

## Mailung Khola Jal Vidhyut Company Limited

### Ratings

Facility/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
<b>Issuer Rating</b>	<b>NA</b>	<b>CARE-NP B+ (Is) [Single B Plus (Issuer)]</b>	<b>Reaffirmed</b>

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating of 'CARE-NP B+ (Is)' assigned to Mailung Khola Jal Vidhyut Company Limited (MKJC). Issuers with this rating are considered to offer high risk of default regarding timely servicing of financial obligations, in Nepal.

### Detailed Rationale & Key Rating Drivers

The rating assigned to MKJC is constrained by its modest operating performance trend with below-average power generation during FY23 (Unaudited; FY refers to the twelve-months period ended mid-July). MKJC's income prospects remain checked by less hydrology and relatively lower tariff rates. Consequently, the company's debt coverage indicators going forward are likely to remain suppressed. The rating also factors in hydrology risk associated with run-of-the-river power generation, implementation and stabilization risk of project where the company has invested, and risk of natural calamities.

The rating, however, continues to derive strength from experienced directors and management team of the company, Power Purchase Agreement (PPA) with sufficient period coverage, and government support for the power sector.

*Going forward, the ability of the company to successfully reduce the gap between operational PLF and contracted PLF 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

#### Financial risk profile constrained by below-average power generation and low tariff rates

MKJC has been operating 5 MW run-of-the-river Mailung Khola Hydropower Project (MKHP) in Rasuwa District since July 2014. Power sales of the project have historically been on the lower side amid hydrology challenges. During FY23, PLF against contracted energy was 74.18%, declining from 77.77% during FY22, primarily due to less hydrology in dry season. Consequently, the company reported total operating income (TOI) of Rs. 108 Mn in FY23, down from Rs. 114 Mn in FY22. Gross Cash Accruals (GCA) of the company declined to Rs. 54 Mn in FY23 from Rs. 62 Mn in FY22. Less hydrology coupled with lower tariff rates are likely to continue to constrain the company's income profile going forward as well. MKJC's existing tariff rates for power sales, after availing all the escalations, are Rs. 3.72 and 5.27 per kWh for wet and dry seasons, respectively, which are fixed for rest of the project life. Though MKJC previously enjoyed promotional tariff rates providing extra revenue, end of such promotional tariff rates in FY21 has had an impact on MKJC since, lowering its income prospects for the ensuing years. Consequently, the company's debt coverage indicators are likely to remain moderated going forward, particularly so when the interest rates likely switch to floating rates after FY24. The company's interest rates for FY24 are fixed at a favourable rate vis-à-vis the prevailing market rates, which provide some comfort from credit perspective. However, as its debt protection metrics, indicated by total debt to GCA stood moderate at 7.88x during FY23 (FY22: 7.65x), the company's debt servicing ability going forward will hinge on its ability to improve its PLF levels. Although PLF during the first four months of FY24 was satisfactory at ~94% of contracted energy, the company's ability to sustain the same remains to be seen and will remain a key monitorable aspect.

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

**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). MKHP utilizes discharge from Mailung Khola, which is a perennial river, partly snow-fed and partly rain-fed, having a catchment area of 85 sq. kms. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river.

**Long gestation period of investment**

MKJC has invested in Mathillo Mailun Khola Jalavidyhut Ltd (MMKJL; CARE-NP BB/A4), which is setting up a 14.3 MW hydropower project in Rasuwa district of Nepal. The company has invested Rs. 25.92 Mn in MMKJL as on mid-July 2023. MKJC is not likely to receive any income on above investment in MMKJL 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 also exposes the company towards its capital commitments for under construction project, particularly if there are any material cost escalations.

**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 and impacting their operations and financial returns. MKJC is also exposed to such risks of natural calamities as seen in the past when its operation was interrupted by multiple floods and the 2015 earthquake.

**Key Rating Strengths****Experienced directors and management team**

MKJC is managed under the overall guidance of the company's Board of Directors (BoD) with seven members. The board is chaired by Mr. Basanta Chandra Marahatta, Masters in Sociology and Civil Engineering, who is also the Chairman of Acme Engineering College and Managing Director of Sopan Multiple Company Ltd. Director Mr. Tara Prasad Pokhrel, PhD In Technical Science, is the Chairman of Kantipur Engineering College and Managing Director of Agni Cement Industries Pvt. Ltd. [CARE-NP BB-/A4]. Likewise, other directors of the company also have extensive experience in diverse business sectors. The company's management team is led by General Manager Mr. Binay Chipalu, Civil Engineer, who has worked in the company for over ten years in various positions and is supported by other experienced management team members.

**Power purchase agreement with sufficient period coverage**

MKJC entered into PPA with NEA for 5MW on July 24, 2001 for sale of entire power generated by the plant. The PPA is signed for a period of 25 years from Commercial Operation Date or till validity of Generation License (which was obtained on March 16, 2004 for 34 years), whichever is earlier. PPA period may be extended with mutual consensus through discussion from last six month of validity.

**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 the same by offering different exemptions and facilities. GoN has announced full tax exemption for first 10 years and 50% tax exemption for next five years for such person/ entity who starts commercial operation, transmission and distribution of electricity up to mid-April 2027. Various directives from NRB, whereby all the banks (class A, B C, D) have to allocate a minimum share of their total advances to the energy sector, argue well for the sector. Moreover, long-

term demand prospect for the Nepalese power sector is supported by new bilateral agreements for additional export of power to India.

### About the Company

MKJC is a public limited company, incorporated in July 22, 2002 as a private limited company and later converted to public limited company in August 22, 2014. It is promoted by institutional and individual promoters from various background for setting up Hydropower Project in Nepal. MKJC is involved in the operation of 5 MW run-of-the-river Mailung Khola Hydropower Project at Haku Village, Rasuwa District, which has been in commercial operation since July 03, 2014.

### Financial Performance

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

(Rs. in Million)

For the Period	FY21 (A)	FY22 (A)	FY23 (UA)
Income from Operations	127	114	108
PBILDT Margin (%)	74.79	75.46	79.75
Overall Gearing (times)	1.90	1.25	1.13
Interest Coverage (times)	1.94	2.29	2.57
Current Ratio (times)	3.04	3.56	4.04
Total Debt/Gross Cash Accruals(times)	8.51	7.65	7.88

A: Audited / UA: Unaudited

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