

## Bhagawati Hydropower Development Company Limited

### Rating

Facility/Instrument	Amount (Rs. in Million)	Rating <sup>1</sup>	Rating Action
<b>Issuer Rating</b>	<b>NA</b>	<b>CARE-NP BBB-(Is) [Triple B Minus (Issuer Rating)]</b>	<b>Reaffirmed</b>

\* The issuer rating is subject to overall gearing ratio of the company not exceeding 0.3x at the end of FY23.

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating of 'CARE-NP BBB- (Is)' assigned to Bhagawati Hydropower Development Company Limited (BHCL). Issuers with this rating are considered to offer moderate degree of safety regarding timely servicing of financial obligations, in Nepal. Such issuers carry moderate credit risk.

### Detailed Rationale & Key Rating Drivers

The rating assigned to the BHCL continues to derive strength from satisfactory operating performance of its power project during FY22 (Audited, FY refers to the twelve-month period ended mid-July), moderate financial risk profile of the company, experienced board members and management team, and presence of power purchase agreement (PPA) with sufficient period coverage. The rating also factors moderate counter party risk and government support for the power sector.

However, these rating strengths are partially offset by hydrology risk associated with run-of-the-river power generation, risk of natural calamities and exposure to regulatory risk. The rating also takes cognizance of the slight moderation in operational performance of the project during 8MFY23 (Unaudited, refers to the eight-month period ended mid-March 2023).

*Going forward, the ability of the company to successfully reduce the gap between operational PLF and contracted PLF along with availability of sufficient hydrology with timely receipt of payments from Nepal Electricity Authority (NEA) are the key rating sensitivities. Any substantial capital commitment or significant increase in debt levels leading to material deterioration in the capital structure would also be key monitorable.*

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Experienced board members and management team in hydropower sector

BHCL has seven directors in its board, chaired by Mr. Hari Prasad Pandey, who holds 9.09% of the total share capital and has more than four decades of experience in different sectors which includes power, manufacturing, trading etc. He is also associated with various hydro power companies in different capacities. Mr. Roshan KC, Director, who holds 10.62% of the total share capital, has more than a decade of experience in various sectors including hydropower projects. The other Directors of the company also have long experience in different sectors. Further, the day-to-day operations are supported by experienced management team.

##### Moderate operating performance

BHCL has commissioned run-of-the-river 4.41 MW Bijayapur Small Hydroelectric Project (BSHP) at Kaski District which has been in commercial operation since August 21, 2012. The company reported PLF of 98.74% of the contracted energy (73.58% against installed capacity) during FY22 (FY21: 68.99% of contracted capacity and 51.36% of installed capacity), boosted by improved hydrology during the period coupled with smooth operations of the project as compared to the previous fiscal year when the company had to operate at half capacity for around six months (mid-June 2020 to mid-December 2020)

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

as one of its generators had broken down. However, the power generation has moderated to around 85.85% of contracted energy (67.15% of installed capacity) during 8MFY23. The lower PLF so far in FY23 compared to FY22 was mainly on account of relatively lower hydrology (amid less rain throughout the country, in general). Furthermore, a canal supplying water to the project collapsed during December 2022 and a panel board in the power house collapsed due to fire in the month of August 2022, leading to some disturbances in power generation for a couple of months. The average PLF as a percentage of contracted energy since the inception of operations is ~86%.

The company's ability to consistently reduce the gap between contracted PLF and generated PLF coupled with swift turnaround from any similar stoppages in the future so as to maintain generated PLF at least above 80% of contracted PLF would be critical from analytical perspective.

### **Moderate Financial risk profile**

The company's revenues had increased by ~37% year-on-year to Rs. 169 Mn during FY22 from Rs. 123 Mn during FY21 however, moderated to ~Rs. 107 Mn during 8MFY23 attributed to above mentioned reasons. Consequently, PBILDT margin improved to ~74% during FY22 from ~67% in FY21. With increase in PBILDT, PAT of the company improved to Rs. 83 Mn in FY22 from Rs. 36 Mn during FY21 with PAT margin of ~49% during FY22 and ~29% in FY21.

Capital structure remains comfortable with overall gearing ratio of 0.21x at the end of FY22 (FY21: 0.39x). The lower gearing ratio was on account of reduced debt levels over time and improvement in company's tangible net worth due to accretion of profit. Apart from overall gearing, interest coverage ratio and total debt to GCA ratio stood comfortable at 10.28x and 0.98x during FY21 (FY20: 4.43x & 2.80x). Going forward, the debt coverage indicators of the company are likely to remain at comfortable levels owing to lower interest outgo amid decreasing debt levels.

### **Power purchase agreement with sufficient period coverage**

BHCL had entered into PPA with Nepal Electricity Authority (NEA) for 4.41 MW as on July 14, 2009 for the sale of entire power generated by the plant. The PPA has been signed for a period of 30 years from the date of COD. PPA period may be extended with mutual consensus during the last six months of validity. The tariff rate as per PPA is Rs. 5.08 per kWh for wet season (Mid-April to Mid-December) and Rs 8.89 per kWh for dry season (Mid-December to Mid-April) including escalations. Power is evacuated through 33KV transmission line from its power house to NEA's Lekhnath substation and further connected to the national grid.

### **Favorable Government policies towards power sector**

Government of Nepal (GoN) considers power generation as a priority sector and intends to maximize private sector participation in generation of electricity 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 2027. Also, with government focus more towards reservoir-based hydropower projects; Monetary Policy FY23 has provided full tax exemption for first 15 years and 50% tax exemption for next 6 years to reservoir and semi- reservoir projects whose capacity is higher than 40 MW, completing financial closure within mid-April 2029. As per various directives from NRB, 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. Also, increasing trend of cross-border energy trade and its prospect in upcoming days with bilateral agreements with the neighboring nations shows positive outlook on long-term demand for the power sector.

## Key Rating Weaknesses

### 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 Bijayapur Khola having catchment area of 63.5sq. kms based on Perennial River. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola.

### Risk of Natural Calamities

In Nepal, hydropower projects are usually located in terrains that are topographically challenging making their construction and operations vulnerable to adversities of nature. Floods and landslides that tend to occur in these areas pose threat to these power projects damaging their infrastructures, adversely affecting the smooth flow of power generation and distribution, which can impact financial returns of the projects. BHCL is also exposed to such risks of natural calamities that might cause infrastructural, operational and financial damages to the project.

### Exposure to regulatory risk

Government of Nepal (GoN) has 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.

### About the Company

Bhagawati Hydropower Development Company Limited (BHCL) is a public limited company, incorporated on December 18, 2000 as a private limited company and later converted to public limited company on April 19, 2018. BHCL is involved in the operation of 4.41 MW run-of-the-river Bijayapur 1 Small Hydroelectric Project (BSHP) in Kaski District which has been in commercial operation since August 21, 2012. The project is constructed under BOOT (Build, Own, Operate and Transfer) mechanism.

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

### Financial Performance

(Rs. in Mn)

Particulars	FY20	FY21	FY22
	Audited	Audited	Audited
Income from Operations	141	123	169
PBILD Margin (%)	75.13	66.82	74.00
Overall Gearing (times)	0.60	0.39	0.21
Interest coverage (times)	3.53	4.43	10.28
Current Ratio (times)	1.11	1.06	1.06
Total Debt/Gross Cash Accruals (times)	3.58	2.80	0.98

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