

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

### Ratings

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
<b>Issuer Rating</b>	<b>NA</b>	<b>CARE NP BB+ (Is) [Double B Plus (Issuer)]</b>	<b>Reaffirmed</b>
<b>Long Term Bank Facilities</b>	<b>959.96 (Decreased from 989.96 Mn)</b>	<b>CARE NP BB+ [Double B Plus]</b>	<b>Reaffirmed</b>
<b>Short Term Bank Facilities</b>	<b>180.82 (Increased Rs. 150.82 Mn)</b>	<b>CARE-NP A4+ [A Four Plus]</b>	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>1,140.78 (One Thousand One Hundred Forty Million and Seven Hundred Eighty Thousand Only)</b>		

*\*The issuer rating is subject to overall gearing ratio of the company not exceeding 2.50x at the end of FY23.*

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating of 'CARE-NP BB+ (Is)' assigned to United Idi Mardi & R.B. Hydropower Limited (UMHL). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations, in Nepal.

Also, CRNL has reaffirmed the rating of 'CARE-NP BB+' assigned to the long term bank facilities and 'CARE-NP A4+' assigned to the short term bank facilities of UMHL.

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and issuer rating of UMHL continues to be constrained by power evacuation risk associated with the project as it continues to evacuate power via the contingency evacuation route which leads to dependency of the company on dispatch instructions by Nepal Electricity Authority (NEA). The ratings also factor in the hydrology risk associated with run-of-the-river power generation, exposure to regulatory risk and volatile interest rates.

The ratings, however, derive strength from experienced board members/ management team and associated with the group having multiple hydropower projects, moderate financial risk profile, presence of power purchase agreement (PPA) with sufficient period coverage and moderate counter party risk. The rating takes cognizance of the improvement in operating performance of the company in FY22 (Audited; FY refers to the twelve-month period ended mid-July) amid higher dispatch instructions, which has again moderated so far in FY23.

*Going forward, the ability the company 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 be the key rating sensitivities.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### Uncertainty in power evacuation with project currently evacuating power under contingency plan

UIMHL has commissioned run-of-the-river 7MW Upper Mardi Hydropower Project (UMHP) since October 2019. However, the company started evacuating power generated from the project through a contingency route as the proposed Lahachowk sub-station was still under construction. As power is still being evacuated under the contingency plan, power generation from the project has been dependent on the dispatch instructions from NEA, also seen in its fluctuating PLF levels. During FY22, PLF as a percentage of contracted energy was 95.31% compared to 67.75% in FY21. The improvement was mainly on account of

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and other CARE publications

higher dispatch instruction coupled with improved hydrology. PFL levels have, however, moderated to 73% of contracted energy during 4MFY23 (four-month period ended mid-November 2022) amid lower dispatch instructions. Projects under contingency evacuation plan generally get lower priority in power evacuation from NEA, particularly during the high supply wet seasons. Hence, until a different arrangement for power evacuation is made, operations of the project are likely to remain vulnerable to NEA's instructions and not necessarily based on the PPA. This will remain a key monitorable aspect.

### **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 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 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 tributaries of Seti river which is one of the major tributaries of Sapta Gandaki River. Hence, the projects are exposed to risk associated with variation in discharge of water from the aforesaid rivers. Since there is no minimum commitment on revenue in PPA in case of adverse river flows scenario, the company is exposed to hydrology risk of the power project for the generation of revenue.

### **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 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**

#### **Associated with the group having multiple hydropower projects and experienced board members/ management team**

UIMHL is part of KC Group of companies which is one of the leading organizational groups in Nepal. The promoters of KC group of companies have made their investments in diversified sectors like hydropower projects, construction, hospitality and housing, manufacturing, educational institutions, banking and insurance. This provides comfort to the company in terms of technical and operational assistance. UIMHL has total 6 board members. Mr. Prakash K.C, executive chairperson, has more than three decades of experience in Hydropower, Banking and Construction industries. 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.

### Moderate financial risk profile of the company

UIMHL is generating revenue by the selling of power generated through its 7MW run-of-river, Upper Mardi Khola Hydropower Project. The company reported increase in total operating income by around 39% to Rs. 187 Mn in FY22 from Rs. 135 Mn in FY21 on account of improvement in power generation. Also, the plant was shut down for the whole month (Mid-July to Mid-August FY21) due to the flood, affecting the energy generation during FY21. Consequently, UIMHL's PBILDT margin improved to 82.12% during FY22 compared to 79.16% in FY21 on account of economies of scale. However, UIMHL's PAT margin declined to 27.65% during FY22 compared to 34.26% in FY21. Higher PAT margin during FY21 was on account of receipt of insurance claim on losses due to flood resulting in increase in non-operational income in FY21. Also, the interest expenses increased to Rs. 85 Mn in FY22.

Overall gearing ratio stood at 2.11x at the end of FY22 (FY21: 2.38x) on account of increase in networth of the company due to accretion of profit coupled with partial repayment of loans. Apart from overall gearing, other coverage indicators including total debt to GCA and Interest coverage ratios also improved and stood at 14.93x and 1.80x for FY22 respectively (PY: 16.16x and 1.32x respectively).

### 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. RCOD of the project was mid-July 2020, however the project was completed 9 months before RCOD and hence, the company will be eligible for all the five escalations 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.

### 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

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. The project is constructed under BOOT model (Build, Own, Operate and Transfer).

Brief financial performance of UIMHL during last 3 years is given below:

(Rs. in Million)

Particulars	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	105	135	187
PBILDT Margin (%)	82.63	79.16	82.12
Overall Gearing (times)	4.19	2.38	2.11
Interest coverage (times)	0.92	1.32	1.80
Current Ratio (times)	0.94	1.02	3.54
Total Debt/Gross Cash Accruals (times)	-ve	16.16	14.93

A: Audited

### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	959.96	CARE-NP BB+[Double B Plus]
Short Term Bank Facilities	Overdraft	25.00	CARE-NP A4+[A Four Plus]
Short Term Bank Facilities	Proposed	155.82	CARE-NP A4+[A Four Plus]
<b>Total Facilities</b>		<b>1,140.78</b>	

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