

## Asian Hydropower Limited

### Ratings

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	963.18	CARE-NP BB+ [Double B Plus]	Revised from CARE-NP BB
Short term Bank Facilities	25.00	CARE-NP A4+ [A Four Plus]	Assigned
<b>Total Facilities</b>	988.18 <b>[Nine Hundred Eighty-Eight Million and One Hundred Eighty Thousand only]</b>		
Issuer Rating	NA	CARE-NP BB+ (Is) [Double B Plus (Issuer)]	Revised from CARE-NP BB (Is)

\* The issuer rating is subject to overall gearing ratio of the company not exceeding 2.5x at the end of FY23.

Details of Facilities in Annexure 1

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

CRNL has also revised the rating assigned to the long-term bank facilities of AHL to 'CARE-NP BB+' from 'CARE-NP BB'. Also, CRNL has assigned the rating of 'CARE-NP A4+' to the short-term facilities of AHL.

### Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to AHL takes into account stabilization of operations reflective in the improving operating performance of the power plant during 9MFY23 (Unaudited, refers to nine-month period ended mid-April 2023;) leading to improvement in overall financial risk profile of the company. The ratings, however, continue to be constrained by relatively high cost of project leading to leveraged capital structure, hydrology risk associated with run-of-the-river power generation, risk of natural calamities, exposure to regulatory risk and volatile interest rate risk.

The ratings continue to derive strength from strong parentage and experienced management team, presence of power purchase agreement (PPA) with sufficient period coverage, moderate counter party risk and government support for the power sector. The ratings also take cognizance of the successful completion of the initial public offering by the company in February 2023.

*Going forward, the ability the company to successfully reduce the gap between operational 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

##### Leveraged capital structure

AHL's overall gearing ratio stood high at 3.35x at the end of FY22 (FY refers to the twelve-month period ending mid-July) owing to the relatively high project cost of Rs. 1,312 Mn (Rs 211 Mn per MW) which was financed through Debt equity mix of 75: 25. The cost was revised from initially estimated Rs. 1,160 Mn mainly due to increase in civil works, hydro mechanical works and project supervision cost on account of design modifications. Owing to higher debt levels, total debt to GCA stood elevated at 47.10x in FY22. Similarly, interest coverage ratio was also modest at 1.25x in FY22. The incurred project cost of Rs. 211 Mn per MW is considered relatively higher; thus, the payback period of the company is expected to remain longer. However, the capital structure of the company is expected to improve by FY23 end aided by the equity infusion of Rs. 118 Mn through initial public

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

offering completed in February 2023. With the infusion of IPO proceeds, the overall gearing ratio of the company stood at 2.38x in 9MFY23.

### **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-Dec to Mid-April). AHL is proposed to utilize discharge from Jogmai Khola having catchment area of 132.2 sq kms based on perennial river. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/khola. Since there is no minimum commitment on revenue in PPA in case of less river flow than expected, the company is exposed to hydrology risk and would also have an impact on project returns.

### **Risk of Natural Calamities**

In Nepal, hydropower projects are usually located in terrains that are topographically challenging making their 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. These natural calamities can adversely affect the smooth flow of power generation and distribution, which can impact financial returns of the projects. AHL is also exposed to such risks of natural calamities that might cause infrastructural, operational and financial damages to the project.

### **Exposure to volatile interest rate risk**

The company's interest rates are based on 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. Higher interest rates than envisaged could result in squeezed margins of the company. Hence, funding taken by the company is exposed to volatile interest rate.

### **Exposure to regulatory risk**

Government of Nepal (GoN) has recently established Electricity Regulatory Commission (ERC) for regulating hydropower companies in Nepal. ERC will regulate generation, transmission and distribution of electricity in Nepal among others. Policies and directives issued by ERC such as approval process for IPO issuance and PPA approval through ERC poses a new challenge to hydropower companies. Hence, the hydropower sector is prone to regulatory risk and changes in other policies by GoN.

### **Key Rating Strength**

#### **Strong parentage and experienced management team**

AHL is part of Urja Developers group which is having multiple hydropower projects under its portfolio through Special Purpose Vehicles (SPV) companies. The flagship company of the group is Urja developers, promoted by CE Construction Pvt. Ltd. (CECPL) which started business operations in early 1990's. The group has presence in construction, consultancy, manufacturing, education, finance, hospitality and power generation etc. CECPL was awarded "Construction Company of the Year 2017" by Frost & Sullivan. The group chairman is Mr. Bijay Bahadur Rajbhandary who is having experience of more than 3 decades. AHL has 7 Board of Directors and company management team is led by Mr. Bhanu Bhakta Pokharel, Managing Director of the company He possess more than ~30 years of management experience. He is supported by other experienced management team members.

**Improving operating performance of power plant during 9MFY23**

AHL started commercial operation of the run-of the river 6.2 MW Lower Jogmai Hydropower Project (LJHP) in Illam district of Nepal since November 1, 2021. The project was operational for around 8.5 months during FY22. During FY22, the company reported PLF of 83% of contracted capacity, also impacted on account of scheduled outage as a result of plant being shut for 15 days during FY22. The project's operational performance has been on improving trend so far in FY23. PLF improved to 90% of contracted capacity during 9MFY23. During FY22, the company reported operating income through sale of electricity of Rs. 98 Mn. The company has already achieved Rs. 115 Mn through sale of electricity during 9MFY23. Cash generation is expected to be on an improving trend supported by higher power generation coupled with 3% tariff escalation during FY23. The project is still in the early stage of operations; thus, the stabilization and streamlining of production in coming years remains to be seen. The company's ability to continue to reduce the gap between operational PLF and contracted PLF, on a sustained basis, will remain a key monitorable aspect.

**Power purchase agreement with sufficient period coverage**

AHL had entered into a long term PPA with NEA as on March, 2018 for sale of 6.20 MW power to be generated from the project. The contracted Plant Load Factor (PLF) for total 6.2 MW is 66.14% with total contracted energy of 35.92 MU. PPA has been entered for the period of 30 years from the COD or till validity of generation license whichever is earlier. Tariff rate as per PPA is Rs 4.80 per kWh for wet season (Mid-April to Mid-December) and Rs 8.40 per kWh for dry season (Mid-December to Mid-April) with 3% annual escalation on base tariff for 8 years. AHL came into commercial operation on November 01, 2021 as against the Required Commercial Operation Date (RCOD) of January 15, 2022, hence the company is eligible for escalation for entire 8 years.

**Favourable Government policies towards power sector**

Government of Nepal (GoN) considers power generation as priority sector and intends to maximize private sector participation in generation of electricity by offering different exemptions and facilities on power sector. 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.

**About the company**

Asian Hydropower Ltd. (AHL) is incorporated as private limited company on May 05, 2016 and later on July 10, 2019 converted into public limited company. It is promoted by individual promoters from different background and institutional investors for setting up of a 6.2 MW run-of-river, Lower Jogmai Hydropower Project (LJHP) in "BOOT" (Build, Own, Operate and transfer) model and is located at Illam district of Nepal. The project started commercial operations in November 01, 2021. The power project utilizes available head and flow from Jogmai Khola (river). The project has 132.2 km<sup>2</sup> catchment area and 5.70m<sup>3</sup>/s design discharge at 40% exceedance flow.

Brief financials of AHL for FY22 given below:

(Rs. Million)

For the year ended Mid-July	FY22
	(Audited)
Income from Operations	98
PBILDT Margin (%)	80.57
Overall Gearing (times)	3.35
Interest Coverage (times)	1.25
Total Debt/Gross Cash Accruals (times)	66.49

#### Annexure-1: Details of Instruments/Facilities

(Rs. in million)

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	963.18	CARE-NP BB+
Short Term Bank Facilities	Overdraft	25.00	CARE-NP A4+
<b>Total Facilities</b>		<b>988.18</b>	

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#### About CARE Ratings Nepal Limited:

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