

## Sanima Mai Hydropower Limited

### Ratings

Facilities	Amount (Rs. Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	1,439.04 (Decreased from 1,763.30)	CARE-NP A- [Single A Minus]	Reaffirmed
Short Term Bank Facilities	120.30 (Decreased from 140.30)	CARE-NP A2 [A Two]	Reaffirmed
<b>Total</b>	<b>1,559.04</b> <b>[One Thousand Five Hundred and Fifty-Nine Million and Forty Thousand Only]</b>		

*Details of instruments/facilities to be rated in Annexure-1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP A-' assigned to the long term bank facilities and 'CARE-NP A2' assigned to the short term bank facilities of Sanima Mai Hydropower Limited (SHPC).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SHPC continue to derive strength from satisfactory operational and financial performance of the company marked by strong cash accruals. The ratings also factor in SHPC's adequate liquidity profile owing to sustained cash generation from operations and substantial cash reserve. The ratings continue to derive strength from experienced promoters and management team, association with a large group having multiple hydropower projects, stable operational margins, and comfortably leveraged capital structure with adequate debt coverage indicators. The ratings also factor in the presence of power purchase agreement (PPA) with sufficient period coverage, moderate counterparty risk and government support for the power sector.

The ratings, however, continue to be constrained by exposure to group associates and related capital commitments to group company, hydrology risk associated with run-of-the-river power generation and exposure to regulatory risk.

*Going forward, the ability of 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 material deterioration in the company's capital structure from current levels will also be key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Strengths

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

SHPC is managed under the overall guidance of the company's Board of Directors (BoD), having wide experience in the power sector. SHPC has seven Board of directors, chaired by Mr. Tek Raj Niraula, who has more than 20 years of experience in hydropower, hospitality and banking industry. Other directors of the company have experience in diversified sector including hydropower project. The company management team is led by Mr. Grishma Ojha, General Manager of the company and has more than 15 years of experience in hydropower sector. The management team is supported by other experienced professionals having relevant experience in respective departments. SHPC 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.

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

Experienced background of BOD's and SHPC being a part of Sanima Hydro Group could provide technical support and operational synergy to SHPC.

### **Satisfactory financial performance**

During FY22 (Audited, FY refers to the twelve-month period ending mid-July), gross revenue, through the sale of electricity, increased by 9.96% year on year (yoy) to Rs. 935 Mn (FY21: Rs. 850 Mn) on account of increased energy generated during the period owing to better hydrology coupled with higher promotional tariff rate. PBILDT margin remained steady around 90%. Increased revenue, sustained healthy operating margins, and decreased interest cost led to increase in PAT of the company by ~33% yoy to Rs. 546 Mn during FY22 (FY21: Rs. 410 Mn). The benefit of promotional tariff rate ended on mid-April 2022. Going forward SHPC's income from sale of electricity is likely to moderate slightly from FY22 level. However, cash accruals from operations is likely to remain adequate. During 9MFY23 (Unaudited, refers to the nine-month period ended mid-April 2023), SHPC has reported income from sale of electricity amounting to Rs. 620 Mn with Plant Load Factor (PLF) of 93% of contracted energy and gross cash accruals of Rs. 474 Mn.

### **Adequate liquidity position marked by substantial cash reserve**

The company has a comfortable liquidity position on account of sustained cash generation from operations over the period. Furthermore, the company has substantial cash balance of Rs. 584 Mn (out of which Rs. 539 Mn is in the form of Term Deposit and remaining in current account) at the end of 9MFY23, after paying cash dividend of Rs. 163 Mn. While operational cash generation is sufficient to cover the projected cash outflows of the company related to capital commitments, having a surplus cash reserve helps the company adequately safeguard its liquidity position to cover any contingencies. A high cash reserve coupled with sustained operational cash generation bodes favorably from a risk-return trade-off point of view.

### **Comfortably leveraged capital structure with adequate debt coverage indicators**

Total gearing ratio of the company has consistently improved over the period and stood comfortable at 0.35x in 9MFY23 (FY22:0.42x) boosted by improved net-worth base coupled with reducing debt levels. Furthermore, adjusted overall gearing ratio (excluding investments in group companies from net-worth base) also remains comfortable at 0.49x at the end of 9MFY23 (FY22: 0.61x). Similarly, interest coverage ratio and Total Debt to GCA also stood comfortable at 6.29x and 3.08x at the end of 9MFY23, owing to increased cash generation from operations. Going forward, debt service coverage indicators are expected to steadily improve backed by repayment of debts and accretion of profits to reserve.

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

SHPC had entered into PPA with Nepal Electricity Authority (NEA) for 15.6 MW as on April 21, 2010 (one amendment thereafter on March 21, 2012 for additional 6.4 MW) and January 25, 2013 for sale of entire power generated by the plant of MHP and MHCP respectively. The PPA is signed for a period of 30 years for MHP and MCHP from the date of COD or till validity of Generation License whichever is earlier. PPA period may be extended with mutual consensus through discussion from last six month of validity. The contracted tariff rate of 15.6 MW as per PPA is NPR 4 and NPR 7 per unit in wet and dry seasons with 3% escalation on base tariff for 9 years. However, under the Government's initiative of promoting private sector hydropower developers, with regard to MHP for 15.6MW, the project availed promotional tariff rates of NPR 4.80 and NPR 8.40 per unit in wet and dry seasons; effective for 7 years after COD with 5 times annual escalation of 3% on base tariff (available till mid-April 2022). The revenue related to promotional tariff rate is to be made by Ministry of Energy, Water Resource and Irrigation. The benefit for promotional tariff rate expired on mid-April 2022.

## Key Rating Weakness

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

SHPC has investments in associate companies to the tune of Rs. 1,269 Mn as on 9MFY23 end. The investment is equivalent to 30% of SHPC's net-worth as on mid-April 2023. Out of the invested companies, one is operational, two are still under-construction and one hydropower project is 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 SHPC has made investments amounting to Rs. 28.5 Mn as on mid- April, 2023. Any substantial cost overrun in under-construction projects could require additional investments from SHPC to these associates. Higher than currently envisaged fund flow from SHPC to its associates could impact SHPC's financial risk profile. Also, any adverse impact on the financial risk profile on its associated companies, would limit the future revenue profile of the company. Thus, additional investments to the group or associates will continue to be key monitorable. Furthermore, any major regulatory changes related to investment companies which may impact the financial risk profile of the company will remain concern from analytical perspective.

### 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). MHP and MHCP utilizes discharge from Mai Khola having catchment area of 589sq. kms based on Perennial River. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola.

### 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.

### About the Company

Sanima Mai Hydropower Ltd (SHPC) is a public limited company, incorporated in September 11, 2008 as a private limited company and later converted to public limited company in March 16, 2012. It is promoted by institutional investors majorly related to Sanima Hydro Group for setting up Hydroelectric Projects (HEP) in Nepal. The projects are constructed under BOOT (Build, own, Operate and Transfer) mechanism. As per the Generation License, from Government of Nepal –Ministry of Energy, obtained on September 13, 2010 and July 17, 2020 for MHP in case of 15.6 MW and 6.4 MW and November 05, 2012 for MHCP, 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 respectively.

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

(Rs. Million)			
For the year ended Mid-July	FY20	FY21	FY22
	(Audited)	(Audited)	(Audited)
Income from power sales	861	850	935
PBILD Margin (%)	89.24	88.60	89.26
Overall Gearing (times)	0.70	0.57	0.42
Interest coverage (times)	3.23	4.17	6.08
Total Debt/ Gross Cash Accruals (times)	4.28	3.51	2.41

**Annexure 1: Details of the Facilities Rated**

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Term Loan	1,439.04	CARE-NP A-
Short Term Bank Facilities	Fund Based Limits	80.00	CARE-NP A2
Short Term Bank Facilities	Non-Fund Based Limits	40.00	CARE-NP A2
<b>Total Facilities</b>		<b>1,559.04</b>	

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