

**Rating Rationale**

**United Idi Mardi & R.B. Hydropower Limited**

**Rating**

Particulars	Amount (Rs. in Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	1,025.78	CARE-NP BB+ [Double B Plus]	Assigned
Short Term Bank Facilities	115.00	CARE-NP A4+ [A Four Plus]	Assigned
Issuer rating	NA	CARE-NP BB+ (Is) [Double B Plus (Issuer)]	Reaffirmed

*\*The issuer rating is subject to the company maintaining overall gearing not exceeding 2.75x at the end of FY21.*

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BB+’ to the long-term bank facilities and ‘CARE-NP A4+’ to the short-term bank facilities of United Idi Mardi & R.B. Hydropower Limited (UIMHL).

CRNL has reaffirmed the issuer rating of ‘CARE-NP BB+ (Is)’ to UIMHL. Issuers with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations, in Nepal.

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to UIMHL is constrained by moderate financial risk profile of the company during FY20 [Unaudited, refers to 12 months period ended Mid-July 2020] being in first year of operation, exposure to volatile interest rates and hydrology risk associated with run of the river power generation. The rating, however, derives strength from the experience of board members and management in hydro power sector, association with the group having multiple hydropower and other investments and presence of power purchase agreement (PPA) with sufficient period coverage. The ratings also factor in moderate counter party risk, project operated at moderate Plant Load Factor (PLF), power demand and supply gap in Nepal coupled with increasing demand of power in the country and government support for the power sector. The ability of company to reduce the gap between operational PLF and contracted PLF and availability of sufficient hydrology and timely receipt of the payments from NEA are the key rating sensitivities.

**Detailed Description of the Key Rating Drivers**

**Key Rating Weaknesses**

***Moderate financial risk profile of the company during FY20 being in first year of operation***

The total cost of project was Rs 1,421 Mn. The cost per MW of the project was relatively high with Rs. 203 Mn per MW. RCOD of the project was mid-July 2020, however the project was completed 9 months before RCOD. Project achieved COD from October 07, 2019 and operated for the 9 months and 11 days during FY20. UIMHL reported total income of Rs. 108 Mn out of which Rs. 105 Mn was through the sale

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

of electricity during FY20. PBILDT of the company was Rs.93 Mn with the PBILDT margin of 86.07% during FY20. However, the company reported the loss of Rs. 41 Mn majorly due to the interest expenses of Rs. 95 Mn and the depreciation amount of Rs.36 Mn. Overall gearing ratio and the interest coverage ratio of the company was at 4.22x and 0.98x at the end of FY20.

***Exposure to volatile interest rate***

Nepalese banking sectors are fixing interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions will be change by change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 1-2 year. Therefore, funding from Bank and Financial Institutions is subject to volatile interest rate.

***Hydrology risk associated with run-of-the-river power generation***

Run-of-the-river power is considered an unsteady source of power, as a run-of-the-river project has little or no capacity for water storage and therefore is dependent on the flow of river water for power generation. It, thus, generates much more power during summer season when seasonal river flows are high (Mid-April to Mid-December) and less during the winter season (Mid-Dec to Mid-April). UIMHL is proposed to utilize discharge from Mardi Khola having catchment area of 40 sq kms with the design discharge of 2.60 M<sup>3</sup>/S at Q40 exceedance flow and available gross head of 335m. Mardi Khola is a perennial river and is one of the tributary of Seti River which is one of the major tributaries of Sapta Gandaki River. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river

**Key Rating Strengths**

***Board members and management having experience in hydro power sector***

UIMHL has total 5 board members. Mr. Surya Bahadur K.C, executive chairperson, is involved in other businesses and is also the Member of Parliament. Mr. Roshan K.C, managing director, is director at Machhapuchchhre Bank Ltd., and other operational and under-construction hydropower companies. He is supported by other experienced management team.

***Association with the group having multiple hydropower projects and other investments***

UIMHL is part of KC Group of companies which is one of the leading business groups in Nepal. In addition to the hydropower projects, the promoters of KC group of companies have made their investments in different sectors like construction, hospitality and housing, manufacturing, educational institutions, banking and insurance. KC Group of companies has invested in 5 operational projects with the operational capacity of 30.28 MW and 3 under construction hydropower projects with the capacity of 56.50 MW.

***Power purchase agreement with sufficient period coverage***

UIMHL had entered into PPA with Nepal Electricity Authority (NEA) for 7MW as on June 7, 2016 for sale of entire power generated from the project. The PPA is signed for a period of 30 years from the COD or till validity of generation license whichever is earlier. PPA period may be extended with mutual consensus through discussion from last six month of validity. The company completed the project before RCOD and hence, the company will be eligible for all the five escalation of 3% on base tariff.

The tariff rate for wet season (Mid-April to Mid-December) is Rs 4.80 per kWh and for dry season (Mid-December to Mid-April) is Rs 8.40 per kWh with 3% escalation on base tariff for 5 years. The contracted energy is 35.88 Million Units (MU) annually. The contracted PLF of the project is 58.51%.

***Current project operated at moderate PLF with moderate electricity generation***

The annual contracted PLF for Upper Mardi Hydropower Project (UMHP) is 58.51% of the installed capacity of the plant. The project has been operated at moderate PLF over the period. During FY20, the PLF from the project was at 41.25% (over generation capacity) and the power generation from the project as a %age to the contracted power as per the PPA was 85.84%. The ability of the company to reduce the gap between operational PLF and contracted PLF and availability of sufficient hydrology is the key rating sensitivity.

***Moderate counter party risk***

UIMHL is exposed to counter party payment risk pertaining to Nepal Electricity Authority (NEA), which has been making consecutive losses in past till FY16. However, as per the annual report published by NEA, during FY20 (provisional), NEA earned profit of Rs 11,056 Mn (Rs. 9,812 Mn during FY19) resulting the accumulated profit in its book and achieved gross cash accrual of Rs 16,056 Mn (Rs 14,664 Mn in FY19). The counter party payment risk is moderated by the fact that, NEA is fully owned by government of Nepal, net loss is declining over the period and generating positive gross cash accruals. Further, NEA has been making timely payment to independent power producers (IPPs) in past. As per the PPA, NEA is required to make payments within 45 days of receiving of invoice from the company. During FY20, the company has received payment from NEA for supply of power generated within 31 to 59 days.

***Power demand & supply gap coupled with increasing demand of power in the country***

As per the NEA's Annual Report for FY20, the current peak electricity demand is 1,408MW. The total domestic installed capacity stands at 1,328 MW which includes 632 MW owned by NEA and 696 MW by private sector IPPs. Overall, during FY20, total energy demand was 7,894 GWh which was met by import of 1,721 GWh from India whereas balance was met by domestic generation. As per NEA, electricity demand is in increasing trend and is expected to increase in future with increase in electricity consumption through the promotion of electric vehicles by building charging station and replacing cooking gas with electric induction, increase in access of population using electricity (86% in FY20) etc.

**Government support for the power sector**

Government of Nepal (GoN) considers hydropower generation as priority sector and intends to maximize private sector participation in generation of hydroelectricity by offering different exemptions and facilities. GoN has announced full tax exemption for first 10 years and 50% tax exemption for next 5 years for such person/entity who starts commercial operation, transmission and distribution of electricity up to mid-April 2024. Furthermore, GoN has declared to provide grant of amount equivalent to Rs. 5 Mn per MW installed capacity after receiving evidence of formal COD of complete power plant.

**About the Company**

United Idi- Mardi and R.B Hydropower Ltd (UIMHL) was initially incorporated as a private limited company as on March 1, 2010 and later on, it was converted to a public limited company as on April 17, 2018. It is promoted for setting up of a 7MW run-of-river, UMHP in Kaski district of Nepal. Currently, 100% share capital of the company is held by 25 promoter shareholders, who have contributed Rs. 315 Mn equity share capital as on July 16, 2020. Mr. Surya Bahadur K.C (holds 23%), Mrs. Prem Kumari K.C (holds 21.68%), Mr. Anuj Kayal (holds 9.44%), Mr. Roshan K.C (holds 8.78%) and Mr. Sunil Narayan Shrestha (holds 8%) are major promoter shareholders of the company. Company is in the process of initial public offer IPO of Rs. 105 Mn which is proposed to be utilized in prepayment of term loan. After issue of proposed IPO, the share capital of the company will be Rs 420 Mn which will be held by promoter and public shareholders in 75:25 ratio. As per the Generation License, from Government of Nepal – Ministry of Energy, obtained on January 27, 2017, the project shall be handed over, on whatever conditions the project is, to the Government of Nepal after expiry of Generation License, which is 35 years.

**Brief Financial Performance during the last year is as follows:**

(Rs. In Million)

Particulars	FY20(UA)
Income from Operations	105
PBILDT	93
PAT	(41)
Overall Gearing (times)	4.22
Interest coverage (times)	0.98

<b>Analyst Contact</b> Ms. Elisha Lamichhane <a href="mailto:elisha.lamichhane@careratingsnepal.com">elisha.lamichhane@careratingsnepal.com</a> Tel No.: +977-01-4012628	<b>Group Head</b> Mr. Bidhan Ojha <a href="mailto:bidhan.ojha@careratingsnepal.com">bidhan.ojha@careratingsnepal.com</a> Tel No.: +977-01-4012629	<b>Relationship Contact</b> Mr. Sajan Goyal <a href="mailto:sajan.goyal@careratingsnepal.com">sajan.goyal@careratingsnepal.com</a> Tel No.: 9818832909/+977-01-4012630
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**Annexure 1: Details of the Facilities rated**

<b>Facility/ Instrument</b>	<b>Type of the Facility</b>	<b>Amount (Rs. In Million)</b>	<b>Rating</b>
Long Term Bank Facilities	Term Loan	1,025.78	CARE-NP BB+
Short Term Bank Facilities	Fund Based Facilities	115.00	CARE-NP A4+
<b>Total Facilities</b>		<b>1,140.78</b>	