

Shuvam Power Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Issuer Rating	NA	CARE-NP BB+ (Is) [Double B Plus (Issuer)]	Assigned

* The issuer rating is subject to overall gearing ratio of the company not exceeding 0.85x at the end of FY22.

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned the issuer rating assigned of 'CARE-NP BB+ (Is)' to Shuvam Power Limited (SPL). Issuers with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations in Nepal.

Detailed Rationale & Key Rating Drivers

The issuer rating assigned to REDL factors in small scale of operations, hydrology risk associated with run-of-the-river power generation, exposure to volatile interest rate risk and regulatory risk.

The ratings, however derive strength from experienced board members and management team, moderate operating performance, 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 the company to successful reduce the gap between operational PLF and contracted PLF and timely receipt of payments from Nepal Electricity Authority (NEA) are the key rating sensitivities. Furthermore, any increase in exposure to group associates is also critical from analytical perspective.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations

The scale of operations has remained low marked by a total operating income and gross cash accruals of Rs. 23 Mn and Rs. 9 Mn respectively during FY21 (FY refers to 12 months ending in Mid-July). The small scale limits the company's financial flexibility in times of stress. Moreover, the company also suffers on account of lack of economies of scale. The company had negative gross cash accruals in FY20, mainly on account of receivable write-off of Rs. 9 Mn during the year.

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 wet season when river flows are high (Mid-April to Mid-December) and less during the dry season (Mid-December to Mid-April). The project utilizes discharge from Piluwa Khola having catchment area of 126sq. kms based on Perennial River. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola.

Exposure to volatile interest rates

Nepalese banking sectors are fixing lending interest rate based on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, funding from Bank and Financial Institutions is exposed to volatile interest rate.

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

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 in hydropower sector**

SPL has 4 Board of Directors, chaired by Mr. Mitralal Shrestha, who has more than 2 decades of experience in various sector. He is also the promoter of River Falls Power Limited (RPL) [CARE-NP BB-(Is)] and chairman of Pragyan Securities Pvt. Ltd. Mr. Subash Amatya, Director, has more than 15 years of experience in various sector and he is supported by other experienced team members for day-to-day operation activities.

Moderate operating performance and financial profile

SPL has operational run-of-the-river 0.99 MW Lower Piluwa Khola Small Hydroelectric Project (LPKHP) at Sankhuwasabha District. The commercial operations of the project commenced in July 17, 2011. During FY21 the plant was operated at 61.80% which increased to 73.75% during 8MFY21 ending on Mid-March 2022. The Plant Load Factor (PLF) of the project was low during Mid-April to Mid-July FY21 on account of evacuation related issues as the company was facing tripping problems in the transmission line from Tirtire Substation to Dhankuta Substation. The annual contracted PLF for LPKHP is 78.89% of the installed capacity of the plant. For the year ended FY21, the energy generated was 78.33% and 95.30% in 8MFY21 against contracted PLF. It is important for the company to reduce the gap between operational PLF and contracted PLF to have stable revenue which is also critical from analytical perspective.

The company reported the total operating income of Rs. 23 Mn in FY21. The company reported the almost stable PBILDT amount of Rs. 16 Mn in last 2 FYs (FY20 & FY21). Overall gearing ratio stood moderate at 0.81x at the end of FY21 (FY20: 0.87x). Apart from overall gearing, other coverage indicators including total debt to GCA and Interest coverage ratios stood at 11.60x and 1.72x for FY21 respectively (PY: -ve and 0.59x respectively).

Power purchase agreement with sufficient period coverage

Initially, Baneshwor Hydropower Private Limited (BHPL) had signed PPA with NEA on November 07, 2007 for sale of power generated from 0.99 MW capacity. Later, BHPL was acquired by Shuvam Power Limited (SPL). The contracted energy for 0.99 MW is 6.84 million Units (MU) annually with the contracted Plant Load Factor (PLF) of 78.89%. PPA has been entered for the period of 25 years from the RCOD. Tariff rate as per PPA is Rs 3.90 per kWh for wet season (Mid-April to Mid-December) and Rs 5.52 per kWh for dry season (Mid-December to Mid-April).

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

Shuvam Power Limited (SPL) is a public limited company, incorporated in December 29, 2015. SPL is involved in the operation of 0.99MW run-of-the-river Lower Piluwa Khola Small Hydroelectric Project (LPKHP) at Sankhuwasabha District which has been

in commercial operation since July 17, 2011. The company obtained the Generation License, from Government of Nepal – Ministry of Energy on April 15, 2008.

Brief Financial Performance of the company during last 3 years is given below:

(Rs. In Million)

For the year ended Mid July	FY19	FY20	FY21
	(Audited)		
Period of operation	12 months	12 months	12 months
Income from power sales	14	22	23
PBILD Margin (%)	68.76	69.81	68.90
Overall Gearing (times)	0.84	0.87	0.81
Interest coverage (times)	1.03	1.34	1.72
Current Ratio (times)	-	1.15	1.17
Total Debt/ Gross Cash Accruals (times)	15.41	(61.85)	11.60

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