

Sayapatri Hydropower Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Issuer Rating	NA	CARE-NP BB (Is) [Double B (Issuer rating)]	Revised from CARE-NP B+ (Is)

**The issuer rating is subject to overall gearing ratio of the company not exceeding 2.50x at the end of FY22*

CARE Ratings Nepal Limited (CRNL) has revised the issuer rating assigned to Sayapatri Hydropower Limited (SHL) to 'CARE-NP BB (Is) [Double B (Issuer Rating)]' from CARE-NP B+ (Is). 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 revision in the rating assigned to SHL factors in improved financial risk profile of the company during FY21 (FY refers to the twelve-month period ended mid-July) boosted by sustained improvement in Plant Load Factor (PLF) amid better hydrology and efficient power evacuation since the Harihar sub-station, through which power generated by SHL is being evacuated, became fully operational in July 2020. The revision also factors in continued improvement in PLF, leading to further improvement in SHL's financial risk profile during H1FY22 (Unaudited, mid-July, 2020 to mid-January, 2021).

However, the rating continues to be constrained by leveraged capital structure due to high project cost and accumulated losses, exposure to volatile interest rates and regulatory risk coupled with hydrology risk associated with run-of-the-river power generation.

Apart from the aforementioned improved financial risk profile over FY21-H1FY22, the rating also derives strength from SHL's experienced board members, management team and financial support from the promoters. The rating also factors in presence of power purchase agreement with sufficient period coverage, moderate counter party risk and government support for the power sector.

Going forward, the ability of the company to continue to reduce the gap between operational PLF and contracted PLF and availability of sufficient hydrology are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Leveraged capital structure due to high project cost and historical accumulated losses, albeit on improving trend over FY21-H1FY22

The company's capital structure remains quite leveraged with overall gearing levels of 2.81x at the end of FY21, improving from 3.18x at the end of FY20. Overall gearing ratio improved further to 2.33x at the end of H1FY22 boosted by improved operational performance during the period. The project was completed with high project cost of Rs 231.09 Mn per MW and the leverage position of the company was also impacted by net losses till FY20. The interest coverage ratio was moderate at 1.64x during FY21, substantial improvement from 0.96x in FY20. It has improved to 2.85x during H1FY22 on back of higher revenue and better profitability during the period. The capital structure and debt coverage indicators of the company are likely to improve further after issuance of proposed initial public offering.

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

Run-of-the-river (ROR) power is considered an uneven 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. SHL utilizes discharge from Daram Khola (tributary of Badi Gad river), a perennial river, having catchment area of 84 sq kms. The

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications

company has also proposed to divert water from the Bagar Khola which is expected to improve the power generation esp during the dry season. However, the project is still exposed to risk associated with variation in discharge of water from the aforesaid river.

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.

Key Rating Strengths

Experienced Board members and management team

SHL has seven board of directors with wide experience in the power sector as well as other industries. The board is chaired by Mr. Badri Keysi, a Non-Resident Nepali (NRN), who is also the vice president of Non-Resident Nepali Association (NRNA) holding 9.78% shares of the company. SHL has, in the past, obtained financial support in the form of short-term loans from directors and promoters to meet any shortfall in cashflows due to lack of sufficient cash flow generation from the operations.

Continued reduction in gap between contracted PLF and operational PLF

The annual contracted PLF of the project is 62.74% of the installed capacity of the plant. During FY21, the PLF from the project stood at 43.81% of total capacity (FY20: 41.93%; FY19: 37.58%). The PLF improving trend continued in H1FY22 and stood at 75.52% of total capacity (H1FY21: 66.05%). Although first half of the financial year, being mostly wet season, leads to higher generation, however, on a year-on-year basis, the company's PLF levels have shown steady improvement, benefitting from an improved hydrology coupled with efficient power evacuation. Even accounting for the dry season offsetting the annual average for FY22 to some extent, the company's overall PLF levels during FY22 are likely to continue to improve over the FY21 levels. The power generation from the project as a percentage of the contracted power as per the PPA has also been on an improving trend (H1FY22: 93.27%, FY21: 69.83%, FY20: 66.83%). The ability of the company to continue to reduce the gap between operational PLF and contracted PLF and availability of sufficient hydrology remains a key rating sensitivity.

Improved liquidity position led by steady cash flows amid stabilizing operations

SHL had reported net losses up to FY20. However, over FY21 and H1FY22, boosted by stabilized operation, the company recorded net profits of Rs.10 Mn and Rs. 24 Mn, respectively (FY20: Rs. 6 Mn net loss). Although the company's revenues remained flat during FY21 compared to FY20, the company benefited from lower interest outgo due to lower base rates and premium compared to previous years. Further, with improved generation during H1FY22 the company's financial performance has improve substantially. The company reported operational revenue of Rs. 48 Mn during H1FY22 (FY21: Rs. 55 Mn) with PBILD margin of around 87% (FY21: ~80%; FY20: ~77%).

Power purchase agreement (PPA) with sufficient period coverage

SHL entered into PPA with NEA as on April 1, 2012 for sale of 2.5MW power. The period of PPA is 30 years from the commercial operation date (COD) or till validity of Generation License, whichever is earlier. The tariff 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 from the COD. The contracted energy for wet season is 11.18 million units and for dry season 2.56 million units.

NEA is owned by Government of Nepal and hence counter party default risk is low; however, timely realization of receivables is critical for the company and remains a key monitorable.

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

SHL is Public Company, incorporated on July 30, 2007, promoted by institutional as well as individual promoters from different background. It is currently operating 2.5 MW Daram Khola 'A' hydro power project in run –of –river scheme located at Baglung district, Nepal. The project is constructed under BOOT (Build, own, Operate and Transfer) mechanism. The project was completed with total cost of Rs. 578 Mn (cost per Mw Rs. 231 Mn) funded through debt of Rs 364 Mn and rest by equity.

Financial Performance

(Rs. Million)

For the Period Ended / as at Mid-July,	FY20	FY21	H1FY22
	(12m, A)	(12m, A)	(6m, UA)
Income from Operations	53	55	48
PBILDT Margin (%)	76.65	79.64	86.97
Overall Gearing (times)	3.18	2.81	2.33
Interest Coverage (times)	0.96	1.64	2.85
Total Debt/ Gross Cash Accruals (times)	34.59	13.93	5.66*

A: Audited; UA: Unaudited; *annualized

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