

Api Power Company Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	3,876.54	CARE-NP B+ [Single B Plus]	Assigned
Short Term Bank Facilities	3,823.46	CARE-NP A4 [A Four]	Assigned
Total Facilities	7,700.00 (Seven Thousand Seven Hundred Million Only)		
Issuer Rating	NA	CARE-NP B+(Is) (Single B Plus [Issuer Rating])	Reaffirmed

The issuer rating is subject to overall gearing ratio of the company not exceeding 1.35x at the end of FY22.

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP B+' to the long-term bank facilities and 'CARE-NP A4' to the short-term bank facilities of Api Power Company Limited (APC).

Also, CRNL has reaffirmed the Issuer rating of 'CARE-NP B+ (Is)' assigned to Api Power Company Limited. Issuers with this rating is considered to have high risk of default regarding timely servicing of financial obligations, in Nepal.

Detailed Rationale & Key Rating Drivers

The bank loan ratings assigned to the APC is constrained by project implementation risk associated with under construction projects and project stabilization risk in case of operational solar project. Furthermore, the ratings are constrained by subdued operating performance of operational hydropower projects, below average financial risk profile, hydrology risk associated with run-of-the-river power generation and exposure to volatile interest rate risk.

The ratings derive strength from experienced board members and management team, 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 stabilization of the operational power projects and the ability of the company to timely execute the projects within the required commercial operation date (RCOD) avoiding time or cost overrun is the key rating sensitivities. Also, the ability of company to successful reduce the gap between operational PLF and contracted PLF is crucial from rating perspective.

Detailed description of the key rating drivers

Key Rating Weaknesses

Project implementation risk

The estimated cost of under construction 40 MW Upper Chameliya Hydroelectric project (UCHP) is Rs. 7,400 Mn which is proposed to be funded through debt-to-equity ratio of 70:30. The total debt amount has already been tied up. As on Mid-January 2022, ~37.53% of the total project cost has been incurred. The company has identified all the major contractors for civil, hydromechanical, electromechanical and transmission line works and necessary agreement has also been entered with the contractors. The power from the project is proposed to be evacuated to operational NEA's Balanch substation. The company has track record of completing projects (two operational projects) within project timelines (prior to the RCOD) provides comfort towards project implementation, though capacity remains to be tested for the large size projects. Also, the company has two

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

under construction solar projects of total 9 MW which is at very initial stage of construction. The project's ability to commission within the budgeted cost and expected timeline along with its ability to attain design operating parameters would remain critical from analytical perspective.

Project Stabilization risk for its operational solar power project

The estimated cost of Chandranigapur Solar PV Project (CSP) was Rs. Rs 330 Mn which was proposed to be financed in the debt equity ratio of 70:30. However, the final cost of the project was Rs. 345.75 Mn which was financed in debt equity mix of Rs. 219.83 Mn and Rs. 125.92 Mn respectively. The project was delayed and came into a commercial operation in August 2021 and the company was liable for the penalty amounting to Rs. 5.586 Mn for late commencement of operations. The project generated the total energy of 2.34KWh against the contracted energy of 2.42 Kwh with the Plant Load Factor (PLF) of 96.58% against the contracted energy during initial 5 months of operations ended on Mid-December 2021. Being a new unit, the stabilization and streamlining of production remains to be seen.

Modest operating performance of operational Hydropower projects

The company has two operational hydro power projects. The annual contracted PLF of the Naugarh Gad Small Hydroelectric Project (NGHP) and Upper Naugarh Small Hydroelectric Project (UNSHP) is 69.75% and 69.69% respectively of the installed capacity of the plant. The projects have been operated at lower Plant Load Factor (PLF) over the period on account of low hydrology. For NGHP, PLF from the project was at around 53% (over generation capacity) in last 2 FY's (FY20 and FY21). The power generation from the project as a %age to the contracted power as per the PPA was 76.31% during FY20 and 74.91% in FY21.

For UNSHP, the project operated for 9 months during FY20 and had PLF of 35.81% (over generation capacity) which increased to 48.92% in FY21; still remained on lower side. The power generation from the project as a percentage to the contracted power was 53.14% in FY20 and 70.39% in FY21.

Below Average financial risk profile

APC reported Rs. 367 Mn through the sale of electricity during FY21 as compared to Rs. 324 Mn in FY20. The increase in revenue during FY21 on account of full year operation of Upper Naughad Hydroelectric Project. On account of increase in total revenue, PBILDT of the company increased by 7% to Rs. 308 Mn in FY21 from Rs. 288 Mn in FY20. However, the PBILDT margin declined to 84% during FY21 (FY20: ~87%) on account of increase in repairs and maintenance expenses of Naugad and Upper Naugad Hydropower Project.

As on H1FY22, APC reported revenue from sales of energy of Rs. 314.68 Mn which is increased by 30% over H1FY21. PAT of the APC was remained at the same level during H1FY21 and H1FY20 Rs. 143 Mn.

Company reported debt equity ratio and overall gearing ratio of 1.09x and 1.13x respectively at the end of FY21 (FY20:1.26x and 1.44x respectively). Overall Gearing ratio improved due to increase in networth of the company on account of increase in issued capital resulted from the issuance of the bonus shares and right shares during FY21. Total loan of the company increased from Rs. 1,976 Mn during FY20 to Rs. 3,104 Mn in FY21 on account of ongoing capex due to which the total debt to Gross Cash Accrual (GCA) deteriorated to 17.47x during FY21 from 14.65x in FY20. Interest coverage ratio has been improved from 1.91 in FY20 to 2.17 in FY21.

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 energy generated by operational projects are hampered due to the fluctuation in river hydrology. NGHP utilized discharge from Naugarh Gad, UNSHP utilize discharge from Naugarh Gad & Gaddi Gad and UCHP utilizes discharge from Chameliya Khola having catchment area of 192 sq. kms, 148 sq. kms and 656.3sq. kms respectively based on Perennial 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 Strength**Experienced board members and management team**

APC is managed under the overall guidance of the company's Board of Directors (BoD), who possesses wide experience in the Power sector. Mr. Satish Neupane is the Chairperson of the company, he is also founder director of Arun Valley Hydropower Development Company Limited [AHPC, CARE-NP BB+], and managing director of API Hydro Mechanical Pvt. Ltd. Mr. Neupane has more than a decade of experience in hydro power sector. Mr. Sanjeev Neupane is the Managing Director who looks after day-to-day operation of APC since 2012. He was also director of Arun Kabeli Power Limited and People Investment Company Limited. Currently he is also one of the directors of AHPC.

Power purchase agreement with sufficient period coverage

APC had entered into a long term PPA with NEA for sale of power to be generated from different projects. The period of the PPA is 30 years from the date of COD (25 years in case of solar project) or till validity of Generation License, whichever is earlier. The tariff rate of the hydropower projects ranges from Rs 4.00 per kWh to Rs 8.40 per kWh with clause of escalation in base tariff over the period. In case of solar projects, the tariff rate is Rs. 7.30 per kWh. The company is in process of taking necessary approvals for the extension of RCOD where the projects has been delayed. The commencement of operations within RCOD would remain critical in determining the number of tariff escalations that the project would avail as well as implications of any late COD penalty.

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

API Power Company Limited (APC) is a public limited company promoted by business persons having long experience in the hydropower and other sectors for setting up Hydroelectric Project (HEP) in the territory of Nepal. The company was established as on June 19, 2003 as a private limited company and later converted to public limited company by reorganizing the shareholding pattern of the company as on July 21 2013. APC have two operational projects of 8.5 MW run-of-the-river (RoR) HEP at Naugarh river (Naugarh Gad HEP) in Darchula district (came into operation in August 2015) and 8 MW Upper Naugarh Gad HEP lies upstream of the first project (came into operation in October 30, 2019). There are three under construction project of 40 MW Upper Chameliya HEP, 1 MW Simara Solar Project and 8MW Parwanipur Solar Project. The company has operational 4 MW Chandranigapur Solar Project (came into operation in August 2021).

Brief Financial Performance of the company during last 3 years is given below:

(Rs. In Million)

For the year ended Mid July	FY19	FY20	FY21
	(Audited)		
Period of operation	12 months	12 months	12 months
Income from power sales	179	324	367
PBILD Margin (%)	86.95	87.01	83.88
Overall Gearing (times)	1.52	1.44	1.13
Interest coverage (times)	2.25	1.91	1.80
Current Ratio (times)	0.42	0.73	19.62
Total Debt/ Gross Cash Accruals (times)	21.70	14.65	17.47

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	3,816.48	CARE-NP B+
Long Term Bank Facilities	Hire Purchase Loan	60.06	CARE-NP B+
Short Term Bank Facilities	Fund Based Loan	1,975.46	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based Loan	1,848.00	CARE-NP A4
Total		7,700.00	

Contact us
Analyst

Ms. Elisha Lamichhane

Contact No.: 977-01-4012628

Email: elisha.lamichhane@careratingsnepal.com

Senior Analyst

Ms. Shalini Sanghai

Contact No.: +977-01-4012629

Email: shalini.sanghai@careratingsnepal.com

Relationship Contact

Name: Achin Nirwani

Contact No.: +977 9818832909

Email: achin.nirwani@careratingsnepal.com

About CARE Ratings:

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