

## Rating Rationale

### Bindhyabasini Hydropower Development Company 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

*\*The issuer rating is subject to the company maintaining overall gearing not exceeding 2.50x at the end of FY21.*

CARE Ratings Nepal Limited (CRNL) has assigned Issuer rating of ‘CARE-NP BB+ (Is)’ to Bindhyabasini Hydropower Development Company Limited (BHDCL). Issuers with this rating are considered to have moderate risk of default.

#### Detailed Rationale & Key Rating Drivers

The rating assigned to BHDCL is constrained by weak debt service coverage ratio at the end of FY20 (Unaudited, refers to 12 months ending Mid-July 2020) and expected deterioration in debt service coverage indicators during the current year, short track record of operations and project stabilization risk, execution risk of under construction project, in which BHDCL has invested along with future investment planned. The rating is also constrained by hydrology risk associated with run-of-the-river power generation and exposure to regulatory risk. The rating, however, derives strength from experienced board members and management team, presence of power purchase agreement with sufficient period coverage, moderate financial performance in FY20, being in initial year of operation and moderate level of operational plant load factor (PLF) for Rudi A & Rudi B during FY20. The ratings also factor in moderate counterparty risk, current demand and supply gap however expected increase in supply in future and government support for the power sector. The ability of company to reduce the gap between operational PLF and contracted PLF, 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

##### *Weak debt service coverage ratio at the end of FY20 and expected deterioration in the current year*

BHDCL’s overall gearing ratio deteriorated to 2.81x at the end of FY20 against 2.68x at the end of FY19. Overall gearing ratio deteriorated on the back of increase in term loan for Rudi B project. BHDCL had weak debt service coverage indicators with Total Debt to GCA at 24.16x and moderate interest coverage ratio of 1.59x at the end of FY20 due to its initial year of operation of Rudi-B project. Also, the cashflow of the company is likely to be stressed during FY21 due to expected low generation and revenue on back

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

of non-operational Rudi A plant for 4 months and Rudi B project being operational at half the capacity, followed by the weak debt service coverage ratio on back of high principal repayment in the current year leading to low Debt Service coverage ratio. The timely repayment of the bank loan obligation during FY21 depends upon the timely receipt of the payment from NEA and the insurance claim of Rs. 155 Mn.

***Short track record of operation and Project stabilization risk***

Rudi A came into an operation in December 12, 2020. However, project was impacted during FY21 due to breakdown of headrace pipe which led to shutdown of the project for more than 4 months resulting into zero energy generation during the period. Rudi B started commercial operation since February 2020 and operated for around 5 months during FY20. During the year, energy generation from Rudi B was much lower than contracted capacity on account of breakdown in one of the generators. Due to this reason, Rudi-B has been operating at its half capacity since Mid-June 2020 till Mid December 2020. Though, the project has come into an operation, project is still exposed to stabilization risk. Satisfactory operation of the plants and generation of sufficient cash flow are the key rating sensitivities.

***Execution risk of under construction project, in which BHDCL has invested along with future investment plan***

BHDCL has made investment of Rs 10 Mn into Peoples Energy Ltd. (PEL, 48.8 MW under-construction project), Rs 22 Mn into United Modi Hydropower Ltd. which has one operational hydropower project (10 MW operational project and 10.5 MW Under construction project), and Rs 1 Mn into Hydro Electricity and Development Company Ltd. Further, BHDCL plans to invest Rs. 200 Mn towards PEL for the construction of its project which will be funded through the proceeds of proposed IPO of Rs. 250 Mn.

PEL is developing 48.8MW Khimti 2 Hydropower Project in Dolakha/ Ramechape district. Though, BHDCL has prospect of dividend income in future through PEL, the project has high execution and stabilization risk as it is in initial stage of construction. Further, BHDCL will not receive any income on above investment in PEL during the construction period of next 4-5 years. Even after execution of the project, the income from investment will be depend upon the satisfactory performance of the project.

***Hydrology risk associated with run-of-the-river power generation.***

Run-of-the-river (ROR) power is considered an uneven 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). Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river. Rudi A is utilizing discharge from tailrace of Rudi B, Rudi Khola and Chheduwa Khola located at Kaski District, having catchment area of 53.43 sq kms. Similarly, Rudi B is utilizing discharge from Karbu, Tago, Kaiyu and Ligur Khola, having catchment area of 35.3 sq km. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river.

***Exposure to regulatory risk***

Government of Nepal (GoN) has recently established Electricity Regulatory Commission (ERC) for regulating generation, transmission and distribution of electricity in Nepal. ERC will be the regulator under the GoN which will be responsible for regulating hydropower companies in Nepal. Policies and the directives issued by ERC like approval process for IPO issuance, PPA approval through ERC poses a new challenge to hydropower companies. Hence, sector is prone to regulatory risk and changes in other policies by GoN.

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

BHDCL has 9 board of directors majorly belonging to RM group. RM Group is led by Mr. Krishna Acharya, who is founder chairperson of BHDCL. RM group is involved into diversified business including hydropower, manufacturing, media, software and consultancy services, tourism and hotel, fitness club, trade, education etc. The board is chaired by Mrs. Sita Acharya, spouse of Mr. Krishna Acharya, who has more than decade of experience. The management team is led by Mr. Janardan Aryal, General Manager, who has more than two decades of working experience in various sector including ~6 years of experience in hydropower sector. He has been supported by other experienced management team. Further, Directors and promoters have provided financial support in form of advance of Rs. 290 Mn during the construction period to meet the funding gap which is proposed to be repaid through undisbursed loan amount of Rs. 160 Mn.

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

BHDCL has entered into Power Purchase Agreement (PPA) with Nepal Electricity Authority (NEA) for both the project. The period of the PPA is 30 years from the date of Commercial Operation (COD) or till the validity of Generation License, whichever is earlier. PPA period may be extended with mutual consensus during the last six month of validity. The contracted energy for the Rudi A is 46.86 million units (MU) (i.e. 8.68MU for dry season and 38.19 MU for wet season) and for Rudi B is 33.21 MU (i.e. 5.07MU for dry season and 28.14 MU for wet season). Rudi A and Rudi B 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 times on yearly basis

***Moderate financial performance in FY20, being initial year of operation***

BHDCL has two operational hydropower plants out of which Rudi A is operational since May 2019 whereas Rudi B is operational since February 2020. BHDCL reported revenue from sale of power of Rs. 282 Mn during FY20 against Rs. 47 Mn during FY19. Revenue increased primarily due to increase in revenue from Rudi A on the back of full year of operation. Revenue also increased due to Rudi B coming into operation during FY20. BHDCL reported increase in PBILDT to Rs. 239 Mn during FY20 from Rs.

30 Mn during FY19 on the back of increase in revenue during the year. BHDCL reported PAT of Rs. 27 Mn during FY20 against loss of Rs. 22 Mn during FY19.

***Moderate level of operational plant load factor (PLF) for combined Rudi A & Rudi B during FY20***

The annual contracted PLF for Rudi A is 60.79% of installed plant capacity whereas for Rudi B is 57.44%. Rudi A has been operational since March 2019 and FY20 was first full year of operation. Rudi A operated at 36.68% PLF against generation capacity during FY19 which improved to 58.38% during FY20. Further, PLF against contracted capacity improved to 96.23% during FY20 (FY19: 64.09% ) on the back of full year of operation and more than 100% electricity was generated during 5 months of FY20 especially during wet season.

However, project was impacted during FY21 due to breakdown of headrace pipe which led to shutdown of the project for more than 4 months (from August 3, 2020 till December 10, 2020). This has led to zero energy generation during the period which has impacted revenue during FY21. The operation of the plant restarted in December 12, 2020. Company has made insurance claim of Rs.155 Mn for loss of revenue which is yet to be settled.

Rudi B started commercial operation since February 2020 and operated for around 5 months during FY20. During the year Rudi B operated at 31.24% PLF against generation capacity and 72.67% against contracted capacity. Generation for Rudi B was much lower than contracted capacity due to significantly less generation during month ended Mid July 2020 due to breakdown in one of the generators. Due to this reason, Rudi-B has been operating at its half capacity since Mid-June 2020 till Mid December 2020. Company expects to resolve the issue of equipment within January 2020 post which the project is expected to run in full capacity.

***Moderate counter party risk***

BHDCL 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 into 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, and generating positive gross cash accruals. Further, NEA has been making timely payment to independent power producers (IPPs) in past. During FY20 the company has received payment from NEA for supply of power generated from Rudi A, within 43 to 84 days. Payments were delayed during month of Mid-April and Mid-July due to COVID-19.

***Current demand & supply gap however expected increase in supply in future***

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 1,720 GWh (~22% of total demand) from India whereas balance was met by domestic generation.

However, considering under construction projects which are expected to generate electricity in next 2-3 years and electricity demand which has not increased substantially in past few years could create a situation of oversupply in near future in wet season. This could put pressure on NEA's payment capabilities which is sole counter party with majority of PPA signed on take or pay basis.

**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.

**About the Company**

Bindhyabasini Hydropower Development Company Ltd. (BHDCL) is a Public Company, incorporated in December 18, 2000 as private company and later, converted to public limited company in March 13, 2017. BHDCL has two operational run of the river hydropower project; 8.8 MW Rudi Khola-A Hydropower Project (Rudi A) and 6.6 MW Rudi Khola-B Hydropower Project (Rudi B). Rudi A is operational since Mid-March 2019 whereas Rudi B is operational since Mid-February 2020. As per the Generation License, from Government of Nepal – Ministry of Energy, obtained on December 27, 2013 (which was amended to 8.8 MW on February 3, 2017) for 6.8 MW Rudi A and for Rudi B the same was obtained on June 9, 2017, which will be valid for 35 years from the license obtained date. The project shall be handed, on whatever conditions the project is, to the Government of Nepal after expiry of Generation License. As on July 15, 2020, major shareholder of the company are Mrs. Sita Acharya (holds 25.28%), Seed Infra Pvt. Ltd (holds 7.13%), and Mr. Bharat Bahadur Pandey (holds 6.47%).

**Brief Financial Performance during the last two years is as follows:**

(Rs. In Million)

Particulars	FY19(A)*	FY20 (UA)
Income from Operations	47	283
PBILDT	30	239
PAT	(22)	27
Overall Gearing (times)	2.68	2.81
Total debt/GCA	(205.19)	21.84

\*Audited

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