

## Barun Hydropower Company Limited

### Ratings

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
<b>Issuer Rating</b>	<b>NA</b>	<b>CARE-NP BB+ (Is) [Double B (Issuer)]</b>	<b>Reaffirmed</b>

\* The issuer rating is subject to overall gearing ratio of the company not exceeding 1.00x at the end of FY22.

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB+ (Is)' assigned to Barun Hydropower Company Limited (BARUN). 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 rating assigned to Barun Hydropower Company Limited (BARUN) is constrained by modest operating performance of hydro power project being operated at low plant load factor (PLF) during FY21 (Audited, refers to the twelve-month period ended mid-July 2021), although improving trend during 9MFY22 (Unaudited, refers to the nine-month period ended mid-April 2022) after switching of evacuation to a new transmission line. The rating also factors in hydrology risk associated with run-of-the river power generation, exposure to regulatory risk and volatile interest rates. The rating, however, derives strengths from the experienced promoters and management team, presence of Power Purchase Agreement (PPA) with sufficient period coverage, and moderate financial risk profile with comfortable gearing levels. The rating also factors in moderate counter party risk and government support for the power sector.

*Going forward, the ability the company to successfully reduce the gap between operational PLF and contracted PLF and availability of sufficient hydrology with timely receipt of payments from Nepal Electricity Authority (NEA) will be the key rating sensitivities. Furthermore, any substantial increase in exposure to group associates/other projects or any other 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 Weaknesses

##### Modest operating Performance of Power Project

BARUN has been operating a run-of-the-river 4.5 MW hydropower project in Shankhuwasava district of Nepal since August 2011. The contracted PLF of the projects is 66.06% of the generation capacity. However, over the last two financial years (FY20 & FY21), the project operated at low PLFs of 49% and 36%, respectively. The substantially lower power generation by the project in the last 2 financials years (FY20 & FY21) was mainly on account of evacuation challenges (tripping in transmission) coupled with lower hydrology faced by the company. However, after the switching of evacuation to the new 220 kV transmission line from mid-August 2022 onwards, the project's PLF levels have improved considerably to 53% of generation capacity. The company's ability to continue to reduce the gap between operational PLF and contracted PLF, on a sustained basis, remains to be seen and will remain a key monitorable aspect.

##### 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 river flows are high (June to November) and less during the winter season (December to May).

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and other CARE publications

Hewa Khola Small Hydropower Project (HKHP) utilizes discharge from Hewa Khola having catchment area of 81.03 sq.km based on perennial river. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river.

#### **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, sector is prone to regulatory risk and changes in other policies by GoN.

#### **Key Rating Strength**

##### **Experienced promoters and management team**

BARUN is managed under the overall guidance of the company's Board of Directors (BoD) with members having wide experience in the power sector. BARUN has seven Board of directors, chaired by Dr. Bhushan Guragain, MSc in public health from Harvard School of Public Health, with more than 10 years of experience in hydropower and health sector. The company's management team is led by Mr. Sandeep Adhikari, associated with the company in the capacity of CEO and has more than 10 years of experience in banking and hydropower sector. He is supported by other experienced management team members.

##### **Power purchase agreement with sufficient period coverage**

BARUN had entered into PPA with Nepal Electricity Authority (NEA) for 2.4 MW as on September 19, 2007 which was amended on August 26, 2009 for additional 2.1 MW for sale of entire power generated by the plant. The PPA is valid till August 2041 and may be extended with mutual consensus through discussion from last six month of validity. Tariff rate as per PPA for HKHP is Rs. 3.90 and Rs. 4.80 per Kwh for wet season (Mid-April to Mid-December) and the tariff rate for dry season (Mid-December to Mid-April) is Rs. 5.52 and Rs. 8.40 per Kwh for 2.4 MW and 2.1 MW, respectively, with escalations on base tariff for 9 years available only for 2.1 MW.

##### **Moderate financial risk profile with comfortable gearing ratio**

BARUN reported the total income of Rs. 60 Mn through the sale of electricity during FY21 as compared to Rs. 85 Mn during FY20. The units billed were 14.19 MU in FY21 as compared to 19.42 MU in FY20. The reduction in revenue was on account of above mentioned reasons. Consequently, profitability of the company had also declined with PAT of Rs. 2.52 Mn during FY21 compared to Rs. 6.41 Mn during FY20. The company's performance improved 9MFY22 (refers to 9 months period ended in April 2022), the company achieved total income from sale of electricity of Rs. 70 Mn as compared to Rs. 46 Mn in 9MFY21. PAT had also improved to Rs. 21.40 Mn during the said period as compared to Rs. 5.27 Mn during the corresponding period previous year.

Overall gearing ratio improved to 0.82x at the end of FY21 from 0.89x at the end of FY20 on the back of repayment of term loan and increase in net worth due to accretion of profit to net worth. Total debt to Gross Cash Accrual ratio remained moderate and hovering around 10 times in the last 2 FYs (FY20 & FY21).

### Improvement in Power Evacuation Risk

The company's power evacuation risk has improved substantially after switching to the double circuit 220 kV Koshi Corridor transmission line in August 2021. Prior to this, the power generated from the project was being evacuated through the 33 kv Dharan Dhankuta transmission line, which had tripping issues leading to a high power evacuation risk for the company, particularly in the peak season. However, since switching to the 220kV transmission line, the issues related to tripping has been reduced significantly and company billing units has increased since the switch. Thus, power evacuation risk of the hydropower project is likely to be moderate going forward.

### 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

Barun Hydropower Company (BARUN) is a public limited company, incorporated in January 20, 2004 as a private limited company and later converted to public limited company in July 15, 2009. It is promoted by individual promoters having long experience in the hydropower and other sectors for setting up Hydroelectric Project (HEP) in Nepal. The company was listed with Nepal Stock Exchange (NEPSE) in October 2015. BARUN is involved in the operation of 4.5 MW run-of-the-river Hewa Khola Small Hydropower Project (HKHP) in Shankuwasava District, Nepal which has been in commercial operation since August 6, 2011. The power project utilizes available head and flow from Hewa Khola (river) with catchment area of 81.03 km<sup>2</sup> and 4.5 m<sup>3</sup>/s design discharge at 41% exceedance flow.

Brief financial performance of BARUN during last 3 years is given below:

(Rs. In Million)

Particulars	FY19 (A)	FY20 (A)	FY21 (A)
Income from power sales	78.29	85	59.76
PBILDT Margin (%)	61.69	65.21	71.82
Overall Gearing (times)	1.06	0.9	0.82
Interest coverage (times)	1.41	1.84	2.02
Current Ratio (times)	1.81	2.81	3
Total Debt / Gross Cash Accruals (times)	16.97	9.69	10.45

A: Audited

**Contact us****Analyst**

Ms. Monika Rawal

Contact No.: +977 9802318807

Email: monika.rawal@careratingsnepal.com

**Senior Analyst**

Mr. Santosh Pudasaini

Contact No.: +977-01-4012629

Email: santosh.pudasaini@careratingsnepal.com

**Relationship Contact**

Mr. Achin Nirwani

Contact No.: +977 9818832909

Email: achin.nirwani@careratingsnepal.com

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