

Shuvam Power Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Issuer Rating	NA	CARE-NP BB+ (Is) [Double B Plus (Issuer)]	Reaffirmed

* The issuer rating is subject to overall gearing ratio of the company not exceeding 0.5x at the end of FY23 (FY refers to the twelve-month period ending mid-July).

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating of 'CARE-NP BB+ (Is)' assigned to Shuvam Power Limited (SPL). 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 issuer rating assigned to SPL continues to be constrained by its small scale of operations, hydrology risk associated with run-of-the-river power generation. The rating also factors exposure to volatile interest rate risk, regulatory risk and risk of natural calamities associated with hydropower projects. The rating, however, continue to derive strengths from experienced board members and management team, moderate operating performance. The rating also factors presence of power purchase agreement (PPA) with sufficient period coverage, moderate counter party risk and government support for power sector. The rating also takes cognizance of the successful completion of the initial public offering of Rs. 58 Mn by the company in February 2023.

Going forward, the ability the company to sustain operational PLF in line with contracted PLF and timely receipt of payments from Nepal Electricity Authority (NEA) are the key rating sensitivities. Furthermore, any increase in exposure to group associates is also critical from analytical perspective.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations

The scale of operations has remained low marked by a total operating income and gross cash accruals of Rs. 27 Mn and Rs. 7 Mn, respectively, during FY22. Furthermore, the company's net worth base is also relatively small at Rs. 124 Mn as on Mid July 2022. The small scale limits the company's financial flexibility in times of stress. Moreover, the company also suffers on account of lack of economies of scale.

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 Piluwa Khola having catchment area of 126sq. kms based on Perennial River. 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 construction and 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

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

generation and distribution, which can further impact financial returns of the projects. Furthermore, SPL's operations are currently impacted by the recent flood on Piluwa Khola. Assessment of the damages is in progress. Nonetheless, in case of a prolonged plant downtime, the company's returns are likely to be supported, to some extent, by the insurance coverage taken by the company.

Exposure to volatile interest rates

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, sector is prone to regulatory risk and changes in other policies by GoN.

Key Rating Strengths

Experienced board members and management team in hydropower sector

SPL has seven Board of Directors, chaired by Dr. Bhushan Guragain, MSc in public health, with more than a decade of experience in hydropower and health sector. Mr. Mitralal Shrestha, Director, who has more than two decades of experience in various sector. He is also the promoter of River Falls Power Limited (RPL) [CARE-NP BB-(Is)] and chairman of Prayagan Securities Pvt. Ltd. Mr. Subash Amatya, Director, has more than fifteen years of experience in various sector and he is supported by other experienced team members for day-to-day operation activities.

Moderate operating performance and financial profile

SPL has been operating run-of-the-river 0.99 MW Lower Piluwa Khola Small Hydroelectric Project (LPKHP) at Sankhuwasabha District since July 17, 2011. The plant operated at ~74% of generation capacity in FY22 (~94.01% against contracted capacity). The project's operational performance has been on improving trend so far in FY23 with improvement in hydrology and lesser transmission loss due to switching to Baneshwor transmission line of 220 kV from Tirtire transmission line of 33kV. Furthermore, PLF improved to ~99.41% of contracted capacity during 9MFY23.

The company reported operating income through sale of electricity of Rs. 27 Mn in FY22. Despite of increase in total revenue, PBILDT margin deteriorated to ~ 60% from 69% on account of increase in operating expenses. PAT of the company declined to Rs. 2 Mn in FY22 from Rs. 4 Mn in FY21.

Overall gearing ratio stood moderate at 0.76x at the end of FY22 (FY21: 0.81x) which further improved to 0.19x at the end of 9MFY23 following prepayment of bank loan of Rs. 58 Mn from the proceeds from Initial Public Offering (IPO) issued on February 05, 2023. Interest coverage ratios stood moderate at 1.82x for FY22. However, following the prepayment of term loans in 9MFY23, the 's debt service coverage indicators are likely to improve significantly from FY23 onwards, barring any additional loans.

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

Initially, Baneshwor Hydropower Private Limited (BHPL) had signed PPA with NEA on November 07, 2007 for sale of power generated from 0.99 MW capacity. Later, BHPL was acquired by Shuvam Power Limited (SPL). The contracted energy for 0.99

MW is 6.84 million Units (MU) annually with the contracted Plant Load Factor (PLF) of 78.89%. PPA has been entered for the period of 25 years from the RCOD. Tariff rate as per PPA is Rs 3.90 per kWh for wet season (Mid-April to Mid-December) and Rs 5.52 per kWh for dry season (Mid-December to Mid-April). Furthermore, NEA is owned by Government of Nepal and hence counter party default risk is moderate; however, timely realization of receivables is critical for the company and remains a key monitorable.

Favorable Government policies towards power sector

Government of Nepal (GoN) considers hydropower generation as priority sector and intends to maximize private sector participation in generation of hydroelectricity by offering different exemptions and facilities. 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 2024. As per various directives from NRB whereby 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.

About the Company

Shuvam Power Limited (SPL) is a public limited company, incorporated in December 29, 2015. SPL is involved in the operation of 0.99MW run-of-the-river Lower Piluwa Khola Small Hydroelectric Project (LPKHP) at Sankhuwasabha District which has been in commercial operation since July 17, 2011. The company obtained the Generation License, from Government of Nepal – Ministry of Energy on April 15, 2008.

Brief Financial Performance of the company during last 3 years is given below:

(Rs. In Million)

For the year ended Mid July	FY20	FY21	FY22
	(Audited)		
Period of operation	12 months	12 months	12 months
Income from power sales	22	23	27
PBILD Margin (%)	69.81	68.90	59.73
Overall Gearing (times)	0.87	0.81	0.76
Interest coverage (times)	1.34	1.72	1.82
Current Ratio (times)	1.15	1.17	1.19
Total Debt/ Gross Cash Accruals (times)	Negative	11.60	14.03

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