

Altitude Air Private Limited

Ratings

Facility/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	515.19	CARE-NP BB+ [Double B Plus]	Assigned
Short Term Bank Facilities	335.54	CARE-NP A4+ [A Four Plus]	Assigned
Total Facilities	850.73		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB+' to the long-term bank facilities and the rating of 'CARE-NP A4+' to the short-term bank facilities of Altitude Air Private Limited (AAPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of AAPL are constrained by implementation risk and stabilization risk associated with purchase of additional helicopter, majorly debt funded. The ratings also factor in lumpy repayments scheduled for FY25 (FY refers to twelve-month period ending mid-July), which is expected to pressurize the debt service coverage indicators for the near term. The ratings also take note of concentrated revenue profile and working capital-intensive nature of operations. The ratings also take cognizance of exposure to volatile interest rates and inherent cyclicity of tourism industry with high seasonality in revenues.

The ratings, however, derive strengths from experienced promoters and crew members along with efficient management practices, growing scale of operations with healthy profitability margins and low gearing profile with adequate debt coverage indicators. The ratings also factor in high barrier to entry in the domestic aviation industry and government initiative and support for the tourism sector.

Going forward, ability of the company to timely procure additional helicopter and swiftly stabilize its operations to profitably scale up its operations as envisaged and rationalize its debt level by efficient working capital management will be key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Implementation and stabilization risk associated with ongoing capex

AAPL currently has two H125 airbus helicopters in its fleet and is in process of procuring additional helicopter. Debt for the capex has been fully tied up and the helicopter is expected to commence its operations during 2HFY25 (FY refers to twelve-month period ending mid-July). Ability of the company to acquire new helicopter within the envisaged time and swift stabilization of operations remains critical from analytical perspective. The company's established record of operations remains a positive from the operations stabilization point of view.

Concentrated revenue profile

Though AAPL provides wide range of helicopter services such as charter flight, mountain flight, rescue flight, medevac flight, pilgrimage flight, filming flight, chasing flight, etc., majority of its revenue (~70%) comes from charter services. The company's most popular destinations include trip to Everest Base Camp, Lukla, Muktinath and Pokhara. Having a concentrated revenue profile mostly towards a single service links the company's performance to the same and any disruption in such services can materially impact the company's financial performance.

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

Working capital intensive nature of operations

Operations of AAPL are working capital intensive in nature marked by high reliance on bank borrowings owing to elongated operating cycle amid prolonged debtor realization. Average fund based working capital loan utilization for last twelve-months ended mid-September stood almost full. Collection period stood at 90 days at the end of FY22, which improved to 78 days at the end of FY23. Consequently, operating cycle stood elongated at 104 days at the end of FY22, and improved to 86 days at the end of FY23. As on mid-April 2024, it stood at 74 days.

Exposure to volatile interest rates

The company's interest rates are based on a floating interest rate regime, where a certain premium is added to the secured overnight financing rate (SOFR) for its USD denominated loans and to the base rate for its local currency denominated loan and interest rate is changed accordingly. The base rates of the banks and financial institutions (BFIs) remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. Higher interest rates than envisaged could result in squeezed margins of the company although the near-term prospects remain favorable amid declining trend observed in the BFI's base rates over the last quarter or so.

Inherent cyclicity of the industry with high seasonality in revenues

The seasonal nature of the tourism industry creates volatility in AAPL's revenue growth and cash flow pattern. AAPL's revenue witnesses' high seasonality, with revenues spiking in two major tourist seasons (September to November and February to May) with high influx of tourists. In FY24, approximately 79%, by volume, of tourists arrived during the major tourist seasons. Hence, the revenue generated by the company is highly dependent on the volume of tourists and inherent cyclical nature of the tourism industry. Any disruptions in the movement of tourists can adversely impact the revenue profile of the company.

Key Rating Strengths**Experienced promoters and crew members along with efficient management practices**

AAPL is operated under the overall guidance of Mr. Nima Nuru Sherpa, Executive Chairman. Mr. Sherpa has over three decades of experience in the tourism/adventure tourism business. He has also served as the senior vice president of Nepal Mountaineering Association (NMA) and Trekking Agents Association of Nepal (TAAN). Similarly, other directors also have extensive experience in the travel and tourism sector. The board is aptly supported by experienced management team and crew members with a wide range of experience in the related fields. AAPL has two brand-new first-class fleet of Airbuses and the company has implemented a support-by-the-hour contract with Safran Helicopter Engines, which covers the in-service support as well as maintenance, repair and overhaul of the helicopter engine, thereby ensuring smooth operations and minimum downtime in case of both scheduled as well as abrupt maintenance.

Growing scale of operations with healthy profitability margins

AAPL commenced its commercial operations from 2016 and has a relatively shorter track record of operations vis-à-vis competitors in this industry. Though the company experienced losses during covid period, its scale of operations saw significant growth post covid from Rs. 143 Mn in FY21 to Rs. 478 Mn in FY23. Growth was supported by increase in volume of passengers from 4,492 during FY21 to 11,963 during FY23. Growth momentum has sustained during 9MFY24, with annualized y-o-y growth of 5% and is likely to continue going forward following operations of its new helicopter. The company has maintained satisfactory profitability margins with PBILDT margin of 35.94% in FY23, which improved from 8.82% in FY21 on account of improved operational efficiency and has remained rangebound at 36.88% during 9MFY24. Similarly, PAT margin stood at 11.20% during FY23 and improved to 12.30% in 9MFY24 backed by lower finance cost

owing to AAPL's USD denominated loan and its favourable interest rates based on SOFR. Additionally, risks pertaining to volatile forex rate is partially mitigated through AAPL's dollar income. Further, GCA stood healthy at Rs. 113 Mn in FY23 and Rs. 97 Mn in 9MFY24.

Low gearing profile with adequate debt coverage indicators

Capital structure of AAPL stood moderately leveraged as indicated by overall gearing of 1.53x at the end of 9MFY24, improved from 2.20x at the end of FY23. Gearing levels have been improving consistently on a y-o-y basis over FY21 to 9MFY24 on account of scheduled repayment of term loan. Interest coverage ratio remained adequate at 5.77x in 9MFY24 (FY23: 5.60x). Further, Total Debt/GCA improved to 2.43x at the end of 9MFY24 from 3.14x at the end of FY23 on account of improved cash accruals. Amidst the scheduled lumpy repayments of existing two term loans, servicing of additional debt obligation is likely to pressurize the coverage indicators. Ability of the company to grow its revenue as envisaged following successful operations of its new helicopter and swift stabilization of its operations remains to be seen.

High barriers to entry in the domestic aviation industry

The domestic aviation industry has a high barrier to entry. Stringent regulatory compliance requirements set by Civil Aviation Authority of Nepal (CAAN) and significant capital investment for aircraft and infrastructure with the need for specialized technical expertise act as deterrent to the new players.

Government support for tourism sector

Tourism sector remains a prioritized sector of Nepal. Previously, Government of Nepal had designated 2020 as a "Visit Nepal Year," generating significant enthusiasm for promoting tourism and inviting travellers to explore Nepal's cultural and natural attractions. However, due to the global COVID-19 pandemic and associated public health concerns, the government opted to cancel the planned activities and events for the campaign. To foster development in the tourism sector, the Nepalese government made a special announcement to promote tourism in the country. Aiming to draw international visitors and highlight Nepal's rich cultural and natural heritage, it has designated 2025 A.D. as the "Nepal Special Tourism Year." Further, in 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

Altitude Air Private Limited (AAPL) was incorporated as a private limited company on August 06, 2015 and commenced its operations on October 2016. AAPL is a domestic helicopter operator with a fleet of two H125 airbus helicopters, which provides various helicopter services such as charter flight, mountain flight, rescue flight, medevac flight, pilgrimage flight, filming flight, chasing flight, etc. The company has its registered office located at Sinamangal, Kathmandu and has an engineering and operations office located at Helipad, Tribhuvan International Airport, Kathmandu, Nepal.

Brief financial performance of AAPL during last three years is given below:

	(Rs. Million)		
For the Period Ended / as at Mid-July,	FY22 (A)	FY23 (A)	9MFY24 (UA)
Income from Operations	309	478	377
PBILDT Margin (%)	30.26	35.94	36.88

For the Period Ended / as at Mid-July,	FY22 (A)	FY23 (A)	9MFY24 (UA)
Overall Gearing (times)	4.22	2.20	1.53
Interest Coverage (times)	2.72	3.90	5.60
Current Ratio (times)	5.47	3.44	3.40
Total Debt/ Gross Cash Accruals (times)	7.26	3.14	2.43

A: Audited, UA: Unaudited

Annexure -1: Details of the Facilities/Instruments rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Fixed Term Loan	474.19	CARE-NP BB+
Long Term Bank Facilities	Permanent Working Capital Loan	41.00	CARE-NP BB+
Short Term Bank Facilities	Fund-Based Limit	55.00	CARE-NP A4+
Short Term Bank Facilities	Non-Fund-Based Limit	280.54	CARE-NP A4+
Total		850.73	

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