

Green Ventures Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	7,620.00	CARE-NP BB	Reaffirmed and put on Notice of Withdrawal
Short Term Bank Facilities	150.00	CARE-NP A4	Reaffirmed and put on Notice of Withdrawal
Total Bank Facilities	7,770.00 (Seven Thousand Seven Hundred and Seventy Million Only)		
Issuer Rating	NA	CARE-NP BB (Is)	Reaffirmed and put on Notice of Withdrawal

CARE Ratings Nepal Limited (CRNL) has reaffirmed and put on notice of withdrawal the issuer rating of "CARE-NP BB (Is)" assigned to Green Ventures Limited (GVL). CRNL has also reaffirmed and put on notice of withdrawal the rating of "CARE-NP BB" assigned to the long term bank facilities and "CARE-NP A4" assigned to the short term bank facilities of GVL. The above action has been taken at the request of GVL and 'No Objection Certificate' received from the consortium lead bank (on behalf of all the banks under consortium facility as well) for the facilities rated by CRNL.

Detailed Rationale & Key Rating Drivers

The ratings assigned to GVL continue to remain constrained by operations stabilization risk associated with its hydropower project in its initial year of operations, where stabilization and streamlining of production over a sustained period remains to be seen. The ratings also factor in hydrology risk associated with run-of-the-river power generation, exposure to volatile interest rate, risk of natural calamities and regulatory risk.

The ratings, however, derive strength from strong parentage and long-standing experience of promoter groups and management, presence of power purchase agreement (PPA) with sufficient period coverage and moderate counter party risk. The ratings also factor in favorable government policies for the power sector.

Going forward, the ability of the company to early stabilization of the project and achieve the envisaged scale of business are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Project stabilization risk, albeit satisfactory Total Operating Income (TOI) levels so far in FY23

GVL started commercial operation since November 07, 2021. The project was operational for around 8 months during FY22 (FY refers to the twelve-months period ending mid-July). During FY22, the company reported TOI through sale of electricity of Rs. 942 Mn. The company has already achieved Rs. 1,220 Mn through sale of electricity during 9MFY23 (Unaudited, refers to the nine-months period ended mid-April 2023). Cash generation is expected to be on an improving trend supported by higher power generation coupled with 3% tariff escalation during FY23. The company's PAT was Rs. 109 Mn during FY22 and Rs. 302 Mn during 9MFY23.

GVL's overall gearing ratio stood at 2.76x at the end of FY22 and 2.42x at the end of 9MFY23, owing to debt funded capex undertaken by the company to setup the hydro power project. Owing to higher debt levels and not having full complete year of operations, total debt to Gross Cash Accruals (GCA) stood elevated at 14.03x in FY22. Similarly, interest coverage ratio was moderate at 1.78x in FY22. Since the project is still in its initial years of operations, stabilization and streamlining of production over a sustained period leading to operational PLF at envisaged levels remains to be seen.

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). GVL is proposed to utilize discharge from Likhu Khola having catchment area of 655 sq kms based on snow fed river. The project has 26.7m³/s design discharge at 40% exceedance flow and gross head of 221.27m. 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 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. GVL 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.

Key Rating Strengths**Strong parentage and long-standing experience of promoter groups and management**

GVL business risk profile is benefitted from joint venture partners viz Triveni Group and Vishal Group of Nepal. The company is currently managed by five directors, chaired by Mr. Subhash Chandra Sanghai, who has more than 45 years of experience in different sectors. Mr. Govinda Lal Sanghai, director of GVL, has more than three decades of experience in various companies. Other directors of the company are involved in banking, insurance, manufacturing, trading and other businesses. The promoters are further assisted by a team of qualified professionals who have considerable experience in the industry.

Power purchase agreement with sufficient period coverage and moderate counter party risk

GVL had initially entered into a long term PPA with NEA as on February 2, 2011 for sale of power to be generated from 52.4 MW hydro project and the PPA has been amended thereafter. The period of the PPA is 30 years from the date of commercial operation date (COD) or till validity of Generation License (obtained on March 11, 2012 for 35 years), whichever is earlier. PPA period may be extended with mutual consensus during the last six months of validity. Since, the company has signed PPA with NEA which is owned by Government of Nepal and hence counter party default risk is low; however, timely realization is critical for the company to maintain its liquidity position.

About the Company

Green Ventures Limited (GVL) is a public company, incorporated in 2004 as private limited company, later in February 2019 was converted to public limited company. The company developed 52.4 MW run- of-river, Likhu4 Hydropower Project (L4HP) in Okhaldhunga and Ramechhap district of Nepal.

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About CARE Ratings Nepal Limited:

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