

Universal Power Company Limited

Rating

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	1,538.00 (Increased from 1,300 Mn)	CARE-NP BB+ [Double B Plus]	Reaffirmed
Total Bank Facilities	1,538.00 (One billion five hundred and thirty eight million only)		

* Details of Facilities in Annexure-1.

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB+' assigned to the long term bank facilities of Universal Power Company Limited (UPCL).

Detailed Rationale & Key Rating Drivers

The reaffirmation in the long-term rating assigned to the long-term bank facilities of UPCL, takes into an account on the commencement of commercial operation of the hydropower plant. However, the ratings are constrained by project stabilization risk with its debt-funded greenfield project, hydrology risk associated with run-of-river power generation, execution risk of under construction investee hydro projects and exposure to regulatory risk.

The ratings, however, continue to derive strength from the experienced management team backed by institutional promoters, presence of power purchase agreement (PPA) with sufficient period of coverage and moderate counter party risk. The rating also factors in current demand and supply gap and favorable government policies for the power sector.

Going forward, the ability of the company to early stabilization of the project and achieve the envisaged scale of power generation as contracted in the PPA.

Detailed description of the key rating drivers

Key Rating Weaknesses

Project stabilization risk considering its high project cost

The company has incurred the total project expenditure of Rs. 2,913.93 Mn (Rs. 264.90 Mn per MW) which is being financed through bank debt of Rs. 1,538.57 Mn and equity contribution of Rs. 1,375.36 Mn. The high project cost is attributable to recurring flood incidents at the project site which had damaged the civil structures and electro-mechanical equipment. UPCL has constructed the flood embankments along the river-side which has increased the civil cost of the project. The hydropower Project commenced commercial operations in December 2021. Though, the project has come into operation, post project implementation risk in the form of stabilization and achieve the envisaged scale of power generation as contracted in the PPA remain crucial for the company.

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 summer season when seasonal river flows are high (Mid-April to Mid-December) and less during the winter season (Mid-Dec to Mid-April). UPCL is proposed to utilize discharge from Khare Khola having catchment area of 180 sq kms based on Perennial River. The project has 10.10 m³/s design discharge at 40% exceedance flow and gross head of 136.70m. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river.

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

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

UPCL has made total investments of Rs. 144.23 Mn till 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. Furthermore, the company has equity commitments of Rs. 413.26 Mn in next few years in companies having under-construction hydropower projects. As such the company has no significant plans to raise funds in the form of borrowings or right issues; the equity commitments will be fulfilled from the internal accruals generated from the power sold. Furthermore, as of now there are no major regulations for the investment / holding companies, which remains a cause of concern from analytical prospective. Also the expected returns on investments is also exposed to the satisfactory performance of those projects.

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 (BFIs) remains volatile to change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 2-3 years. Therefore, funding from BFIs is subject to volatile interest rate.

Key Rating Strength**Experienced management team backed by the institutional promoters**

UPCL is promoted by Radhi Bidyut Company Ltd. (RBCL) and CEDB Hydropower Development Company Ltd. (CHDCL) [CARE NP BB (Is)]. CHDCL is an investment company, established to develop & promote hydropower project and providing project management services to hydropower companies. CHDCL directly and indirectly, has invested in operational and under-construction hydropower projects having combined installed capacity of more than 100 MW.

UPCL has 6 board of directors chaired by Mr. Uttam Bhlon Lama, has more than 15 years of work experience in various sectors including hydropower sector. He is also associated with NMB Bank Ltd in the capacity of director. The day to day operations of the company is looked after by Mr. Vinay Kumar Bhandari, managing director, who is also CEO of CHDCL and has more than two and half decades of experience in hydropower sector. He is supported by other experienced management team.

Power purchased agreement with sufficient period coverage

UPCL had entered into a PPA with NEA as on February 4, 2013 for sale of 8.26 MW power to be generated from the project which was upgraded to 11 MW on May 30, 2016. The period of the PPA is 30 years from commercial operation date (COD) or till validity of Generation License (obtained on July 3, December 2020 4 2012 for 35 years), whichever is earlier. PPA period may be extended with mutual consensus during the last six month of validity. The tariff for wet season (Mid-April to Mid-December) is Rs 4.80 per kWh and for dry season (Mid-December to Mid-April) is Rs 8.40 per kWh with 3% escalation on base tariff for 5 times in every year after completion of 12 months from COD date. As against PPA period of 30 years, the tenor of project debt is 12 years. The PPA is under the take-or-pay modality, which eliminates the risks related to tariff and offtake of the energy to be generated by the project.

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

Universal Power Company Ltd. (UPCL) is a listed public company, incorporated on December 3, 2002 as a private limited company and later it was converted into public limited company on March 30, 2011. It has developed a 11 MW, run-of-river, Tallo Khare Khola Hydropower Project (TKKHPP) in Dolakha district of Nepal. The project has come into operation on December 21, 2021 under BOOT (Build, Own, Operate and Transfer) mechanism.

Annexure 1: Details of the Facilities rated

Nature of the Facilities	Type of facilities	Amount (Rs. in Mn)	Rating
Long Term Bank Facilities	Term Loan	1,538.00	CARE-NP BB+
Total		1,538.00	

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