

**Rating Rationale**  
**Garjang Upatyaka Hydropower Limited**

**Rating**

Particulars	Amount (Rs. in Million)	Rating <sup>1</sup>	Rating Action
Issuer Rating	NA	CARE-NP D (Is) [Single D (Issuer)]	Assigned

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned Issuer rating of ‘CARE-NP D (Is)’ to M/s Garjang Upatyaka Hydropower Limited (GUHL). Issuers with this rating are considered to be in default or are expected to be in default soon.

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to GUHL is constrained by on-going delays in the repayment of bank loan obligations, high project cost along with the weak financial risk profile of the company during FY20 (Audited, refers to 12-month period ended Mid-July 2020) and power evacuation issue leading to lower revenue from the project. The rating is also constrained by project currently being operated at low Plant Load Factor (PLF), exposure to volatile interest rates and hydrology risk associated with run-of-the-river power generation. The ratings, however, derive strength from experienced promoters and management team, refinancing of loan at lower interest rate, power purchase agreement with sufficient period coverage and moderate counter party risk. The ratings also factor in current demand and supply gap of power generation in the country and government support for the power sector. The ability of company to reduce the gap between operational PLF and contracted PLF, timely repayment of the bank loan obligations and receipt of the payments from Nepal Electricity Authority (NEA) are the key rating sensitivities.

**Detailed Description of the Key Rating Drivers**

**Key Rating Weaknesses**

***On-going delays in the repayment of bank loan obligations***

GUHL has delayed the payment of bank loan obligations due to cash flow mismatches since coming into operation (delays being more than 30 days) and still has on-going delays for the quarter ended mid-January 2021. The delay in repayment of the term debt was on account of low cash accruals and low energy generation from project over the period. The ability of GUHL to generate sufficient cash flow from operations, maintain liquidity and timely service its debt obligation is the key rating sensitivity.

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

***High Project Cost along with weak financial risk profile of the company***

GUHL was constructed at the total project cost of Rs. 657.55 Mn (i.e. Rs. 232.35 Mn per MW) which was financed through the debt amount of Rs. 305.00 Mn and remaining through equity, loan from directors and advances. GUHL reported total income of Rs. 47.16 Mn during FY19 and Rs. 48.51 Mn during FY20 through the sale of electricity. The total revenue from the project was higher during FY20 on account of the relatively high energy generation as compared to FY19. The PBILDT of the company was Rs. 41.06 Mn, however, the company reported loss of Rs. 11.93 Mn during FY20 majorly due to high interest expenses. Overall gearing ratio and the interest coverage ratio of the company was 2.53x and 1.26x at the end of FY20.

***Power Evacuation Issue***

GUHL is currently evacuating power through the 33kV transmission line from its Powerhouse to NEA's Jiri Substation. The project is expected to generate 15.45 GWH energy annually. Due to the over load on transmission line, tripping was main problem for the project leading to low transmission of power and squeezing its revenue from sale of electricity. Considering this problem, NEA is constructing 132kV Garjang substation and 132kV double circuit Transmission line from Garjang to 220/132kV Khimti Substation to improve the power evacuation of hydropower projects developing around Khimti river basin. The company is currently constructing the transmission line of approx. 1.5km upto Garjang Substation. The company expects that the transmission line will be completed in FY22. Timely completion of the transmission line and the substation and smooth evacuation of power will be key rating driver.

***Current project operated at lower PLF***

The annual contracted PLF for GUHL is 62.33% of the installed capacity of the plant. The project has been operated at a lower PLF over the period. The operating PLF was low at 29.14% in FY18 (7 months), 37.75% in FY19 (12 months) and 37.91% in FY20 (12 months) over generation capacity. The power generation from the project as a percentage to the contracted power was also low at 57.78% during FY20. The company was liable to pay the short supply penalty of Rs. 7.31 Mn during FY18, Rs. 2.10 Mn during FY19 and Rs. 0.57 Mn during FY20. The ability of the company to reduce the gap between operational PLF and contracted PLF and availability of sufficient hydrology is the key rating driver.

***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). GUHL utilizes discharge from Chake Khola having catchment area of 12.50 sq. 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 promoters and management team***

GUHL is managed under the overall guidance of the company's Board of Directors (BoD), who possesses wide experience in the different sectors and now in hydropower sector. GUHL has five Board of directors and is chaired by Mr. Angtawa Sherpa who is the member of Parliament nominated from Ramechhap district of Nepal and has ~11 years of experience as chairman in Sunaulo Khimti Construction Private Limited.

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

GUHL entered into PPA with NEA for 2.83 MW on November 13, 2016 for for 0.99 MW as on February 17, 2009 (which was amended to 2.83 MW on June 06, 2013) for the sale of entire power generated from the project. The PPA is valid for a period of 30 years from Commercial Operation date (COD) or till validity of generation license (obtained on March 05, 2014 for 35 years) whichever is earlier. The tariff for wet season (Mid-April to Mid-December) is Rs 4 per kWh and for dry season (Mid-December to Mid-April) is Rs 7 per kWh with 3% escalation on base tariff for 9 years. The contracted energy for the project is ~15.45 million units (MU) (i.e. ~3.55 MU for dry season and ~11.90 MU for wet season), at PLF of 62.33%.

***Refinancing of loan at lower interest rate***

Nepal Rastra Bank (NRB), the Central Bank of Nepal, has approved the company's application for refinancing of term loan amounting Rs. 195.30 Mn out of Rs. 330.87 Mn with the lower interest rate @ 5% as per the letter dated January 8, 2021. This will lower the interest burden on the company.

***Moderate counter party risk***

GUHL 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, 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 within 30 to 64 days.

***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.

**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. Also, Unified Directive of 2020/21, has directed “Class-A” to allocate minimum 10% of credit to energy sector and “Class-B” and “Class-C” banks to allocate minimum 20% and 15% of total credit respectively to agriculture, energy, SMEs and tourism sector within mid-July 2024.

**About the Company**

Garjang Upatyaka Hydropower (GUHL) is a public limited company, incorporated in January 5, 2004 as a private limited company and later converted to public limited company in April 07, 2014. GUHL is involved in the operation of 2.83 MW run-of-the-river Chake Khola Hydropower Project (CKHP) in Ramechhap District which has been in commercial operation since December 14, 2017. As on July 15, 2020, major shareholders of the company are Mr. Ang Tawa Sherpa (holds 10.05%), Mr. Manik Ratna Shakya (holds 7.05%), and Mr. Lakpa Sherpa (holds 4.48%).

**Brief Financial Performance during the last 2 years is as follows:**

For the year ended mid-July	FY19 (A)	FY20 (A)
Income from Operation (Rs. in Mn)	53	52
PBILDT Margin (%)	59.69	79.39
Overall Gearing (times)	2.30	2.53
Interest Coverage (times)	0.55	1.26
Total Debt to Gross cash accruals (times)	(13.33)	37.17
Current Ratio (times)	0.11	0.17

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