

Rating Rationale

Hydroelectricity Investment and Development Company Limited

Rating

Particulars	Amount (Rs. In Million)	Rating ¹	Rating Action
Issuer Rating	NA	CARE-NP A- (Is) [Single A Minus (Issuer)]	Assigned

**The issuer rating is subject to the company maintaining overall gearing not exceeding 0.5x at the end of FY21*

CARE Ratings Nepal Limited (CRNL) has assigned Issuer rating of ‘CARE-NP A- (Is)’ to Hydroelectricity Investment and Development Company Limited (HIDCL). Issuers with this rating are considered to offer adequate degree of safety regarding timely servicing of financial obligations in Nepal. Such issuers carry low credit risk.

Detailed Rationale & Key Rating Drivers

The ratings assigned to HIDCL derives strength from strategic importance in development of hydro power infrastructure in Nepal and majority ownership by Government of Nepal (GoN), involvement of higher officials and expert from government agencies for overall decision and management of the company, comfortable liquidity profile, gradual increase in investment and loan & advances to energy sector; however long gestation period of its investment, comfortable financial risk profile for FY20 (refers to the 12 months period ended mid-July 2020) and H1FY21 (refers to the 6 months period ended mid-January 2021) and debt free nature of the company. The rating also factors in implementation of appropriate Corporate Governance Framework, government support for power sector and moderate counter party risk associated with the revenue of the hydropower projects. The rating is constraint due to inherent risk in the hydropower sector under construction (hydrological and geological risks during and after construction), expected time overrun and project implementation risk related to various under construction projects, hydrology risk associated with run-of-the-river power generation affecting profitability of the company, power evacuation risk related to the projects (delay in construction of transmission line by NEA) and moderate revenue profile which will be concentrated to hydropower sector in future. Ability of company to continue its growth momentum without compromising on asset quality and execution & operation of invested projects within the given deadlines avoiding any time and cost overrun would be the key rating sensitivities.

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

Detailed Description of the Key Rating Drivers

Key Rating Strength

Strategic importance in the development of hydropower in Nepal and majority ownership by GoN

HIDCL has high strategic importance to Government of Nepal which is reflected in the role played by the company and its importance in financing hydropower sector of the country. HIDCL also plays developmental role in channelling fund to meet the hydropower sector's large funding requirement. HIDCL was promoted by Government of Nepal and three state owned companies. As on July 15, 2020 GoN holds 66.67% of shares, 3 state owned companies (Employee Provident Fund, Rastriya Beema Sanstha and Citizen Investment Trust) holds 20% of share and remaining 13.33% of shares are hold by general public. The total paid up capital of the company as on mid-July 2020 was Rs.16500 Mn.

Involvement of higher officials and experts from government agencies for overall decision and management of the company

HIDCL is professionally managed under overall guidance of Board of Directors, which includes the eminent personalities serving or associated with different ministries or government department. HIDCL has 7 Board of Directors, chaired by Mr. Dinesh Kumar Ghimire. Mr. Ghimire is currently Secretary at Ministry of Energy, Water Resource and Irrigation. He has 29 years of experience and served in different department and ministries of GoN under different designation, roles and responsibilities. Mr. Mukti Bodh Neupane, Acting Chief Executive Officer, looks after day-to-day operations of the company. He has overall experience of more than a decade in various organization as credit and financial advisor.

Comfortable liquidity profile

HIDCL has comfortable liquidity profile, as on Mid- July 2020 as the company is holding fixed deposit of Rs. 12,623 Mn in different commercial banks of Nepal. HIDCL doesn't have any long term or short-term borrowing in the books till the end of FY20. HIDCL has Loan /Investment Commitments of Rs. 3,208 Mn as on mid-July 2020 and is in comfortable position to meet those obligations when required. The liquidity profile of the company is expected to be further strengthen on back of proposed right issue.

Gradually Increase in investment and Loan & advance to Energy Sector; however long gestation period of its investments

HIDCL has total Investment of Rs. 14,738 Mn as on July 15, 2020 majority of investment include term deposit, investment in two subsidies, equity and corporate bond investment. HIDCL invested Rs. 456 Mn in two subsidiary companies Remit Hydro Limited and Simbuwa Remit Hydro Limited. Remit Hydro Limited and Simbuwa Remit Hydro Limited has acquired survey license to develop 71.5 MW and 75.6 MW project located in Taplejung district of Eastern Nepal. HIDCL has invested Rs. 84 Mn in Corporate Bonds and Rs. 349 Mn in unquoted equity of four companies (Power Transmission Company Limited,

Vidhyut Utpadan Company Limited, Nepal Power Trading Company Limited and NEA Engineering Company Limited). Loan & Advances to power project increased by 55.52% to Rs. 3,668 Mn during FY20 over FY19, funding 12 hydroelectricity development company with total capacity of 440.2 MW. Out of 12 companies 3 companies are already in operation and their repayment schedule has been started.

Comfortable financial risk profile and debt free nature of the company

HIDCL achieved total revenue of Rs. 1,662 Mn during FY20 which has been decreased by ~5% over FY19, which is due to decline in bank deposits and lower interest rates in fixed deposits during FY20 (average yield on fixed deposit 9.73% in FY20 from 12.63% in FY19). Decrease in bank deposits was mainly due to additional investment of Rs.1,508 Mn towards ongoing projects during FY20 as committed by HIDCL. Average Yield on Project loan has marginally decreased to 10.09% in FY20 from 10.85% in FY19. PAT declined by declined by ~6.20% to Rs.1,028 Mn during FY20 from Rs. 1,096 Mn in FY19.

Total revenue of HIDCL is Rs. 690 Mn in H1FY21 which decreased by 20.52% from Rs. 868 Mn in H1FY20. However, the interest income from loan to power projects has increased marginally by 25.03% to Rs. 176 Mn in H1FY21 from 141 Mn in H1FY20. Due to decrease in total revenue PAT reported in H1FY21 also decreased by 22.63% to Rs. 428 Mn from Rs. 554 Mn in H1FY20.

Implementation of appropriate Corporate Governance Framework

HIDCL is managed professionally by Board of directors who has formulated various committees like Risk Management Committee, Audit Committee and HR & Compensation Committee. These committee conduct meeting on routine basis and analyse, review and supervise the management activities. Also Risk Assessment Cell (RAC) is formed by the management on case-to-case basis to assess the technical, financial, environmental, social, legal, managerial and other risk involved in the project for the purpose of making investment decision.

Key Rating Weakness

Expected time overrun and project implementation risk related to various under construction projects

Some of the projects where HIDCL has disbursed the fund grips strong time overrun, cost overrun and project implementation risk. NEA has delayed the construction of Solu corridor transmission line project due to which one of ~23.5 MW operational power project's energy is not getting transmitted and which is outside the scope of the company, also there are another 3 projects in the same corridor where HIDCL has financed the projects. Likewise, Swet Ganga Hydropower and Construction Ltd., Trishuli Jalvidyut Co. Ltd. and Sahas Urja Ltd. has achieved progress of 55%, 45% and 40% respectively as on mid-July 2020. Also, two subsidiary companies i.e., Remit Hydro Ltd. and Simbuwa Remit Hydro Ltd. are in very initial stage of the projects. So, these projects where HIDCL has injected equity or disbursed loan are still in the

implementation stage and continues to remain exposed to the residual risks associated with project implementation and satisfactory operations thereafter.

Moderate revenue profile which will be concentrated in hydropower sector in future

The main source of revenue for HIDCL as on July 15, 2020 was interest income from bank’s term deposits. Income from term deposit was Rs. 1325 Mn which was ~80% of total income during FY20. However, the major income source of HIDCL in future is expected from dividend income from investment in different entities and interest income from loan and advances from hydropower project financing. Dividend Income for FY20 represents 0.65% of total income and interest income on loan represents 18.17% of total income.

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

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 times when seasonal river flows are high and much less during the drier months. HIDCL is investing in the companies which generates electricity from discharge of rivers, 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 of the companies which HIDCL given loans.

About the Company

Hydroelectricity Investment and Development Company Ltd. (HIDCL) also known as Jalvidhyut Lagani Tatha Bikas Company Limited is public limited company, incorporated on July 11, 2011. HIDCL was established as a specialized development financial institution to mobilize funds from domestic and international resource base to cater the needs of investments in hydroelectricity generation, transmission and distribution projects in Nepal. Realizing the requirement of special wing with financial strength, professional expertise and single point agenda; Government of Nepal (GoN) had incorporated HIDCL.

Brief Financial Performance during last 3 years ending FY20 is as follows:

Particulars	FY18 (A)	FY19 (A)	FY20 (A)
Revenue (Rs. Million)	1,323	1,756	1,664
PBILDT (Rs. Million)	1,182	1,610	1,515
PAT (Rs. Million)	808	1,096	1,028
Overall Gearing (times)	-	-	-
Interest coverage (times)	-	-	-

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