

Civil Hydropower Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	920.00	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	80.00	CARE-NP A4 [A Four]	Reaffirmed
Total Bank Facilities	1,000.00 (One Billion Only)		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB' assigned to the long-term bank facilities and 'CARE-NP A4' to the short-term bank facilities of Civil Hydropower Limited (CHL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of CHL remains constrained by its below average financial performance, which has continued in FY23 (Unaudited, FY refers to the twelve- month period ended mid-July) owing to the subdued operations of its power project on account of hydrology challenges coupled with issues in machineries leading to lower-than-expected power generation. The ratings also factor in relatively high project cost leading to high payback period, hydrology risk associated with run-of-the river power generation and exposure risk of natural calamities. The ratings, however, continue to derive strength from CHL's association with group having multiple hydropower projects and experienced promoters and management team, presence of Power Purchase Agreement (PPA) with sufficient period coverage, moderate counter party risk and government support for the power sector. The ratings also take cognizance of the measures taken by the company in order to address the mechanical issues that had led to underwhelming power sales until FY23. However, the company's ability to generate power as envisaged remains to be seen.

Going forward, the ability of 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

Below average financial performance trend in FY23

CHL has been operating a run-of-the-river 4.5 MW Bijayapur-II Small Hydroelectric Project (BSHEP) in Kaski district of Nepal since March 2021. The contracted PLF of the projects is 73.49% of the generation capacity. However, over the last three financial years (FY21, FY22, and FY23), the project operated at moderate PLF levels of 72.07%, 68.45%, and 61.08% respectively, of the contracted energy. The substantially lower power generation by the project was on account of the plant's operations not being fully stabilized during initial years of operations coupled with some intermittent issues regarding its turbine leading to sub-par power generation. Subsequently, CHL reported net losses of Rs. 8 Mn in FY21, Rs. 18 Mn in FY22, and Rs. 10 Mn in FY23 due to lower income from sale of power coupled with high depreciation and interest expense.

However, as the company purchased and installed new turbines in Q4FY23, the project's PLF levels and power generation are expected to improve in upcoming years. The company's ability to continue to reduce the gap between operational PLF and contracted PLF leading to an improved overall financial risk profile on a sustained basis remains to be seen and will be critical from credit perspective.

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

Relatively high project cost leading to high payback period

The final cost of the project was Rs 1,201.25 Mn (i.e., Rs. 267 Mn per MW) which was financed in debt equity mix of 77:23. The high project cost was on account of increase in Interest During Construction (IDC) and management and supervision expenses due to delay in commissioning of operation as a result of delay in testing of the hydro mechanical equipment affected by pandemic along with construction of separate transmission line for Bijaypur-II Small Hydropower Project which was originally proposed to be evacuated from transmission line of Bijayapur-I Hydropower Project of Bhagwati Hydropower Development Company Limited. The capital structure of the company is expected to remain leveraged over the near term marked by high overall gearing due to relatively higher capex term loans. CHL's overall gearing ratio stood at 4.28x at the end of FY23 (FY22: 4.15x) on account of high project cost, impacted also by the net losses over FY21-FY23. Interest coverage ratio was 1.33x in FY23. The incurred project cost of Rs. 267 Mn per MW remains relatively higher compared to other similar projects, thus the payback period of the company is expected to remain higher.

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 project utilizes discharge from Bijaypur Khola having catchment area of 63.50 sq. km based on Perennial River. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola.

Risk of natural calamities

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. CHL is also exposed to such risks of natural calamities that might cause infrastructural, operational and financial damages to the project.

Key Rating Strengths**Experienced promoters/ directors and management team and part of group having multiple hydropower projects**

CHL 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. CHL has five members in its Board of Directors, chaired by Mrs. Prem Kumari K.C, who is also chairperson of Himshree Foods Pvt Ltd and have experience in the field of Hydropower, Education and Hospitality industries. Mr. Roshan K.C, managing director, is director at MBL, and other operational and under-construction hydropower companies. The BoD is supported by other experienced management team.

Power purchase agreement with sufficient period coverage

CHL had entered into PPA with Nepal Electricity Authority (NEA) for 4.5 MW as on August 09, 2016 for sale of entire power generated by the plant. The PPA is signed for a period of 30 years for from the date of COD (March 02, 2021). PPA period may be extended with mutual consensus through discussion from last six month of validity. The tariff rate as per PPA is Rs. 4.80 per kWh for wet season (Mid-April to Mid-December) and Rs 8.40 per kWh for dry season (Mid-December to Mid-April) with 3% escalations on annual tariff rate for 5 times. The economic life of the project is 30 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

Civil Hydropower Limited (CHL) is a public limited company which was initially incorporated as a private limited company on June 25, 2009, and was later converted into a public limited company on September 03, 2023. The company is involved in the operation of 4.5 MW run-of-the –river Bijyapur- II Small Hydropower Project (BSHEP) at Kaski district of Nepal by utilizing available flow from Bijyapur Khola (river). It is the cascade project of Bijapur–I Hydropower Project (BSHP) operated by Bhagawati Hydropower Development Company [CARE-NP BBB-(Is)]. It is promoted by individual promoters having experience in the hydropower and other sectors for setting up Hydroelectric Project (HEP) in Nepal. The project started commercial operation on March 02, 2021.

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

Particulars	(Rs. In Million)		
	FY21 (A)	FY22 (A)	FY23(UA)
Income from power sales	32	119	108
PBILDT Margin (%)	85.71	82.07	82.11
Overall Gearing (times)	3.62	4.15	4.28
Interest coverage (times)	1.28	1.24	1.33
Total Debt / Gross Cash Accruals (times)	139.01	42.28	30.26

A: Audited; UA: Unaudited

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	920.00	CARE-NP BB [Double B]
Short Term Bank Facilities	Fund-based/non-fund-based limit	80.00	CARE-NP A4 [A Four]
Total Facilities		1,000.00	

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