

CEDB Hydropower Development Company Limited ^(Revised)

Rating

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Issuer Rating	NA	CARE-NP BB (Is)* [Double B (Issuer)]	Reaffirmed

**The issuer rating is subject to overall gearing of the company not exceeding 0.50x at the end of FY23.*

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

Detailed Rationale & Key Rating Drivers

The rating assigned to CHDC continues to be constrained by concentrated investment in hydropower sector, equity commitment with long gestation period of its investments, lack of clarity on proposed investment plans and high and increasing collection period. The rating also factors in limited value generation on its investments.

The rating, however, continues to derive strength from experienced directors and management expertise with track record in operating hydropower projects, moderate financial risk profile, albeit decrease in total operating income in FY22 (Unaudited, FY refers to the twelve-month period ending mid-July) and comfortable profitability margins and capital structure. The rating also factors in government support for the power sector having positive prospects for the company's investments.

Going forward, the timely collection of receivables and generation of adequate returns from its investments will be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Equity commitments, concentrated investments and long gestation period of its investments

CHDC's total investments stood at Rs. 449 Mn as on mid-July 2022 (FY21: Rs. 448 Mn) made in the form of equity shares on under-construction/operational projects of other hydropower companies. The company has projected investment of around Rs. 880 Mn till FY27, including equity commitment of around Rs. 300 Mn to Kasuwa Khola Hydropower Limited (KKHL) for its under-construction Kasuwa Khola Hydropower Project (KKHP) and Rs. 200 Mn to its fully owned subsidiary Khare Investment Limited (KIL). With regard to equity commitments in KKHP, CHDC has made investment in shares amounting to Rs. 20.76 Mn till mid-July 2022. Total investment in KIL stood at Rs. 166.50 Mn as on mid-July 2022. Being an investment company, the return prospects of CEDB largely depend on the performance of its investee companies. The company has no significant plans to raise funds in the form of borrowings; hence, timely returns and exits from existing investments is critical to meet any future commitments in other hydropower projects. Furthermore, there are no major regulations for the investment/ holding companies as of now, which remains a cause of concern from analytical prospective.

Exposure to group companies

CHDC has invested in its associated companies to the tune of Rs. 448 Mn and Rs. 449 Mn respectively at the end of FY21 and FY22 respectively. Furthermore, the company has also provided loans and advances to its group companies amounting to Rs. 220 Mn as on mid-July 2022 (Rs. 55 Mn as on mid-October 2021). The total exposure to group aggregated is Rs. 669 Mn as on mid-July 2022 which is ~55% of its net worth. The company has also provided corporate guarantee of Rs. 3,468 Mn for the hydropower projects being developed by its associated companies. Any adverse impact on the financial risk profile on its

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

associated companies would indirectly expose the guarantor towards meeting the outstanding debt obligation with limited revenue profile.

High and increasing collection period

The average collection period of CHDC is high and increasing over the period. Average collection period was high at 822 days during FY22 (FY21: 551 days) mainly on account of not realizing of its management fees from one of the client amounting to Rs. 298.14 Mn as on mid-July 2022. It would be difficult for the company to maintain its liquidity at adequate level on account of the accumulated management fees. With stabilization risk associated to its three hydropower projects which recently came in operation and two projects in under- construction phase with no means of regular cash flows yet, the timely collection of its management fees will remain key monitorable aspect from perspective of cash flow generation.

Key Rating Strengths

Experienced directors and management expertise

CHDC has five members in its Board of Directors, chaired by Mr. Anil Kumar Rungta, who has more than two decades of experience in investment and finance sector. Mr. Vinay Kumar Bhandari is the Chief Executive Officer of the company since 2009. He has more than two decades of experience in hydropower sector. He has worked as Project Development Expert/ Consultant, Electricity Distribution System Consultant and Hydropower & Environmental Specialist for various hydropower projects.

Track record in operating hydropower projects with healthy plant load factor

CHDC, through its subsidiary and associate companies, has made investment in six operational hydropower projects. A 4.40 MW Radhi Small Hydropower project (RSHP) located at Lamjung district of Nepal under the name of Radhi Bidhyut Company Limited operated at average plant load factor (PLF) of 89.35% during last three years ended in FY22 against its contracted capacity. Similarly, another project of 0.18 MW Syange Mini Hydropower Project (SMHP) located at Lamjung district of Nepal under the name of Syange Bidhyut Company Limited operated at average PLF of 80.39% during last three years ended in FY22 against its contracted capacity. These two operational projects portray the track record of the company in operating hydropower projects with healthy plant load factor. Furthermore, three hydropower projects operated by its group companies have already come in operation. 30 MW Nyadi Hydropower Project (NHP) under the name of Nyadi Hydropower Limited came in operation in May 10, 2022, 11 MW Tallo Khare Khola Hydropower Project (TKKHPP) under the name of Universal Power Limited came in operation in December 21, 2021 and 12 MW Dordi I Hydroelectric Project (DHP) under the name of Dordi Khola Jabidhyut Company Limited came in operation in October 3, 2022.

Moderate financial risk profile, albeit decrease in total operating income in FY22 and strong debt service indicators

The company earns revenue from management fees for managing day to day operation of different hydropower projects under its group, which is based on mutual consensus between CEDB and respective companies. The management fees is decided under four phases i.e development phase, under construction phase, operational phase till the repayment of project term loans and operational phase after repayment of project term loans. Other sources of revenue includes interest income from Fixed Deposits(FD), dividend income from its subsidiary and investee companies and gains on sale of shares. CHDC's total revenue decreased by ~17% during FY22 to Rs. 170 Mn in FY22 from Rs. 206 Mn in FY21 mainly due to decrease in management fee from KKHP and TKKHPP. PBILDT margin was around 90.56% in FY22 (FY21: 92%). The overall gearing ratio and debt equity ratio of the company remained negligible; however, adjusted gearing (including corporate guarantees given) remains substantial. With no management fees receivable from KKHL and TKKHPP in the upcoming years, returns from its four

subsidiary companies and six operational hydropower projects through subsidiary and investee companies will remain key monitorable aspects from revenue generation perspective.

About the Company

CEDB Hydropower Development Company Limited (CHDC) is a public limited company, incorporated on November 30, 2009 as CEDB Hydro Fund Limited, and later the name was changed to CEDB Hydropower Development Company Limited effective from July 11, 2018. The main objective for incorporation of CHDC is to invest in hydropower projects. The paid up capital of CHDC stood at Rs. 839.41 Mn as on Mid-July, 2022 with promoters and public holding mix in ratio of ~70:30.

Financial Performance

(Rs. in Million)

For the Period Ended / as at Mid-July	FY20(A)	FY21(UA)	FY22(UA)
Total Operating Income	119	206	170
PBILDT Margin (%)	87.35	92.00	90.56
Overall Gearing Ratio (times)	0.002	0.0013	0.0009
Interest Coverage (times)	334.19	311.18	50.95
Current Ratio (times)	7.37	7.04	8.67
Total Debt/ Gross Cash Accruals (times)	0.02	0.01	0.01

A: Audited; UA: Unaudited

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