

Mathillo Mailun Khola Jalvidhyut Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	1,875.00	CARE-NP BB [Double B]	Revised from CARE-NP BB-
Short Term Bank Facilities	90.00	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	1,965.00 (One Thousand Nine Hundred and Sixty-Five Million Only)		
Issuer Rating	NA	CARE-NP BB (Is) [Double B (Issuer)]	Revised from CARE-NP BB- (Is)

**The issuer rating is subject to the company maintaining overall gearing not exceeding 2.75x at the end of FY23 (FY refers to the twelve-month period ending mid-July).*

CARE Ratings Nepal Limited (CRNL) has revised the issuer rating assigned to Mathillo Mailun Khola Jalvidhyut Limited (MMKJL) 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 long term bank facilities of MMKJL to 'CARE-NP BB' from 'CARE-NP BB-'. CRNL has reaffirmed the rating of 'CARE-NP A4' assigned to short term bank facilities of MMKJL.

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to MMKJL factors in advanced stage of implementation of 14.3 MW Mathillo Mailun Khola Jalvidhyut Project (MMKJP) amid completion of all the physical works related to its construction and ongoing dry test of the project. The ratings also factor in completion of project at relatively lower cost without escalations in the earlier budgeted cost.

The ratings continue to be constrained by operations stabilization risk thereafter associated with its under-construction hydro project. The ratings also factor in the hydrology risk associated with run-of-the-river power generation, power evacuation risk and exposure to volatile interest rate risk along with regulatory risk. The ratings, however, continue to derive strength from experienced board members and management team, presence of power purchase agreement (PPA) with sufficient period coverage, moderate counter party risk, and government support for the power sector.

Going forward, timely commencement of commercial operations of the project as envisaged with swift stabilization of operations thereafter leading to generation of expected revenue will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Stabilization risk associated with the newly setup hydropower project

MMKJL is setting up a 14.3 MW Mathillo Mailun Khola Jalvidhyut Limited (MMKJP) in Rasuwa district of Nepal. Till June 15, 2023, all the physical works related to construction of project has been completed and dry test of the project is ongoing. The total cost of project is Rs. 2,500 Mn, which is being funded in debt to equity in the ratio of 75:25 (debt of Rs 1,875 Mn and equity of Rs. 625 Mn). The project was completed at relatively lower cost of Rs. 175 Mn per MW as compared to other peers. Attributed to the low project cost, the project's return indicators are expected to remain better on account of fixed tariff and escalation structure attached to it.

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

Required Commercial Operation Date (RCOD) of the project was April 30, 2023. However, commissioning of the project is not expected until the construction of Trishuli 3B Hub Substation, through which power generated by the project is proposed to be evacuated, is completed by NEA. This exposes the company towards power evacuation risk leading to residual project implementation risk in terms of commissioning of project within the envisaged timelines. Furthermore, the company also remains exposed to satisfactory operations of the project post COD leading to revenue generation at envisaged levels.

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 river flows are high (Mid-April to Mid-December) and less during the winter season (Mid-Dec to Mid-April). The project is proposed to utilize discharge from Mailung Khola which is a perennial river and having partly snow-fed and partly a rain fed catchment area of 72 sq kms. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ khola.

Power evacuation risk

The power generated from the project will be evacuated through 15Km long 132KV Transmission Line to the Trishuli 3B Hub Substation. Power from Trishuli 3B substation will be further evacuated to an operational Matatirtha Substation in Kathmandu valley by NEA through 220KV transmission line which has been already constructed by NEA. The construction of transmission line from powerhouse to Trishuli 3B substation which is within scope of MMKJL has already been completed. However, Trishuli 3B Hub is under construction and is in final stages of implementation. Timely construction of substation by NEA will be key monitorable aspect from revenue generation prospective.

Exposure to volatile interest rate

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. 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 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

Associated with large group having multiple hydropower projects and experienced board members and management team

MMKJL is part of Sanima Hydro Group which is promoted by group of Non-Resident Nepalese. In addition to the hydropower projects, the promoters of Sanima Group have made their investments in different other sectors.

MMKJL has 3 Board of Directors, chaired by Mr. Rameshwor Rijal, who has more than 37 years of experience in different organization. He has served as Department Chief for Public Works Department of Kathmandu Metropolitan City Office. Mr. Ajay Karki, MSc, Director, has more than 2 decades of experience in hydropower design and construction of different

hydropower companies within Sanima Group of companies. Company management team is led by Mr. Kangada Prasai. He is associated with the company in the capacity of General Manager and has over one decade of experience in different capacities. He has served as Engineering Geologist in multiple Hydropower Companies in the past.

Power purchase agreement with sufficient period coverage

PPA for MMKJP was signed between NEA and Molnia Power Limited on September 09, 2011 for sale of 14.3 MW power to be generated from the project and the PPA was later transferred in the name of MMKJL on April 26, 2018. The contracted energy for 14.3MW is 79.67 Million Units (MU) annually. The contracted Plant Load Factor (PLF) for total 14.3 MW is 63.60%. 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 5 years.

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

Mathillo Mailun Khola Jalvidhyut Limited (MMKJL) is a Public Limited company, incorporated as on August 14, 2012. It is promoted by institutional investors majorly related to Sanima Hydro group and other institutes which include Banks and Insurance companies also for setting up of a 14.3 MW run-of-river, Mathillo Mailun Khola Jalvidhyut Project (MMKJP) in BOOT (Build, own, Operate and Transfer) mechanism and located at Rasuwa district of Nepal.

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