

Kailash Helicopter Services Limited: [ICRANP-IR] BBB assigned

May 06, 2024

Summary of rating action

Instrument	Rated Amount	Rating Action
Issuer Rating	NA	[ICRANP-IR] BBB; assigned

Rating action

ICRA Nepal has assigned an issuer rating of [ICRANP-IR] BBB (pronounced ICRA NP issuer rating triple B) to Kailash Helicopter Services Limited (KHSL/the company). Issuers with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations. Such issuers carry moderate credit risk. The rating is only an opinion on the general creditworthiness of the rated entity and not specific to any debt instrument.

Rationale

The assigned rating factors in the healthy financial profile of Kailash Helicopter Services Limited characterised by healthy business growth (CAGR of 32% between FY2020-FY2023) and adequate profit margin levels¹. The rating also positively factors in comfortable capitalisation profile and low debt utilisation so far. The rating also factors the company's adequate market share in the rotor wing segment (in terms of passenger carried) and the company's experienced promoters and management team. The assigned rating also takes note of the post-Covid revival in tourism activities in the country, which remains a positive for the incremental demand prospects for the overall aviation sector. The rating also positively takes note of the track record of safety in helicopter operations. Similarly, high entry barriers such as stringent regulatory norms, minimum equity and fleet requirement remain deterrents to the new entrants, which is a positive for existing players like KHSL.

Nonetheless, the rating is constrained by the relatively short track record of KHSL's operation (since FY2017). As such, the company's performance over longer time remains untested. The rating also remains constrained by KHSL's major revenue concentration in two major destinations² as well as sizeable revenue contribution from non-recurring businesses such as rescue operations. As the company plans to add additional rotor-wing craft through debt financing, the ability to secure a sustainable revenue source and gradually diversify the revenue stream will remain essential for long-term sustainability. Given a tourism-dependent business, KHSL's profile also remains dependent on the tourism industry seasonality/cyclicality and exposure to exogenous factors (economic downturn/travel restrictions). Given a high operating leverage (high proportion of fixed cost to overall cost), any slack in business could deteriorate the financial metrics sharply. The company's margins and profitability remain susceptible to the volatility in aviation turbine fuel (ATF) price and forex fluctuations (repayment in USD for fleet, spares, loans). Operation in difficult geography/terrain also exposes the company's financial profile to operational risks.

Going forward, the company's ability to scale-up its operations, diversify its revenue sources and sustain its operational/safety track record will remain among the key rating monitorables and sensitivities.

Key rating drivers

Credit strengths

Healthy financial profile – Healthy business growth (~32% CAGR in the last three years ending FY2023) and margin levels (average OPM of 41% and NPM of 14% in the last three years ending FY2023), coupled with debt averse policy, have supported the company's financial profile since the beginning of its operations in FY2017. With business growth and

¹ Average Operating margin of 41% and Net profit margin of 14% in the last 3 years ending FY2023.

² Adventure flight to Everest Base Camp (EBC) and Annapurna Base Camp (ABC), accounting for ~50% of company's revenues.

retention of profit accruals, the company's capitalisation profile is comfortable with a gearing of 0.33x, TOL/TNW³ of 0.46x and total debt/OPBITDA⁴ of 0.54x as of mid-July 2023. Similarly, the coverage indicators are healthy with interest coverage ratio (ICR) of ~19x and debt service coverage ratio (DSCR) of ~6x for FY2023. The company's plans of adding a new helicopter through debt financing can have a bearing on these numbers unless compensated by the commensurate rise in revenue, which remains to be seen.

Experienced promoters and management team – The company has been promoted by group of individuals from aviation, tourism, and banking background with long experience in their related fields. The company's chairperson and one of the major shareholders is a pilot with more than 20 years of experience in the rotor wing segment. Similarly, the managing director brings a huge experience from the banking and finance sector, which also remains a positive from the operational prospects of KHSL. The experienced, competent promoters and their traction in the industry, helped the company's business growth and profitability over the years including the pandemic years. Kailash is currently among the major players in the rotor wing segment and has plans of boosting its market share through gradual addition of helicopters in its fleet. The company has been able to maintain good operational track record with no aerial incidents thus far, which also remains a positive.

Improving working capital intensity – The company's working capital intensity improved to 27% in FY2023 from 51% in FY2021, supported by controlled debtor and inventory days. However, given the seasonality in revenue, its dependency on working capital financing during lean quarters remains high and its ability to effectively manage the same will remain a key monitorable.

High entry barriers – The aviation industry is regulated by the Civil Aviation Authority of Nepal (CAAN), which sets the regulatory and financial thresholds for new entrants. The provisions such as minimum equity capital requirements, technically sound crew members, minimum number of crafts in the fleet serve as entry barriers for new players. This remains positive for the existing industry players including KSHL.

Credit challenges

Limited track record – Though KHSL has demonstrated healthy financial profile and operational track record, the sustainability of the same over a longer horizon remains to be seen, as the company started its operations in FY2017. Its ability to maintain similar operational/financial performance over longer timeframe remains untested. However, the ability of the company to maintain its performance during pandemic-induced downturns in the tourism industry, remains a source of comfort.

Inherent industry cyclicity and revenue seasonality – The inherent seasonality in the tourism industry in Nepal and its exposure to exogenous factors such as economic downturn/travel restrictions, can create revenue volatility for businesses like KHSL. Any downtime in the operations during peak season could have a disproportionate impact on the company's financials. Industry seasonality also strains the company's ability to manage working capital during lean periods, given high operating leverage (high proportion of fixed cost in the overall cost). As such, the availability of liquidity cushion on an ongoing basis remains important from operational perspective.

Concentrated revenue profile – The company generates ~50% of total revenue from adventure tourism in two major destinations, EBC and ABC followed by rescue operations (~30%) and cargo operations (~20%). Any disturbance in the area, local/environmental and the sustainable revenue generations from rescue and cargo operations would impact its revenue profile. Additionally, 50%-55% of total revenue is generated from top-20 tour and travel agents. Any material change in the top contributing agents can further impact its revenue profile.

Volatility in fuel price, forex, and operational risk – The profitability margin of the company is highly susceptible to the price of ATF, as fuel is one of the major input costs. Moreover, the company has recurring expenses in foreign currency towards purchase/overhauling of helicopter/helicopter parts as well as service of debt obligations. Hence, the company is exposed to volatility in forex rates and interest rate risk. However, the company's sizeable foreign currency revenue (~45% of total revenue in FY2023) offsets the forex risk to some extent.

³ Total outside liabilities/total net worth

⁴ Operating profit before depreciation, interest expense, tax and amortisation

The aviation sector faces challenging operating environment like mountain terrain, unpredictable weather, limitation of human resources, etc., which raises concern.

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

Links to applicable criteria:

[Issuer Rating Methodology](#)

About the company

Kailash Helicopter Services Limited (KHSL) is among the major rotor wing players in the industry (comprises over 10 players). KHSL was incorporated in 2017 as a private limited company and converted to a public limited company on July 09, 2023. The company provides services like chartered flights, rescue operations, sling operations, adventure tours (EBC and ABC), etc., through its current fleet of three Airbus helicopters. The company plans to add one more airbus helicopter to its fleet by January 2025.

KHSL has a paid-up capital of NPR 315 million as of mid-April 2024 and has equity-raising plans through IPO in future. At present, the company is promoted by seven individual shareholders with Captain Ashish Sherchan as the Chairperson and Mr. Pratap Jung Pandey as the Managing Director.

Key Financial Indicators

	FY2020 (Audited)	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Audited)	6MFY2024 (Provisional)
Operating income – (OI; NPR million)	306	321	404	702	310
OPBDITA/OI (%)	42%	43%	37%	43%	42%
Total debt/Tangible net worth (TNW; times)	0.94	0.74	0.74	0.33	0.33
Total outside liabilities/TNW (times)	1.11	0.83	0.83	0.46	0.53
Total debt/OPBDITA (times)	2.34	1.96	1.88	0.54	0.65
Interest coverage (times)	7.55	12.65	14.07	18.64	21.49
DSCR (times)	5.92	11.89	10.33	5.57	8.64
Net working capital/OI (%)	40%	51%	31%	27%	32%
Current ratio	2.98	3.32	2.60	3.04	2.88

Analyst Contacts

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

sailesh@icranepal.com

Mr. Rajib Maharjan (Tel No. +977-1-4519910/20)

rajib@icranepal.com

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

purushottam@icranepal.com

Relationship Contacts

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

barsha@icranepal.com

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For more information, visit www.icranepal.com

ICRA Nepal Limited,

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

Phone: +977 1 4519910/20

Email: info@icranepal.com

Web: www.icranepal.com

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