

Sanvi Energy Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	1,085.65	CARE-NP BB+ [Double B Plus]	Reaffirmed
Short Term Bank Facilities	95.39	CARE-NP A4+ [A Four Plus]	Reaffirmed
Total Facilities	1,181.04 (One Thousand One Hundred and Eighty-One Million Only)		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of 'CARE-NP BB+' assigned to long term bank facilities and 'CARE-NP A4+' assigned to the short term bank facilities of Sanvi Energy Limited (SEL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to SEL continues to be constrained by project implementation risk associated with cascade project, 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 risk profile, satisfactory operating performance of the operational project, presence of power purchase agreement (PPA) with sufficient period coverage and moderate counter party risk. Additionally, the ratings also factor in government support for the power sector.

Going forward, the ability of the company to successfully execute the under construction project without cost and time overrun and early stabilization thereafter are the key rating sensitivities. The company's ability to successfully reduce the gap between operational Plant Load Factor (PLF) and contracted PLF and availability of sufficient hydrology with timely receipt of payments from Nepal Electricity Authority (NEA) will also remain key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Project implementation risk associated with cascade project

SEL is setting up a 5.2 MW Jogmai Cascade Hydroelectric Project (JCHP) in Illam district of Nepal. The estimated cost of the project is 1,009 Mn which is proposed to be funded by debt to equity in the ratio of 75:25 (debt of Rs 757 Mn and equity of Rs. 252 Mn). The total debt amount of Rs. 757 Mn has already been tied up. As on July 16, 2022 (as certified by management), around 9% of the total project cost has been incurred and the physical progress was ~20%. The RCOD of JCHP was July 22, 2021. Construction work of the project has been delayed on account of restrictions amid the covid19 pandemic. Delay in construction was also partly on account of challenges in acquisition of land for the project, which has been resolved. Furthermore, the company has applied for extension of RCOD with Nepal Electricity Authority (NEA). Thus, approval from the NEA for revised RCOD is critical from analytical perspective. Since the project is still in the initial stage, this exposes the company towards project execution risk in terms and completion of the project within the envisaged time and cost.

Exposure to volatile interest rate

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy, with substantial

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

upward pressure on interest rates in the last few quarters. A contractionary monetary policy for FY23 coupled with increasing inflation has only added to the upward pressure on interest rates, resulting in the rate hikes taken by BFIs in the first quarter of FY23. Any further significant rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs 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 wet season when river flows are high (Mid-April to Mid-December) and less during the dry season (Mid-December to Mid-April). JKSHPEP and JCHEP utilizes discharge from Jogmai Khola having catchment area of 104.18sq. kms and 118.10sq. kms based on Perennial River. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola.

Key Rating Strengths

Experienced board members and management team

SEL is managed under the overall guidance of the company's Board of Directors (BoD), who possesses wide experience in the power sector. SEL has seven Board of directors, chaired by Mr. Anup Acharya, having more than three decades of experience in construction sector. He is also associated with Seti khola Hydropower Private Limited (CARE- NP BB/ A4) in various capacities. Mr. Bhanu Bhakta Pokharel, Managing Director, has more than three decades of experience. The board is further supported by other experienced management team members.

Moderate financial risk profile with moderate gearing levels

SEL generates revenue by selling the power generated through its 7.6 MW Jogmai Khola Small Hydroelectric Project (JKSHPEP) at Ilam District since May 2017. The company reported increase in total operating income by 9.03% to Rs. 245 Mn in FY22 (Unaudited; refers to the twelve-month period ended mid-July 2022) from Rs. 224 Mn in FY21. The increase in revenue during FY22 was mainly on account of higher energy generation aided by overhauling of machineries coupled with improved hydrology during the year. Plant Load Factor (PLF) of the company improved to 98.96% of contracted energy during FY22 from 82.44% during FY21. Consequently, PBILDT margin also improved to 83.67% during FY22 from 71.73% in FY21. With increase in PBILDT, PAT of the company increased to Rs. 51 Mn in FY22 from Rs. 4 Mn in FY21.

Overall gearing ratio stood moderate at 2.19x at the end of FY22 which improved from 2.50x at the end of FY21 on account of increase in net worth of the company with accretion of profits to the reserves and decrease in debts with scheduled repayment of loan. Interest coverage ratio of the company improved to 2.03x in FY22 compared to 1.51x in FY21 on account of increase in PBILDT. Total debt to Gross Cash Accrual (GCA) ratio stood high at above 10.98x at the end of FY22 which improved from 21.45x as on previous balance sheet date. However, additional term debt associated with 5.2 MW cascade project of around Rs. 757 Mn, which is expected to come on the books in coming years is likely to lead to some moderation of SEL's gearing levels and debt service coverage indicators over the medium term.

Power purchase agreement with sufficient period coverage

The PPA has been signed for a period of 30 years for JKSHPEP and JCHEP from the date of COD or till validity of Generation License, whichever is earlier. Tariff rate as per PPA is Rs 4.80 per Kwh for wet season (Mid-April to Mid-December) and the tariff rate for dry season (Mid-December- Mid April) is 8.40 per Kwh, with 3% annual escalation on base tariff for 5 years in case of JKSHPEP and for 8 years in case of JCHEP. Required Commercial Operation (RCOD) of the cascade project was July 22, 2021 and the company is in the process of extension of RCOD with Nepal Electricity Authority (NEA).

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

SEL is a public limited company incorporated in 2011 as a private limited company and later converted to public limited company on July 09, 2020. It is promoted by individual promoters having long experience in the hydropower and other sectors for setting up Hydroelectric Project in Nepal. SEL has two hydropower projects out of which one is in operation and one under construction. The projects are constructed under BOOT model (Build, Own, Operate and Transfer).

Financial Performance

(Rs. in Mn)

Particulars	FY20	FY21	FY22
	Audited	Audited	Unaudited
Income from Operations	229	224	245
PBILDT Margin (%)	77.31	71.73	83.67
Overall Gearing (times)	3.03	2.50	2.19
Interest coverage (times)	1.45	1.51	2.03
Current Ratio (times)	1.61	3.09	5.09
Total Debt/Gross Cash Accruals (times)	21.31	21.45	10.98

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	1,085.65	CARE-NP BB+ [Double B Plus]
Short Term Bank Facilities	Working Capital Loan	91.49	CARE-NP A4+ [A Four Plus]
Short Term Bank Facilities	Non Fund Based Limits	3.90	CARE-NP A4+ [A Four Plus]
Total Facilities		1,181.04	

Contact us

Analyst Contact

Mr. Girish Bhatta

+977-01-4012630

girish.bhatta@careratingsnepal.com

Mr. Santosh Pudasaini

+977-01-4012629

pudasaini.santosh@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani

+977-9818832909

achin.nirwani@careratingsnepal.com

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