

Bindhyabasini Hydropower Development Company Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	1,802.46 (Decreased from 1,871.28)	CARE-NP BB+ [Double B Plus]	Reaffirmed
Short Term Bank Facilities	50.00 (Increased from 19.72)	CARE-NP A4+ [A Four Plus]	Reaffirmed
Total Facilities	1,852.46 (One Billion Eight Hundred Fifty Two Million and Four Hundred Sixty Thousand Only)		
Issuer Rating	NA	CARE-NP BB+ (Is) [Double B Plus Issuer]	Reaffirmed

*The issuer rating is subject to overall gearing ratio of the company not exceeding 2.50x at the end of FY23.

Details of instruments/facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating of 'CARE-NP BB+ (Is)' assigned to Bindhyabasini Hydropower Development Company Limited (BHDCL). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations, in Nepal.

Also, CRNL has reaffirmed the rating of 'CARE-NP BB+' assigned to the long term bank facilities and 'CARE-NP A4+' assigned to the short term bank facilities of BHDCL.

Detailed Rationale & Key Rating Drivers

The ratings assigned to BHDCL continue to be constrained by project stabilization risk associated with its debt-funded greenfield projects, particularly amid intermittent interruptions in power generation owing to natural calamities such as floods and landslides which has led to lower than envisaged revenue generation from operations of the company. The ratings also factor in the execution risk of under construction projects in which BHDCL has invested, hydrology risk associated with run-of-the-river power generation and exposure to regulatory risk.

The ratings, however, continue to derive strengths from experienced board members and management team, moderate financial risk profile with improving gearing levels and adequate coverage indicators after factoring in the income from insurance claims. The ratings also factor in 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 of the company to achieve stabilization of the project leading to power generation at envisaged levels thereby reducing the gap between contracted Plant Load Factor (PLF) and actual PLF will be the key rating sensitivities. Furthermore, any substantial investments/capital commitment that could lead to material deterioration in the company's capital structure will also be critical from analytical perspective.

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate operational performance as projects continue to be impacted by natural calamities

Since commencement of operations of Rudi A and Rudi B in March 2019 and February 2020 respectively, operational performance of the projects have been impacted by intermittent challenges, whether mechanical or natural (low hydrology,

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications.

floods, landslides etc.). Except for FY22, the company has not able to achieve uninterrupted power generation for the full year. During FY22 (FY refer to the twelve-months period ending on mid-July), Rudi A was fully operational with operational PLF of 91.76% of contracted energy, improving from 41.75% in FY21 where the project was shut down for over four months due to breakdown of headrace pipe. During 5MFY23 (refers to the five-month period from mid-July 2022 to mid-December 2022) power generation has been satisfactory at 102% of contracted energy.

Similarly, Rudi B operated at a PLF of 84.81% during FY22 which increased from 58.67% during FY21 ending on Mid-July 2021. During FY21, energy generation from Rudi B was much lower than contracted capacity on account of breakdown in one of the generators. Furthermore, Rudi B had been shut down from August 03, 2022 to January 27, 2023 due damages in headrace pipe after a landslide in August 2022. After repairs the plant has resumed operations from January 25, 2023. Currently, the generated power is evacuated through 33 kV transmission line to Mungri Substation. The company's ability to operate both projects without substantial interruptions leading to revenue generation as envisaged remains crucial from credit perspective.

Investment commitments in companies having under-construction hydro power projects

BHDCL has made the total investments of Rs. 138 Mn in Peoples Energy Limited (PEL, 48.8 MW under-construction project), Rs. 3 Mn in Jalabidhyut Lagani Talha Bikash Company and Rs. 5 Mn in Nepal Power Exchange Limited. As on January 12, 2023, out of total investment commitment for PEL of Rs. 250 Mn, Rs. 200 Mn has been invested by the company. BHDCL is not likely to receive any income on above investment in PEL during its construction period leading to long gestation period of investments. Even after execution of the project, the income from investment will depend upon the satisfactory performance of the project. This exposes the company towards its capital commitments for under construction project for which funds are yet to be tied-up, particularly if there are any material cost escalations.

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

Run-of-the-river (ROR) power is considered an uneven 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. ROR, therefore, generates much more power during times when seasonal river flows are high (Mid-April to Mid-December) and much less during the drier months (Mid-December to Mid-April). Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river. Rudi A is utilizing discharge from tailrace of Rudi B, Rudi Khola and Chheduwa Khola located at Kaski District, having catchment area of 53.43 sq kms. Similarly, Rudi B is utilizing discharge from Karbu, Tago, Kaiyu and Ligur Khola, having catchment area of 35.3 sq km. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river. Since coming into operations, the power generation of Rudi B has been comparatively low on the account of less hydrology. To address this issue, the company has arranged to divert water from Ligur Headwork (Ligur Khola) leading to improved flow of water for power generation from Rudi B. The power generation of Rudi B is expected to improve going forward.

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 board members and management team

BHDCL is part of RM group. RM Group is led by Mr. Krishna Acharya, who is also founder and chairperson of BHDCL. RM group is involved into diversified business including hydropower, manufacturing, media, software and consultancy services, tourism and education etc. The board is chaired by Mrs. Sita Acharya, spouse of Mr. Krishna Acharya, who has more than a decade of experience. The management team is led by Mr. Janardan Aryal, General Manager, who has more than two decades of experience in various sector including ~7 years of experience in hydropower sector. He has been supported by other experienced management team.

Moderate financial risk profile

BHDCL is generating revenue by the selling of power generated through its 8.8 MW Rudi Khola-A Hydropower Project (Rudi A) and 6.6 MW Rudi Khola-B Hydropower Project (Rudi B) at Kaski District. The company reported increase in total operating income by ~81% to Rs. 400 Mn in FY22 from Rs. 222 Mn in FY21. The increase in revenue during FY22 was on account of higher energy generation from both the projects i.e. Rudi A and Rudi B. PBILDT increased to Rs. 317 Mn in FY22 (FY21: Rs. 92 Mn). Accordingly, PBILDT margin improved to ~79% during FY22 from ~42% in FY21. PAT of the company increased to Rs. 122 Mn in FY22 from Rs. 73 Mn during FY21.

Overall gearing ratio stood at 1.64x at the end of FY22 (FY21: 2.49x). The gearing ratio improved on account increase in net worth of the company due to IPO (Rs. 250 Mn completed on June 2022) and the accumulation of net profit. The interest coverage ratio improved to 2.21x during FY22 (FY21: 0.57x) due to the increase in PBILDT amount and decrease in interest expenses on account of scheduled repayment of loans. Total debt to GCA stood high at 10.48x for FY22 (PY: 16.25x). Although the company has benefitted from reasonable insurance income in periods of project downtime, improvement in power generation leading to adequate cash flow generation from the projects for a sustained period will be critical from credit perspective.

Power purchase agreement with sufficient period coverage

BHDCL has entered into Power Purchase Agreement (PPA) with Nepal Electricity Authority (NEA) for both the project. The period of the PPA is 30 years from the date of Commercial Operation (COD) or till the validity of Generation License, whichever is earlier. The contracted energy for the Rudi A is 46.86 million units (MU) and for Rudi B is 33.21 MU. Rudi A and Rudi B tariff for wet season (Mid-April to Mid-December) is Rs 4.80 per kWh and for dry season (Mid-December to Mid-April) is Rs 8.40 per kWh with 3% escalation on base tariff for 5 times on yearly basis. The company has signed PPA with NEA which is owned by Government of Nepal and hence counter party default risk is low; however, timely realization of the same is critical for the company and from analytical perspective also.

Favorable Government policies towards power sector

Government of Nepal (GoN) considers hydropower generation as a 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 the 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 2026. 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 augurs well for the sector.

About the Company

Bindhyabasini Hydropower Development Company Ltd. (BHDCL) is a Public Company, incorporated on December 18, 2000 as private company and later on, converted to public limited company in March 13, 2017. BHDCL has two operational run of the river hydropower project; 8.8 MW Rudi Khola-A Hydropower Project (Rudi A) and 6.6 MW Rudi Khola-B Hydropower Project (Rudi B). Rudi A is operational since Mid-March 2019 whereas Rudi B is operational since Mid-February 2020. The project is constructed under BOOT model (Build, Operate, Own and Transfer).

Annexure 1: Details of Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Term Loan	1,802.46	CARE-NP BB+
Short Term Bank Facilities	Overdraft	50.00	CARE-NP A4+
Total		1,852.46	

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