

## Sayapatri Hydropower Limited

### Rating

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
<b>Issuer Rating</b>	<b>NA</b>	<b>CARE-NP BB (Is) [Double B (Issuer Rating)]</b>	<b>Reaffirmed</b>

*\*The issuer rating is subject to overall gearing not exceeding 2.5x at the end of FY24.*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating of CARE-NP BB (Is) assigned to Sayapatri Hydropower Limited (SHL). 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 rating assigned to SHL continues to be constrained by below par operating performance of its hydropower plant mainly owing to low hydrology, risk of natural calamities, exposure to volatile interest rates and regulatory risk coupled with hydrology risk associated with run-of-the-river power generation. The rating, however, continues to derive strength from SHL's experienced board members and management team, moderate capital structure, presence of power purchase agreement with sufficient period coverage, moderate counter party risk and government support for the power sector.

*Going forward, the ability of the company to continue to reduce the gap between operational PLF and contracted PLF and availability of sufficient hydrology and timely receipt of payment from Nepal Electricity Authority (NEA) are the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

##### Subdued operating performance of the power project amid low hydrology

SHL has been operating a run-of-the-river 2.5 MW Daram Khola 'A' hydro power project in Baglung district of Nepal since July 2020. The annual contracted PLF of the project is 62.74% of the installed capacity. During FY23, the revenue from power generation decreased by ~22% to Rs. 56 Mn from Rs. 66 Mn during FY22. The decline was on account of moderation in PLF against contracted capacity to 67.63% from 79.08% during FY22 (FY21: 69.87%). PBILDT in absolute amount decreased from Rs. 64 Mn during FY22 to Rs. 50 Mn during FY23. SHL recorded PAT of Rs. 1 Mn during FY23 (FY22: Rs. 15 Mn). However, during H1FY24, amid slightly improved power generation, the company has reported total operating income of Rs. 44 Mn with the PLF level of 87.41% of contracted energy (H1FY23: Rs. 41 Mn with PLF of 81.65%). The ability of the company to continue to reduce the gap between operational PLF and contracted PLF and availability of sufficient hydrology will remain critical from analytical perspective.

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

Run-of-the-river (ROR) 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. ROR, therefore, 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-Dec to Mid-April). SHL utilizes discharge from Daram Khola (tributary of Badi Gad river, which is a major tributary of the Kali Gandaki River), a perennial river, having catchment area of 84 sq. kms based on water source from forest. 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.

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

**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. SHL's power project is inherently exposed to these natural calamities that have the potential to cause infrastructural, operational, and financial damages to the project.

**Exposure to volatile interest rate**

SHL's interest rates are based on floating interest rate regime, where a certain premium is added to the monthly base rate and interest rate is changed accordingly on monthly 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 changes in interest rates. Being high debt funded project, higher interest rates than envisaged could result in squeezed margins of the company, impacting its liquidity profile.

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

SHL has seven board of directors with wide experience in the power sector as well as other industries. The board is chaired by Dr. Eka Narayan Chapagain, who is the former general secretary of the Association of Doctoral Non-Resident Nepalese (NRNA) holding 6.84 % shares of the company. The other directors of the company have also long experience in different sectors including hydropower sector. SHL, in the past obtained financial support in the form of short-term loans from directors and promoters to meet any shortfall in cash flows due to lack of sufficient cash flow generation from the operations.

**Low offtake risk and moderate counterparty risk**

SHL entered into PPA with NEA as on April 1, 2012 for sale of 2.5MW power. The period of PPA is 30 years from the commercial operation date (COD) or till validity of Generation License, whichever is earlier. The 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 years from the COD. The contracted energy for wet season is 11.18 million units and for dry season 2.56 million units. Additionally, the counterparty payment risk associated with NEA is deemed moderate, given its full ownership by the Government of Nepal. Such arrangements are expected to provide revenue stability and sustainability to the company.

**Moderate capital structure, albeit with moderate coverage indicators**

Overall gearing ratio improved to 1.14x at the end of FY23 from 2.44x at the end of 2022 following IPO issuance of Rs. 90 Mn which came on the books at the start of FY23. Gearing ratio further improved to 1.03x at the end of H1FY24 owing to scheduled repayment of term loans. Total Debt/GCA, however, had declined to 14.54x during FY23, up from 11.43x during FY22 on account of lower PBILDT generation. Total Debt to GCA improved to 6.05x at the end of H1FY24 aided by increased income from power sale. The interest coverage ratio of the company improved to 2.46x during H1FY24 from 1.60x during FY23.

**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

SHL is a public company, incorporated on July 30, 2007, promoted by institutional as well as individual promoters from different background. It is currently operating 2.5 MW Daram Khola 'A' hydro power project in run –of –river scheme located at Baglung district, Nepal. The project is constructed under BOOT (Build, own, Operate and Transfer) mechanism.

### Financial Performance

For the Period Ended / as at Mid-July,	(Rs. Million)		
	FY22 (A)	FY23 (A)	H1FY24 (UA)
Income from Operations	66	56	44
PBILDT Margin (%)	79.05	79.78	82.90
Overall Gearing (times)	2.44	1.14	1.03
Interest Coverage (times)	2.02	1.60	2.44
Total Debt/ Gross Cash Accruals (times)	11.43	14.54	6.12

A: Audited; UA: Unaudited

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