

## Sanima Hydropower Limited

### Ratings

Facilities	Amount (Rs. Million)	Ratings <sup>1</sup>	Rating Action
<b>Issuer Rating</b>	<b>NA</b>	<b>CARE-NP BB+(Is) [Double B Plus (Issuer)]</b>	<b>Assigned</b>

*\*The issue rating is subject to total debt not exceeding Rs. 250 Mn at the end of FY23.*

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB+(Is)' to Sanima Hydropower Limited (SHL). 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 SHL is constrained by exposure to its group companies, equity commitments to the associate companies and long gestation period of its investments, particularly given the relatively small scale of operations and corresponding cash accruals of the company. The rating also factors in hydrology risk associated with run-of-the-river power generation, exposure to regulatory risk and volatile interest rates.

The rating, however, derives strength from experienced promoter/directors and management team with multiple hydropower projects being developed through associate companies, moderate financial performance of the company during FY22 (Audited, FY refers to the twelve-month period ending mid-July) and improving operating performance of power plant during 8MFY23 (Unaudited, refers to the eight-month period ended mid-May 2023). The rating also factors 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 the company to successfully reduce the gap between operational PLF and contracted PLF on a sustained basis with timely receipt of payments from Nepal Electricity Authority (NEA) are the key rating sensitivities. Furthermore, any substantial increase in exposure to group associates or any substantial capital commitment that could lead to deterioration in the company's adjusted capital structure (net of exposure to group associate from networth) from current levels will also be key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weakness

#### Exposure and equity commitments to group companies and long gestation period of its investments

SHL's total investments (face value of investments) stood at Rs. 675 Mn as on mid-July 2022 made in the form of equity shares in multiple companies of Sanima Group (under-construction/operational projects of hydropower companies). The investment is equivalent to 72% of SHL's net-worth as on mid-July 2022. Out of the invested companies, two are operational, two are still under-construction and other two hydropower projects are in preconstruction stage of having obtained generation license. The company has made capital commitment of around Rs. 500 Mn to its group company, Sanima Jum Hydropower Limited (SJHL), with regards to which SHL has made investments amounting to Rs. 318 Mn (including Rs. 177 Mn as advance for equity investments) as on mid-July 2022. Any substantial cost overrun in under-construction projects could require additional investments from SHL to these associates. Substantial fund flow to its associates as a result of current commitments and any potential cost overrun, which is not uncommon for hydro projects in Nepal given the challenging geology, could have adverse impact on future liquidity prospects and financial risk profile of the company. Also, any adverse impact on the financial risk profile of its associated companies, would limit the future revenue profile of the company. Thus, additional investments to the group or

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

associates than envisaged will be key monitorable aspect. Furthermore, any major regulatory changes related to investment companies which may impact the financial risk profile of the company will remain concern from analytical prospective.

### **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 Sunkoshi Khola having catchment area of 81 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.

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

Nepalese banking sector has 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. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy, with substantial upward pressure on interest rates in the last few quarters. However, Nepal Bankers Association's decision to lower premium on loans by 1% from March 2023 could provide some relief in interest rates. Therefore, funding taken by the company from BFIs is subject 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 Strengths**

#### **Experienced promoters and management team and part of Sanima Hydro Group**

SHL is managed under the overall guidance of the company's Board of Directors (BoD), who possesses wide experience in the power sector. SHL has three board of directors, chaired by Mr. Anil Kumar Ojha, MSc in Geology, who is promoter shareholder in all and director in a number of owned and invested companies of Sanima Group. He has been involved in setting up and development of various sister companies of Sanima Group. The management team is supported by other experienced professionals having relevant experience in respective departments. SHL is part of the Sanima Hydro Group, which is promoted by group of Non-Resident Nepalese who are related to Sanima Group having business in Hydropower, Banking and insurance sector. Sanima Group has been developing a number of hydropower projects by setting up Special Purpose Vehicle (SPV) companies in Nepal. Experienced background of BOD's and SHL being a part of Sanima Hydro Group could provide technical support and operational synergy to SHL.

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

SHL had entered into PPA with Nepal Electricity Authority (NEA) as on November 13, 2001 for sale of entire power generated by the plant after deducting outage, self-consumption, and transmission losses. The PPA is signed for a period of 25 years from the date of COD (March 24, 2005) and is valid till March 26, 2031. PPA period may be extended with mutual consensus through discussion from last six month of validity. The tariff rate as per PPA is Rs. 3.90 per kWh for wet season (Mid-April to Mid-December) and Rs 5.525 per kWh for dry season (Mid-December to Mid-April). The project is constructed under BOOT (Build, own, Operate and Transfer) mechanism. As per the Generation License, from Government of Nepal – Ministry of Energy, dated July 22, 2002,

the project shall be handed, on whatever conditions the project is, to the Government of Nepal after expiry of Generation License, which is 35 years.

### **Improving operating performance of power plant during 8MFY23**

SHL has been involved in operation of 2.6 MW run-of-the –river Sunkoshi Small Hydropower Project (SHP) at Sindhupalchowk district of Nepal since March 24, 2005. The annual contracted PLF for SHP is 63.16% of the installed capacity of the plant. The Plant Load Factor (PLF) against contracted capacity was 96.31%, 87.98%, 72.68% during FY20, FY21, FY22 respectively. During FY22, the company was forced to halt the energy generation from August 01, 2021 to October 06, 2021 due to adverse climatic conditions (heavy rainfall and landslide) at project site causing severe damages to head works and GRP Pipes. However, the energy generation against the contracted capacity has improved to 94.49% during 8MFY23.

### **Moderate financial performance**

During FY22, income through sale of electricity decreased to Rs 44 Mn (FY21: 53 Mn) on account of lower energy generation due to shut down of plant for around 65 days during FY22. However, other operating income of the company includes dividend income from companies invested by SHL and interest income on bank balance. Other Operating Income increased to Rs. 14 Mn during FY22 (FY21: Rs. 9 Mn), on account of receipt of cash dividend from Sanima Mai Hydropower Limited (CARE-NP A-/A2). PBILDT margin declined to 27.53% during FY22 (FY21:40.77%). However, SHL reported net profit of Rs. 81 Mn during FY22 (FY21: Rs. 28 Mn), which was mainly on account of gain on sale of survey license of 56 MW Jum Khola Hydropower Project to Sanima Jum Jum Hydropower Limited.

The total net worth of the company improved to Rs. 938 Mn in FY22 (FY21: Rs. 811 Mn) on account of accretion of profit coupled with the gain on sale of partial shares of Sanima Mai Hydropower Limited during FY22. Overall gearing ratio of the company increased to 0.21x in FY22 from 0.15x in FY21 mainly, on account of short-term loan amounting to Rs. 90 Mn availed by SHL for the purpose of reconstruction of hydropower infrastructures destroyed by landslide. Apart from overall gearing, other coverage indicators including total debt to GCA stood at 5.32x and Interest coverage ratios stood at 2.19x for FY22 respectively (FY21: 3.33x and 1.76x respectively).

### **Favorable 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**

Sanima Hydropower Limited (SHL) is a public limited company incorporated on March, 1999 and converted into public limited company as on June 27, 2014. It is involved in the operation of 2.6 MW run-of-the –river Sunkoshi Small Hydropower Project (SHP) at Sindhupalchowk district of Nepal by utilizing available flow from Sunkoshi Khola. The project started commercial operation on March 24, 2005. The power is evacuated through 6.3 km long 11 kv single circuit transmission line to Sunkoshi Substation, Lamosanghu.

Brief financials of SHL for the past three years ended FY22 are given below:

For the year ended Mid-July	(Rs. Million)		
	FY20 (Audited)	FY22 (Audited)	FY22 (Audited)
Income from Operations	67	53	53
PBILDT Margin (%)	63.12	40.77	27.53
Overall Gearing (times)	0.22	0.15	0.21
Interest Coverage (times)	2.60	1.76	2.19
Total Debt/Gross Cash Accruals (times)	5.11	3.33	5.32

### Contact us

#### Analyst Contact

Ms. Monika Rawal

Contact No.: +977-01-4012630

Email: [monika.rawal@careratingsnepal.com](mailto:monika.rawal@careratingsnepal.com)

Mr. Santosh Pudasaini

Contact No.: +977-01-4012628

Email: [pudasaini.santosh@careratingsnepal.com](mailto:pudasaini.santosh@careratingsnepal.com)

#### Relationship Contact

Mr. Achin Nirwani

Contact No.: +977 9818832909

Email: [achin.nirwani@careratingsnepal.com](mailto:achin.nirwani@careratingsnepal.com)

#### About CARE Ratings Nepal Limited:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

#### Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.