

Rating Rationale
Sayapatri Hydropower Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating	Rating Action
Issuer Rating	NA	CARE-NP B+ (Is) [Single B Plus (Issuer)]	Assigned

**The issuer rating is subject to the company maintaining overall gearing not exceeding 4.30x at the end of FY21.*

CARE Ratings Nepal Limited (CRNL) has assigned Issuer rating of ‘CARE-NP B+ (Is)’ to Sayapatri Hydropower Limited (SHL). Issuers with this rating are considered to have high risk of default regarding timely servicing of financial obligations in Nepal.

Detailed Rationale & Key Rating Drivers

The ratings assigned to SHL is constrained by project being operated at low a Plant Load Factor (PLF) till mid-July 2020 and cash losses incurred over the period leading to stressed liquidity and cash flow mismatch at year end FY20. The rating is also constrained by leveraged capital structure with high project cost, high accumulated losses and weak debt coverage indicators at the end of FY20 (Audited, refers to 12 months period ended Mid-July 2020), exposure to volatile interest rates and regulatory risk coupled with hydrology risk associated with run-of-the-river power generation. The ratings, however, derive strength from substantial improvement in financial profile, capital structure and debt service indicators of the company during H1FY21 (Unaudited, Mid-July, 2020 to mid-January, 2021) upon improved PLF levels mainly due to Harichaur substation coming into full operation, experienced board members, management team and financial support from the promoters. The ratings also factor in presence of power purchase agreement with sufficient period coverage, moderate counter party risk, current demand and supply gap of power generation in the country, government support for the power sector and low power evacuation risk. Sufficient hydrology to generate contracted energy, timely receipt of the payments from NEA and repayment of the bank loan obligations and the ability of company to reduce gap between operational PLF and contracted PLF are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Project operated at low PLF till Mid- July 2020, however the PLF levels improved during H1FY21

The annual contracted PLF of the project is 62.74% of the installed capacity of the plant, however the project has been operated at a low PLF over the period. During FY19, the PLF from the project was at 37.58% (over generation capacity) which improved to 41.93% during FY20. The power generation from the project as a percentage to the contracted power was 59.91% in FY19 and 66.83% in FY20. Operated PLF was lower than contracted energy PLF on annual basis on account of Harichaur substation not

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

coming into full operation. However, with Harichaur substation coming into full operation from July, 2020, PLF of the project over generation capacity and contracted power has improved significantly to 66.05% and 81.65% respectively in H1FY21. 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.

Cash losses over the period leading to stressed liquidity and cash flow mismatches, however supported by loan from the shareholders and significant improvement in the H1FY21

The project achieved Commercial Operation Date (COD) on June 26, 2016. SHL had net loss of Rs 21 Mn and cash loss of Rs. 2 Mn in FY20 compared to Rs 26 Mn of net loss and Rs 6 Mn of cash loss during FY19. Losses upto FY20 was majorly due to SHL not being able to earn sufficient revenue due to power evacuation issues and lower hydrology leading to lower generation. Harichaur substation where power generated by the project was proposed to be evacuated came into partial operation from July, 2019 and was in full operation only from July, 2020. SHL has huge accumulated loss of Rs 130 Mn as on July 15, 2020. With commencement of Harichaur substation, financial performance of the company has improved significantly during H1FY21. Due to low revenue, the company faced stressed liquidity and cash flow mismatch at year end FY20. However, repayment of the bank obligations was supported by short term loans from the shareholders in the past and at present the company is generating enough cash flow for the repayment of the bank loan obligations. The ability of SHL in timely servicing of debt obligation and sufficient liquidity is the key rating consideration.

Leveraged capital structure with high project cost, high accumulated losses and weak debt coverage indicators at the end of FY20, however, improvement in H1FY21

Debt equity ratio and overall gearing ratio of the company was high as on July 15, 2020, which is expected to improve after issue of proposed Initial Public Offering (IPO). Total Debt/Gross Cash Accruals was negative during FY20. The project was completed with high project cost of Rs 231.09 Mn per MW and the leverage position of the company was also impacted by high accumulated losses. The interest coverage ratio was low at 0.96x in FY20, however, it has improved to 1.90x during H1FY21 on back of improved generation leading to increased revenue and comfortable PBILDT.

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. SHL utilizes discharge from Daram Khola (tributary of Badi Gad river), a perennial river, having catchment area of 84 sq kms. The company has also proposed to add water from the Bagar Khola which is expected to improve the power generation and revenue for the company. However, the project is still 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 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, management team and financial support from the promoter group***

SHL has 7 Board of Directors chaired by Mr. Badri Key-si, a Non-Resident Nepali (NRN), also the vice president of Non Resident Nepali Association (NRNA) holding 9.78% shares of the company. SHL has been obtaining financial support in the form of short-term loans from directors and promoters. Till mid July 2020, the company received Rs 29 Mn in the form of short-term loans from directors and shareholders to meet the debt obligations of the company due to lack of sufficient cash flow generation from the operations.

Power purchase agreement (PPA) with sufficient period coverage

SHL entered into PPA with NEA as on April 1, 2012 for sale of 2.5MW power. The period of PPA is 30 years from the commercial operation date (COD) or till validity of Generation License, whichever is earlier. The 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 years from the COD. The contracted energy for wet season is 11.18 Million units and for dry season 2.56 million units.

Moderate counter party risk

SHL 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 and gross cash accrual of Rs 16,056 Mn. The counter party payment risk is moderated by the fact that, NEA is fully owned by government of Nepal, net profit is increasing over the period and generating positive gross cash accruals. Further, NEA has been making timely payment to independent power producers (IPPs) in past.

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 1,721 GWh 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 future.

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.

Low power evacuation risk

The power generated from the project is evacuated to NEA grid by 4Km long 33KV Transmission Line to NEA Harichaur Substation.

About the Company

SHL is Public Company, incorporated on July 30, 2007, promoted by institutional as well as individual promoters from different background. It is currently operating 2.5 MW Daram Khola ‘A’ hydro power project in run –of –river scheme located at Baglung district, Nepal. The project is constructed under BOOT (Build, own, Operate and Transfer) mechanism. The project was completed with total cost of Rs 578 Mn (cost per Mw Rs. 231 Mn) funded through debt of Rs 364 Mn and rest by equity.

Brief Financial Performance during the last 2 years ending FY20 and H1FY21 is as follows:

(Rs. In Million)

Particulars	FY19	FY20	H1FY21
	(Audited)		(Provisional)
Income from Operations	46	53	40
PBILD	33	40	35
Overall Gearing (times)	3.92	5.04	4.29
Interest coverage (times)	0.82	0.96	1.90
Total Debt to GCA (times)	(63.61)	(261.32)	23.44

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