

## Prabhu Helicopter Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	529.63	<b>CARE-NP B [Single B]</b>	<b>Assigned</b>
Short Term Bank Facilities	110.37	<b>CARE-NP A4 [A Four]</b>	<b>Assigned</b>
<b>Total Facilities</b>	<b>640.00 (Six Hundred Forty Million Only)</b>		

*Details of instruments/facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned rating the of 'CARE-NP B' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of Prabhu Helicopter Limited (PHL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of PHL are constrained by its stressed financial risk profile marked by net losses during past three FYs (FY20-FY22; FY refers to the twelve-month period ending mid-July) with highly leveraged capital structure and modest debt service coverage indicators. The ratings also factor in the seasonality in revenue attributed to operations linked with tourism, working capital intensive nature of operations in the highly competitive industry, exposure to volatile interest rates, regulatory risk and foreign exchange fluctuation risk.

The ratings, however, derive strength from the strong promoter group with history of financial support, moderate track record in providing Heli services and government support towards tourism sector. The rating also takes cognizance of the improving income levels of the company during H1FY23 (Unaudited, refers to the six-month period ended mid-January 2023).

*Going forward, the ability of the company to manage the growth in operations while improving the profit margins and rationalization of its debt through efficient working capital management leading to improvement in solvency and coverage indicators would be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

#### Stressed financial risk profile marked by losses for past three FYs (FY20-FY22) amid the pandemic

PHL's operational performance is on a rebound trail during FY22 and FY23 after being impacted severely during the pandemic. Operations remained impacted during FY20-FY21 as well as tourist inflow remained minimal amid the pandemic. Income levels have sequentially increased in FY22 aided by increasing flow of tourists. The revenue growth momentum has continued into FY23 with the company expected to surpass pre-covid levels of total operating income for FY23. Profitability of the company has accordingly been impacted by low income levels over FY20-FY22, with the company reporting net losses in each of these years. Although PBILDT margin turned positive in FY22 (negative in FY21), PHL reported net loss in FY22 as well on account of high interest expense amid higher utilization of working capital limits by the company coupled with higher depreciation base. Consequently, Gross Cash Accruals (GCA) of the company had been on lower side in past three FYs. The company's ability to sustain the improving trend going forward resulting in positive cash accruals on a sustained basis will be key monitorable aspect from credit perspective.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and in other CRNL publications

**Highly leveraged capital structure**

Capital structure of PHL stood leveraged with negative tangible net worth of the company at the end of FY22 mainly on account of accumulated losses over FY20-FY22. However, comfort is taken from the sustained financial support from promoters over the period. Over FY20-FY22 promoters have infused Rs. 187 Mn as equity. Interest coverage ratio stood stressed at 0.70 times in FY22 which was negative in FY21. Also, Total debt to GCA stood substantially high at above 180x in FY22

**Working capital intensive and seasonal nature of business**

PHL's average collection period stood at 53 days in FY22 (FY21: 79 days). At the end of FY22, debtors balance stood at Rs. 34 Mn (FY21: 31 Mn) which majorly include travel agents. Inventory majorly include spare parts and average inventory days stood at 18 days in FY22 (FY21: 14 days). Slower realization from debtors coupled with low margins resulted in a stretched liquidity position of the company, increasing its reliance on the bank finance for meeting its working capital needs. Average utilization of sanctioned limits was more than 95% during the last 12 months period ended mid-March 2023.

The Heli service sector of Nepal is highly competitive in nature with large number of players spread across various regions which will ultimately result in aggressive pricing leading to volatile profitability margins despite surge in tourists. PHL's revenues witness high seasonality, with revenues spiking in two major tourist seasons (September to November and March to May). Furthermore, operational disturbances during the peak season are also likely, considering the unpredictable weather conditions as well as constraints from airport capacities. These could pressurize its cash flows and thus impact financial profile, especially during periods of weak demand. Also, occupancy levels and revenue in the Heli service sector are susceptible to macroeconomic trends, both in the domestic and global markets.

**Exposure to volatile interest rate and foreign exchange fluctuation risk**

PHL's debt levels are relatively high, commensurate to the operations, resulting in substantial interest outgo of the company. The company's interest rate is based on a floating rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. Therefore, funding taken by the company from BFIs is subject to volatile interest rate. Furthermore, the consumables requirement is met through imports and the prices of the same are linked to USD, thereby exposing the company to foreign exchange fluctuation risk. However, with certain portion of revenue received in USD, foreign exchange is naturally hedged to some extent.

**Key Rating Strengths****Strong promoter group and moderate track record in providing Heli services**

Incorporated in 2015, PHL is a part of the Prabhu group of companies. It has been operational in helicopter services for more than 8 years. As on March 31, 2023, the company has a fleet of two helicopters after sale of four Robinson helicopters. Management's plan to procure Airbus helicopters is expected to increase number of consumers following the expansion of the fleet size. PHL is managed under the overall guidance of Company's Board of Directors (BoD) who possesses wide experience in the banking and finance sector. There are five members in the PHL's Board of Directors chaired by Mr. Devi Prakash Bhattachan, who is the founding chairman for the Prabhu group of companies. PHL is led by Managing Director, Mr. Subhash Amatya, having considerable experience in various sectors. The board is aptly supported by experienced management team.

### Government support to tourism sector

Tourism sector remains a prioritized sector of Nepal. In Budget Announcement for FY23 by Ministry of Finance, the government has allocated Rs. 9.38 Bn for tourism infrastructure development. Also, as per the Unified Directives of 2022/23, whereby the banks (type B and C) have to allocate minimum share of their total advances to hospitality sector which augurs well for the sector. Similarly, Monetary Policy of 2022/23 had amended refinance procedure to covid-19 impacted industries. 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

Prabhu Helicopter Private Limited, incorporated as a private limited company, took over the business of Muktinath Airlines Private Limited in 2015. The company was converted into public limited company as Prabhu Helicopter Limited (PHL) on July 14, 2022 with its registered office based in Kathmandu, Nepal. PHL is a domestic helicopter operator company, providing helicopter services primarily for mountain views, sightseeing and medevac extraction services.

### Financial Performance

	(Rs. Million)	
For the year ended mid-July	FY21 (A)	FY22 (A)
Income from Operations	125	228
PBILDT Margin (%)	Negative	25.71
Overall Gearing (times)	Negative	Negative
Interest Coverage (times)	Negative	0.70
Current Ratio (times)	0.77	0.92
Total Debt/Gross Cash Accruals (times)	Negative	184.38

A: Audited

### Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
<b>Long Term Bank Facilities</b>	<b>Term Loan</b>	<b>529.63</b>	<b>CARE-NP B [Single B]</b>
<b>Short Term Bank Facilities</b>	<b>Fund Based Limits</b>	<b>108.42</b>	<b>CARE-NP A4 [A Four]</b>
<b>Short Term Bank Facilities</b>	<b>Non Fund Based Limits</b>	<b>1.95</b>	<b>CARE-NP A4 [A Four]</b>
<b>Total</b>		<b>640.00</b>	

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