

Sanima Mai Hydropower Limited

Ratings

Instrument / Facilities	Amount (Rs. In Million)	Rating ^[1]	Rating Action
Long Term Bank Facilities – Term Loan	2,048.45	CARE-NP BBB+ [Triple B Plus]	Reaffirmed
Short Term Bank Facilities	148.22	CARE-A3+ [A Three Plus]	Reaffirmed
Total Facilities	2,196.67 (Two Billion One Hundred Ninety-Six Million Six Hundred Seventy Thousand Only)		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of ‘CARE-NP BBB Plus’ assigned to long term bank facilities and ‘CARE-NP A3 Plus’ assigned to short term bank facilities of Sanima Mai Hydropower Limited.

Detailed Rationale & Key Rating Drivers

The ratings assigned to Sanima Mai Hydropower Limited (SHPC) derive strength from experienced promoters and management team, association with the large group having multiple hydropower projects, above average financial risk profile with comfortable profitability margins with satisfactory operating performance, moderate gearing levels and debt service coverage indicators. The ratings also factor in the presence of power purchase agreement (PPA) with sufficient period coverage, current demand & supply gap however possible oversupply in future, moderate counterparty risk and government support for the power sector.

The ratings, however, is constrained by exposure to group associates and hydrology risk associated with run-of-the-river power generation.

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 Strengths

Experienced promoter/ directors and management team and part of Sanima Hydro Group

SHPC is managed under the overall guidance of the company’s Board of Directors (BoD), having wide experience in the power sector. SHPC has 7 Board of directors, chaired by Mr. Tek Raj Niraula, who has more than 15 years of experience in hydropower, hotel and banking industry. Other directors of the company have experience in diversified sector including hydropower project. Company management team is led by Mr. Grishma Ojha, General Manager of the company and has more than 10 years of experience in hydropower sector. The management team is supported by other experienced professionals having relevant experience in respective departments.

Sanima Mai Hydropower Limited is part of Sanima Hydro Group which is promoted by group of Non-Resident Nepalese who are related to Sanima Group having business in Hydropower, Banking and insurance sector. Sanima Hydro has been developing a number of hydropower projects by setting up Special Purpose Vehicle (SPV) companies in Nepal.

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

Experienced background of BOD's and SHPC being a part of Sanima Hydro Group could provide technical support and operational synergy to SHPC.

Above Average financial risk profile with moderate gearing levels

SHPC is generating revenue by the selling of power generated through its hydro power plant. The company reported increase in total operating income by around 13% to Rs. 876 Mn in FY20 (FY refer to 12 months ending on Mid-July 2020) from Rs. 778 Mn in FY19. SHPC reported revenue of Rs. 861 Mn through the sale of electricity during FY20 against Rs. 725 Mn in FY19. The increase in revenue during FY20 was due to higher sale of units which was attributed to higher energy generation.

PBILDT margin stood comfortable and remained stable at 89% in last two financial years (FY19 & FY20). However, there is improvement in the PAT margin from 29.75% in FY19 to 41.90% in FY20. PAT improved on account of decrease in the interest expenses due to the scheduled repayment of the term loan. The total debt of the company declined to Rs. 2,243 Mn during FY20 from Rs. 2,482Mn in FY19.

Overall gearing ratio stood at 0.70x at the end of FY20 (FY19: 0.87x) on the back of increase in networth of the company due to accretion of profit to net worth. Apart from overall gearing, other coverage indicators including total debt to GCA and Interest coverage ratios also improved and stood satisfactory at 4.28 and 3.23x for FY20 respectively (PY: 6.41x and 2.47x respectively).

Current Performance

During 9MFY21 (refers to 9 months ending on April 13, 2021), the company generate total operating income of Rs. 664 Mn and reported PAT of Rs. 340 Mn.

Satisfactory operating performance of power project

SHPL has commissioned run-of-the-river small hydropower project of 22 MW run-of-the-river Mai Hydropower Project (MHP). The commercial operations commenced in February 26, 2015. By utilizing the water from tailrace of Mai Hydropower Power Project (MHP), SHPC has developed 7 MW Mai Cascade Hydropower Project (MCHP), which has been in commercial operation since February 12, 2016. During FY20, the plant was operated at 57.50% which increased to 63.25% during 8MFY21 ending on Mid-March 2021. The operating performance in terms of power generation is high due to sufficient hydrology throughout the period.

The annual contracted PLF for MHP is 66.57% and for MHCP is 62.66% of the installed capacity of the plant. For the year ended in FY20, the energy generated was 87.61% during FY20 and 96.81% in 8MFY21 against contracted PLF. It is crucial for the company to reduce the gap between operational PLF and contracted PLF.

Power purchase agreement with sufficient period coverage

SHPC had entered into PPA with Nepal Electricity Authority (NEA) for 15.6 MW as on April 21, 2010 (one amendment thereafter on March 21, 2012 for additional 6.4 MW) and January 25, 2013 for sale of entire power generated by the plant of MHP and MHCP respectively. The PPA is signed for a period of 30 years for MHP and MCHP from the date of COD or till validity of Generation License whichever is earlier. PPA period may be extended with mutual consensus through discussion from last six month of validity. Under the Government's initiative of promoting private sector hydropower developers, with regard to MHP for 15.6MW the project has been availing promotional tariff rates of NPR 4.80 and NPR 8.40 per unit in wet and dry seasons; which shall remain effective for 7 years after COD with 5 times

annual escalation of 3% on base tariff (available till Mid-April 2022). The difference in the posted rate and the contract rate is recovered from Government of Nepal through NEA

Moderate collection period having limited counter party risk

SHPC is exposed to counter party payment risk pertaining to Nepal Electricity Authority (NEA), which has been making consecutive losses in past. 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 8MFY21, the company has received payment from NEA for supply of power generated within 42 to 52 days. However, claims made against promotional tariff rates are paid by NEA after approval from Government of Nepal (GoN) which has been delayed by NEA due to delay in approval from GoN. SHPC has made claims of Rs. 209.90 Mn regarding promotional tariff for various years till the end of 10MFY21. The average collection period from NEA during FY20 was 55 days (FY19: 50 days) for other than promotional tariff.

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.

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

Exposure to group companies

As on May 18, 2021, the company has investments in associate companies (mainly hydro power generation companies) to the tune of Rs. 1,247 Mn which remained at the similar levels to previous years ending on July 15, 2020 (Rs. 1,231 Mn). The total exposure to group aggregated is Rs. 1,231 Mn equivalent to ~38% of its net worth. The adjusted overall gearing computed after removing investments, loans & advances to group associates / subsidiaries from net worth remained at 1.13x as on mid-July 2020. 99% of the investment are in companies where the projects are under implementation. Any adverse impact on the financial risk profile of SHPC 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.

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). MHP and MHCP utilizes discharge from Mai Khola having catchment area of 589sq. kms based on Perennial River. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola.

About the Company

Sanima Mai Hydropower Ltd (SHPC) is a public limited company, incorporated in September 11, 2008 as a private limited company and later converted to public limited company in March 16, 2012. It is promoted by institutional investors majorly related to Sanima Hydro Group and individual promoters having long experience in the hydropower and other sectors for setting up Hydroelectric Project (HEP) in Nepal. The projects are constructed under BOOT (Build, own, Operate and Transfer) mechanism. As per the Generation License, from Government of Nepal – Ministry of Energy, obtained on September 13, 2010 and July 17, 2020 for MHP in case of 15.6 MW and 6.4 MW and November 05, 2012 for MHCP, the project shall be handed, on whatever conditions the project is, to the Government of Nepal after expiry of Generation License, which is 35 years respectively.

Annexure 1: Details of the Facilities rated

For Mai Hydropower Project (22MW)

Name of the Instrument / Bank Facilities	Type of the Facility	Amount (Rs. in Million)	Rating assigned
Long Term Bank Facilities	Term Loan	1,396.14	CARE-NP BBB
Short Term Bank Facilities	Fund Based Limits	80.00	CARE-NP A3+
Short Term Bank Facilities	Non-Fund Base Limits	20.30	CARE-NP A3+
Total Facilities		1,496.44	

For Mai Cascade Hydropower Project (22MW)

Facility/ Instrument	Type of the Facility	Amount (Rs. In Million)	Rating
Long Term Bank Facilities	Term Loan	652.31	CARE-NP BBB+
Short Term Bank Facilities	Fund Based Limits	40.00	CARE-NP A3+
Short Term Bank Facilities	Non-Fund Base Limits	7.92	CARE-NP A3+
Total Facilities		700.23	

Financial Performance

(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	873	778	859
PBILD Margin (%)	87.44	88.52	87.91
Overall Gearing (times)	1.00	0.87	0.70
Interest coverage (times)	2.50	2.47	3.08
Current Ratio (times)	24.59	15.12	18.10
Total Debt/ Gross Cash Accruals (times)	6.35	6.41	4.53

Contact Us

Analyst

Ms. Elisha Lamichhane
Contact No.: 977-01-4012628
Email: elisha.lamichhane@careratingsnepal.com

Senior Analyst

Ms. Shalini Sanghai
Contact No.: +977-01-4012629
Email: shalini.sanghai@careratingsnepal.com

Relationship Contact

Name: Achin Nirwani
Contact No.: +977 9818832909
Email: achin.nirwani@careratingsnepal.com

About CARE Ratings Nepal Limited:

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