

## Rating Rationale

### United Idi Mardi & R.B. Hydropower Limited

#### Rating

Particulars	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Issuer Rating	NA	CARE-NP BB+ (Is) [Double B Plus (Issuer)]	Assigned

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned Issuer rating of ‘CARE-NP BB+ (Is)’ to United Idi Mardi & R.B. Hydropower Limited (UIMHL). Issuers with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations, in Nepal.

#### Detailed Rationale & Key Rating Drivers

The issuer ratings assigned to UIMHL is constrained by moderate financial risk profile of the company during 9MFY20 [Unaudited, refers to 9 months period ended Mid April 2020] being in first year of operation, exposure to volatile interest rates and hydrology risk associated with run of the river power generation. The rating, however, derives strength from the experience of board members and management in hydro power sector, association with the group having multiple hydropower and other investments and presence of power purchase agreement (PPA) with sufficient period coverage. The ratings also factor in moderate counter party risk, project operated at high Plant Load Factor (PLF) for majority of the months from the Commercial Operation Date (COD), power demand supply gap in Nepal coupled with increasing demand of power in the country and government support for the power sector. The ability of company to reduce the gap between operational PLF and contracted PLF and availability of sufficient hydrology and timely receipt of the payments from NEA are the key rating sensitivities.

#### Detailed Description of the Key Rating Drivers

##### Key Rating Weaknesses

##### *Moderate financial risk profile of the company during 9MFY20 being in first year of operation*

The total project cost was proposed to be financed in the debt equity ratio of 75:25. The project was completed at the cost of Rs. 1421 Mn which was financed through debt of Rs.1029 Mn and remaining amount through equity and current liabilities. The cost per MW of the project was relatively high at Rs. 203 Mn per MW. Required Commercial Operation Date (RCOD) of the project was mid-July 2020, however the project was completed 9 months before RCOD. Project achieved COD from October 07, 2019 and operated for the 9 months and 11 days during FY20 [Unaudited, refers to 12 months period ended Mid July 2020]. UIMHL reported total income of Rs. 78 Mn through the sale of electricity during 9MFY20 ended on mid-April 2020 with PBILDT of Rs. 65 Mn. However, due to high interest expenses, the company reported net loss of Rs. 13 Mn. Overall gearing ratio of the company was high at 3.44x and

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

the interest coverage ratio was low at 1.01x at the end of 9MFY20. The total revenue through the sale of the electricity during FY20 (Provisional) was Rs. 109 Mn.

***Exposure to volatile interest rate***

Nepalese banking sector is fixing lending interest rate based on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 1-2 years. Therefore, funding from Bank and Financial Institutions is exposed to volatile interest rate.

***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 summer season when seasonal river flows are high (Mid-April to Mid-December) and less during the winter season (Mid-Dec to Mid-April). UIMHL is proposed to utilize discharge from Mardi Khola having catchment area of 40 sq kms based on Perennial River. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river.

**Key Rating Strengths**

***Board members and management having experience in hydro power sector***

UIMHL has total 5 board members. Mr. Surya Bahadur K.C, executive chairperson, is involved in other businesses and is also the Member of Parliament. Mr. Roshan K.C, managing director, is director at Machhapuchchhre Bank Ltd., and other operational and under-construction hydropower companies. He is supported by other experienced management team.

***Association with the group having multiple hydropower projects and other investments***

UIMHL is part of KC Group of companies which is one of the leading business groups in Nepal. In addition to the hydropower projects, the promoters of KC group of Companies have made their investments in different other sectors like construction, Hospitality and Housing, Manufacturing, educational institutions, Banking and Insurance. KC Group of companies has invested in 5 operational projects with the operational capacity of 30.28 MW and 3 under construction hydropower projects with the capacity of 56.50 MW.

***Power purchase agreement with sufficient period coverage***

UIMHL had entered into PPA with Nepal Electricity Authority (NEA) for 7MW as on June 7, 2016 for sale of entire power generated from the project. The PPA is signed for a period of 30 years from the COD or till validity of generation license whichever is earlier. PPA period may be extended with mutual consensus through discussion from last six month of validity. The company completed the project before RCOD and hence, the company will be eligible for all the five escalation of 3% on base tariff.

The tariff rate 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. The contracted energy is 35.88 Million Units (MU) annually. The contracted PLF of the project is 58.51%.

***Current project operated at high PLF for majority of the months from the COD***

The annual contracted PLF for Upper Mardi Hydropower Project (UMHP) is 58.51% of the installed capacity of the plant. The project has been operated at high PLF during majority of the months in FY20 from COD. During FY20, the PLF from the project was at 42.64% (over generation capacity) which majorly comprise dry season and the power generation from the project as a %age to the contracted power as per the PPA was at 88.22%. The ability of the company to reduce the gap between operational PLF and contracted PLF and availability of sufficient hydrology is the key rating sensitivity.

***Moderate counter party risk***

UIMHL is exposed to counter party payment risk pertaining to NEA, which has been making losses in past till FY16 and carry huge accumulated loss in its book. However, as per the annual report published by NEA, during FY19 (provisional), NEA earned profit of Rs 7,205 Mn and achieved gross cash accrual of Rs 11,915 Mn. The counter party payment risk is moderated by the fact that, NEA is fully owned by government of Nepal and generating positive gross cash accruals. Further, NEA has been making timely payment to independent power producers (IPPs) in past. As per the PPA, NEA is required to make payments within 45 days of receiving of invoice from the company. During FY20, the company has received payment from NEA for supply of power generated within 31 to 59 days.

***Power demand & supply gap coupled with increasing demand of power in the country***

As per the NEA's Annual Report for FY19, the current peak electricity demand is 1,320 MW. The total domestic installed capacity stands at 1,178 MW which includes 617 MW owned by NEA and 561 MW by private sector IPPs. Overall, during FY19, total energy demand was 7,584 GWh which was met by import of 2,813 GWh from India whereas balance was met by domestic generation. As per NEA, electricity demand is in increasing trend and is expected to increase in future with increase in electricity consumption through the promotion of electric vehicles by building charging station and replacing cooking gas with electricity, increase in access of population using electricity (78% in FY19) etc.

***Government support for the power sector***

Government of Nepal (GoN) considers hydropower generation as priority sector and intends to maximize private sector participation in generation of hydroelectricity by offering different exemptions and facilities. GoN has announced full tax exemption for first 10 years and 50% tax exemption for next 5 years for such person/entity who starts commercial operation, transmission and distribution of electricity up to mid-April 2024. Furthermore, GoN has declared to provide grant of amount equivalent to Rs. 5 Mn per MW installed capacity after receiving evidence of formal COD of complete power plant.

**About the Company**

United Idi- Mardi and R.B Hydropower Ltd (UIMHL) was initially incorporated as a private limited company as on March 1, 2010 and later on, it was converted to a public limited company as on April 17, 2018. It is promoted for setting up of a 7MW run-of-river, UMHP in Kaski district of Nepal. Currently, 100% share capital of the company is held by 25 promoter shareholders, who have contributed Rs. 315 Mn equity share capital as on July 16, 2020. Mr. Surya Bahadur K.C (holds 23%), Mrs. Prem Kumari K.C (holds 21.68%), Mr. Anuj Kayal (holds 9.44%), Mr. Roshan K.C (holds 8.78%) and Mr. Sunil Narayan Shrestha (holds 8%) are major promoter shareholders of the company. Company is in the process to issue IPO of Rs. 105 Mn. After issue of proposed IPO, the share capital of the company is expected to be Rs 420 Mn which will be held by promoter and public shareholders in 75:25 ratio. As per the Generation License, from Government of Nepal – Ministry of Energy, obtained on January 27, 2017, the project shall be handed over, on whatever conditions the project is, to the Government of Nepal after expiry of Generation License, which is 35 years.

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