

Hydroelectricity Investment and Development Company Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Issuer Rating	NA	CARE-NP A- (Is) [Single A Minus (Issuer)]	Reaffirmed

**The issuer rating is subject to the company maintaining overall gearing not exceeding 0.5x at the end of FY22*

CARE Ratings Nepal Limited (CRNL) has reaffirmed issuer rating of 'CARE-NP A- (Is)' assigned to Hydroelectricity Investment and Development Company Limited (HIDCL). Issuers with this rating are considered to offer adequate degree of safety regarding timely servicing of financial obligations in Nepal. Such issuers carry low credit risk.

Detailed Rationale & Key Rating Drivers

The ratings assigned to HIDCL continues to derive strength from strategic importance in development of power infrastructure in Nepal and majority ownership by Government of Nepal (GoN), involvement of higher officials and expert from government agencies for overall decision and management of the company, comfortable liquidity profile, gradual increase in investment and loan & advances to energy sector however long gestation period of its investment, comfortable financial risk profile for FY21 (Audited, refers to twelve-month period ended mid-July 2021) and debt free nature of the company. The rating also factors in implementation of appropriate Corporate Governance Framework, government support for power sector and moderate counter party risk associated with the revenue of the hydropower projects.

The rating is constraint due to inherent risk in the hydropower sector under construction (hydrological and geological risks during and after construction), expected time overrun and project implementation risk related to various under construction projects, hydrology risk associated with run-of-the-river power generation affecting profitability of the company, power evacuation risk related to the projects (delay in construction of transmission line by NEA) and moderate revenue profile which will be concentrated to hydropower sector in future.

Going forward, the ability of company to continue its growth momentum without compromising on asset quality and execution & operation of invested projects within the given deadlines avoiding any time and cost overrun would be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Strength

Strategic importance in the development of power infrastructure in Nepal and majority ownership by GoN

HIDCL has high strategic importance to Government of Nepal which is reflected in the role played by the company and its importance in financing hydropower sector of the country. HIDCL also plays developmental role in channeling fund to meet the hydropower sector's large funding requirement. HIDCL was promoted by Government of Nepal and three state owned companies. As on January 31, 2022, GoN holds 58.81% of shares, 3 state owned companies (Employee Provident Fund, Rastriya Beema Sanstha and Citizen Investment Trust) holds 17.64% of share and remaining 23.55% of shares are with General Public. The total paid up capital of the company as on January 31, 2022 was Rs. 18,700 Mn.

Involvement of higher officials and experts from government agencies for overall decision and management of the company

HIDCL is professionally managed under overall guidance of Board of Directors, which includes the eminent personalities serving or associated with different ministries or government department. HIDCL has 6 Board of Directors, chaired by Mr. Devendra

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

Karki. He has 25 years of experience and served in different department and ministries of GoN under different designation, roles and responsibilities. Mr. Arjun Kumar Gautam, Chief Executive Officer of HIDCL and heads day-to-day operations of the company. He has more than 30 years of experience in various sector and is supported by other experienced team members.

Comfortable liquidity profile

HIDCL continues to have a comfortable liquidity profile and as on mid- July 2021, the company was holding fixed deposit of Rs. 11,960 Mn (FY20: Rs. 12,623 Mn) in different commercial banks of Nepal. HIDCL doesn't have any long-term or short-term borrowing in the books till the end of FY21. HIDCL has Loan /Investment Commitments of Rs. 2,379 Mn as on mid-July 2021 and is in a comfortable position to meet these commitments when required. Furthermore, fixed deposit of the company increased to Rs. 12,350 Mn in mid-April 2022. The liquidity profile of the company is expected to be further strengthen on back of proposed rights issue.

Gradual increase in investments and loans to Energy Sector; however long gestation period of its investments

HIDCL had total investment of Rs. 17,657 Mn at the end of FY21 (FY20: Rs. 17,180 Mn). Majority of investment included term deposit, investment in two subsidiaries, equity and corporate bond investment. Similarly, loan & advances to power projects has increased by 13.14% to Rs. 4,150 Mn during FY21 over FY20, funding 10 hydroelectricity development companies with total capacity of 394.60 MW. Out of the 12 companies, 4 companies are already operational and their repayment schedule has started. Furthermore, HIDCL invested Rs. 756 Mn during FY21 (FY20: Rs. 456 Mn) in two subsidiary companies Remit Hydro Limited and Simbuwa Remit Hydro Limited, which have acquired survey license to develop 71.5 MW and 75.6 MW project respectively located in Taplejung district of Eastern Nepal. HIDCL has invested Rs. 84 Mn in Corporate Bonds and Rs. 707 Mn during FY21 (FY20: 349 Mn) in unquoted equity of six companies (Power Transmission Company Limited, Vidhyut Utpadan Company Limited, Nepal Power Trading Company Limited, NEA Engineering Company Limited, Vision Energy and Power Private Limited and Vision Lumbini Urja Company Limited).

Comfortable financial risk profile and debt free nature of the company

HIDCL achieved total revenue of Rs. 1,299 Mn during FY21 which decreased by ~22% over FY20 due to lower interest income backed by decline in bank deposits and lower interest rates in fixed deposits during FY21 (average yield on fixed deposit was 7.60% in FY21 compared to 9.73% in FY20). Bank deposits decreased by 5% to Rs. 11,960 Mn in FY21 from Rs. 12,623 Mn in FY20 due to additional investment towards ongoing projects. Average Yield on Project loan decreased to 8.78% in FY21 from 10.09% in FY20 as the lending rates are determined based on floating rate system determined on a quarterly basis, calculated on the basis of base rates of lending banks with addition of certain risk premium. However, PBILDT margin remained stable at ~91% during FY20 and FY21. Furthermore, HIDCL has not availed any credit facilities from the bank and doesn't have any plan to avail bank facilities in the near future on back of huge cash and bank balance, so HIDCL has nil gearing ratio.

Implementation of appropriate Corporate Governance Framework

HIDCL is managed professionally by Board of directors who has formulated various committees like Risk Management Committee, Audit Committee and HR & Compensation Committee. These committee conduct meeting on routine basis and analyse, review and supervise the management activities. Also Risk Assessment Cell (RAC) is formed by the management on case-to-case basis to assess the technical, financial, environmental, social, legal, managerial and other risk involved in the project for the purpose of making investment decision based on Lending /Investment Policy of the company.

Key Rating Weakness

Expected time overrun and project implementation risk related to various under construction projects

HIDCL is exposed to time overrun, cost overrun and project implementation risk associated with the various under construction projects it has disbursed funds. Among these projects, Swet Ganga Hydropower and Construction Ltd., Trishuli Jalvidyut Co. Ltd. and Sahas Urja Ltd. has achieved progress of 75%, 55% and 76%, respectively, as on mid-January 2022. Also, two subsidiary companies i.e., Remit Hydro Ltd. and Simbuwa Remit Hydro Ltd. are in very initial stage of the projects. So, these projects where HIDCL has injected equity or disbursed loans are still in the implementation stage and continues to remain exposed to the residual risks associated with project implementation and satisfactory operations thereafter. Similarly, the hydropower projects which recently into an operation are exposed to stabilization risk and streamlining of production in coming years remains to be seen.

Moderate revenue profile which will be concentrated in hydropower sector in future

The main source of revenue for HIDCL continues to remain interest income from bank's term deposits. Income from term deposit decreased to Rs. 934 Mn which was ~72% of total income as on FY21, from Rs. 1,325 Mn during FY20. Although the major income source of HIDCL over the medium-term is expected to be from dividend income from investment in different entities and interest income on loans from project financing, it continues to be concentrated in the form of interest income from bank deposits for the near-term. Dividend Income during FY21 was 0.83% and interest income on loan was 26.25% of total income. Most of the hydro projects where HIDCL has invested are still in implementation stage requiring more time to implement and stabilize, which can impact the revenue prospects of HIDCL in short to medium term once they attain their respective Commercial Operational Date (COD). Diversifying investments and associated risk to ensure fair returns and ploughing back of returns will be the key challenges.

Hydrology risk associated with run-of-the-river power generation affecting profitability of the company

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 times when seasonal river flows are high and much less during the drier months. HIDCL is investing in the companies which generates electricity from discharge of rivers, comprising of mountainous and hilly terrain. Hence, the projects are exposed to risk associated with variation in discharge of water from the aforesaid rivers, which may affect the revenue generation of the companies which HIDCL given loans.

About the Company

Hydroelectricity Investment and Development Company Ltd. (HIDCL) also known as Jalvidhyut Lagani Tatha Bikas Company Limited is public limited company, incorporated on July 11, 2011. HIDCL was established as a specialized development financial institution to mobilize funds from domestic and international resource base to cater the needs of investments in hydroelectricity generation, transmission and distribution projects in Nepal. Realizing the requirement of special wing with financial strength, professional expertise and single point agenda; Government of Nepal (GoN) had incorporated HIDCL.

Brief financial performance of Hydroelectricity Investment and Development Company Limited (HIDCL) during last 3 years is given below:

Particulars	(Rs. In Million)		
	FY19 (A)	FY20 (A)	FY21 (A)
Revenue	1,756	1,664	1,299
PBILDT	1,694	1,593	1,244
PAT	1,096	1,028	800
Loans to power projects	2,356	3,664	4,095

A: Audited

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