

Bindhyabasini Hydropower Development Company Limited

Ratings

Facilities	Amount (Rs. Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	1,774.49	CARE-NP BB+ [Double B Plus]	Reaffirmed
Short Term Bank Facilities	77.97	CARE-NP A4+ [A Four Plus]	Reaffirmed
Total Facilities	1,852.46 (One Thousand Eight Hundred Fifty Two Million and Four Hundred Sixty Thousand Only)		
Issuer Rating	NA	CARE-NP BB+ (Is) [Double B Plus (Issuer Rating)]	Reaffirmed

* The issuer rating is subject to overall gearing ratio of the company not exceeding 2.50x at the end of FY24 (FY refers to the twelve-month period ending mid-July).

Details of instruments/facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating of 'CARE-NP BB+ (Is)' assigned to Bindhyabasini Hydropower Development Company Limited (BHDC). 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 BHDC.

Detailed Rationale & Key Rating Drivers

The ratings assigned to BDHC continue to be constrained by project stabilization risk associated with its debt-funded greenfield projects, particularly amid intermittent interruptions in power generation owing to natural calamities such as floods and landslides which has led to lower than envisaged revenue generation from operations of the company. The ratings also factor in the execution risk of under construction project in which BHDC has invested, hydrology risk associated with run-of-the-river power generation and exposure to regulatory risk.

The ratings, however, continue to derive strengths from experienced board members and management team of the company, moderate financial risk profile with adequate coverage indicators after factoring in the income from insurance claims. The ratings also factor in presence of power purchase agreement (PPA) with sufficient period coverage, moderate counter party risk and government support for the power sector.

Going forward, the ability of the company to achieve stabilization of its power projects leading to power generation at envisaged levels thereby reducing the gap between operational Plant Load Factor (PLF) and contracted PLF will be the key rating sensitivities. Furthermore, any substantial investments/capital commitment that could lead to material deterioration in the company's capital structure will also be critical from analytical perspective.

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

Detailed description of the key rating drivers**Key Rating Weaknesses****Moderate operational performance as projects continue to be impacted by natural calamities**

Since commencement of operations of Rudi A and Rudi B in March 2019 and February 2020, respectively, operational performance of the projects have been impacted by intermittent challenges, whether mechanical or natural (low hydrology, floods, landslides etc.). Except for FY22, the company has not achieved uninterrupted power generation for the full year. During FY23, the revenue generated from Rudi A was ~86% of the contracted energy compared to ~92% during FY22 amid lower hydrology.

In FY23, the revenue generation from Rudi B was impacted on account of operational challenges due to landslide. The energy generation stood modest at ~28% of contracted energy, declined from ~85% over previous year. Rudi B was shut down from August 03, 2022 to January 27, 2023 due to damages in headrace pipe after a landslide in August 2022. After repairs the plant resumed operations from January 25, 2023. While both the projects have reported improved power generation at around 90% of contracted energy during Q1FY24 (Q1 refers to the three-months period ending mid-October), the company's ability to sustain the same over a longer period remains to be seen and remains crucial from credit perspective.

Long gestation period of investments

BHDC has capital commitment of Rs. 250 Mn in Peoples Energy Limited which has a 48.8 MW under-construction hydropower project. Out of total investment commitment for PEL, ~Rs. 200 Mn has been invested by the company as on mid-July 2023. BHDC is not likely to receive any income on above investment in PEL during its construction period leading to long gestation period of investments. Even after execution of the project, the income from investment will depend upon the satisfactory performance of the project. This exposes the company towards its capital commitments for under construction project, particularly if there are any material cost escalations.

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

Run-of-the-river 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. It, thus, generates much more power during times when seasonal river flows are high (Mid-April to Mid-December) and much less during the drier months (Mid-December to Mid-April). Rudi A is utilizing discharge from tailrace of Rudi B, Rudi Khola and Chheduwa Khola located at Kaski District, having catchment area of 53.43 sq kms. Similarly, Rudi B is utilizing discharge from Karbu, Tago, Kaiyu and Ligur Khola, having catchment area of 35.3 sq km. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ khola. Since coming into operations, the power generation of Rudi B has been comparatively low on the account of lower hydrology. To address this issue, the company had arranged to divert water from Ligur Headwork (Ligur Khola) leading to improved flow of water for power generation from Rudi B during FY23. The power generation of Rudi B is expected to improve going forward.

Key Rating Strengths**Experienced board members and management team**

BHDC is part of RM group. RM Group is led by Mr. Krishna Acharya, who is also founder of BHDC. RM group is involved into diversified businesses including hydropower, manufacturing, media, software and consultancy services, tourism and education etc. The board is chaired by Mrs. Sita Acharya, spouse of Mr. Krishna Acharya, who has more than a decade of relevant experience. The management team is led by Mr. Janardan Aryal, General Manager, who has more than two decades

of experience in various sector including ~8 years of experience in hydropower sector. Furthermore, the board is supported by experienced management team.

Moderation in financial risk profile during FY23 showing improvement in current FY24

BHDC is generating revenue by the selling of power generated through its 8.8 MW Rudi Khola-A Hydropower Project (Rudi A) and 6.6 MW Rudi Khola-B Hydropower Project (Rudi B) at Kaski District. The total operating income of the company declined by 28.79% year-on-year to Rs. 285 Mn in FY23 due to lower electricity generation amid lower hydrology at the plants and interruption of power generation from Rudi B due to landslide at the plant. Accordingly, PBILDT margin decreased by 943 bps y-o-y to 69.86% in FY23. Consequently, PAT of the company decreased to Rs. 64 Mn in FY23 from Rs. 122 Mn in FY22. During Q1FY24, the financial performance of the company has been on improving trend with company booking revenue of Rs. 147 Mn as compared to Rs. 101 Mn during Q1FY23 from sale of electricity. Consequently, PAT of the company increased to Rs. 62 Mn during Q1FY24 from Rs. 36 Mn during Q1FY23.

Overall gearing ratio stood moderate at 1.52x as on mid-July 2023 (PY: 1.64x). The improvement in gearing ratio is mainly on account of improvement in tangible net worth of the company with accretion of profits to the reserves. The interest coverage ratio deteriorated to 1.41x in FY23 from 2.21x in FY22 amid decline in PBILDT. Total debt to GCA stood high at 14.46x in FY23 (PY: 10.47x) for FY22 amid lower net profits during FY23. Although the company has benefitted from reasonable insurance income in periods of project downtime, improvement in power generation leading to adequate cash flow generation from the projects for a sustained period will be critical from credit perspective.

Power purchase agreement with sufficient period coverage

BHDC has entered into Power Purchase Agreement (PPA) with Nepal Electricity Authority (NEA) for both the projects. The period of the PPA is 30 years from the date of Commercial Operation (COD) or till the validity of Generation License, whichever is earlier. The contracted energy for the Rudi A is 46.86 million units (MU) and for Rudi B is 33.21 MU. Rudi A and Rudi B 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 times on yearly basis. 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 of the same is critical for the company and from analytical perspective also.

Favorable Government policies towards power sector

Government of Nepal (GoN) considers hydropower generation as a 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 the 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 augurs well for the sector.

About the Company

Bindhyabasini Hydropower Development Company Limited (BHDC) is a Public Limited Company, incorporated on December 18, 2000 as private company and later on, converted to public limited company in March 13, 2017. BHDC has two operational run of the river hydropower projects; 8.8 MW Rudi Khola-A Hydropower Project (Rudi A) and 6.6 MW Rudi Khola-B Hydropower Project (Rudi B). Rudi A is operational since Mid-March 2019 whereas Rudi B is operational since Mid-February 2020. The project is constructed under BOOT model (Build, Operate, Own and Transfer).

Financial Performance

(Rs. Million)

Particulars	FY21 (A)	FY22 (A)	FY23 (UA)
Income from Operations	222	400	285
PBILDT Margin (%)	41.69	79.29	69.86
Overall Gearing (times)	2.49	1.64	1.52
Interest coverage (times)	0.57	2.21	1.41
Current Ratio (times)	3.77	2.00	1.61
Total Debt/Gross Cash Accruals (times)	16.25	10.47	14.46

A: Audited; UA: Unaudited

Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	1,774.49	CARE-NP BB+ [Double B Plus]
Short Term Bank Facilities	Overdraft	77.97	CARE-NP A4+ [A Four Plus]
Total		1,852.46	

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