

## Civil Hydropower Private Limited

### Ratings

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	920.00	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	80.00	CARE-NP A4 [A Four]	Assigned
Total Bank Facilities	1,000.00 (One Billion Only)		

*Details of instruments/facilities in Annexure-1*

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of Civil Hydropower Private Limited (CHPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to CHPL are constrained by its below average financial performance financial risk profile owing to the subdued operations of its power project leading to lower than expected power generation. The ratings also factor in the company's exposure to operation stabilization risk, relatively high project cost leading to high payback period, hydrology risk associated with run-of-the river power generation and exposure to regulatory risk.

The ratings, however, derive strength from CHPL's association with group having multiple hydropower projects and experienced promoters and management team, presence of Power Purchase Agreement (PPA) with sufficient period coverage, moderate counter party risk and government support for the power sector. The ratings take cognizance of the measures taken by the company in order to address the mechanical issues that had led to underwhelming power sales over FY21-FY22 (FY refers to the twelve- month period ended mid-July). However, the company's ability to generate power as envisaged remains to be seen.

*Going forward, the ability of the company to successfully reduce the gap between operational Plant Load Factor (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.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### **Below average financial performance during initial years of operations and exposure to operation stabilization risk**

CHPL has been operating a run-of-the-river 4.5 MW Bijayapur-II Small Hydroelectric Project (BSHEP) in Kaski district of Nepal since March 2021. The contracted PLF of the projects is 73.49% of the generation capacity. However, over the last two financial years (FY21-FY22), the project operated at moderate PLFs of 72.07% and 68.45%, respectively, of the contracted energy. The substantially lower power generation by the project in the last 2 years was on account of the plant's operations not being fully stabilized during the initial years of operations coupled with some intermittent issues with its turbine, leading to sub-par power generation. Subsequently, CHPL reported net losses of Rs. 8.29 Mn in FY21 and Rs. 21.05 Mn in FY22 (unaudited) due to lower income from sale of power coupled with high depreciation and interest expense.

However, the company has purchased and installed new turbine in September 2022. Thus, the project's PLF levels and power generation are expected to improve in upcoming years. The company's ability to continue to reduce the gap between operational PLF and contracted PLF leading to an improved overall financial risk profile on a sustained basis remains to be seen and will be critical from credit perspective.

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

**Relatively high project cost leading to high payback period**

The final cost of the project was Rs 1,201.25 Mn (i.e., Rs. 267 Mn per MW) which was financed in debt equity mix of 77:23. The high project cost was on account of increase in Interest During Construction (IDC) and management and supervision expenses due to delay in commissioning of operation. This has resulted into delay in testing of the hydro mechanical equipments affected by pandemic along with construction of separate transmission line for Bijaypur-II Small Hydropower Project. Evacuation was initially proposed from transmission line of Bijayapur-I Hydropower Project of Bhagwati Hydropower Development Company Limited.

The capital structure of the company is expected to remain leveraged over the near term marked by high overall gearing due to relatively higher capex term loans. CHPL's overall gearing ratio stood at 4.20x at the end of FY22 (PY: 3.62x) on account of high project cost, impacted also by the net losses over FY21-FY22. Interest coverage ratio was 1.21x in FY22. The incurred project cost of Rs. 267 Mn per MW remains relatively higher compared to other similar projects, thus the payback period of the company is expected to remain higher.

**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 Bijaypur Khola having catchment area of 63.50 sq. kms based on Perennial River. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola. Since there is no minimum commitment on revenue in PPA in case of adverse river flows scenario, the company is exposed to hydrology risk of the power project for the generation of revenue.

**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 promoters/ directors and management team and part of group having multiple hydropower projects**

CHPL is part of KC Group of companies which is one of the leading organizational groups in Nepal. The promoters of KC group of companies have made their investments in diversified sectors like hydropower projects, construction, hospitality and housing, manufacturing, educational institutions, banking and insurance. This provides comfort to the company in terms of technical and operational assistance. CHPL has three members in its Board of Directors, chaired by Mrs. Prem Kumari K.C, who is also chairperson of Himshree Foods Pvt Ltd and have experience in the field of Hydropower, Education and Hospitality industries. Mr. Roshan K.C, managing director, is director at MBL, and other operational and under-construction hydropower companies. The BoD is supported by other experienced management team.

**Power purchase agreement with sufficient period coverage**

CHPL had entered into PPA with Nepal Electricity Authority (NEA) for 4.5 MW as on August 09, 2016 for sale of entire power generated by the plant. The PPA is signed for a period of 30 years for from the date of COD (March 02, 2021). PPA period may be extended with mutual consensus through discussion from last six month of validity. The tariff rate as per PPA is Rs. 4.80 per

kWh for wet season (Mid-April to Mid-December) and Rs 8.40 per kWh for dry season (Mid-December to Mid-April) with 3% escalations on annual tariff rate for 5 times. The economic life of the project is 30 years.

### 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

Civil Hydropower Private Limited (CHPL) is a private limited company incorporated on June 25, 2009, involved in the operation of 4.5 MW run-of-the –river Bijapur- II Small Hydropower Project (BSHEP) at Kaski district of Nepal by utilizing available flow from Bijapur Khola (river). It is the cascade project of Bijapur–I Hydropower Project (BSHP) operated by Bhagawati Hydropower Development Company [CARE-NP BBB-(Is)]. It is promoted by individual promoters having experience in the hydropower and other sectors for setting up Hydroelectric Project (HEP) in Nepal. The project started commercial operation on March 02, 2021.

Brief financial performance of CHPL during last 2 years is given below:

(Rs. In Million)

Particulars	FY21 (A)	FY22 (UA)
Income from power sales	32.12	119.04
PBILDT Margin (%)	85.71	80.75
Overall Gearing (times)	3.62	4.20
Interest coverage (times)	1.28	1.21
Total Debt / Gross Cash Accruals (times)	139.01	46.55

A: Audited; UA: Unaudited

### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	920.00	CARE-NP BB [Double B]
Short Term Bank Facilities	Working capital	80.00	CARE-NP A4 [A Four]
<b>Total Facilities</b>		<b>1,000.00</b>	

### Contact us

#### Analyst Contact

Ms. Monika Rawal

Contact No.: +977 9802318807

Email: monika.rawal@careratingsnepal.com

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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