

Rating Rationale

CEDB Hydropower Development Company Limited

Rating

Facility/ Instrument	Amount	Rating ¹	Rating Action
Issuer Rating	NA	CARE-NP BB (Is) [Double B (Issuer)]	Assigned

**The issuer rating is subject to the company maintaining overall gearing not exceeding 0.50x at the end of FY21.*

CARE Ratings Nepal Limited (CRNL) has assigned ‘CARE-NP BB (Is)’ rating to CEDB Hydropower Development Company Limited (CHDC). 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 ratings assigned to the bank facilities of CHDC is constrained by concentrated investment in hydropower sector, equity commitment with long gestation period of its investments, limited experience in executing large scale projects and high and increasing average collection period. The rating is also constrained by project implementation risk related to various under construction projects and hydrology risk associated with run-of-the-river power generation affecting profitability of the company. The rating, however, derives strength from experienced directors and management expertise, track record in operating hydro power projects with healthy plant load factor, comfortable financial risk profile and strong debt service indicators on back of no major loans and diversified stream of revenue profile. The rating also factor in power demand & supply gap coupled with increasing demand of power in the country and government support for the power sector having positive prospects for the company’s investments.

Timely execution of the projects in which CHDC has investments within the deadlines avoiding any time and cost overrun is the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weakness

Equity commitments, concentrated investment and long gestation period of its investments

CHDC has made investment of Rs. 299 Mn during FY20 (Provisional, refers to 12 months period ended Mid July 2020) for the on-going/operational projects, all of them has been invested in the form of equity shares in hydropower companies. Being an investment company, the return prospects of CHDC largely depends upon the performance of its investee companies. CHDC received dividend income of Rs. 20.74 Mn during FY19 from the investments however it decreased to 0.53 Mn during FY20. The company has balance equity commitments of Rs. 251.82 Mn (based on the current portfolio of projects under development) which is proposed to be invested in Rapti Hydro and General Construction Limited

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

(RHGCL) which is developing 5MW Rukum Gad Hydropower Project (RGHPP). CHDC is planning to raise Rs. 251.82 through initial public offerings (IPO) during FY20 for fulfilling the equity commitment. Out of the total investment book of CHDC, ~48% will be invested in single project, RGHPP. RGHPP is under construction and is expected to come in operation by June 2021. However, the project is being developed at a high cost of Rs. 260 Mn per MW which can impact the return prospects of CHDC.

Limited experience in executing large scale projects and inherit project implementation risk

The company has, through its subsidiary and associate companies, two operational plants with an aggregate capacity of 4.58MW, whereas it is setting up plants of aggregate capacity out of which 73MW is under construction and 79.99 MW plants in aggregate are in pipeline. The company is currently implementing its largest project with installed capacity of 45MW through its subsidiary Kasuwa Khola Hydropower Ltd. (KKHL) which is in very nascent stage. Thus, the company has limited track record in setting up and operating large scale power projects.

High and increasing average collection period

The average collection period of the CHDC is high and increasing over the period. Average collection period was high at 414 days during FY19, which increased to 540 days during FY20. Accumulated management fees and project development fees from the group companies, in the absence of financial closure for the projects, equity injection from promoters and regular cash flows are the main reason for huge debtors' book and high collection period of CHDC. Majority of receivable is from KKHL for the accumulated fees charged to them.

Project implementation risk related to various under construction projects

The major project of 45MW, Kasuwa Khola HPP is in initial phase, is yet to start construction. The project has obtained generation license, PPA has been signed and land has been purchased however financial closure is yet to be achieved. 11MW Tallo Khare Khola HPP has achieved ~94% progress in financial terms till January 2020. Tallo Khare Khola HPP experienced time overrun due to non-completion of NEA's transmission line. 12MW Dordi I HEP has been achieved ~73% progress in financial terms till Mid June 2020 and 5MW Rukum Gad HPP has achieved ~80% progress in financial terms till June 2020. All these projects are in the implementation stage and continues to remain exposed to the residual risks associated with project implementation and satisfactory operations thereafter.

Hydrology risk associated with run-of-the-river power generation affecting profitability of the company

Run-of-the-river power is considered an un-firm 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 times when seasonal river flows are high and much less during the drier months. CHDC is investing in the companies which generates electricity from discharge of rivers, which are snow fed streams with run-of-the-river, comprising of mountainous and hilly terrain.

Hence, the projects are exposed to risk associated with variation in discharge of water from the aforesaid rivers, which may affect the revenue generation and return prospect of CHDC.

Key Rating Strengths

Experienced directors and management expertise

CHDC has 5 Board of Directors, chaired by Mr. Anil Kumar Rungta, who has more than 25 years of experience in investment and finance sector. He is also the chairperson of various hydropower companies in the group. Mr. Vinay Kumar Bhandari is the Chief Executive Officer of the company since 2009. He has more than 25 years of experience in hydropower sector. He has worked as Project Development Expert/ Consultant, Electricity Distribution System Consultant and Hydropower & Environmental Specialist for various hydropower projects.

Track record in operating hydro power projects with healthy plant load factor

CHDC, through its subsidiary and associate companies, is operating two hydropower projects. 4.40 MW Radhi Small Hydro Power Project (RSHPP) located at Lamjung district of Nepal under the name of Radhi Bidhyut Company Limited operated at plant load factor (PLF) of 70.39% against generation capacity during FY20. Another project of 0.18 MW Syange Mini Hydropower Project (SMHPP) located at Lamjung district of Nepal under the name of Syange Bidhyut Company Limited operated at PLF of 70.61% against generation capacity during FY20.

Comfortable financial risk profile and strong debt service indicators

CHDC's total revenue increased by 13.60% during FY20 mainly due to increase in management fee on account of new license obtained for three different projects. Further, PBILDIT increased by ~14% during FY20. The overall gearing and debt equity ratio of the company was low at 0.002x as on July 15, 2020 as the company is not availing any major loans and the interest coverage ratio was high at 336.55x for FY20.

Diversified revenue profile

The main source of revenue for CHDC is the management fee for managing day to day operation of different hydropower projects under its group. Additionally, CHDC also has dividend income from the investments it has made in share capital of various companies. CHDC earned management fee of Rs. 60 Mn during FY19 which increased to Rs. 91 Mn during FY20. CHDC also received Rs. 21 Mn as dividend income during FY19 from the equity shares invested which however declined to Rs. 0.53 Mn during FY20. Interest income increased from Rs. 18.92 Mn during FY19 to Rs. 26.61 Mn during FY20.

Power demand & supply gap coupled with increasing demand of power in the country and government support for the power sector having positive prospects for the company investments

As per the NEA's Annual Report for FY20, the current peak electricity demand is 1,408MW. The total domestic installed capacity stands at 1,328 MW which includes 632 MW owned by NEA and 696 MW by private sector IPPs. Overall, during FY20, total energy demand was 7,894 GWh which was met by import

of 1,729 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 and replacing cooking gas with electric induction, increase in access of population using electricity (86% in FY20) etc.

Further, 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.

About the Company

CEDB Hydropower Development Company Limited (CHDC) is public limited company, incorporated on November 30, 2009 as CEDB Hydro Fund Limited, later the name was changed to CEDB Hydropower Development Company Limited with effective from July 11, 2018. CHDC was promoted by the then Clean Energy Development Bank Limited (now merged with NMB Bank Limited) with the purpose of investment in hydropower projects. The main purpose of CHDC is to invest in hydropower companies and providing project management services to those companies. Paid up capital of CHDC was Rs.588 Mn as on July 15, 2020 (Provisional), held by promoter shareholders. After the issuance of Rs.251.82 Mn proposed IPO, promoter-public shareholding is expected to be in the ratio of 70:30.

Brief Financial Performance during the last 3 years is as follows:

(Rs. In Million)

Particulars	FY18 (A)	FY19(A)	FY20(UA)
Income from Operations	87	104	119
PBILDT	72	91	103
PAT	59	71	77
Overall Gearing (times)	0.003	0.021	0.002
Interest coverage (times)	240.41	39.01	336.55

A: Audited, UA: Unaudited

<p>Analyst Contact Mr. Bidhan Ojha bidhan.ojha@careratingsnepal.com Tel No.: +977-01-4012629</p>	<p>Relationship Contact Mr. Sajan Goyal sajan.goyal@careratingsnepal.com Tel No.: 9818832909/+977-01-4012628/29/30</p>
--	--

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.