

CEDB Hydropower Development Company Limited

Rating

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

**The issuer rating is subject to overall gearing of the company not exceeding 0.50x at the end of FY22.*

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of 'CARE-NP BB (Is)' assigned to CEDB Hydropower Development Company Limited (CHDC). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations in Nepal.

Detailed Rationale & Key Rating Drivers

The rating assigned to CHDC continues to be constrained by concentrated investment in hydropower sector, equity commitment with long gestation period of its investments, lack of clarity on proposed investment plans and high and increasing collection period. The rating also factors in limited value generation on its investments.

The rating, however, continues to derive strength from experienced directors and management expertise with track record in operating hydropower projects, moderate financial risk profile marked by growing scale of operations and comfortable profitability margins and capital structure. The rating also factors in power demand & supply gap coupled with increasing demand of power in the country and government support for the power sector having positive prospects for the company's investments.

Going forward, the timely collection of receivables and generation of adequate returns from its investments will be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Equity commitments, concentrated investment and long gestation period of its investments

CHDC has made total investments of Rs. 189.64 Mn during FY21 (FY refers to 12 months' period ended mid-July) for the on-going/operational projects in the form of equity shares in the hydropower companies. The amount of Rs. 251.82 Mn raised by CHDC through initial public offering (IPO) during FY21 is expected to be utilized in the equity commitments in the various hydropower projects. The company has equity commitment of Rs. 100 Mn during FY22 out of projected investment of Rs. 558.91 Mn till FY26. The company has no significant plans to raise funds in the form of borrowings; hence, timely exits from existing profitable investments is critical to meet out the commitments. Furthermore, as of now there are no major regulations for the investment / holding companies, which remains a cause of concern from analytical prospective.

Exposure to group companies

CHDC has invested in its associated companies to the tune of Rs. 298.95 Mn and Rs. 448.05 Mn at the end of FY20 and FY21 respectively. Further, the company has also provided loans and advances to KKHL amounting to Rs. 46.37 Mn as on mid-October 2021. The total exposure to group aggregated is Rs. 494.41 as on mid-October 2021 which is ~59% of its present net worth. The company has also provided corporate guarantee of Rs. 2,982.90 Mn for the under-construction hydropower projects being developed by its associated companies. Any adverse impact on the financial risk profile on its associated companies, would indirectly expose the guarantor towards meeting the outstanding debt obligation with limited revenue profile.

High and increasing collection period

The average collection period of CHDC is high and increasing over the period. Average collection period was high at 548 days during FY21 on account of not realizing its debtors in the last FYs ending in FY21. It would be difficult for the company to maintain

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

its adequate liquidity on account of the accumulated management fees. As majority of its hydropower projects are in under-construction phase with no means of regular cash flows yet, is the main reason for huge debtors' book and high collection period of CHDC.

Key Rating Strength

Experienced directors and management expertise

CHDC has 5 Board of Directors, chaired by Mr. Anil Kumar Rungta, who has more than 26 years of experience in investment and finance sector. He is also the chairperson of various hydropower companies in the group. Mr. Vinay Kumar Bhandari is the Chief Executive Officer of the company since 2009. He has more than 26 years of experience in hydropower sector. He has worked as Project Development Expert/ Consultant, Electricity Distribution System Consultant and Hydropower & Environmental Specialist for various hydropower projects.

Track record in operating hydropower projects with healthy plant load factor

CHDC, through its subsidiary and associate companies, is supervising two hydropower projects. A 4.40 MW Radhi Small Hydropower project (RSHP) is located at Lamjung district of Nepal under the name of Radhi Bidhyut Company Limited operated at average plant load factor (PLF) of 63.01% during last three years ended in FY21 against its generation capacity. Also, another project of 0.18 MW Syange Mini Hydropower Project (SMHP) located at Lamjung district of Nepal under the name of Syange Bidhyut Company Limited operated at average PLF of 64.71% during last three years ended in FY21 against its generation capacity. These two operational projects portray the track record of the company in operating hydropower projects with satisfactory plant load factor. Also, the upcoming four hydropower projects being operated by its group companies are expected to come into operations in near future.

Moderate financial risk profile and strong debt service indicators

CHDC's total revenue increased by ~74% during FY21 mainly due to increase in management fee on account of initialization of construction phase of KKHP, which is one of its largest hydropower projects. Further, PBILDT increased by ~84% during FY21 on account of increased in total revenue. The overall gearing ratio and debt equity ratio of the company remained negligible; however, adjusted gearing (including corporate guarantees given) remains substantial.

About the Company

CEDB Hydropower Development Company Limited (CHDC) is a public limited company, incorporated on November 30, 2009 as CEDB Hydro Fund Limited, later the name was changed to CEDB Hydropower Development Company Limited with effective from July 11, 2018. The main objective for incorporation of CHDC is to invest in hydropower projects. The Paid up capital of CHDC stood at Rs. 839.41 Mn as on July 15, 2021 with promoters and public holding mix in ratio of ~70:30.

Financial Performance

For the Period Ended / as at Mid-July	(Rs. in Million)		
	2019 (12m, A)	2020 (12m, A)	2021 (12m, UA)
Total Operating Income	104	119	206
PBILDT Margin (%)	86.75	87.00	91.87
Overall Gearing Ratio (times)	0.021	0.002	0.002
Interest Coverage (times)	39.01	335.73	305.74
Current Ratio (times)	6.77	7.37	7.01
Total Debt/ Gross Cash Accruals (times)	0.22	0.02	0.01

A: Audited; UA: Unaudited

Contact us**Analyst**

Mr. Rujan Bajracharya
Contact No.: 977-01-4012628
Email: rujan.b@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

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