

Rating Rationale
Sanvi Energy Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	1,106.64	CARE-NP BB+ [Double B Plus]	Assigned
Short Term Bank Facilities	74.40	CARE-NP A4+ [A Four Plus]	Assigned
Total Facilities	1,181.04		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BB+’ to the long-term bank facilities and ‘CARE-NP A4+’ to the short-term bank facilities of Sanvi Energy Limited (SEL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SEL is constrained by project implementation risk and stabilization risk associated with cascade project, SEL’s exposure to volatile interest rates and hydrology risk associated with run of the river power generation. The ratings, however derives strength from experienced promoters, directors and management team, moderate financial risk profile with moderate gearing levels during FY20 (Unaudited, refers to 12 months period ended Mid July 2020), power purchase agreement (PPA) with sufficient period coverage. The ratings also factor in moderate counter party risk, current project operated at moderate plant load factor (PLF), power demand supply gap in Nepal coupled with increasing demand of power in the country, government support for the power sector and financial closure achieved for Jogmai Cascade Hydropower project (JCHEP) project cost.

The ability of SEL to reduce the gap between operational PLF and contracted PLF and availability of sufficient hydrology and timely receipt of the payments from Nepal Electricity Authority (NEA) are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Project implementation and stabilization risk associated with cascade project

JCHEP project is proposed to use water discharge from the tail race of operational Jogmai Khola Hydropower project (JKSHEP). The RCOD of the Jogmai Cascade Hydropower project is July 22, 2021. Contract for Civil works, Electro-mechanical works has already been entered. However, contract for Hydro-mechanical works is yet to be initiated. The project is in the initial phase of the construction. Hence, the company continues to remain exposed to the risks associated with project implementation and satisfactory operations thereafter.

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

Exposure to volatile interest rate

Nepalese banking sectors are fixing interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions will be change by change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 1-2 year. Therefore, funding from Bank and Financial Institutions is subject 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 wet season when river flows are high (Mid-April to Mid-December) and less during the dry season (Mid-December to Mid-April). JKSHEP and JCHEP utilizes discharge from Jogmai Khola having catchment area of 104.18sq. kms and 118.10sq. kms based on Perennial River. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola.

Key Rating Strengths***Experienced directors and management team in Power sector***

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 6 Board of directors, chaired by Mr. Anup Acharya, who has more than 30 years of experience in construction industries. He is also the Chairman and Managing Director at M.A. Construction P Ltd. and Chairman at Setikhola Hydropower Pvt. Ltd (SHPL) (22MW). Mr. Bhanu Bhakta Pokharel, Managing Director, has more than 30 years of experience. He is also a founder and Managing Director of Urja Developers Pvt. Ltd which has portfolio of hydropower projects with the cumulative installed capacity over 220MW (Operational and Under construction). He has served as President of Nepal Hydropower Association and has worked as Senior Hydropower Engineer for NEA for over 20 years and he is supported by other experienced management team members.

Moderate financial risk profile with moderate gearing levels

SEL reported growth of 13.56% in total income during FY20 over FY19 due to increase in electricity generation. PBILDT of the company increased by 13.50% during FY20 on the back of increase in total revenue. Overall gearing ratio improved to 3.06x at the end of FY20 on the back of increase in networth due to accretion of profit and increase in the share capital by Rs.28 Mn. Interest coverage ratio of the company improved to 1.45x at the end of the FY20 due to the increase in the PBILDT of the company. Total debt to Gross Cash Accrual (GCA) ratio declined to 21.22x during FY20 as compared to 22.08x in FY19 due to increase in gross cash accruals and the decline in the total debt. Even though the Total debt to GCA ratio is high, the repayment period of the term loan is 20 years, which provides comfort to some extent.

Power purchase agreement with sufficient period coverage

The PPA is signed 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. Required Commercial Operation (RCOD) of the cascade project is July 22, 2021.

Moderate counter party risk

SEL is exposed to counter party payment risk pertaining to Nepal Electricity Authority (NEA), which has been making consecutive losses in past till FY16. However, as per the annual report published by NEA, during FY20 (provisional), NEA earned profit of Rs 11,056 Mn (Rs. 9,812 Mn during FY19) resulting the accumulated profit in its book. Further, during FY20, NEA achieved gross cash accrual of Rs 16,056 Mn (Rs 14,664 Mn in FY19). The counter party payment risk is moderated by the fact that, NEA is fully owned by government of Nepal, net loss is declining over the period and generating positive gross cash accruals. Further, NEA has been making timely payment to independent power producers (IPPs) in past. The average collection period from NEA during FY20 was 70 days (FY19: 60 days). During FY20, the company received payment from NEA for supply of power generated within 46 to 79 days.

Current project operated at moderate PLF

The annual contracted PLF for JKSHEP is 64.40% of the installed capacity of the plant. The project has been operated at moderate PLF over the period. During FY19, the PLF from the project was at 49.61% (over generation capacity) which increased to 55.96% during FY20. The power generation from the project as a %age to the contracted power as per the PPA was 77.13% during FY19 which increased to 86.94% in FY20. The total energy generated from the project was lower than contracted energy on annual basis due to hydrology issues. The penalty amount of Rs. 1.69 Mn was levied during FY20 due to the short supply of energy as compared to the declared energy. 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

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

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 1,721 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 electric induction, increase in access of population using electricity (86% in FY20) 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.

Financial closure achieved for JCHEP project cost

The total cost of the cascade project is envisaged at Rs. 1,009 Mn to be funded in debt equity ratio of 75:25 (debt of Rs 757 Mn and equity of Rs. 252 Mn). JCHEP has entered into consortium loan agreement on December 30, 2019 for Rs 757 Mn term loan.

About the Company

SEL is a public limited company incorporated in 2011 as a private limited company and later converted to public limited company in July 09, 2020. It is promoted by individual promoters having long experience in the hydropower and other sectors for setting up Hydroelectric Project (HEP) in Nepal. SEL has two hydropower projects out of which one is in operation and one under construction. 7.6 MW run-of-the-river Jogmai Khola Small Hydroelectric Project (JKSHEP) at Ilam District has been in commercial operation since May 01, 2017. By utilizing the water from tailrace of JKSHEP, SEL has under construction 5.2 MW Jogmai Cascade Hydroelectric Project (JCHEP), which is proposed to come in commercial operation by August 2021. The major shareholders of the company as on July 15, 2020 are Mr. Anup Acharya (50.42%), Mr. Bhanu Pokharel (21.58 %). As per the Generation License, from Government of Nepal – Ministry of Energy, obtained on April 23, 2013 for JKSHEP and January 27, 2020 for JCHEP, the project shall be handed, on whatever conditions the project is, to the Government of Nepal after expiry of Generation License, which is 35 years respectively.

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

(Rs. In Million)

Particulars	FY18 (A)	FY19(A)	FY20(UA)
Income from Operations	191	177	201
PBILDT	163	156	177
PAT	(12)	6	6
Overall Gearing (times)	3.42	3.39	3.06
Interest coverage (times)	1.27	1.14	1.45

A: Audited, UA: Unaudited

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Annexure 1: Details of the Facilities rated

Facility/ Instrument	Type of the Facility	Amount (Rs. In Million)	Rating
Long Term Bank Facilities	Term Loan	1,106.64	CARE-NP BB+
Short Term Bank Facilities	Overdraft Loan	70.50	CARE-NP A4+
Short Term Bank Facilities	Non-Fund Based Limits	3.90	CARE-NP A4+
Total Facilities		1,181.04	