) and future dividend plan will also remain among the key monitorables.

Analytical approach: For arriving at the rating, ICRA Nepal has applied its rating methodology as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Universal Tours and Travels Private Limited (UTT) is one of the oldest travel and tour operators in Nepal, operating since 1975. Since 1978, UTT has been serving as a general sales agent (GSA) for various airlines in Nepal. Presently, UTT acts as a GSA for Korean Air, Fly Dubai, and Emirates airlines.

UTT is a family-owned business, with 90% equity stake held by Ms. Lalita Prasai and the remaining 10% by Mr. Parashar Prasai, who also serves as the managing director in the company.

Key financial indicators

| | FY2019 | FY2020 | FY2021 | FY2022 | FY2023 |
|--|----------------|--------|--------|--------|--------|
| | Audited | | | | |
| Operating income-OI (NPR million) | 106 | 119 | 115 | 182 | 237 |
| OPBDITA/OI (%) | 34.1% | 53.8% | 64.4% | 62.2% | 57.5% |
| Total debt/Tangible net-worth-TNW (times) | 1.8 | 2.8 | 2.2 | 1.1 | 0.4 |
| Total outside liabilities/ TNW (times) | 3.2 | 3.6 | 3.0 | 2.1 | 2.1 |
| Total debt/OPBDITA (times) | 8.9 | 7.8 | 5.5 | 2.5 | 1.0 |
| OPBDITA/ Interest (Interest coverage; times) | 1.3 | 1.2 | 1.5 | 2.2 | 6.1 |
| DSCR (times) | 1.2 | 1.2 | 1.0 | 1.8 | 2.4 |
| Net-working capital/OI (%) | 159% | 257% | 201% | 64% | -77% |
| Current ratio | 1.07 | 0.99 | 1.04 | 1.04 | 1.08 |

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About ICRA Nepal Limited:

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