Modi Energy Limited

Ratings

Facilities	Amount (Rs. Million)	Rating[1]	Rating Action
Issuer Rating	**NA**	**CARE-NP D (Is)**	**Revised from CARE-NP BB+(Is)**
Long Term Bank Facilities	**4,014.15**	**CARE-NP D**	**Revised from CARE-NP BB+**
Total Bank Facilities	**4,014.15 (Four Thousand Fourteen Million and Fifteen Thousand Only)**		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has revised Issuer Rating of Modi Energy Limited (MEL) to "CARE-NP D (Is)" from "CARE-NP BB+ (Is)". Issuers with this rating are considered to be in default or are expected to be in default soon.
Also, CRNL has revised the rating to "CARE-NP D" from "CARE-NP BB+" for the long-term bank facilities of Modi Energy Limited (MEL).

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to MEL primarily takes into consideration the ongoing delays of more than 30 days in the repayment of bank loan obligations by the company. The rating is also constrained by the relatively high project cost amid significant time and cost overrun, project stabilization risk amid power evacuation issues, hydrology risk associated with run-of-the-river power generation.

The ratings, however, derives strength experienced promoters' and management team and presence of power purchase agreement (PPA) with sufficient period coverage, although reduced economic life.

Going forward, the ability the company to improve its debt servicing track record and successfully reduce the gap between operational Plant Load Factor (PLF) and contracted PLF will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Ongoing delays in the repayment of bank loan obligations

MEL has ongoing delays of more than 30 days in repayment of bank loan obligations due for the quarter ended mid-October 2022. There had been instances of delays in the repayment of bank loan obligations in previous quarters as well owing to cash flow mismatches amid sluggish operating performance since coming into operations. The company's PLF levels have generally remained below par since coming into operation leading to low revenue generated from power sales and consequently low cash accruals from operations. This is mainly on account of the project currently falling under the 'Projects Under Contingency Evacuation Plan' list of NEA. Under the contingency plan, power generation of the project is dependent on the dispatch instructions from NEA. Hence, relatively low dispatch instructions by NEA, the company's power generation has subsequently remained on the lower side leading to delays in repayment of debt obligations. The ability of MEL to generate sufficient cash flow from operations, maintain liquidity and timely service its debt obligation will be key monitorable aspect.

Project Stabilization issues amid high power evacuation risk

MEL started commercial operations of the run-of the river 20 MW Tallo Modi Khola Hydropower Project (TMKHP) in Parbat district of Nepal since September 30, 2021 and operated for around 10 months in FY22.The operational PLF has been modest at

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

around 72% of contracted energy till mid-July 2022 amid power evacuation issues. The power evacuation was made through contingent route (4.5 km long 132kv transmission line to NEA Modi Substation) other than proposed Nepal Electricity Authority (NEA) New Modi- Lahachowk Substation. The project falls under the 'Projects Under Contingency Evacuation Plan' list of NEA and its power generation is dependent on the dispatch instructions from NEA. Projects under the contingency evacuation plan generally get lower priority in power evacuation from NEA, particularly during the high supply wet seasons, leading to low Plant Load Factor (PLF) levels. the company will remain exposed to operations stabilization risk until proper arrangement for power evacuation is made, and this will remain a key monitorable aspect.

Relatively High project cost amid significant time and cost overrun

The initial estimated cost of the project was Rs 3,509 Mn (i.e., Rs. 175 Mn per MW) which was proposed to be funded by Rs 2,587 Mn debt and Rs 922 Mn equity in the debt equity ratio of 74:26. However, the final project cost is Rs. 6,319 Mn (Rs. 316 Mn per MW) funded through term loan of Rs. 4,014 Mn and Rs. 2,175 Mn through equity share capital and remaining through payables. The debt equity ratio is 64:36. The project cost was revised on account of damage in the headrace tunnel and leakages in tunnel due to the weak geographical structure of the project site. There was time overrun in the project on account of maintenance works associated with tunnel and the same was delayed due to COVID-19. The project came in operation in September 30, 2021.

During the initial year of operation, the capital structure of the company is expected to remain leveraged characterized by leveraged overall gearing due to high project cost and capex term loans. Thus, Capital structure stood leveraged with overall gearing ratio of 2.20x at the end of FY22 (Unaudited, refers to the twelve-month period ended mid-July 2022). Interest coverage stood at 1.05x during FY22 and Total debt to GCA ratio was 297.26x at the end of FY22. Going forward, the debt coverage indicators of the company depend on the company's ability to generate the targeted revenues.

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 summer season when seasonal river flows are high (Mid-April to Mid-December) and less during the winter season (Mid-December to Mid-April). The project is proposed to utilize discharge from Modi Khola and Pati Khola having catchment area of 552 sq kms based on snow fed Perennial River. The project has 26.52 m3/s design discharge at 40% exceedance flow. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/khola.

Key Rating Strengths

Experienced promoters, directors and management in various sector

MEL derives strength from its established promoters belonging to the Debenara group, Murarka organization, KL Dugar Group and Shanker Group. The groups are involved in diversified manufacturing, trading, hydropower and other business. Company has five board members, chaired by Mr. Pashupati Murarka, who is also managing director of Muraraka group and has more than three decades of experience. Other directors of the company have also wide range of experience in various sector. Mr. Gyanendra Lal Pradhan, Director, has more than two decades of experience in different sector including Hydropower. He is also an executive Chairman of Hydro solutions Pvt Ltd. and Chairman at Nepal Hydro Developer Limited. He has been supported by other experience management team members.

Power purchase agreement with sufficient period coverage, although reduced economic life

MEL had entered into a PPA with NEA as on September 06, 2011 for sale of 20 MW power to be generated from the project. The period of the PPA is 30 years from commercial operation date (COD) or till validity of Generation License (obtained on September 06, 2010 for 35 years), whichever is earlier. The contracted energy Plant load factor (PLF) for the project is 66.86%

with total contracted energy of 117.14 million units (MU). The 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 in every year after completion of 12 months from COD date.

The economic life of the project is impacted by the delays in project execution. The project came into operations September 30, 2021 and generation license was obtained on September 06, 2010, thus valid for only 24 years from date of COD, resulting in a six-year loss of revenue from project. The ability of company to extend the tenure of PPA and generation license through mutual consensus with NEA is crucial for the company to improve the project returns on long term basis.

About the Company

Modi Energy Limited (MEL) was incorporated as Manang Trade Link Pvt Ltd in November 04, 1996. Later on, the name was changed into Modi Energy Pvt Ltd in May 28, 2017. The company got converted into public limited in June 21, 2018. The company has been promoted by institutional promoters and individual businessmen having long experience in various sector for setting up Hydroelectric Project (HEP) of 20 MW run-of-river, Tallo Modi Khola Hydropower Project (TMKHP). The project is being constructed under “BOOT” (Build, Own, Operate and transfer) model and is located in Parbat district of Nepal. It came in operation in September 30, 2021.

Brief financial performance of MEL during FY22 is given below:

(Rs. In Million)

Particulars	FY22(UA)
Income from power sales	355
PBILDT Margin (%)	83.99
Overall Gearing (times)	2.20
Interest coverage (times)	1.05
Total Debt / Gross Cash Accruals (times)	297.26

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**	**4,014.15**	**CARE-NP D**
Total Facilities		**4,014.15**	

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