

## Mountain Energy Nepal Limited

### Ratings

Instrument / Facilities	Amount (Rs. In Million)	Rating <sup>[1]</sup>	Rating Action
Long Term Bank Facilities	4,169.04 [Decreased from Rs. 4,605.83 Mn]	CARE-NP BB+ [Double B Plus]	Revised from CARE-NP BB and removal from Issuer Not Co-operating, Notice of Withdrawal Category
Short Term Bank Facilities	451.29 [Increased from 14.50 Mn]	CARE-NP A4+ [A Four Plus]	Revised from CARE-NP A4 and removal from Issuer Not Co-operating, Notice of Withdrawal Category
Total Bank Facilities	<b>4,620.33 [Four Thousand Six Hundred Twenty Million and Three Hundred and Thirty Thousand only]</b>		

#### Details of facilities in Annexure-1

In the absence of minimum information required for the purpose of rating, CARE was unable to express an opinion on the rating of Mountain Energy Nepal Limited (MENL) and in line with the extant SEBON guidelines, CARE revised the rating of bank facilities of the company to 'CARE BB; ISSUER NOT COOPERATING\*'. However, the company has now submitted the requisite information to CARE. CARE has carried out a full review of the ratings and the rating stand at 'CARE BB+; /CARE A4+'.

#### Detailed Rationale & Key Rating Drivers

The ratings assigned to Mountain Energy Nepal Limited (MENL) are constrained by leveraged capital structure, project stabilization risk associated with 42 MW Mistri Khola Hydroelectric Project (MKHEP), low operating performance of 5MW Tadi Khola Hydroelectric Project (TKHEP), power evacuation risk, and hydrology risk associated with run-of-the-river power generation.

The ratings, however, derive strength from experienced promoter and management, moderate financial performance of the company, presence of power purchase agreement (PPA) with sufficient period coverage and moderate counter party risk. The ratings also factor in current demand & supply gap and government support for the power sector.

Going forward, the ability of the company to reduce the gap between operational and contracted plant load factor (PLF) along with the timely receipt of payments from Nepal Electricity Authority (NEA), improvement in capital structure while reducing the debt levels are the key rating sensitivities.

#### Detailed description of the key rating drivers

##### Key Rating Weaknesses

##### **Leveraged Capital Structure**

The total debt of the company mainly comprises of long-term loan which was taken by the company for the construction of its greenfield hydro power project at Rs. 4,240 Mn and total loan increased to Rs. 4,045 Mn during FY21 (FY refers 12 months ending on Mid-July) from Rs. 3,770 Mn in FY20. The capital structure of the company stood leveraged with overall gearing ratio of 1.69x at the end of FY21 (FY20: 2.01x). The total debt to GCA ratio of the company stood high at 43.93x for FY21 (FY20: 67.21x). The capital structure is leveraged on account of debt funded capex undertaken by the company for the development of the 42 MW Mistri Khola Hydroelectric Project.

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

***Project stabilisation risk and low operating performance***

The final cost of MKHEP is ~ Rs.5,643 Mn is financed through the total debt amount of Rs. 4,240 and remaining through equity (Debt equity mix of 75:25). The project commenced commercial operation in June 2021. The total energy generated during Mid-June to Mid-September 2021 is 39.38 GWh out of the total contracted energy of 90.97 GWh. The project is in the initial stage of operations; thus, the stabilization and streamlining of production in coming years remains to be seen.

MHL has commissioned run-of-the-river 5MW Tadi Khola Hydroelectric Project (TKHEP). The commercial operations commenced in April, 2013. During FY20, the plant was operated at 55.68% which decreased to 53.22% during FY21 ending on Mid-July 2021. The operating performance in terms of power generation was low due to use of upstream water by local residents for irrigation. The annual contracted PLF for TKHEP is 74.52% of the installed capacity of the plant. For the year ended FY20, the energy generated was 74.96 % and 71.52% in FY21 against contracted PLF. It is critical from analytical perspective for the company to reduce the gap between operational PLF and contracted PLF.

***Exposure to volatile interest rate***

Nepalese banking sectors are fixing floating interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions will be change by change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 1-2 year. Therefore, funding from Bank and Financial Institutions are exposed to volatile interest rate.

***Power Evacuation Risk***

Power generated from MKHEP was proposed to be evacuated to Dana substation. The power from Dana substation will be further evacuated through NEA's under construction Dana-Kushma transmission line (220KV - 38 Kms) and further transmitted through Kushma-New Butwal transmission line (220kv-88 kms) which is also under construction. NEA and the company have entered into an agreement stating until the completion of 220kv Dana-Kushma-New Butwal transmission line, the power generated by MKHEP will be evacuated through 132kv Dana-Kushma-Pokhara transmission line on take or pay basis, with minimum agreed energy of around ~68% from Mid-April to Mid-October and 100% for remaining months of the contracted energy as per PPA.

***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 times when seasonal river flows are high and much less during the drier months. MENL is generating electricity from discharge of Tadi River at TKHEP and Mistri River at MKHEP, which are snow fed streams, comprising of mountainous terrain. Similarly, Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid rivers.

***Key Rating Strengths******Experienced promoters and management***

MENL has 5 Board of Directors, chaired by Mr. Suhrid Raj Ghimire, who has more than 3 decades of work experience. He is also heading Continental Group having presence in diversified business interests viz. automobile dealership, capital

goods, energy and construction. Mr. Shyam Sundar Khetan is the managing director of the company, is engaged in business of real estate development. The other directors of the company have also long experience in different sectors.

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

MENL (through Aadhi Shakti Bidhyut Bikash Company Limited (ASBL) and Robust Energy Limited (REL) had entered into PPA with Nepal Electricity Authority (NEA) in 2005 and 2011 for sale of entire power generated by the plants at TKHEP and MKHEP respectively. The PPA is signed for a period of 30 years 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. TKHEP has two set of tariff rate which ranges from Rs. 3.90 per kWh to Rs. 8.40 per kWh with 3% annual escalation on base tariff rate for 5 times for 24.78 GWh energy. Tariff for MKHEP is Rs. 5.40 per kWh with 3% escalation on base tariff for next 10 years.

***Moderate financial risk profile***

MENL is operating two hydroelectric projects of 5 MW (Tadi Khola Hydro Electric Project (TKHEP)) and 42 MW (Mistri Khola Hydroelectric Project (MKHEP)) and started operations since April 2013 and June 2021 respectively. The company reported increase in total operating income by around 13% to Rs. 164 Mn in FY21 (Unaudited; FY refer to 12 months ending on Mid-July) from Rs. 144 Mn in FY20 on account of the commencement of commercial operations of MKHEP in June 2021. The revenue from 5 MW TKHEP decreased by 17% to Rs. 119 Mn during FY21 from Rs. 144 Mn in FY20. The decrease in total income from TKHEP during FY21 was on account of local issues due to the diversion of upstream water for irrigation which resulted reduction in the energy generation coupled with the expiry of promotional tariff rate.

PBILDT stood at Rs. 115 Mn in FY21 (FY20: Rs. 94 Mn). PBILDT margin also increased to 70% during FY21 from 65% in FY20 on account of economies of scale. PAT of the company increased to Rs. 133 Mn from 60 Mn on account of company recognizing the net construction revenue as per International Financial Reporting Interpretations Committee (IFRIC) interpretations 12 on Service Concession Arrangements.

***Current demand & Supply gap however possible oversupply in future along with moderate counter party risk***

As per the NEA's Annual Report for FY21, the current peak electricity demand is 1,482MW. The total domestic installed capacity stands at 1,447 MW which includes 632 MW owned by NEA and 815 MW by private sector IPPs. Overall, during FY21, total energy demand was 8,960 GWh which was met by import of 2,806 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, requiring demand side management. The company has signed PPA with NEA is owned by Government of Nepal and hence counter party default risk is low; however, timely realization of critical for the company and from analytical perspective also. The company received payment from NEA for supply of power generated by SHP within 12 to 52 days during FY21.

***Favourable Government policies towards 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. As per various directives from NRB whereby all the banks (type A, B C, D) have to allocate minimum share of their total advances to energy sector which argues well

for the sector.

### About the Company

Mountain Energy Nepal Limited (MENL) is a public limited company promoted by business persons having experience in the hydropower sector. Aadhi Shakti Bidhyut Bikash Company Limited (ASBL) and Robust Energy Limited (REL) were subsidiaries of MENL and merged into MENL in FY2019. ASBL was involved in the operation of 5MW run-of-the-river Tadi Khola Hydroelectric Project (TKHEP) and REL was involved in the construction of 42MW Mistri Khola Hydroelectric Project (MKHEP). The projects are constructed under BOOT (Build, own, Operate and Transfer) mechanism.

### Financial Performance

Particulars	FY19	FY20	FY21
	Audited	Audited	Unaudited
Income from Operations	117	144	164
PBILDT Margin (%)	69.61	65.31	70.56
Overall Gearing (times)	1.62	2.01	1.69
Interest coverage (times)	2.18	2.47	5.16
Current Ratio (times)	9.82	9.01	7.19
Total Debt/Gross Cash Accruals (times)	65.76	67.21	43.93

### Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	4,169.04	CARE-NP BB+
Short Term Bank Facilities	Overdraft Loan	451.29	CARE-NP A4+
<b>Total</b>		<b>4,620.33</b>	

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#### About CARE Ratings Nepal Limited:

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