

Bindhyabasini Hydropower Development Company Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	1,871.28	CARE-NP BB+ [Double B Plus]	Assigned
Short Term Bank Facilities	19.72	CARE-NP A4+ [A Four Plus]	Assigned
Total Facilities	1,891.00 (One Thousand Eight Hundred and Ninety-One Million Only)		
Issuer Rating	NA	CARE-NP BB+ (Is) [Double B Plus (Issuer rating)]	Reaffirmed

**The issuer rating is subject to overall gearing ratio of the company not exceeding 2.50x at the end of FY22.*

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB+' to the long-term bank facilities and 'CARE-NP A4+' to the short-term bank facilities of Bindhyabasini Hydropower Development Company Limited (BHDCL).

Also, CRNL has reaffirmed Issuer rating of 'CARE-NP BB+ (Is) [Double B Plus (Issuer Rating)]' to BHDCL. Issuers with this rating is considered to have moderate degree of safety regarding timely servicing of financial obligations, in Nepal.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the BDHCL continues to be constrained by project stabilization risk with its debt-funded greenfield project, modest operational plant load factor (PLF), below average financial performance of the company, execution risk of under construction project in which BHDCL has invested, 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, 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 achieve stabilization of the project and envisaged scale of business are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest operating performance of operational hydro power projects

Rudi A came into an operation in March 2019. However, the operating performance was impacted in the initial years of operations due to breakdown of headrace pipe which led to shutdown of the operations of project for more than 4 months in the FY21. Furthermore, the second project (Rudi B) which started commercial operation in February 2020 which also had breakdown in one of the generators. Due to this, both the hydro power plants have subdued performance in FY21 (FY refer to 12 months ending on Mid-July). During FY20, Rudi A was operated at Plant Load Factor (PLF) of 58.38% which decreased to 25.25% during FY21 ending on Mid-July 2021. The total energy generated during FY21 was 19.46 GWh as against the contracted energy 46.63GWh. Similarly, Rudi B was operated at Plant Load Factor (PLF) of 31.24% during 5MFY20 and the same stood at 33.66% for FY21. The total energy generated during FY21 was 19.46 GWh as against the contracted energy 33.17GWh. Stabilization of the operations to hydro power projects and to achieve the envisaged scale of business and generation of sufficient cash flow are critical from analytical perspective.

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

Below average financial risk profile

BHDCL is generating revenue by the selling of power generated through its 8.8 MW Rudi Khola-A Hydropower Project (Rudi A) and 6.6 MW Rudi Khola-B Hydropower Project (Rudi B) at Kaski District. The company reported decrease in total operating income by around 21% to Rs. 222 Mn in FY21 (Audited; FY21 refer to 12 months ending on Mid-July 2021) from Rs. 281 Mn in FY20. The decrease in revenue during FY21 was on account of lower energy generation from both the projects i.e. Rudi A and Rudi B due to reasons mentioned above.

The same also led to decline in PBILDT margin significantly which declined to 42% during FY21 from 84% in FY20. The decline in margins was on account of increase in repairs and maintenance expenses and benefits drives from economies of scale. During FY21, the company had non-operational income amounting to Rs. 179.63 Mn in FY21 on account of insurance claim for the loss of revenue and damage in machineries.

Overall gearing ratio stood at 2.49x at the end of FY21 (FY20: 2.78x). The gearing ratio improved on account increase in networth of the company due to the accumulation of net profit. Though improved, it continued to remained at higher levels.

Investment commitments in companies having under-construction hydro power projects

BHDCL has made the total investments of Rs 10 Mn into Peoples Energy Ltd. (PEL, 48.8 MW under-construction project) and Rs 1 Mn in Hydro Electricity and Development Company Ltd as on mid-July 21 in the form of equity shares. There are further investment commitments amounting to Rs 200 Mn to PEL in the form of equity as promoter's contribution towards the projects. The amount to be investment in these companies is to be raised through initial public offering. This exposes the company towards its capital commitments for under construction project for which funds are yet to be tied-up and company remains susceptible to risk related with funding. Any delays in the raising fund through IPO may impact the company's financial risk profile adversely and is also crucial from credit perspective.

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

Run-of-the-river (ROR) power is considered an uneven 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. ROR, therefore, generates much more power during times when seasonal river flows are high (Mid-April to Mid-December) and much less during the drier months (Mid-Dec to Mid-April). Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river. Rudi A is utilizing discharge from tailrace of Rudi B, Rudi Khola and Chheduwa Khola located at Kaski District, having catchment area of 53.43 sq kms. Similarly, Rudi B is utilizing discharge from Karbu, Tago, Kaiyu and Ligur Khola, having catchment area of 35.3 sq km. Hence, the project is 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 directives issued by ERC like approval process for IPO issuance, PPA approval 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 Strength**Experienced board members and management team**

BHDCL is part of RM group. RM Group is led by Mr. Krishna Acharya, who is also founder and chairperson of BHDCL. RM group is involved into diversified business including hydropower, manufacturing, media, software and consultancy services, tourism and education etc. The board is chaired by Mrs. Sita Acharya, spouse of Mr. Krishna Acharya, who has more than a decade of experience.

The management team is led by Mr. Janardan Aryal, General Manager, who has more than two decades of experience in various sector including ~6 years of experience in hydropower sector. He has been supported by other experienced management team.

Power purchase agreement with sufficient period coverage

BHDCL has entered into Power Purchase Agreement (PPA) with Nepal Electricity Authority (NEA) for both the project. The period of the PPA is 30 years from the date of Commercial Operation (COD) or till the validity of Generation License, whichever is earlier. The contracted energy for the Rudi A is 46.86 million units (MU) and for Rudi B is 33.21 MU. Rudi A and Rudi B 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 on yearly basis.

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

Bindhyabasini Hydropower Development Company Ltd. (BHDCL) is a Public Company, incorporated on December 18, 2000 as private company and later on, converted to public limited company in March 13, 2017. BHDCL has two operational run of the river hydropower project; 8.8 MW Rudi Khola-A Hydropower Project (Rudi A) and 6.6 MW Rudi Khola-B Hydropower Project (Rudi B). Rudi A is operational since Mid-March 2019 whereas Rudi B is operational since Mid-February 2020. The project is constructed under BOOT model (Build, Operate, Own and Transfer).

Financial Performance

(Rs. in Mn)

Particulars	FY20	FY21
	Audited	Audited
Income from Operations	281	222
PBILD Margin (%)	84.45	41.69
Overall Gearing (times)	2.78	2.49
Interest coverage (times)	1.60	0.57
Current Ratio (times)	1.83	3.77
Total Debt/Gross Cash Accruals (times)	23.47	16.25

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	1,871.28	CARE-NP BB+
Short Term Bank Facilities	Overdraft	19.72	CARE-NP A4
Total Facilities		1,891.00	

Contact us**Analyst**

Ms. Elisha Lamichhane
Contact No.: 977-01-4012628
Email: elisha.lamichhane@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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