

## Eastern Hydropower Limited

### Ratings

Facility/Instrument	Amount (Rs. Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	722.45	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	5.00	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	727.45 (Seven Hundred Twenty Seven Million and Four Hundred Fifty Thousand Only)		
Issuer Rating	NA	CARE-NP BB (Is) [Double B] (Issuer Rating)	Reaffirmed

*\*The issuer rating is subject to overall gearing not exceeding 1.50x at the end of FY24*

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating of 'CARE-NP BB (Is)' assigned to Eastern Hydropower Limited (EHPL). 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 EHPL.

### Detailed Rationale & Key Rating Drivers

The ratings assigned EHPL and its bank facilities are constrained by below average financial risk profile of the company during FY23 (Unaudited; FY refers to the twelve-month period ending mid-July), modest debt service coverage indicators, hydrology risk associated with run-of-the-river power generation, exposure to regulatory risk and risk of natural calamities. The ratings, however, continue to derive strengths from experienced promoters and management team in hydropower sector, moderate operational performance of the project, Power Purchase Agreement (PPA) with sufficient period coverage, low power evacuation risk and government support for the power sector.

*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 risk profile of the company

EHPL generates revenue by selling the power generated through 5 MW Pikhuwa Khola Small Hydropower Project (PKSHP) at Bhojpur District of Nepal since June 10, 2019. Total Operating Income (TOI) stood stable at Rs. 120 Mn during FY23, slightly declined by ~2% year-on-year amid lower hydrology compared to previous year. PBILDT margin deteriorated by 547 bps to 78.07% amid increase in operating expenses. EHPL reported net loss of Rs. 15 Mn in FY23 (FY22: loss of Rs. 11 Mn) from operations on account of high depreciation and interest cost. The company reported gross cash accruals (GCA) of Rs. 35 Mn during FY23. During Q1FY24 (Q1 refers to three-month period ending mid-October), TOI of the company stood at Rs. 47 Mn (Q1FY23: Rs. 45 Mn). Net profit of the company stood at Rs. 16 Mn during Q1FY24, increased from Rs. 10 Mn during Q1FY23.

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

Furthermore, the capital structure of the company stood moderately leveraged with overall gearing ratio of 1.43x as on mid-July 2023 (FY22: 1.79x). The improvement in overall gearing ratio was mainly on account on scheduled repayment of term loan coupled with lower utilisation of working capital loans. The company completed the initial public offering of Rs. 124 Mn in November 2022 that resulted in improvement in tangible net worth of the company which was partially set off by accumulation of losses to the reserves.

Interest coverage ratio stood stable at 1.60x in FY23 compared to 1.62x in FY22. Furthermore, Total debt/GCA remains high at 19.74x during FY23, improved slightly 20.16x during FY22. Improvement in hydrology leading to adequate cash flow generation from the project will be critical from credit perspective.

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

A Run-of-the-river (ROR) power project is recognized as a variable energy source of generation of power due to its reliance on natural river flow without significant water storage capacity. The dependency on river flow makes the power generation from the project highly responsive to seasonal variations. The project extracts discharge from Pikhuwa Khola, covering a catchment area of 117 sq. kms, characterized as a perennial river. EHPL tends to produce higher electricity output during the wet season, from mid-April to mid-December, when river flows are abundant. Conversely, during the dry season, from mid-December to mid-April, power generation may be reduced due to lower river flows. Consequently, the project's performance is exposed to the inherent risk associated to the natural hydrological patterns, variability in water discharge and optimize power generation efficiency throughout the year.

### **Risk of natural calamities**

In Nepal, hydropower projects are commonly situated in topographically challenging terrains, making them susceptible to the vagaries of nature. The rugged landscapes often expose these projects to the risks of floods and landslides, which can pose significant threats by damaging infrastructure and disrupting operations. EHPL's power project is inherently exposed to these natural calamities that have the potential to cause infrastructural, operational, and financial damages to the project.

### **Key Rating Strengths**

#### **Experienced promoters and management team**

EHPL is managed under the overall guidance of the company's Board of Directors (BoD), who possesses wide experience in different sectors. The company has seven members in its board, chaired by Mr. Dhan Bahadur Shrestha, Chairperson, who has over four decades of experience in different sectors including hydropower sector and worked as a Joint Secretary of Ministry of Federal Affairs and Local Development and Ministry of Labor and Employment. Similarly, other directors of the company also have work experience in related sector. The board is further supported by a team of experienced management team members.

#### **Low power evacuation risk**

The power generated from the project is evacuated through 33KV Transmission Line to NEA's Inaruwa Substation. Prior to this, the power generated from PKSHP was evacuated through 4 km long 33 KVA transmission line to Pani Tanki, Bhojpur sub-station of NEA which was transmitting higher power than its carrying capacity which resulted in regular breakdowns and transmission losses during FY20 and FY21. After switching to NEA dedicated line from Bhojpur to Inaruwa, the issues related to tripping has been reduced significantly. In overall aspect, there is lower power evacuation risk with no tripping problem with new arrangement. However, smooth power evacuation for a reasonable period remains to be seen and will remain a key monitorable.

**Moderate operational performance of the company**

The annual contracted PLF of the project is 70.67% of the installed capacity of the plant. During FY23, the Plant Load Factor (PLF) of the plant stood at 54.19% of the generation capacity (FY22: 56.29%). The PLF of the project during 4MFY24 (4M refers to four-month period ending mid-November) stood at 86.18% of the generation capacity. The company's power generation declined to 76.67% of contracted capacity during FY23 from 79.65% during FY22. During 4MFY24, the company has generated, on an average, 91.88% of contracted capacity. The ability of the company to continue to reduce the gap between operational PLF and contracted PLF and availability of sufficient hydrology remains a key monitorable aspect.

**Power purchase agreement with sufficient period coverage**

EHPL entered into PPA with NEA for 5 MW on November 13, 2016 for sale of entire power generated by PKSHP. The PPA is valid for a period of 30 years from Commercial Operation date (COD). The tariff for wet season (Mid-April to Mid-December) is Rs 4 per kWh and for dry season (Mid-December to Mid-April) is Rs 7 per kWh with 3% escalation on base tariff for 9 years in case of 2.475 MW. Similarly, the tariff for wet season is Rs 4.80 per kWh and for dry season is Rs 8.40 per kWh with 3% escalation on base tariff for 5 years for additional capacity of 2.525 MW. The contracted energy for the project is 30.95 million units (MU). 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 and Industry Outlook**

The Government of Nepal (GoN) has featured the significance of power generation as a priority sector and encouraging private sector involvement by providing various exemptions within the power generation sector. GoN has also announced a comprehensive tax incentive package, offering full tax exemption for the initial 10 years and a 50% tax exemption for the subsequent 5 years to individuals or entities engaged in the commercial operation, transmission, and distribution of electricity until mid-April 2027. This approach is aimed at promoting investment and growth in the energy sector. Furthermore, directives from the Nepal Rastra Bank (NRB) mandate financial institutions regulated by NRB to allocate a minimum share of their total advances to the energy sector. This strategic initiative is expected to contribute to the financial support and development of projects within the energy sector which argues well for the sector.

The increasing trend of cross-border energy trade, coupled with the growing prospects stemming from new bilateral agreements between Nepal and India for additional power export from Nepal to India, further boosts the long-term demand outlook for the power sector in Nepal. These favourable conditions create a conducive environment for sustained growth, attracting investments in power generation sector.

**About the Company**

Eastern Hydropower Limited (EHPL) is a Public Limited Company, incorporated on August 4, 2017, promoted by institutional as well as individual promoters from different background. It is currently operating a 5 MW Pikhuwa Khola Small Hydropower Project (PKSHP) in run-of-river scheme located at Bhojpur district of Nepal. The project has been constructed under BOOT (Build, own, Operate and Transfer) mechanism.

## Financial Performance

For the Period	(Rs. Million)		
	FY21 (A)	FY22 (A)	FY23 (UA)
Income from Operations	100	122	120
PBILDT Margin (%)	84.81	83.54	78.07
Overall Gearing (times)	1.79	1.79	1.43
Interest Coverage (times)	1.21	1.62	1.60
Current Ratio (times)	0.79	0.95	9.26
Total Debt/Gross Cash Accruals(times)	50.42	20.16	19.74

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	722.45	CARE-NP BB [Double B]
Short Term Bank Facilities	Fund Based Limits	5.00	CARE-NP A4 [A Four]
<b>Total</b>		<b>727.45</b>	

## Contact us

### Analyst Contact

Ms. Anusha Thapa

+977-01-4012630

[anusha.thapa@careratingsnepal.com](mailto:anusha.thapa@careratingsnepal.com)

Mr. Santosh Pudasaini

+977-9802312855

[pudasaini.santosh@careratingsnepal.com](mailto:pudasaini.santosh@careratingsnepal.com)

### Relationship Contact

Mr. Achin Nirwani

+977 9818832909

[achin.nirwani@careratingsnepal.com](mailto:achin.nirwani@careratingsnepal.com)

### About CARE Ratings Nepal Limited:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

### Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.