Sanima Mai Hydropower Limited

Ratings

Facilities	Amount (Rs. Million)	Ratings[1]	Rating Action
Long Term Bank Facilities – Term Loan	1,763.30 (decreased from 2,048.45)	**CARE-NP A- [Single A Minus]**	Rating Revised from CARE-NP BBB+ to CARE-NP A-
Short Term Bank Facilities- Fund based and Non- Fund based facilities	140.30 (decreased from 148.22)	**CARE-NP A2 [A Two]**	Rating Revised from CARE-NP A3+ to CARE-NP A2
Total	**1,903.60**		

Details of instruments/facilities to be rated in Annexure-1

CARE Ratings Nepal Limited (CRNL) has revised the rating assigned to the Long term bank facilities of Sanima Mai Hydropower Ltd (SHPC) to CARE-NP A- from CARE-NP BBB+. CRNL has also revised the rating assigned to Short Term Bank Facilities of SHPC to CARE-NP A2 from CARE-NP A3+.

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of SHPC considers the company's improving financial risk profile marked by improved power generation leading to sustained revenue growth and strong cash accruals. The ratings also factor in SHPC’s comfortable liquidity profile marked by sustained cash generation from operations, substantial cash reserve along with reduced capital commitment during 9MFY22 (refers to the nine-month period ended mid-April 2022). The ratings continue to derive strengths from experienced promoters and management team, association with a large group having multiple hydropower projects, stable operational margins, growth in net profitability, and comfortably leveraged capital structure with adequate debt coverage indicators. The ratings also factor in the presence of power purchase agreement (PPA) with sufficient period coverage, moderate counterparty risk and government support for the power sector. The ratings, however, are constrained by exposure to group associates, hydrology risk associated with run-of-the-river power generation, exposure to regulatory risk and volatile interest rates.

Going forward, the ability the company to successful reduce the gap between operational PLF and contracted PLF and availability of sufficient hydrology with timely receipt of payments from Nepal Electricity Authority (NEA) are the key rating sensitivities. Furthermore, any substantial increase in exposure to group associates or any substantial capital commitment that could lead to deterioration in the company’s capital structure from current levels will also be critical from analytical perspective.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Experienced promoters/ directors and management team and part of Sanima Hydro Group

SHPC is managed under the overall guidance of the company’s Board of Directors (BoD), having wide experience in the power sector. SHPC has seven Board of directors, chaired by Mr. Tek Raj Niraula, who has more than 20 years of experience in hydropower, hospitality and banking industry. Other directors of the company have experience in diversified sector including hydropower projects. The company management team is led by Mr. Grishma Ojha, General Manager of the company and has more than 15 years of experience in hydropower sector. The management team is supported by other experienced professionals having relevant experience in respective departments. SHPC is part of the Sanima Hydro Group, which is promoted by group of Non-Resident Nepalese who are related to Sanima Group having business in Hydropower, Banking and insurance sector. Sanima Hydro has been developing a number of hydropower projects by setting up Special Purpose Vehicle (SPV) companies in Nepal.

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

Experienced background of BOD's and SHPC being a part of Sanima Hydro Group could provide technical support and operational synergy to SHPC.

Comfortable liquidity position marked by sustained cash generation from operations, substantial cash reserve along with reduced capital commitment

The company has a comfortable liquidity position on account of sustained cash generation from operations over the period. During 9MFY22 ((Unaudited, refers to the nine-month period ended mid-April 2022) gross cash accruals of the company was Rs. 568.91 Mn while it was Rs. 564.42 in FY21. Furthermore, the company has around Rs. 463 Mn held as cash and bank balances at the end of 9MFY22, out of which Rs. 420 Mn is in the form of Term Deposit and remaining in current account. While operational cash generation is sufficient to cover the projected cash outflows of the company, having a surplus cash reserve, particularly at a time of a liquidity crunch, helps the company adequately safeguard its liquidity position to cover any contingencies. Furthermore, total capital commitments of the company have reduced to Rs. 1,729 Mn at the end of 9MFY22 from Rs. 2,229 Mn at the end of FY21. A high cash reserve coupled with reduced capital commitment factor in favorably from a risk-return trade-off point of view, particularly at the time of a liquidity stress.

Improving financial risk profile marked by stable operational margins and growth in net profitability

During 9MFY22, gross revenue, through the sale of electricity, increased by 11.51% year on year (yoy) to Rs. 740 Mn on account of higher energy generated and sold to Nepal Electricity Authority (NEA) during the period owing to better hydrology. PBILDT margin improved slightly to 90% in 9MFY22, which has been stable at around 89% over the last 3 years. Increased revenue, improving operating margins, and decreased interest cost led to a substantial increase in the PAT of the company, which grew 35.47% yoy to Rs. 450.06 Mn in 9MFY22.

Comfortably leveraged capital structure with adequate debt coverage indicators

Total gearing ratio of the company has consistently improved over the period and stood comfortable at 0.45x as on mid-April 2022 from 0.57x as on mid-July 2021 and 0.70x as on previous balance sheet date which was boosted by improved net-worth base coupled with reducing debt levels. Furthermore, adjusted overall gearing ratio (excluding investments in group companies from net-worth base) also remains comfortable at 0.66x at the end of 9MFY22 compared to 0.91x as on balance sheet date of FY21 (FY20: 1.13x). Similarly, interest coverage ratio and Total Debt to GCA also improved in 9MFY22 and stood at 6.40x and 3.10x, respectively compared to 4.18x and 3.51x, respectively, in FY21 owing to increased cash generation from operations. Going forward, debt service coverage indicators are expected to steadily improve backed by repayment of debts and accretion of profits to reserve.

Power purchase agreement with sufficient period coverage

SHPC had entered into PPA with Nepal Electricity Authority (NEA) for 15.6 MW as on April 21, 2010 (one amendment thereafter on March 21, 2012 for additional 6.4 MW) and January 25, 2013 for sale of entire power generated by the plant of MHP and MHCP respectively. The PPA is signed for a period of 30 years for MHP and MCHP from the date of COD or till validity of Generation License whichever is earlier. PPA period may be extended with mutual consensus through discussion from last six month of validity. Under the Government's initiative of promoting private sector hydropower developers, with regard to MHP for 15.6MW the project has been availing promotional tariff rates of NPR 4.80 and NPR 8.40 per unit in wet and dry seasons; which shall remain effective for 7 years after COD with 5 times annual escalation of 3% on base tariff (available till Mid-April 2022). The difference in the posted rate and the contract rate is recovered from Government of Nepal through NEA.

Key Rating Weakness

Exposure to group companies

SHPC has investments in associate companies to the tune of Rs. 1,312 Mn as on FY21 end, which has reduced to Rs. 1,257 Mn as on 9MFY22 end. The investment is equivalent to 32% of SHPC's net-worth as on mid-April 2022. The investment reduced in the period as the company has withdrawn its investment from one of its associates on account of longer expected payback period from the project. The investments in companies are in the projects under implementation. Any substantial cost overrun in these projects could require additional investments from SHPC to these associates. Higher than currently envisaged fund flow from SHPC to its associates could adversely impact SHPC's financial risk profile. Also, any adverse impact on the financial risk profile on its associated companies, would limit the future revenue profile of the company. Additional investments to the group or associates will continue to be key monitorable.

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). MHP and MHCP utilizes discharge from Mai Khola having catchment area of 589sq. 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 rate risk

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy, with substantial upward pressure on interest rates in the last 2-3 quarters. Any further significant rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

Exposure to regulatory risk

Government of Nepal (GoN) has recently established Electricity Regulatory Commission (ERC) for regulating hydropower companies in Nepal. ERC will regulate generation, transmission and distribution of electricity in Nepal among others. Policies and directives issued by ERC such as approval process for IPO issuance and PPA approval through ERC poses a new challenge to hydropower companies. Hence, the hydropower sector is prone to regulatory risk and changes in other policies by GoN.

About the Company

Sanima Mai Hydropower Ltd (SHPC) is a public limited company, incorporated in September 11, 2008 as a private limited company and later converted to public limited company in March 16, 2012. It is promoted by institutional investors majorly related to Sanima Hydro Group for setting up Hydroelectric Projects (HEP) in Nepal. The projects are constructed under BOOT (Build, own, Operate and Transfer) mechanism. As per the Generation License, from Government of Nepal –Ministry of Energy, obtained on September 13, 2010 and July 17, 2020 for MHP in case of 15.6 MW and 6.4 MW and November 05, 2012 for MHCP, the project shall be handed, on whatever conditions the project is, to the Government of Nepal after expiry of Generation License, which is 35 years respectively.

Details of Instruments/ facilities to be rated (Rs in Million)

Name of the Instrument / Bank Facilities	Type of the Facility	Amount (Rs. in Million)	Rating assigned
Long Term Bank Facilities	Term Loan	1763.30	CARE-NP A-
Short Term Bank Facilities	Fund Based Limits	120.00	CARE-NP A2
Short Term Bank Facilities	Non-Fund Base Limits	20.30	CARE-NP A2
Total Facilities		**1903.60**	

Brief Financial Performance during last 3 years

(Rs. In Mn)

For the year ended Mid July	FY19	FY20	FY21
	(Audited)		
Period of operation	**12 months**	**12 months**	**12 months**
Income from power sales	725	860	850
PBILDT Margin (%)	88.52	89.24	88.77
Overall Gearing (times)	0.87	0.70	0.57
Interest coverage (times)	2.47	3.23	4.18
Current Ratio (times)	15.12	18.10	18.10
Total Debt/ Gross Cash Accruals (times)	6.41	4.28	3.51

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