

Sanvi Energy Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	1,097.65 [Decreased from Rs. 1,106.64 Mn]	CARE-NP BB+ [Double B Plus]	Reaffirmed
Short Term Bank Facilities	83.39 [Increased from Rs. 70.50 Mn]	CARE-NP A4+ [A Four Plus]	Reaffirmed
Total Facilities	1,181.04 (One Thousand One Hundred and Eighty-One Million Only)		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of 'CARE-NP BB+' to long term bank facilities and 'CARE-NP A4+' to the short-term bank facilities of Sanvi Energy Limited (SEL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the SEL continues to be constrained by project implementation risk associated with cascade project, hydrology risk associated with run-of-the-river power generation and exposure to regulatory risk.

The ratings, however, derive strength from experienced board member and management team, moderate financial risk profile and operating 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 however possible oversupply in future and government support for the power sector.

Going forward, the ability of the company to successfully execute the project without cost and time overrun and early stabilization thereafter of its under-construction project and reducing the gap in between contracted and actual PLF are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Project implementation risk associated with cascade project

SEL is setting up new hydro project of 5.2 MW in Illam district of Nepal. The estimated cost of project is 1,009 Mn which is proposed to be funded in debt equity ratio of 75:25 (debt of Rs 757 Mn and equity of Rs. 252 Mn). The total debt amount of Rs. 757 Mn has already been tied up. Contract for civil works has already been awarded and pre-construction works is ongoing at site. As on July 15, 2021, ~6.76% of the total project cost has been incurred and the physical progress is ~10%. The project is in the initial stage and this exposes the company towards project execution risk in terms and completion of the project with-in the envisaged time and cost.

The RCOD of Jogmai Cascade Hydroelectric project was July 22, 2021. However, the company has applied for extension of RCOD with Nepal Electricity Authority (NEA). Thus, approval from the NEA for revised RCOD is critical from analytical perspective.

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 in the last couple of years. Therefore, funding from Bank and Financial Institutions are exposed to volatile interest rate.

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

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

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). JKSHEP and JCHEP utilizes discharge from Jogmai Khola having catchment area of 104.18sq. kms and 118.10sq. kms based on Perennial River. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola.

Key Rating Strength

Experienced board members and management team

SEL is managed under the overall guidance of the company's Board of Directors (BoD), who possesses wide experience in the power sector. SEL has 6 Board of directors, chaired by Mr. Anup Acharya, who has more than 30 years of experience in construction industries. He is also associated with various other companies in various capacities. Mr. Bhanu Bhakta Pokharel, Managing Director, has more than 30 years of experience. He is also a founder and Managing Director of Urja Developers Pvt. Ltd which has portfolio of hydropower projects with the cumulative installed capacity over 220MW (Operational and Under construction). He has served as President of Nepal Hydropower Association and has worked as Senior Hydropower Engineer for NEA for over 20 years and he is supported by other experienced management team members.

Moderate financial risk profile

SEL is generating revenue by selling the power generated through its 7.6 MW Jogmai Khola Small Hydroelectric Project (JKSHEP) at Ilam District since May 2017. The company reported decrease in total operating income by ~4% to Rs. 192 Mn in FY21 (Unaudited; FY21 refer to 12 months ending on Mid-July 2021) from Rs. 201 Mn in FY20. The decrease in revenue during FY21 was due to lower energy generation on account of repairs and maintenance works carried out in the plant leading to lower capacity utilization coupled with lower hydrology throughout the year. Attributed to same reasons, plant load factor decreased to 52.99% in FY21 from 55.96% in FY20. The annual contracted PLF for JKSHEP is 64.40% of the installed capacity of the plant. PBILDT margin remained satisfactory though declined to 84% during FY21 from 87% in FY20 on account of lower revenue generation. High depreciation and finance cost restricts the net profitability and the company reported PAT margin of around 2% during FY20 and FY21.

Overall gearing ratio stood leveraged at 2.53x at the end of FY21 (FY20: 3.07x). The gearing ratio improved on the back of scheduled repayment of term loan. Interest coverage ratio of the company improved to 1.52x at the end of the FY21 as compared to 1.43x in FY19 due to the decrease in interest expenses. Total debt to Gross Cash Accrual (GCA) ratio stood high at above 21x during FY20 and FY21. Capital structure of the company is expected to be leveraged, given the high debt equity ratio in capex financing.

Power purchase agreement with sufficient period coverage

The PPA is signed for a period of 30 years for JKSHEP and JCHEP from the date of COD or till validity of Generation License, whichever is earlier. Tariff rate as per PPA is Rs 4.80 per Kwh for wet season (Mid-April to Mid-December) and the tariff rate for dry season (Mid-December- Mid April) is 8.40 per Kwh, with 3% annual escalation on base tariff for 5 years in case of JKSHEP and for 8 years in case of JCHEP. Required Commercial Operation (RCOD) of the cascade project was July 22, 2021 and the company is in the process of extension of RCOD with Nepal Electricity Authority (NEA).

Favorable 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

SEL is a public limited company incorporated in 2011 as a private limited company and later converted to public limited company in July 09, 2020. It is promoted by individual promoters having long experience in the hydropower and other sectors for setting up Hydroelectric Project (HEP) in Nepal. SEL has two hydropower projects out of which one is operational and second one is under construction. The projects are constructed under BOOT model (Build, Own, Operate and Transfer).

Financial Performance

(Rs. in Mn)

Particulars	FY19	FY20	FY21
	Audited	Audited	Audited
Income from Operations	177	201	192
PBILDT Margin (%)	88.06	86.83	84.00
Overall Gearing (times)	3.39	3.07	2.53
Interest coverage (times)	1.14	1.43	1.52
Current Ratio (times)	1.15	1.61	3.20
Total Debt/Gross Cash Accruals (times)	22.08	22.34	21.72

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	1,097.65	CARE-NP BB+
Short Term Bank Facilities	Overdraft	40.00	CARE-NP A4+
Short Term Bank Facilities	Proposed	39.49	CARE-NP A4+
Short Term Bank Facilities	Non Fund Based Loan	3.90	CARE-NP A4+
Total Facilities		1,181.04	

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