

## Himal Dolakha Hydropower Company Limited

### Ratings

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
<b>Issuer Rating</b>	<b>NA</b>	<b>CARE-NP B+ (Is) [Single B Plus (Issuer)]</b>	<b>Assigned</b>
<b>Long Term Bank Facilities</b>	<b>974.19</b>	<b>CARE-NP B+ [Single B Plus]</b>	<b>Assigned</b>
<b>Short Term Bank Facilities</b>	<b>59.00</b>	<b>CARE-NP A4 [A Four]</b>	<b>Assigned</b>
<b>Total Bank Facilities</b>	<b>1,033.19 (One Thousand Thirty Three Million and Nineteen Thousand Only)</b>		

\* The issuer rating is subject to overall gearing ratio of the company not exceeding 1.25x at the end of FY23.  
Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP B+ (Is)' to Himal Dolakha Hydropower Company Limited (HDHPC). Issuers with this rating are considered to offer high risk of default regarding timely servicing of financial obligations, in Nepal.

CRNL has also assigned the rating of 'CARE-NP B+' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of HDHPC.

### Detailed Rationale & Key Rating Drivers

The ratings assigned to HDHPC are constrained by current projects operated at low PLF amid hydrology issues leading to a below average financial performance of the company in FY21 (Audited, refers to the twelve-month period ended mid-July 2021) and FY22 (Unaudited, refers to the twelve-month period ended mid-July 2022). The ratings also factor in hydrology risk associated with run-of-the river power generation, exposure to regulatory risk and volatile interest rates.

The ratings, however, derive strength from HDHPC's 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.

*Going forward, the ability 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

#### Weak financial performance of the company amid low power generation

HDHPC has two run-of-the-river hydropower projects: 4.455 MW Mai Khola Small Hydroelectric Project (MKHP) operational since February 13, 2011 and 8 MW Mai Khola Cascade Hydroelectric Project (MKCHP) operational since April 19, 2018. Annual contracted PLF for MKHP and MKCHP are 70.54% and 68.99% of their respective installed capacities. However, the power generation from both these projects have been sub-optimal over FY21-FY22. While MKHP's power generation was impacted by lower hydrology resulting in PLF of 51.54% and 53% of contracted capacity during FY21 and FY22. MKCHP's power generation has been impacted since commencement of operations due to issues in generator and turbine along with damage of headrace canal at the time of commissioning of project. Furthermore, the plant was shut down till mid-September 2022 for around 11 months as a result of flood in Mai Khola in October 2021 which severely affected the infrastructures including civil works, turbine and generator of MKCHP. Consequently, MKCHP operated at a very low PLF of 32.72% and 14.81% of contracted capacity during FY21 and FY22, respectively.

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

Lower power generation led to declined in total Operating Income of Rs. 102 Mn in FY22 (PY: Rs. 148 Mn). PBILDT margin was modest at 48% in FY22 (PY: 43%). Consequently, the company reported net losses of Rs. 84 in FY22 (PY: net losses of Rs. 117 Mn). The decrease in net losses in FY22 was on account of no penalties paid by the company due to short supply during the year amid change in regulation by NEA coupled with receipt of insurance claims amounting to Rs. 30 Mn.

Although overall gearing ratio of the company was fairly comfortable at 0.93x as on mid-July FY22, amid operating losses from the projects, the coverage indicators stood poor as reflected by interest coverage ratio of 0.51x. Total debt to Gross Cash Accruals was negative amid cash losses during FY22. The company will likely depend on some capital infusion, most likely through public issuance (proposal for rights issue for Rs, 1,200 Mn in progress), in order to mitigate any shortfall in meeting its financial obligations, particularly if cash flow from operations remain subdued.

However, repair and maintenance of MKCHP has been ongoing and the project has resumed partial operations since mid-September 2022. The plant is expected to operate at full capacity from December 2022 onwards and aid in revenue generation. 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 remain a key monitorable aspect.

### **Hydrology risk associated with run-of-the-river power generation**

Run-of-the-river power is considered to be 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. HDHPC is generating electricity from discharge of Mai River at Illam district for both MKHP and MKCHP. Hence, the projects are exposed to risk associated with variation in discharge of water from the aforesaid rivers. 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 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. Furthermore, increased bank rates announced in the Monetary Policy for FY23 is likely to add to the upward pressure on interest rates going forward. Any 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 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 Strengths**

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

HDHPC has five members in its Board of Directors, chaired by Mrs. Ranjana Dahal, who has more than a decade of experience in the hydropower sector. She is also director of Joshi Hydropower Development Company Private Limited and has worked as general manager of Moonlight Hydropower Company Private Limited (MHCPL) and Dolakha Nirman Company Private Limited. Mr. Birendra Bahadur Neupane, promoter and one of the major shareholders of the company has around 4 decades of

experience in civil construction including experience in hydropower sector. Furthermore, the day-to-day operations are supported by experienced management team.

### Power purchase agreement with sufficient period coverage

HDHPC had entered into PPA with Nepal Electricity Authority (NEA) as on April 2, 2007 (thereafter amended on July 9, 2009) and February 25, 2013 for sale of entire power generated by the plant of MKHP and MKCHP respectively on take or pay modality. The PPA is signed for a period of 30 years from RCOD ((i.e. July 16, 2010) for MKHP and 30 years for MKCHP from the date of COD or till validity of Generation License (i.e. for MKHP obtained on Dec 06, 2007 valid for 35 years till Dec 05, 2042 and for MKCHP obtained on July 30, 2013 valid for 35 years till July 29, 2048) whichever is earlier. PPA period may be extended with mutual consensus through discussion from last six month of validity. In case of MKHP, the tariff rate for initial 2.4 MW as per PPA is Rs. 3.90 per kWh for wet season (Mid-April to Mid-December) and Rs 5.52 per kWh for dry season (Mid-December to Mid-April) and for additional 2.055 MW is Rs. 4.00 per kWh for wet season and Rs 7.00 per kWh for dry season with 3% escalations on annual tariff rate for 9 times. The tariff rate as per PPA is Rs. 4.80 per kWh for wet season and Rs 8.40 per kWh for dry season with 3% escalations on annual tariff rate for 5 times for MKCHP.

### 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

Himal Dolakha HydroPower Company Limited (HDHPC) is public company, incorporated on July 03, 2008 as Himal Dolakha HydroPower Company Private Limited; later on it was changed to public limited company on November 13, 2017. HDHPC has two run of the river hydropower project under operation, which are 4.455 MW Mai Khola Small Hydropower Project (MKHP) and 8MW Mai Small Cascade Hydropower Project (MKCHP), both are located at Ilam district of Nepal. Both the projects generate electricity from the Mai Khola/river in Ilam district of Nepal.

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

(Rs. In Million)

Particulars	FY20 (A)	FY21 (A)	FY22 (UA)
Income from power sales	221	148	102
PBILDT Margin (%)	83.26	42.72	48.37
Overall Gearing (times)	0.88	0.92	0.93
Interest coverage (times)	1.40	0.57	0.51
Total Debt / Gross Cash Accruals (times)	21.59	Negative	Negative

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	974.19	CARE-NP B+ [Single B Plus]
Short Term Bank Facilities	Overdraft/Demand loan	59.00	CARE-NP A4 [A Four]
<b>Total Facilities</b>		<b>1,033.19</b>	

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