Buddha Air Private Limited: Ratings upgraded to [ICRANP] LA/A1

June 19, 2025

Summary of rating action

Instrument	Last rated limits (In Million)	Current rated limits (In Million)	Rating Action
Long-Term Loan Limits			
Fund-based - Term loans – NPR	608.35	1,309.18	**[ICRANP] LA**; upgraded from [ICRANP] LA-
Fund-based - Term loans – US Dollar (USD)	25.51	18.74	
Short-Term Loan Limits			
Fund-based – Short term loan – NPR	-	870.00	**[ICRANP] A1**; upgraded from [ICRANP] A2+
Fund-based - Overdraft – NPR	800.00	829.97	
Non-fund based - Bank guarantee – NPR	194.02	80.00	
Total NPR Million	**1,602.37**	**3,089.16**	
Total USD Million	**25.51**	**18.74**	

Rating action

ICRA Nepal has upgraded the long-term loan rating assigned to Buddha Air Private Limited (Buddha) to **[ICRANP] LA** (pronounced ICRA NP L A) from [ICRANP] LA- (pronounced ICRA NP L A minus) and also upgraded the company's short-term loan rating to **[ICRANP] A1** (pronounced ICRA NP A one) from [ICRANP] A2+ (pronounced ICRA NP A two plus).

Rationale

The ratings upgrade mainly factors in the company's robust operational profile characterized by healthy/largely steady market share (~60% during CY2024) in domestic aviation, reflecting into a strong revenue base (~NPR 13.2 billion in FY2024, which was the highest revenue since its inception) and improving operating profit margin (OPM) levels in last 12-18 months. While the revenue improvement was aided by the aircraft additions, the OPM was benefitted by the reduction in fuel prices and benefit of regulation mandated VAT registration. Further, the company's decreasing leverage levels, with the periodic prepayments of the term loans, has improved its capitalisation profile with gearing (total debt to tangible net worth) of 1.4 times as of January end 2025 (1.9 times as of October end 2023, when last rated). This, along with the reducing borrowing rates, have supported its coverage metrics with total debt to OPBDITA of 1.6 times and debt service coverage ratio (DSCR) of 3.9 times for H1FY2025. The ratings also continue to consider Buddha's long track record in the domestic aviation industry with largest fleet capacity leading to a sustained leadership position along with its experienced directors/management. The company's liquidity profile also continues to remain adequate with controlled working capital cycle and requisite buffers available in form of unutilised drawing power, along with significant on-balance sheet liquidity (~NPR 164 million), while the controlled capex plans going forward provides further comfort.

Nonetheless, the ratings remain constrained by the intense competition in the domestic aviation industry, with gradual fleet additions by all major players, leading to moderation in Passenger load factor (PLF) to 84-85% in recent years (>90% before that). Additionally, the company's exposure to foreign currency risks (sizeable debt obligations and operating expenses are denominated in USD, while the USD-based revenue proportion are still lower to pre-pandemic levels, despite recent improvements), continue to remain the rating concerns. The ratings also remain impacted by the seasonality inherent in the business and vulnerability to externalities like Covid, global events impacting tourism as well as economic slowdown, among others. Going forward, the sustainability of the improved revenue/margins will remain a key monitorable. Buddha's market share trajectory along with any material deterioration in its financial profile would remain a key rating sensitivity.

Key rating drivers

Credit strengths

Steady improvements in revenue and operating profit margins in recent years – Buddha reported revenue of ~NPR 13.2 billion during FY2024 (~9% YoY growth), marking its highest revenue since its inception. This was aided by the addition of aircraft and largely steady yield in the recent years. Further, the increasing share of high margin USD-based revenues (emanating from foreign tourists) (~15% in H1FY2025, from ~12% during FY2023), along with reduced fuel prices and the benefit of new regulation mandated VAT registration from start of FY2024 (which led to eligibility in claiming input tax credit on capex and operating expenses, including fuel costs) led to improved OPM of ~18% in FY2024, from ~10% during FY2023. Since the floor pricing as agreed among the players has remained largely the same despite the fuel cost reduction, the margin refinement is expected to be sustainable on a YoY basis (H1FY2025 OPM has surged to ~22%, albeit likely to moderate on a yearly basis, with pending scheduled maintenance of aircrafts in H2FY2025). However, with the nearing maturity of its few aircraft, the company's ability to timely replace the aircrafts, without increasing the debt burden significantly, will have a bearing on its incremental operational and financial profile and thus remains a key rating sensitivity.

Improving capitalisation with comfortable coverage indicators and liquidity profile – Aided by the periodic prepayments of term loans, amid the largely retained internal accruals (dividend of ~4% and 1% of net profit during FY2023 and FY2024 respectively), the company's gearing levels have improved to 1.4 times as of January end 2025 (1.9 times as of October end 2023), despite the addition of three debt-funded aircraft (in a debt to equity ratio of ~82:18) in the interim. Lowering leverage along with the declining borrowings rates and improving OPM have aided the coverage indicators with DSCR of 3.9 times for H1FY2025. The company also usually has a controlled working capital cycle, which provides comfort. Additionally, Buddha had unutilised drawing power at ~93% (including the valuation of debt-free aircraft, offered as additional collateral) as of January end 2025, which could provide liquidity support in case of short-term volatility in operational cash flows. As on the same date, the working capital intensity (net working capital to operating income ratio) was ~7%, amid largely controlled debtor and inventory levels.

Sustained leadership position in domestic aviation industry with experienced management – With around 28 years of operations, Buddha is the oldest private sector player in the industry. Backed by its strong operational capabilities developed over these years, the company has maintained a good track record and has evolved as one of the most preferred airlines by domestic passengers. In line with its generally largest fleet capacity in the industry, Buddha has been able to report a consistently strong market positioning with a market share of ~60% in CY2024 (notwithstanding a slight decline from ~63% during CY2023). Further, the company's experienced board/management team has contributed to its controlled business performance so far and remains a key rating strength.

Credit challenges

Intense competition – The competition in Nepalese domestic aviation industry has intensified in recent years with aggressive aircraft addition by most industry players. This led to intense price competition in the industry thus requiring the major players to agree to a floor pricing mechanism. Further, major chunk of the company's revenues is from the 'economy segment' ticket sales, wherein the pricing flexibility is even lower, as reflected in largely similar floor pricing. Additionally, Buddha's operating expenses (mainly personnel costs) have reported major upsurge in recent years, from the controlled levels during pandemic years. While the revenue per available seat kilometre (RASK) have improved to the pre-pandemic level of ~NPR 21.5, supported by the floor price agreements, increasing operating expenses have supressed the RASK- CASK (cost per available seat kilometre) spread, which remained at ~NPR 6.5 (~NPR 8.9 in FY2019). Buddha's ability to improve this spread while ensuing comfortable PLF (dropped to ~84-85% in recent years, from ~92% in FY2022) for increased fleet capacity, amid the competition, would remain crucial in maintaining comfortable financial indicators.

Exposure to forex risks amid sizable USD based obligations – The company has sizeable debt obligations in USD terms (~65% of overall bank borrowings) and bulk of its maintenance/parts expenses are also denominated in USD terms. Buddha's USD-based revenues, despite recent improvements, remain lower to pre-pandemic levels of ~25% and stood at ~15% of total H1FY2025 revenues (~12% for FY2023). Though the regulator continuous to allow USD-based loans to be paid in NPR terms, this exposes the company to significant forex risks, leading to forex losses in recent years. The gradual weakening of NPR against USD has further accentuated the impact, however, remains partly comforted by growing USD revenues with increasing foreign tourist arrival.

Inherent cyclicality of the industry and seasonality in revenues – The cyclical/seasonal nature of the tourism industry could create volatility in Buddha's revenue growth and cash flow pattern with revenues peaking in two major tourist seasons (October–November and February–April). This could pose volatility in revenues within different months in a same year, however, matching loan repayment schedules of Buddha to cash flow generating months provides some comfort. Nonetheless, the airlines sector is also exposed to the vulnerability to externalities like Covid, global events impacting tourism along with any major accidents that can significantly affect passenger traffic.

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

Link to the applicable criteria:
Corporate Credit Rating Methodology

Link to the last rating rationale:
Rationale – Buddha Air Private Limited_BLR Surveillance March 2024

About the company

Incorporated in 1996, Buddha Air Private Limited (Buddha) primarily operates in the domestic trunk routes of Nepal, with limited presence in international aviation (i.e. Varanasi and Kolkata, India from Kathmandu, Nepal). Buddha is the largest and the longest operating private sector airline in Nepal. It currently operates with a fleet of two ATR-42 and sixteen ATR-72 aircraft. Mr. Birendra Bahadur Basnet is the company's chairperson.

Key financial indicators

	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Audited)	FY2024 (Audited)	H1FY2025* (Provisional)
Operating income – (OI; Revenues in NPR million)	3,336	10,098	12,169	13,226	7,417
OPBDITA/OI (%)	11.6%	13.2%	10.0%	17.8%	21.6%
Total debt/Tangible net worth (TNW; times)	1.9	2.0	1.8	1.6	1.4
Total outside liabilities/TNW (times)	2.3	2.9	2.6	2.3	2.2
Total debt/OPBDITA (times)	9.0	2.7	2.9	1.9	1.6
Interest coverage (times)	4.7	6.6	3.4	5.6	7.4
DSCR (times)	0.6	1.6	2.0	2.6	3.9
Net working capital/OI (%)	10%	-5%	0%	6%	7%
Current ratio	0.59	0.43	0.62	0.84	1.07

Source: Company data.

* *H1FY2025 for the company refers to 6.5 months period from mid-July 2024 to January end 2025; ratios have been calculated accordingly.*

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About ICRA Nepal Limited:

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