

Unique Hydel Company Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Issuer Rating	NA	CARE-NP B (Is) [Single B Issuer]	Assigned

**The issuer rating is subject to total debt of the company not exceeding Rs. 400 Mn. at the end of FY22*

CARE Ratings Nepal Limited (CRNL) has assigned Issuer rating of 'CARE-NP B (Is)' to Unique Hydel Company Limited (UHCL). 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 UHCL is constrained by history of past delays, weak operating performance due to hydrology related challenges and weak financial risk profile. The rating is also constrained by 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 experienced board members and management team, presence of power purchase agreement with sufficient period coverage, moderate counter party risk, favourable demand scenario, government support for the power sector and low power evacuation risk.

Timely receipt of the payments from NEA coupled with 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

History of past delays and debt restructuring

There were instances of delays in the repayment of term loan interest and instalments in the past few years. This was mainly attributable to lower revenue generation on account of hydrology related issues, resulting in stressed liquidity and cash flow mismatches. However, regular infusion by the promoters amount to Rs.70 Mn upto FY21 in the form unsecured loan has led to improvement in the situation. There has been no delay in the interest and repayments of the term loan in last 6 months. Since the power plant is still facing issues related to hydrology, timely infusion by the promoters to support the cash flow of the company is critical for timely payment of the debt obligations.

Weak operating performance

The annual contracted PLF of the project is 61.31% of the installed capacity of the plant, however the project has been operated at a low PLF over the period. During FY20, the PLF of the project was at 32.16% (over generation capacity) which remained almost same during FY21. The company has weak operating performance due to hydrology related issues associated with run of river project. In addition, in FY21, the company also faced issues related to plant and machinery which underwent repair due to which no energy was generated in the month of mid-April 2021 to mid-June 2021. The company is in discussion and in process of taking necessary approvals for water diversion of Majhe Khola which is expected to increase power generation by 15-20%.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications

*Issuer did not cooperate; Based on best available information

Weak financial profile with leveraged capital structure and cash losses over the period

UHCL's revenue profile remained low and stood at Rs. 55 Mn during FY21 (Unaudited, FY refers year ending mid July 2021) with PBILDT margin of 58.63%. With lower revenue generation, PBILDT in absolute amount remained on a lower side at Rs. 32 Mn in FY21. With low PBILDT, the company was not able to cover depreciation and interest cost and reported loss of Rs 45 Mn in FY21.

During FY21, the company incurred operating loss of Rs 45 Mn and cash loss of Rs 9 Mn and had accumulated losses of Rs. 290 Mn by the end of FY21. The capital structure of the company stood leveraged with Debt Equity Ratio of 9.98x at the end of FY21, which is expected to improve after issue of proposed Initial Public Offering (IPO). Total Debt/Gross Cash Accruals was negative during FY21. The project was completed with high project cost of Rs 216 Mn per MW and due to high debt funded resulted into high term debt. Furthermore, the capital structure of the company has also been impacted because of high accumulated losses. The interest coverage ratio remained below unity and stood at 0.64x in FY21.

Hydrology risk associated with run-of-the-river power generation

Run-of-the-river (ROR) 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. UHCL utilizes discharge from Baramchi Khola (tributary of Balephi river), a perennial river, having catchment area of 14.75 sq kms. The company has also proposed to add water from the Majhe 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 in hydropower sector***

UHCL has 3 Board of Directors, chaired by Mr. Prakash Kumar Shrestha who has more than 30 years of experience in various sectors including banking sector. Mr. Gyanendra Lal Pradhan has more than 25 years of experience in power generation through his association with different companies. He is currently Executive Chairman at Hydro Solutions and National Council Member at Confederation of Nepalese Industries (CNI). Ms. Swasti Shrestha, Director has ~15 years of experience in Hydropower sector with major specialization in Hydropower. Apart from that, the day to day activities are run by experienced management team.

Power purchase agreement (PPA) with sufficient period coverage

UHCL entered into PPA with NEA as on November 18, 2009 for 4.2 MW for sale of power generated by the plant. The period of PPA is 30 years from date of the commercial operation date (COD). The tariff for wet season (Mid-April to Mid-December) is Rs 3.9 per kWh and for dry season (Mid-December to Mid-April) is Rs 5.52 per kWh and for additional contract energy it is Rs 4 & Rs 7 per kWh for wet & dry season respectively with 3% escalation every year on base tariff

for 9 times after completion of 12 months from COD date. GoN considers hydropower generation as priority sector and intends to maximize private sector participation in generation of hydroelectricity by offering different exemptions and facilities.

Low power evacuation risk

The power generated from the project is evacuated through 33KV Transmission Line to NEA Laamo Sangho Substation. A single transmission line connects to NEA sub-station. Currently, no other hydropower projects are sharing the transmission line. In overall aspect, there is lower power evacuation risk with no tripping problem.

About the Company

UHCL is Public Company, incorporated on July 14, 2000, promoted by institutional as well as individual promoters from different background. It is currently operating 4.2 MW Baramchi Hydropower project in run –of –river scheme located at Sindhupalchowk district, Nepal. The project is constructed under BOOT (Build, own, Operate and Transfer) mechanism. The project was completed with total cost of Rs 909 Mn funded through debt of Rs 460 Mn, Rs. 330 Mn through equity and remaining through unsecured loan.

Financial Performance

(Rs. Million)

For the year ended Mid July	2019	2020	2021
	(12m, A)	(12m, A)	(12m, UA)
Income from Operations	48	52	55
PBILDT Margin(%)	47.96	48.70	58.63
Overall Gearing (times)	3.24	5.02	9.98
Interest Coverage (times)	0.75	0.64	0.80
Current Ratio (times)	0.39	0.28	0.21
Total Debt/ Gross Cash Accruals (times)	-ve	-ve	-ve

A: Audited, UA: Unaudited

Contact Us

Analyst

Ms. Anjali Bhandari
 +977-01-4012629
 anjali.bhandari@careratingsnepal.com

Senior Analyst

Ms. Shalini Sanghai
 +977-01-4012629
 shalini.sanghai@careratingsnepal.com

Relationship Contact

Achin Nirwani
 +977-9818832909
 achin.nirwani@careratingsnepal.com

About CARE Ratings Nepal Limited

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.