Ngadi Group Power Limited

Ratings

Instrument / Facilities	Amount (Rs. In Million)	Rating[1]	Rating Action
Issuer Rating	NA	CARE-NP BBB-(Is) [Triple B Minus]	Assigned

** The issuer rating is subject to the company maintaining overall gearing not exceeding 0.45x at the end of FY21.*

CARE Ratings Nepal Limited (CRNL) has assigned Issuer rating of 'CARE-NP BBB – (Is) [Pronounced triple B Minus (Issuer Rating)]' to Ngadi Group Power Limited. Issuers with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations, in Nepal.

Detailed Rationale & Key Rating Drivers

The issuer rating assigned to Ngadi Group Power Limited (NGPL) derives strength from experienced promoters and management team, moderate financial risk profile with comfortable gearing levels, presence of power purchase agreement (PPA) with sufficient period coverage. The rating also factors in current demand & supply gap however possible oversupply in future, moderate counterparty risk and government support for the power sector.

The rating, however, is constrained by exposure to group associates, relatively low plant load factor (PLF), hydrology risk associated with run-of-the-river power generation and exposure to regulatory risk.

Going forward, the ability the company to successful reduce the gap between operational PLF and contracted PLF and availability of sufficient hydrology with timely receipt of payments from Nepal Electricity Authority (NEA) are the key rating sensitivities. Furthermore, any increase in exposure to group associates is critical from analytical perspective.

Detailed description of the key rating drivers

Key Rating Strength

Experienced promoters and management team

NGPL is managed under the overall guidance of the company's Board of Directors (BoD), having wide experience in different sectors. NGPL has 7 Board of directors, chaired by Dr. Bhogendra Kumar Guragain, who has more than 18 years of experience though his association with various financial institutions and power generation companies in different capacities. Mr. Shailendra Guragain, Managing Director has more than 20 years of experience in hydropower sector. He is also associated with financial institutions in the capacity of board member. The management team is supported by other experienced professionals having relevant experience in respective departments.

Power purchase agreement with sufficient period coverage

NGPL had entered into PPA with Nepal Electricity Authority (NEA) for 0.99 MW as on August 02, 2007 (amended on January 19, 2009 for 4.95 MW) for sale of entire power generated by the plant. The PPA is signed for a period of 30 years from the date of Required Commercial Operation Date (RCOD). Tariff rate as per PPA is Rs. 3.90 and Rs. 4 per Kwh for wet season (Mid-April to Mid-December) and the tariff rate for dry season (Mid-December to Mid-April) is Rs.5.52 and 7.00 per Kwh for 0.99 MW and 3.96 MW respectively with 3% annual escalation on base tariff for 9 years in case of 3.96 MW. Under the Government's initiative of promoting private sector hydropower developers, with regard to Siuri Khola Small Hydropower Project (SKSHP) for 4.95 MW the project has been availing promotional tariff rates of NPR 4.80 and NPR 8.40 per unit in wet and dry seasons; for 7 years after COD with 5 times annual escalation of 3% on base tariff

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

(expired in Mid-November 2019). The difference in the posted rate and the contract rate is recovered from Government of Nepal through NEA.

Moderate financial risk profile with comfortable gearing levels

NGPL is generating revenue by the selling of power generated through its hydro power plant. The company reported decline in total operating income by around 5% to Rs. 137 Mn in FY20 from Rs. 144 Mn in FY19. The decrease in revenue during FY20 was due to expiry of promotional tariff rates availed by the company in Mid-November 2019 coupled with less generation of power during dry season.

PBILDT of company also declined by 3.30% during FY20 to Rs.118 Mn against Rs.122 Mn during FY19 due to decline in total revenue. However, company reported improvement in PBILDT margin to 86.07% during FY20 against 84.57% in FY19 due to rationalization of cost leading to reduction in administration expenses. As a result of decrease in PBILDT, PAT of the company decreased to Rs.59 Mn during FY20 (FY19: Rs. 61Mn); however, PAT margin remained almost stable at ~ 43% in FY19 & FY20 due to stable depreciation.

Overall gearing ratio of the company stood moderate at 0.48x at the end of FY20 (FY19: 0.54x) on the back of scheduled repayment of term loan. On account of comfortable profitability margin and reduction in debt levels, the debt service coverage of the company remained satisfactory and showed improvement in FY20 over previous year. Total debt to Gross Cash Accrual ratio improved to 3.29x during FY20 as compared to 3.61x in FY19. Also, the interest coverage ratio improved to 3.94x during FY20. (FY19: 3.21x).

Current Performance

During 9MFY21 ending on April 13, 2021, the company achieved total income of Rs. 83 Mn as compared to Rs. 105 Mn in 9MFY20, out of which Rs. 75 Mn was through the sale of electricity in 9MFY21 (9MFY20: 104 Mn). During 9MFY21, TOI of the company was impacted on account of landslide at site which resulted into close down of operations of the plant for 27 days. The company reported PAT of Rs. 28 Mn during 9MFY21 as compared to Rs. 47 Mn in 9MFY20.

Moderate collection period having limited counter party risk

SKSHP 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, and generating positive gross cash accruals. Furthermore, NEA has been making regular payment to independent power producers (IPPs) in past. The average collection period from NEA during FY20 was 71 days (FY18: 69 days). However, claims made against promotional tariff rates are paid by NEA after approval from Government of Nepal which has been delayed by NEA.

Current demand & supply gap however possible oversupply 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 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. 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.

Key Rating Weaknesses

Modest operating performance of power project

NGPL has commissioned run-of-the-river small hydropower project of 4.95 MW in Lamjung district of Nepal. The commercial operations commenced in October, 2012. During FY20, the project was operated at 58.75%. Also, plant load factor (PLF) was also low in 9 months performance of current year is 42.48%. The operating performance in terms of power generation is low due to climatic conditions which led to non-operational of plant. For the year ended in FY20, PLF stood at 58.75% against contracted PLF of 74.03%, thereby generating ~79% of the contracted energy. This is crucial for the company to reduce the gap between operational PLF and contracted PLF and critical from analytical perspective.

Exposure to group companies

As on May 30, 2021, the company has investments in associate companies (mainly hydro power generation companies) to the tune of NPR.153.25 Mn. The total exposure to group aggregated is Rs.153.25 Mn equivalent to ~25% of its net worth. The adjusted overall gearing computed after removing investments, loans & advances to subsidiaries from net worth remained at 0.64x as on mid-July 2020. 88% of the investment are in companies where the projects are under implementation. Any adverse impact on the financial risk profile of NGPL on account of exposure to the group companies would continue to be crucial from credit perspective. Furthermore, any additional investment to the group or associates would also be key monitorable aspect.

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). The project utilizes discharge from Siuri having catchment area of 21.1sq. kms based on snow fed River. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola.

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. Polices 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.

About the Company

Ngadi Group Power Limited (NGPL) was incorporated in February 2006 as a private limited company and later converted to public limited company in June 08, 2014. The company was listed with Nepal Stock Exchange dt. August 30,2016. It is promoted by individual promoters having long experience in the hydropower and other sectors for setting up 4.95 MW run-of-the-river Siuri Khola Small Hydropower Project (SKSHP) which came into an operation in October 16, 2012. The project is being constructed under "BOOT" (Build, Own, Operate and transfer) model and is located in Lamjung district of Nepal.

Brief Financial Performance during last 3 years

(Rs. In Mn)

For the year ended Mid July	FY18	FY19	FY20
	(Audited)		
Period of operation	**12 months**	**12 months**	**12 months**
Income from power sales	140	144	137
PBILDT Margin (%)	84.60	84.57	86.07
Overall Gearing (times)	0.61	0.54	0.48
Interest coverage (times)	3.00	3.24	3.94
Current Ratio (times)	2.37	1.46	1.12
Total Debt/ Gross Cash Accruals (times)	4.12	3.61	3.29

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