

Madhya Bhotekoshi Jalavidyut Company Limited

Rating

Facilities/Instrument	Amount	Ratings ¹	Rating Action
Issuer Rating	NA	CARE-NP BB- (Is): ISSUER NOT COOPERATING* [Double B Minus; ISSUER NOT COOPERATING*]	Revised from BB (Is) "Issuer not cooperating; Based on best available information" (Notice of Withdrawal)

CARE Ratings Nepal Limited (CRNL) has been seeking information from Madhya Bhotekoshi Jalavidyut Company Limited (MBJCL) to monitor the ratings vide e-mail communications/ letters dated March 16, 2022, April 5, 2022, April 7, 2022, April 11, 2022, and April 17, 2022 along with numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant Securities Board of Nepal (SEBON) guidelines, CRNL has reviewed the rating on the basis of the best available information which however, in CRNL's opinion is not sufficient to arrive at a fair rating. CRNL will monitor/watch the rating once for a minimum period of 6 months and notify the Securities Board of Nepal (SEBON) and public with regards to the withdrawal of rating. If after the monitoring of the rating there is no cooperation from the Client, then after, CRNL may withdraw the rating.

The issuer rating of Madhya Bhotekoshi Jalavidyut Company Limited will now be denoted as **CARE-NP BB- (Is): ISSUER NOT COOPERATING*, (Notice of withdrawal)**.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.

Detailed description of the key rating drivers

Key Rating Weakness

Project implementation and stabilization risk associated with under construction hydropower project

The project being in the implementation stage continues to remain exposed to the residual risks associated with project implementation and satisfactory operations thereafter. However, further delays in execution cannot be totally ruled out, given that the project is being executed in the hilly region where the uncertain geology and adverse climatic conditions of the area leads to high project implementation risks and plays a major part in the timely completion of the planned activities.

Delay in execution of project and cost overrun

The project is still under construction. The project execution was delayed due to land acquisition required for the project took longer than anticipated and then due to different reasons viz. natural calamities, unfavourable conditions, COVID-19 pandemic etc. Similarly, issues with cash flow management of the civil & hydro-mechanical contractor halted the civil works at plant site for considerable period of time. Delay in the project execution due to various reasons, continuous devaluation of Nepalese Currency as compared to USD and inflation led to cost overrun of the project.

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

*Issuer did not cooperate; based on best available information

Decrease in project life leading to low return from project

As per initial PPA, RCOD of the project was June 15, 2017, which had been extended to February 28, 2021 as per revised PPA. Due to multiple delays in the project execution time, project life will be reduced by ~3 years against 30 years as per PPA as generation license obtained on December 03, 2013 will be valid for ~27 years only which will result in significant loss of revenue from project.

Exposure to fluctuation in the foreign currency exchange rates for the unhedged contractual liabilities

MBJCL had foreign currency payables amounting to USD 49.80 Mn as on Mid-July 2020. MBJCL had not taken any measures to hedge itself from foreign currency payment. This exposes the company to foreign exchange fluctuation risk.

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). MBJCL is proposed to utilize discharge from Bhotekoshi river (main river in the Sapta Koshi basin of Nepal), which are snow fed streams, having catchment area of 2388 sq kms. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/khola.

Power evacuation risk

Power evacuation was proposed through 4 km transmission line of 220 kV, to be built by MBJCL at their own cost (included in the project cost) to NEA's proposed Barhabise substation. MBJCL had awarded contracts for design, supply, construction, testing & commissioning of 220kV transmission line. Barhabise substation is under construction by NEA.

Key Rating Strengths**Strong Promoter Group and management expertise in operating hydro power projects**

Nepal Electricity Authority (NEA) and Chilime Hydropower Company Limited (Subsidiary of NEA) were major promoter group of MBJCL. NEA is a Government of Nepal entity. NEA held majority ownership in CHCL with 51% shareholding and remaining 49% shares was held by general public. CHCL owns and operates 22.1 MW power plant. MBJCL is managed under the overall guidance of the Company's Board of Directors (BoD) who possesses wide experience in the hydropower sector.

Power purchase agreement with sufficient period coverage

MBJCL had signed a long term power purchase agreement (PPA) with NEA as on November 14, 2011 for a period of 30 years from the date of COD or till validity of Generation License (which is obtained on 3rd December 2013 for 35 years), whichever is earlier. PPA period may be extended with mutual consensus through discussion from last six month of validity. 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 8 years. The contracted Plant Load Factor (PLF) is 60.69%.

About the Company

MBJCL is a public limited company incorporated on July 29, 2010. It is promoted by NEA (a GoN Corporation) and Chilime Hydropower Company Limited (CHCL, 51% subsidiary of NEA) for setting up 102 MW run-of-river, Middle Bhotekoshi Hydroelectric Project in Sindhupalchowk district of Nepal. The project is constructed under BOOT (Build, Own, Operate and Transfer) mechanism. As per the Generation License, from GoN – Ministry of Energy, dated December 3, 2013, the project shall be handed, on whatever conditions the project is, to the Government of Nepal after expiry of Generation Licence, which is 35 years.

Brief financials of MBJCL for last two years ending FY21 are given below:

(Rs. In Million)

Particulars	FY20(A)	FY21(A)
Income from Operations	Nil	Nil
PBILDT	(29)	(28)
PAT	(55)	(35)
Overall Gearing (times)	1.18	1.48
Interest coverage (times)	Negative	Negative

A: Audited

Contact us

Analyst Contact

Mr. Girish Bhatta

+977-01-4012630

girish.bhatta@careratingsnepal.com

Senior Analyst Contact

Mr. Santosh Pudasaini

+977-01-4012629

pudasaini.santosh@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani

+977-9818832909

achin.nirwani@careratingsnepal.com

About CARE Ratings:

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Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

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