Simrik Air Private Limited

September 2018

Summary of rated instruments:

Instrument	Rated Amount	Rating Action
Existing Facilities in NPR Million:		
Long term loans, fund based	465.23	[ICRANP] LBB- (Assigned)
Short term- fund based	61.67	[ICRANP] A4 (Assigned)
Short term, Non-fund based	60.00	[ICRANP] A4 (Assigned)
Total NPR in million	**586.90**	
Existing long-term loans, fund based (In USD Million)	**0.97**	[ICRANP] LBB- (Assigned)
Proposed Facilities (unallocated): (In USD million)		
Short term, Non-fund based – LC	5.360	[ICRANP] A4 (Assigned)
Long term loans	(4.824)	[ICRANP] LBB- (Assigned)
Total USD in Million	**6.33**	

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 minus) to existing and proposed long term loans (NPR 465.23 million and USD 5.794 million respectively) of Simrik Air Private Limited (SAPL or the company). ICRA Nepal has also assigned the short-term rating of [ICRANP] A4 (pronounced ICRA NP A Four) to the existing as well as proposed short-term loans (including non-fund-based limits) of the company (existing short-term loans NPR 121.67 million and proposed limits of USD 5.36 million).

Rationale

The assigned ratings factor in the long track record of the company in the Nepalese aviation (helicopter) sector (since 2001) with fleet addition over these years aiding the revenue growth (~12% in last three years). SAPL currently operates through three helicopters which remains higher than most peers and additionally, its plans of adding two more helicopters shortly (within FY19), is expected to support the incremental revenue growth over medium term. The ratings also factor in the expected boost in the tourist arrivals due to the Government announced Nepal Tourism Year 2020. The ratings also take comfort from the significant flying experiences of majority of crew members and adequate AMC arrangements for its fleets.

The ratings, however, are constrained by the intense price competition in the industry which has presence of >10 players with some more companies awaiting to start operations. Inherent seasonality in the tourism-based business like SAPL along with limited revenue diversification avenues also remain areas of concern. SAPL's strategy of importing new helicopters and mostly operating through experienced pilots poses competitive cost disadvantages to an extent. Additionally, the company's ability to charge equivalent premium pricing remains restricted given the high dependence on agency model for business. Moreover, SAPL is proposing significant debt financing (~87%) in the proposed capex of USD 5.56 million which along with increased cost of borrowings in last two years might create stress over debt service indicators and hence remains the major rating concern. On an industry perspective, the history of frequent air crashes in Nepalese aviation sector (including helicopter operations) also remains a key concern for the industry growth potential.

Going forward, the company's ability to timely import the proposed helicopter prior to peak tourist season, increase its market presence/share accordingly and improve operational efficiencies will remain the key rating sensitivities.

Key rating drivers

Credit strengths

Aviation being a tourism-based business likely to witness major boost from Government initiation to celebrate 2020 as Visit Nepal Year; tourism remains among the prioritized sectors in Nepal

Tourism sector remains among the priority sector for Nepal and accordingly to boost the tourist inflow, the Government of Nepal has declared "Visit Nepal Year 2020". Much effort has been ongoing for the same since last few years including construction of two new international airports and promoting other infrastructures like hotels and roads. Such organized initiatives were also made in the past with Visit Nepal Year 1998 and 2011 that had resulted in increased inflow of tourists. This time the target has been set to attract two million tourists against around one million tourist arrivals in the year 2017. This remains a major positive for tourism industry as a whole.

Established track record of the company in aviation sector, well networked promoter/management and experienced crew members aiding market positioning of the company

SAPL has been in operation since 2001 and hence the customer linkages of promoters and management developed over these years has supported the business growth. Moreover, its experienced crew members and focus on service standards has contributed to brand development and market positioning. SAPL hence has good market share in high revenue sling operations along with specialized missions, which remains a positive.

Gradual fleet expansion has supported revenue growth over the years; plans of adding two more helicopters shortly would aid further market penetration

In last three years (ending mid-Jul-18), SAPL's revenue has witnessed growth of ~12% which was supported by gradual addition to fleets. Nonetheless, time-lag in fleet replacement (after crash/incidents) has impacted revenue streams in some years (~35% de-growth in revenue of FY16 vs. 22% CAGR in last five years). SAPL currently operates through a fleet of three helicopters (two Airbus helicopters and one Bell helicopter) which remains higher than most peers. This along with plans to add two new Airbus helicopters would help SAPL in further penetrating the market and improve its market presence especially given the approaching Visit Nepal Year 2020. SAPL also plans to improve operational efficiencies (in terms of flying hours) and standardize the fleet ownership which would remain key drivers for overall financial profile of the company.

Credit Challenges:

Intense competitive pressures in the industry

The number of helicopter companies has increased progressively in last few years with some more players awaiting regulatory licenses. This has intensified the competition in the industry and lowered the margins for the players. Additionally, the business model relies heavily on agents (~80-90% for SAPL) which mostly profit from the rates they can charge to final customers rather than commission induced profits. This has further fueled the price competition as well as elongated working capital cycles of helicopter operating companies.

Fleet addition plans of most players also remains a concern in terms of ability of the industry to sustain the demand momentum for incremental fleets over longer time frame while reducing seasonality downturns.

High debt financed capex plans could pressurize debt coverage indicators

SAPL plans to finance ~87% of price of proposed helicopters through bank loans (cost of each helicopter is $2.78 million, of which $2.412 million is planned to be funded through debt) which is subject to final approval from bank. High debt financing along with rising cost of borrowings in recent years may pressurize the debt coverage indicators over the medium term. DSCR and interest cover was ~1.3 times and ~2.7 times respectively for FY18 with moderate gearing at 2.7 times. Ability of the company to achieve boost in revenue in line with proposed fleet addition would remain the key rating sensitivity.

Proposed loans are in USD and hence proper forex cash flow management would also remain crucial

As of now, ~60-70% of SAPL's revenues are in USD which however follows uneven trend based on seasonality in business as well as owing to fluctuating share of business from Nepalese and Indian nationals which are mostly denominated in NPR. Since the company is proposing to avail the loans in USD, its ability to manage USD cash flows would remain more crucial going forward.

Increasing operating and financial costs impacted profitability; however, reducing ATF prices in recent years and increased scale of operations provided some support

In last two years, all direct operating costs of SAPL (apart from fuel expenses) has witnessed spike (in proportion to operating income) despite increased scale of operations and hence this remains an area of concern. Cost of bank borrowing also increased during this period in line with banking industry trend. However, the lowering fuel prices over this period cushioned the impact to an extent. SAPL's higher cost emanating from new fleets and experienced crew is being offset to an extent by better fuel efficiency, low maintenance costs and better brand perception. Going forward, rupee depreciation with dollar and the expected rise in international oil prices would result in increased ATF prices; ability of company to pass on these increased costs may come under pressure given the intense competition. Nonetheless, proposed scale expansion and operational efficiency targets could support profitability.

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:

In operation since 2001, Simrik Air Private Limited (SAPL) is a leading helicopter operator company in Nepal which has been extending services along chartered flights, rescue operations, sling operation services, adventure/religious tours, among others. SAPL currently extends its services through two Airbus helicopters and one Bell helicopter. The company is mainly promoted by Capt. Rameshwor Thapa who is also the Chairman of the company. With presence of many experienced pilots in its crew, SAPL has established itself as one of the leading service providers especially in areas of sling operations. Additionally, there are at times customized missions demanding expertise for which SAPL has been approached time and again.

Key financial indicators of SAPL:

Figures in NPR Million	FY2016 (Audited)	FY2017 (Audited)	FY2018 (Provisional)
Operating Income (OI)	310.8	517.3	665.2
Profit After Tax (PAT)	-45.3	20.7	42.5
OPBDITA/OI (%)	34.5%	38.1%	37.7%
RoCE (%)	8.9%	11.2%	15.4%
Total Debt/TNW (times)	2.5	2.9	2.1
Total Outside Liabilities/ TNW (times)	3.2	3.6	2.7
Total Debt/OPBDITA (times)	5.2	3.7	2.5
Interest Coverage (times)	2.7	2.8	2.7
DSCR (times)	1.5	1.5	1.3
NWC/OI	59%	41%	43%

Annexure-1: Instrument Details

Instrument	Limit (Amount in Million)	Rating Action
Existing Loan (NPR)		
Fund Based-Short term	61.67	[ICRANP] A4
Fund Based-Long term	465.23	[ICRANP] LBB-
Non-Fund Based -Short Term-LC	45.00	[ICRANP] A4
Non-Fund Based -Short Term-BG	15.00	[ICRANP] A4
Total of Existing Loan Limits in NPR	**586.90**	
Existing Loan (USD)		
Fund Based-Long term USD	0.97	[ICRANP] LBB-
Proposed Limits in USD:		
Non-Fund Based -Short Term-LC	5.36	[ICRANP] A4
Fund Based-Short term (Bridge Gap within LC limit)	(4.824)	[ICRANP] A4
Fund Based-Long term (Within Bridge Gap limit)	(4.824)	[ICRANP] LBB-
Total of Proposed limits in USD Unallocated	**5.36**	
Total NPR	**586.90**	
Total USD	**6.33**	

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About ICRA Nepal Limited:

ICRA Nepal Limited, the first Credit Rating Agency of Nepal, is a subsidiary of ICRA Limited (ICRA) of India. It was incorporated on November 11, 2011 and granted license by the Securities Board of Nepal (SEBON) on October 3, 2012. ICRA Nepal is supported by ICRA Limited through a Technical Support Services Agreement, which envisages ICRA helping ICRA Nepal in such areas as rating process & methodologies, analytical software, research, training, and technical & analytical skill augmentation.

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