

Ngadi Group Power Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	177.00	CARE-NP BB+ [Double B Plus]	Assigned
Short Term Bank Facilities	691.00	CARE-NP A4+ [A Four Plus]	Assigned
Total Facilities	868.00 (Eight Hundred and Sixty-Eight Million Only)		
Issuer Rating	NA	CARE-NP BB+ (Is) [Double B Plus (Issuer rating)]	Revised from CARE-NP BBB- (Is)

**The issuer rating is subject to overall gearing ratio of the company not exceeding 1.00x at the end of FY22.*

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB+' to the long-term bank facilities and 'CARE-NP A4+' to the short-term bank facilities of Ngadi Group Power Limited (NGPL).

Also, CRNL has revised the Issuer rating to 'CARE-NP BB+ (Is) [Double B Plus (Issuer Rating)]' from CARE-NP BBB- (Is). Issuers with this rating is considered to have moderate risk of default regarding timely servicing of financial obligations, in Nepal.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the NGPL continues to be constrained by significant increase in exposure to group associates, weak operational plant load factor (PLF), hydrology risk associated with run-of-the-river power generation and exposure to regulatory risk.

The ratings, however, derive strength from experienced board member and management team, moderate financial performance of the company, presence of power purchase agreement (PPA) with sufficient period coverage and moderate counter party risk. The ratings also factor in government support for the power sector.

Going forward, the ability of the company to reduce the gap between operational PLF and contracted PLF and availability of sufficient hydrology are the key rating sensitivities. Any further increase in more than envisaged investment is also critical from rating perspective.

Detailed description of the key rating drivers

Key Rating Weaknesses

Significant increase in investment to group associates

As on December 30, 2021, the company has investments in associate companies (mainly hydro power generation companies) to the tune of Rs. 874.43 Mn which increased from Rs. 155.25 Mn in FY21 ending on July 15, 2021. The investments in group associates is more than the networth of the company on the said date. Out of total investments, 24% of the investment are in companies where the projects are under implementation. Company availed the demand loan of Rs 679.55 Mn during FY22 for the investment in hydropower projects. Furthermore, the company has plans to invest the proceeds from right shares partially in Siuri Nyadi Power Ltd. Any adverse impact on the financial risk profile of NGPL on account of exposure to the group companies would continue to be crucial from credit perspective. Furthermore, any additional investment to the group or associates would also be key monitorable.

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

Current project operated at low PLF

NGPL has commissioned run-of-the-river 4.95 MW Siuri Khola Small Hydropower Project (SKSHP) at Lamjung district. The commercial operations commenced in October 16, 2012. During FY20, the plant was operated at 58.75% which decreased to 39.91% during FY21 ending on Mid-July 2021. The operating performance in terms of power generation was low during FY21 on account of less hydrology throughout the period. Also, the plant was not operational for around 2 months (during Mid-August to Mid-September 2020 and Mid-June 2021 to Mid-July 2021) due to flood and landslide at the power plant.

The annual contracted PLF for SKSHP is 74.03% of the installed capacity of the plant. For the year ended FY20, the energy generated was 79.17% and 53.89% in FY21 against contracted PLF. This curtails from analytical perspective for the company to reduce the gap between operational PLF and contracted PLF.

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 wet season when river flows are high (Mid-April to Mid-December) and less during the dry season (Mid-December to Mid-April). The project utilizes discharge from Siuri having catchment area of 21.1sq. kms based on snow fed River. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola.

Exposure to volatile interest rate

Nepalese banking sectors are fixing floating 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 (BFIs) remains volatile to change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 2-3 years. Therefore, funding from BFIs is subject to volatile interest rate.

Exposure to regulatory risk

Government of Nepal (GoN) has recently established Electricity Regulatory Commission (ERC) for regulating generation, transmission and distribution of electricity in Nepal. ERC will be the regulator under the GoN which will be responsible for regulating hydropower companies in Nepal. Policies and the directives issued by ERC like approval process for IPO issuance, PPA approval through ERC poses a new challenge to hydropower companies. Hence, sector is prone to regulatory risk and changes in other policies by GoN.

Key Rating Strengths**Experienced promoter/ directors and management expertise**

NGPL is managed under the overall guidance of the company's Board of Directors (BoD), who possesses wide experience in different sector. NGPL has 7 Board of directors, chaired by Mr. Robin Subedi, has more than 10 years of experience in hydropower sector. He is also director of Siuri Nyadi Power Limited and promoter of Sunrise Bank Limited. Ms. Ranju Adhikari, Director, has more than 18 years of experience in hydropower sector. Ms. Rilli Gurung, Director, has more than 18 years of experience in hospitality and real estate sector. Similarly, other directors of the company have also more than 10 years of experience in various sector and is supported by the experienced management team.

Moderate financial risk profile

NGPL is generating revenue by the selling of power generated through its 4.95 MW Siuri Khola Small Hydropower Project (SKSHP) at Lamjung district. The company reported decrease in total income by 35% to Rs. 88 Mn through the sale of electricity during FY21 (Audited; FY21 refer to 12 months ending on Mid-July 2021) from Rs. 137 Mn in FY20. The decrease in revenue during FY21 was due less electricity generation during the dry seasons on account of hydrology issue and flood and landslide at the plant site. The same also led to decline in PBILDT margin to 75% during FY21 against 86% in FY20. However, the company reported the increase in PAT amount due to additional income amounting to Rs. 131 Mn in FY21 on account of management fee (consultancy provided to under construction hydro projects).

Overall gearing ratio of the company stood at 0.32x at the end of FY21 (FY20: 0.48x) on the back of increase in net worth of the company due to the accretion of profit. Total debt to Gross Cash Accrual ratio improved to 1.55x during FY21 as compared to 3.29x in FY20. The company availed the demand loan during FY22 for the investment in hydropower projects. Also, the interest coverage ratio moderated to 3.12x during FY21 (FY20: 3.94x) due to decline in PBILDT; however, still remained at comfortable levels.

Power purchase agreement with sufficient period coverage

NGPL had entered into PPA with Nepal Electricity Authority (NEA) for 0.99 MW as on August 02, 2007 (amended on January 19, 2009 for 4.95 MW) for sale of entire power generated by the plant. The PPA is signed for a period of 30 years from the date of Required Commercial Operation Date (RCOD). The differential tariff rate for wet and dry season ranges from Rs. 3.90 to Rs. 7.00 per Kwh with 3% annual escalation on base tariff for 9 years in case of 3.96 MW.

The average collection period from NEA during FY21 was 73 days (FY20: 71 days) for other than posted revenue. The company has signed PPA with NEA is owned by Government of Nepal and hence counter party default risk is low; however, timely realization of critical for the company and from analytical perspective also.

Favorable Government policies towards 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. As per various directives from NRB whereby all the banks (type A, B C, D) have to allocate minimum share of their total advances to energy sector which argues well for the sector.

About the Company

Ngadi Group Power Limited (NGPL) was incorporated in February 2006 as a private limited company and later converted to public limited company in June 08, 2014. The company was listed with Nepal Stock Exchange and was promoted by individual promoters having long experience in the hydropower and other sectors. The project is being constructed under "BOOT" (Build, Own, Operate and transfer) model and is located in Lamjung district of Nepal.

Financial Performance

(Rs. in Mn)

Particulars	FY19	FY20	FY21
	Audited	Audited	Audited
Income from Operations	144	137	88
PBILDT Margin (%)	84.57	86.07	75.18
Overall Gearing (times)	0.54	0.48	0.32
Interest coverage (times)	3.24	3.94	3.12
Current Ratio (times)	1.46	1.12	1.82
Total Debt/Gross Cash Accruals (times)	3.61	3.29	1.55

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	177.00	CARE-NP BB+
Short Term Bank Facilities	Overdraft	691.00	CARE-NP A4
Total Facilities		868.00	

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