

Sayapatri Hydropower Limited

Ratings

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

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

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating CARE-NP BB (Is) [Double B (Issuer Rating)] assigned to Sayapatri Hydropower Limited (SHL). 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 rating assigned to SHL continues to be constrained by moderate operating performance of power project during FY22 (FY refers to twelve-month period ending on Mid-July 2022) and H1FY23 PLF during H1FY23 (refers to six-month period ending on Mid-January 2023), exposure to volatile interest rates and regulatory risk coupled with hydrology risk associated with run-of-the-river power generation.

However, the rating also derives strength from SHL's experienced board members, management team and financial support from the promoters, moderate financial performance and capital structure with improving trend FY21-H1FY23 and improved liquidity position. 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 and timely receipt of payment from Nepal Electricity Authority (NEA) are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Moderate Operating Performance of the power project

SHL has been operating a run-of-the-river 2.5 MW Daram Khola 'A' hydro power project in Baglung district of Nepal since July 2020. The annual contracted PLF of the project is 62.74% of the installed capacity of the plant. During FY22, the PLF of the project improved to 79.08% of total contracted capacity as compared to 69.83% of total contracted capacity during FY21 amid improved hydrology coupled with efficient power evacuation. However, PLF against the contracted capacity stood at 81.65% during H1FY23 as compared to 93.27% during H1FY22. The power generation was relatively on lower side during the first half of FY23 on account of instructions from Load Dispatch Centre (LDC) for lower supply of energy. Although the company's PLF levels have shown steady improvement during past years, the instruction from LDC to the power projects for lower supply of energy amid oversupply of power in the country during the wet seasons might impact its PLF for FY23. 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.

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 company has also proposed to divert water from the Bagar Khola which is expected to improve the power generation esp

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

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 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 increased base rates of BFIs in the first half 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.

Exposure to regulatory risk

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

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 Dr. EKa Narayan Chapagai, who is the former general secretary of the Association of Doctoral Non-Resident Nepalese (NRNA) holding 9.78% shares of the company. The other directors of the company have also long experience in different sectors including hydropower sector. SHL has, in the past, obtained financial support in the form of short-term loans from directors and promoters to meet any shortfall in cash flows due to lack of sufficient cash flow generation from the operations.

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

Moderate financial performance and capital structure

During FY22, the revenue from power generation increased by ~26.27% to Rs.66 Mn from Rs.55 Mn during FY21. The improvement in revenue generation was on account of improvement in PLF against contracted capacity to 79.08% during FY22 (FY21: 69.83%). PBILDT in absolute amount increased from Rs. 44 Mn during FY21 to Rs. 50 Mn during FY22. SHL recorded net profit after tax of Rs.15Mn (FY21:10Mn) although slightly moderated by the increase in interest outgo due

to higher base rates during FY22. Consequently, Total debt by GCA improved to 11.33x in FY22 (FY21: 13.93x). During H1FY23 company have reported income of Rs.41.26 Mn with the PLF against contracted capacity of 81.65%.

The company's overall gearing level stood at 1.09x at the end of H1FY23, improving from 2.44x at the end of FY22 on account of downsizing of bank's borrowings of Rs.64.46 Mn from Initial Public Offering (IPO) proceeds. The company issued IPO to general public dated July 29, 2022 with total proceeds of Rs. 90 Mn. The outstanding borrowing at the end of H1FY23 was Rs.259 Mn (FY22: Rs.321Mn). The interest coverage ratio improved to 2.16x at the end of H1FY23 (FY22:1.57x, FY21:1.64x). However, the company still has a cumulative loss of Rs 44 Mn at the end of the H1FY23.

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 2026. 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,	FY21	FY22	H1FY23
	(12m, A)	(12m, A)	(6m, UA)
Income from Operations	55	66	41
PBILDT Margin (%)	79.64	74.51	82.85
Overall Gearing (times)	2.81	2.44	1.09
Interest Coverage (times)	1.64	1.57	2.16
Total Debt/ Gross Cash Accruals (times)	13.93	11.43	12.22

A: Audited; UA: Unaudited; *annualized

Contact Us

Analyst Contact

Ms. Sujana Chaulagain
+977-01-4012630

sujana.chaulagain@careratingsnepal.com

Mr. Santosh Pudasaini
+977-01-4012629

santosh.pudasaini@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani

+977-9818832909

achin.nirwani@careratingsnepal.com**About CARE Ratings Nepal Limited:**

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.