

Sanvi Energy Limited

Rating

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Issuer Rating	NA	CARE-NP BB+ (Is) [Double B Plus Issuer]	Reaffirmed

**The issuer rating is subject to overall gearing ratio of the company not exceeding 3.5x at the end of FY24 (FY refers to the twelve-month period ending mid-July).*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating of 'CARE-NP BB+ (Is)' assigned to Sanvi Energy Limited (SEL). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations, in Nepal.

Detailed Rationale & Key Rating Drivers

The issuer rating assigned to SEL continues to be constrained by project implementation risk associated with its under construction cascade project, hydrology risk associated with run-of-the-river power generation, and risk of natural calamities. The ratings, however, derive strength from experienced board members and management team, satisfactory power generation of SEL's operational hydropower project during H1FY24 (H1 refers to the six-month period ended mid-January), low offtake risk and moderate counter party risk. The ratings also factor in government support for the power sector.

Going forward, the ability of the company to successfully execute the under construction project without material cost and time overrun and early stabilization thereafter are the key rating sensitivities. The company's ability to continue to reduce the gap between operational Plant Load Factor (PLF) and contracted PLF with timely receipt of payments from Nepal Electricity Authority (NEA) will also remain key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Project implementation risk associated with cascade project

SEL is setting up a 5.2 MW Jogmai Cascade Hydroelectric Project (JCHP) in Illam district of Nepal. The estimated cost of the project is Rs. 1,009 Mn which is proposed to be funded by debt to equity in the ratio of 75:25. The total debt amount of Rs. 757 Mn has already been tied up. As on December 31, 2023, around ~63% of the total project cost has been incurred (funded by debt of Rs. 393 Mn and rest from equity/internal accruals). Construction work of the project had been delayed from the Required Commercial Operation Date (RCOD) of July 22, 2023 amid disruptions during the covid pandemic, challenges in land acquisition and procurement and mobilization of explosives, which has been resolved. The company has applied for extension of RCOD till July 2024 with Nepal Electricity Authority (NEA). Thus, approval from the NEA for revised RCOD is critical from analytical perspective. If the project is not completed within the approved RCOD, then the company will be required to pay delay penalty. Furthermore, if Commercial Operation Date (COD) is delayed by more than six months from RCOD, there are restriction clauses in escalation of tariff rate. It is crucial for the company to complete the project within the timelines to avail the accelerated clauses of tariff. Any delay in the same would impact the project's expected returns and debt servicing capabilities.

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. JKSHEP and JCHEP utilizes discharge from Jogmai Khola having catchment area of 104.18sq. kms and 118.10sq. kms based on Perennial River. SEL tends to produce higher electricity output during the wet

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

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 optimized power generation efficiency throughout the year.

Risk of Natural Calamities

In Nepal, hydropower projects are usually located in terrains that are topographically challenging making their construction and 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 as well as impacting their timely completion. Moreover, disruption in their construction in turn could lead to time and/or cost overrun, negatively impacting the project's financial aspects. Moving forward also, these natural calamities can adversely affect the smooth flow of power generation and distribution, which can further impact financial returns of the projects. SEL is also exposed to such risks of natural calamities that might cause infrastructural, operational and financial damages to the project.

Key Rating Strengths

Experienced board members and management team

SEL is managed under the overall guidance of the company's Board of Directors (BoD), who possesses wide experience in the power sector. SEL has seven directors in its Board of Directors, chaired by Mr. Anup Acharya, having more than three decades of experience in construction sector. He is also associated with Seti khola Hydropower Private Limited (CARE- NP BB/ A4). Mr. Bhanu Bhakta Pokharel, Managing Director, has more than three decades of experience. The BoD is further supported by other experienced management team members.

Satisfactory performance of operational project

SEL currently generates revenue by selling the power generated through its 7.6 MW Jogmai Khola Small Hydroelectric Project (JKSHEP) at Ilam District, operational since May 2017. Plant Load Factor (PLF) of the company improved to 90.49% of contracted energy during H1FY24 from 83.22% of the contracted energy during FY23. The power generation was moderated slightly during FY23 on account of low hydrology. Nonetheless, the financial performance of the company improved during H1FY24 with operating income through sale of electricity of Rs. 127 Mn (FY23: Rs. 206 Mn).

Overall gearing ratio stood moderate at 2.23x at the end of FY23, deteriorated slightly from 2.18x at the end of FY22 on account of increase in short term loans. Interest coverage ratio of the company stood moderate at 1.64x in FY23, deteriorated from 2.02x in FY22 amid lower PBILDT. Although coverage indicators are expected to improve in FY24 amid improved cash accruals, additional term debt associated with 5.2 MW cascade project of around Rs. 757 Mn, which is expected to come on the books by FY24 end is likely to lead to some moderation of SEL's gearing profile over the medium term.

Low offtake risk

SEL had entered into a PPA for a period of 30 years for JKSHEP and JCHEP from the date of COD or till validity of Generation License, whichever is earlier. Tariff rate as per PPA is Rs 4.80 per Kwh for wet season (Mid-April to Mid-December) and the tariff rate for dry season (Mid-December- Mid April) is 8.40 per Kwh, with 3% annual escalation on base tariff for 5 years in case of JKSHEP and for 8 years in case of JCHEP. RCOD of the under construction cascade project was July 22, 2021 which was further extended till July 2023. The company has further applied for additional one year extension of RCOD till July 2024 with NEA, approval of which is pending. Additionally, the counterparty payment risk associated with NEA is deemed moderate, given its full ownership by the Government of Nepal. Such arrangements provide revenue stability and sustainability to the company.

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 introduced a comprehensive tax incentive package, providing full tax exemption for first 10 years and 50% tax exemption for the subsequent five years to the individuals/entities who start commercial operation, transmission and distribution of electricity until 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

Sanvi Energy Limited (SEL) is a public limited company incorporated in 2011 as a private limited company and later on converted to public limited company on July 09, 2020. It is promoted by individual promoters having long experience in the hydropower and other sectors for setting up Hydroelectric Project in Nepal. SEL has two hydropower projects out of which one is in operation and one under construction. The projects are constructed under BOOT model (Build, Own, Operate and Transfer).

Financial Performance

(Rs. Million)

Particulars	FY21 (A)	FY22 (A)	FY23 (A)
Income from Operations	192	245	206
PBILDT Margin (%)	82.27	83.23	78.40
Overall Gearing (times)	2.50	2.18	2.23
Interest coverage (times)	1.49	2.02	1.64
Current Ratio (times)	3.09	5.43	2.16
Total Debt/Gross Cash Accruals (times)	23.55	11.10	18.82

A: Audited; UA: Unaudited

Contact us

Analyst Contact

Ms. Poonam Agarwal

+977-01-4012628

poonamagarwal@careratingsnepal.com

Mr. Santosh Pudasaini

+977-9802312855

pudasaini.santosh@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani

+977-9818832909

achin.nirwani@careratingsnepal.com

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