

Ngadi Group Power Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	177.00*	CARE-NP BB+ [Double B Plus]	Put on Notice of Withdrawal
Short Term Bank Facilities	691.00*	CARE-NP A4+ [A Four Plus]	Put on Notice of Withdrawal
Total Facilities	868.00*		
Issuer Rating	NA	CARE-NP BB+ (Is) [Double B Plus (Issuer rating)]	Reaffirmed

* Rated amount at the time of last rating published in February 2022. The total bank loan exposure of the company has reduced to below Rs. 500 Mn as on mid-April 2023.

Note: The issuer rating is subject to overall gearing ratio of the company not exceeding 0.5x at the end of FY23 (FY refers to the twelve-month period ending mid-July).

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating of 'CARE-NP BB+ (Is)' assigned to Ngadi Group Power Limited (NGPL). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations, in Nepal.

Also, CRNL has put the credit rating of 'CARE-NP BB+' assigned to the long-term bank facilities and 'CARE-NP A4+' assigned to the short-term bank facilities of NGPL on notice of withdrawal. The outstanding bank borrowings of NGPL has reduced to below Rs. 500 Mn, which is below the amount prescribed by Nepal Rastra Bank for requiring credit rating of bank loans. The above action has been taken at the request of NGPL and confirmation received from the lender for the facilities rated by CRNL that the total exposure is currently below Rs. 500 Mn.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the NGPL continue to be constrained by high exposure to group associates, below par operational plant load factor (PLF), hydrology risk associated with run-of-the-river power generation, risk of natural calamities and exposure to regulatory risk. The ratings, however, continue to derive strength from experienced promoters and management team, moderate financial risk profile with low gearing levels, 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. The rating also takes cognizance of successful completion of the rights share issuance by the company in October 2022, the proceeds of which have been majorly used for debt payment.

Going forward, the ability of the company to successfully reduce the gap between operational PLF and contracted PLF and availability of sufficient hydrology are the key rating sensitivities. Any further increase in more than envisaged investment is also critical from rating perspective.

Detailed description of the key rating drivers

Key Rating Weaknesses

High exposure to group associates

As on mid-April 2023, the company has investments in associate companies (mainly hydro power generation companies) to the tune of Rs. 1,341 Mn which increased from Rs. 875 Mn in FY22. The total exposure to group is equivalent to ~89% of its net worth at the end of FY22. 48% of the investment is in Siuri Nyadi Power Limited which is under construction project. The company had availed demand loans of Rs 679.55 Mn during FY22 for the investment in hydropower projects. The partial repayment of borrowing to the extent of Rs. 500 Mn has been repaid from the proceeds of Right Share Issuance of Rs. 1,149.11 Mn including

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

share premium of Rs. 88.71 Mn during August 2022. The rest of the proceeds is likely to be utilized for investment purpose. Any adverse impact on the financial risk profile of NGPL on account of exposure to the group companies would continue to be crucial from credit perspective. Furthermore, any additional investment to the group or associates would also be key monitorable.

Current project operated at low PLF

NGPL has commissioned run-of-the-river 4.95 MW Siuri Khola Small Hydropower Project (SKSHP) at Lamjung district. The commercial operations commenced in October 16, 2012. The annual contracted PLF for SKSHP is 74.03% of the installed capacity of the plant. The PLF levels has remained low historically mainly on the account of lower hydrology. Although operational PLF improved to 79.54% of contracted PLF in 9MFY23 (FY22: 76.44%), it continues to remain below par leading to lower cash accruals from operations.

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

Run-of-the-river power is considered an unsteady source of power, as 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 project utilizes discharge from Siuri having catchment area of 21.1sq. kms based on snow fed River. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola.

Risk of Natural Calamities and Exposure to regulatory risk

In Nepal, hydropower projects are usually located in terrains that are topographically challenging making their operations vulnerable to adversities of nature. Floods and landslides that tend to occur in these areas pose threat to these power projects damaging their infrastructures. These natural calamities can adversely affect the smooth flow of power generation and distribution, which can impact financial returns of the projects. NGPL is also exposed to such risks of natural calamities that might cause infrastructural, operational and financial damages to the project.

Government of Nepal (GoN) has 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 Strengths

Experienced promoter/ directors and management expertise

NGPL is managed under the overall guidance of the company's Board of Directors (BoD), who possesses wide experience in different sectors. NGPL has seven Board of Directors (BoD), chaired by Mr. Bhogendra Kumar Guragain, has more than 25 years of experience in hydropower sector. Mr. Robin Subedi, Director, has more than 10 years of experience in hydropower sector. He is also director of Siuri Nyadi Power Limited and promoter of Sunrise Bank Limited. Ms. Ranju Adhikari, Director, has more than 18 years of experience in hydropower sector. Ms. Rilli Gurung, Director, has more than 18 years of experience in hotel and real estate business. Similarly, other directors of the company have also more than 10 years of experience in various sectors and is supported by the experienced management team.

Moderate financial risk profile with comfortable gearing levels

NGPL is generating revenue by the selling of power generated through its 4.95 MW Siuri Khola Small Hydropower Project (SKSHP) at Lamjung district. The company reported increase in total income by 45% to Rs. 128 Mn through the sale of electricity during FY22 from Rs. 88 Mn in FY21. The increase in revenue during FY22 was due to smooth operations throughout the year and improved electricity generation during the dry seasons on account of good hydrology at the plant site. The same also led to

increase in PBILDT margin to 77% during FY22 against 75% during FY21. However, the company reported the decrease in PAT amount to Rs. 86 Mn during FY22 from Rs. 117 Mn during FY21 due to increase in interest expenses. The company had taken short-term loans during FY22 for investment purpose leading to high interest expenses.

Overall gearing ratio of the company stood at 0.05x at the end of 9MFY23 (FY22: 0.86x) following the payment of Rs. 500 Mn demand loans from the proceeds of right share issuance in August 2022. Consequently, the total debt to Gross Cash Accrual ratio improved to 1.98x during 9MFY23 as compared to 9.82x during FY22. Also, the interest coverage ratio improved to 2.70x during 9MFY23 (FY22: 1.41x).

Power purchase agreement with sufficient period coverage

NGPL had entered into PPA with Nepal Electricity Authority (NEA) for 0.99 MW as on August 02, 2007 (amended on January 19, 2009 for 4.95 MW) for sale of entire power generated by the plant. The PPA is signed for a period of 30 years from the date of Required Commercial Operation Date (RCOD). The differential tariff rate for wet and dry season ranges from Rs. 3.90 to Rs. 7.00 per Kwh with 3% annual escalation on base tariff for 9 years in case of 3.96 MW.

The average collection period from NEA during FY22 was 49 days (FY21: 73 days) for other than posted revenue. The company has signed PPA with NEA which is owned by Government of Nepal and hence counter party default risk is low; however, timely realization is critical for the company and from analytical perspective also.

Favorable Government policies towards power sector

Government of Nepal (GoN) considers power generation as priority sector and intends to maximize private sector participation in generation of electricity by offering different exemptions and facilities on power sector. 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 2027. As per various directives from NRB, 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. Also, increasing trend of cross-border energy trade and its prospect in upcoming days with bilateral agreements with the neighboring nations shows positive outlook on long- term demand for the power sector.

About the Company

Ngadi Group Power Limited (NGPL) was incorporated in February 2006 as a private limited company and later converted to public limited company in June 08, 2014. The company is listed with Nepal Stock Exchange and promoted by individual promoters having long experience in the hydropower and other sectors. The project is being constructed under "BOOT" (Build, Own, Operate and transfer) model and is located in Lamjung district of Nepal.

Financial Performance

(Rs. in Mn)

Particulars	FY20	FY21	FY22
	Audited	Audited	Audited
Income from Operations	137	88	128
PBILDT Margin (%)	86.07	75.18	76.43
Overall Gearing (times)	0.48	0.32	0.86
Interest coverage (times)	3.94	3.12	1.41
Total Debt/Gross Cash Accruals (times)	3.29	1.55	9.82

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