

Pure Energy Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	1,750.00 (Increased from 1,528.00 Mn)	CARE-NP BB+ [Double B Plus]	Revised from CARE-NP BB
Total Facilities	1,750.00 (One Thousand Seven Hundred and Fifty Million Only)		
Issuer Rating	NA	CARE-NP BB+ (Is) [Double B Plus (Issuer)]	Assigned

**The issuer rating is subject to total debt not exceeding Rs. 1,750 Mn 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 assigned issuer rating of 'CARE-NP BB+ (Is)' to Pure Energy Limited (PEL). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations, in Nepal. CRNL has also revised the rating assigned to long-term bank facilities of PEL to 'CARE-NP BB+' from 'CARE-NP BB'.

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to PEL factors in commissioning of 10 MW "Block 1" solar project of the company with trial runs having started from December 11, 2023. The rating also takes cognizance of satisfactory energy generation so far of its "Block 2" solar PV project located in the same region, which had commenced commercial operations from May 01, 2023. The ratings, however, continue to be constrained by PEL's leveraged capital structure leading to elevated debt servicing burden on the company during initial years of commercial operations. The ratings also factor in exposure to regulatory risk, volatile interest rates and climatic conditions and technological risk.

The ratings continue to derive strength from strong promoters and experienced management team and presence of power purchase agreement (PPA) with sufficient period coverage. The rating also factors in moderate counter party risk and positive outlook of renewable power industry.

Going forward, the ability of the company to swiftly stabilize the operations of the newly commenced solar PV project leading sustained operational Plant Load Factor (PLF) in line with contracted PLF will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Leveraged capital structure attributed to relatively high debt funding mix

PEL's overall gearing ratio stood leveraged at 2.98x at the end of FY23. The project cost for combined 20 MW solar power projects increased by ~8% to Rs. 2,420 Mn (Rs. 121 Mn per MW) from originally estimated Rs. 2,249 Mn on account of increased cost of modules and Engineering, Procurement and Construction (EPC) contract coupled with high upfront lease rental payments along with incremental Interest During Construction (IDC) due to slight delay in project commissioning related to 10 MW "Block 1" solar PV project. The project cost is financed in the debt equity mix of 72:28. Owing to limited period of operations in FY23 of one solar project and higher debt levels, total debt to GCA stood elevated at 39.22x in FY23. Similarly, interest coverage ratio stood moderate at 1.47x in FY23. Achievement of operational PLF as envisaged in order to service the debt repayment obligations from operations will be crucial from analytical perspective. Although, relatively higher fixed tariff rates of Rs. 7.3 per kw is expected to offset the risk to some extent.

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

Exposure to volatile interest rate risk

The company has substantial interest outgo lined up over the next couple of years amid high debt levels. The company's interest rates are based on 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. Higher interest rates than envisaged could result in squeezed margins of the company. Hence, funding taken by the company is exposed to volatile interest rate.

Exposure to regulatory risk

The Government of Nepal (GoN) has instituted the Electricity Regulatory Commission (ERC) as a regulatory authority to regulate the generation, transmission, and distribution of electricity in Nepal, among other responsibilities. ERC has been granted several key rights, including approval authority for Power Purchase Agreements (PPAs), prior approval for Initial Public Offering (IPO) issuance & approval for mergers to power generation companies, the prescription of conditions to maintain standards for electricity beyond the transmission line, examination of standards, prescription of internal control systems, accounting systems, and auditing methods, as well as the authority to conduct surprise checks, inspections, and investigations of licensed entities. Furthermore, ERC holds the power to impose fines for non-compliance with applicable acts, regulations, and directives. The sector now faces heightened regulatory risks, and potential changes in other policies implemented by the Government of Nepal may further impact the landscape for power sector companies. Consequently, businesses in the sector must navigate and adapt to evolving regulatory frameworks and policy dynamics to ensure compliance and mitigate potential risks.

Operations exposed to climatic conditions and technological risks

The company has installed solar module panels with mono-crystalline bi-facial technology. These panels are expected to exhibit lower degradation and higher energy generation efficiency, contributing to the company's desired plant load factor (PLF) levels. However, achieving the desired Capacity Utilization Factor (CUF) in the future is contingent upon factors such as module degradation and technological risks. Furthermore, variations in weather conditions may lead to non-generation of power, potentially resulting in reduced revenues for the company. This, in turn, could impact the company's cash flows and its ability to service debt.

Key Rating Strengths**Strong promoters and experienced management team**

PEL is promoted by individual promoters associated with the Golyan Group and REnergy Developers Pvt Ltd. The Golyan Group boasts a diverse presence across various sectors, including manufacturing, international trade, banking, insurance, real estate textile, hospitality, and energy etc. The group is actively involved in establishing hydropower projects with a cumulative installed capacity exceeding 200 MW. These projects are currently at different stages of surveys and constructions, reflecting the group's capacity to navigate risk factors and demonstrate a long-term commitment to the power sector. REnergy Developer Private Limited is a renewable energy project developer based in India, having capabilities to execute the entire process of setting up solar energy plant.

Mr. Akshay Golyan, Chairman of the company, has more than a decade of experience in manufacturing, real estate, hotel industry and other sectors and holds 64% stake (including advance for share capital) of PEL as on mid- December 2023. The operations of the company are well supported by the technical team for smooth functioning of business operations. The management team includes Mr. Sanjay Kumar Sah, Vice President and Group CFO, who has almost two decades of experience in Corporate Governance and Finance. The day-to-day management of the company is managed by Mr. Prawin Aryal, CEO, who has more than two decades of experience in several industries including hydropower and energy sector.

Successful commencement of both solar PV projects

PEL has operational 20 MW solar power plant, completed in 2 phases (Block-1 and Block-2) with installed capacity of 10 MW under each phase in Banke district of Nepal. 10 MW "Block 2" solar PV project commenced its commercial operations on May 01, 2023 and 15-day trial runs of the 10 MW "Block 1" solar PV project started on December 11, 2023. Revenue generation is likely to start from Jan 2024.

The Required Commercial Operation Date (RCOD) for the project was initially set for May 2023, and the company has applied for an extension of this. If the RCOD is not further extended, there are penalty clauses in place for delays in commencing operations, specifically concerning the "Block 1" solar PV project. Given that both projects are in the early stages of operations, the successful stabilization and streamlining of production in the upcoming years remain uncertain. However, "Block 2" solar PV project, which has demonstrated satisfactory energy generation, achieving approximately 93% of the contracted energy during its first 6 months of operations. This bodes well for the revenue prospects of "Block 1," indicating a positive outlook of operational performance.

Power purchase agreement with sufficient period coverage

The total installed capacity of the grid connected solar PV plant is 20 MW divided into "Block-1" and "Block-2", each with installed capacity of 10 MW. PEL has entered into long term power purchase agreement (PPA) with Nepal Electricity Authority (NEA) on November 28, 2021 for sale of 20 MW power to be generated from the project on take or pay basis. PPA has been entered for the period of 25 years from the COD or till validity of generation license whichever is earlier. PPA for solar PV plant is entered at tariff rate of Rs. 7.30 per kWh.

Positive outlook for renewable power industry

The Government of Nepal (GoN) has designated power generation as a priority sector and is actively seeking to enhance private sector involvement in electricity generation. To incentivize solar power projects, Alternative Energy Promotion Centre is providing various exemptions and facilities. The GoN has declared a full tax exemption for the first 10 years and a 50% tax exemption for the subsequent 5 years for entities initiating commercial operation, transmission, and distribution of electricity up to mid-April 2027. Furthermore, directives from the Nepal Rastra Bank (NRB) mandate that all banks to allocate a minimum share of their total advances to the energy sector. Collectively, these elements create a positive trajectory for long-term demand in the renewable power sector.

About the company

Pure Energy Ltd (PEL) is a public limited company, incorporated on June 19, 2018. It is promoted by individual promoters related to Golyan group and REnergy Developers Pvt Ltd. for setting up a 20 MW grid connected solar photovoltaic (PV) project in Raniyapur Village Development Committee, Banke district of Nepal. Both solar projects are operational.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	1,750.00	CARE-NP BB+
Total Facilities		1,750.00	

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