

## Hydroelectricity Investment and Development Company Limited

### Ratings

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
Issuer Rating	NA	CARE-NP A- (Is) [Single A Minus (Issuer)]	Reaffirmed

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

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating of 'CARE-NP A- (Is)' assigned to Hydroelectricity Investment and Development Company Limited (HIDCL). Issuers with this rating are considered to offer adequate degree of safety regarding timely servicing of financial obligations, in Nepal. Such issuers carry low credit risk.

### Detailed Rationale & Key Rating Drivers

The ratings assigned to HIDCL continues to derive strength from strategic importance in development of power infrastructure in Nepal and majority ownership by Government of Nepal (GoN), involvement of higher officials and experts from government agencies for overall decision and management of the company, comfortable liquidity profile, gradual increase in investment and loan & advances to energy sector however long gestation period of its investment, comfortable financial risk profile for FY22 marked by debt free balance sheet of the company. The rating also factors in implementation of appropriate Corporate Governance Framework, government support for power sector and moderate counter party risk associated with the revenue of the hydropower projects.

The rating, however, is constrained by the inherent risk (hydrological and geological risks during and after construction) in the hydropower sector, expected time overrun and project implementation risk related to various under construction investee projects, hydrology risk associated with run-of-the-river power generation affecting profitability of the company, power evacuation risk related to the projects (delay in construction of transmission line and other power evacuation infrastructures by NEA) and moderate revenue profile which is likely to remain concentrated towards the hydropower sector in future.

*Going forward, the ability of company to continue its growth momentum without compromising on asset quality and execution and operation of invested projects within the given deadlines avoiding any time and cost overrun would be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Strength

#### Strategic importance in the development of power infrastructure in Nepal and majority ownership by GoN

HIDCL has high strategic importance to Government of Nepal which is reflected in the role played by the company and its importance in financing hydropower sector of the country. HIDCL also plays developmental role in channeling fund to meet the hydropower sector's large funding requirement. HIDCL was promoted by Government of Nepal and three state owned companies. As on January 14, 2023, GoN holds 55.84% shares, 3 state owned companies (Employee Provident Fund, Rastriya Beema Sanstha and Citizen Investment Trust) holds 16.75% shares and remaining 27.41% shares are with General Public. The total paid up capital of the company as on January 14, 2023 was Rs. 21,276 Mn.

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

**Involvement of higher officials and experts from government agencies for overall decision and management of the company**

HIDCL is professionally managed under overall guidance of Board of Directors, which includes the eminent personalities serving or associated with different ministries or government department. HIDCL has 6 Board of Directors, chaired by Mr. Dinesh Kumar Ghimire. He is Secretary of Ministry of Energy, Water Resources and Irrigation and has more than two and half decades of experience in power sector and served in different department and ministries of GoN under different designation, roles and responsibilities. Mr. Arjun Kumar Gautam, Chief Executive Officer of HIDCL heads day-to-day operations of the company. He has more than 30 years of experience in various sector and is supported by other experienced team members.

**Comfortable liquidity profile**

HIDCL continues to have a comfortable liquidity profile and as on mid- July 2022, the company was holding fixed deposit of Rs. 12,384 Mn (FY21: Rs. 11,960 Mn) in different commercial banks of Nepal. The increase in fixed deposits were related to the proceeds from right issues. HIDCL doesn't have any long-term or short-term borrowing till the end of FY22. HIDCL has Loan /Investment Commitments of Rs. 3,222 Mn as on mid-July 2022 and is in a comfortable position to meet these commitments. Furthermore, fixed deposit of the company increased to Rs. 12,400 Mn in mid-April 2023.

**Gradual increase in investments and loans to Energy Sector; however long gestation period of its investments**

HIDCL had total investment of Rs. 21,564 Mn at the end of FY22 (FY21: Rs. 17,657 Mn). Majority of investment included term deposit, investment in two subsidiaries, equity and corporate bond investment and loans to power projects. Similarly, loan & advances to power projects has increased by 55% to Rs. 6,453 Mn during FY22 over FY21, funding 11 hydroelectricity development companies with total capacity of 850.60 MW. Out of the 11 companies, 8 companies are already operational and the borrowers has started servicing the debt repayments. Furthermore, HIDCL invested Rs. 886 Mn during FY22 (FY21: Rs. 756 Mn) in two subsidiary companies Remit Hydro Limited and Simbuwa Remit Hydro Limited, which have acquired survey license to develop 71.5 MW and 75.6 MW project respectively located in Taplejung district of Eastern Nepal. HIDCL has invested Rs. 87 Mn in Corporate Bonds and Rs. 1,754 Mn during FY22 (FY21: 707 Mn) in unquoted equity of eight companies [Power Transmission Company Limited, Vidhyut Utpadan Company Limited, Nepal Power Trading Company Limited, NEA Engineering Company Limited, Vision Energy and Power Private Limited, Vision Lumbini Urja Company Limited, Jagadulla Hydropower Company Limited and Mewa Developers Limited (CARE-NP BB)].

**Comfortable financial risk profile and debt free nature of the company**

HIDCL's total operating income increased by 19% y-o-y to Rs. 1,551 Mn during FY22 on account of higher interest income backed by increase in bank deposits coupled with higher interest rates in fixed deposits in banking sector during FY22 (average yield on fixed deposits increased to 8.73% in FY22 from 7.60% in FY21). Bank deposits increased by 3.55% y-o-y to Rs. 12,834 Mn in FY22. The proceeds from right issue were utilized for additional investment in subsidiary, equity shares and loans to other hydropower projects and residual has been placed on fixed deposits. The lending rates in loan to power projects are determined based on floating rate system which is determined on quarterly basis and is calculated on the basis of base rate of lending banks with addition of certain risk premium. Also, Average Yield on Project loan increased to 9.81% in FY22 from 8.78% in FY21 amid higher interest rates. Interest rates was on an increasing trend amid tight liquidity in the market coupled with decline in loanable funds of banks amid stricter regulatory/monetary policy by NRB. PBILD margin remained stable at ~95% and 96% during FY21 and FY22 respectively. Furthermore, HIDCL has not availed any credit facilities from the bank and doesn't have any plan to avail bank facilities in the near future on back of huge cash and bank balance, so HIDCL has nil gearing ratio.

**Implementation of appropriate Corporate Governance Framework**

HIDCL is managed professionally by Board of directors who has formulated various committees like Risk Management Committee, Audit Committee and HR & Compensation Committee. These committee conduct meeting on routine basis and analyse, review and supervise the management activities. Also Risk Assessment Cell (RAC) is formed by the management on case-to-case basis to assess the technical, financial, environmental, social, legal, managerial and other risk involved in the project for the purpose of making investment decision based on Lending /Investment Policy of the company.

**Key Rating Weakness****Expected time overrun and project implementation risk related to various under construction projects**

HIDCL is exposed to time overrun, cost overrun and project implementation risk associated with the various under construction projects it has disbursed funds. Among these projects, Trishuli Jalvidyut Co. Ltd., Solu Hydropower Ltd. And Beni Hydropower Limited has achieved progress of 80%, 95% and 80% as on mid-January 2023 respectively. Also, two subsidiary companies i.e., Remit Hydro Ltd. and Simbuwa Remit Hydro Ltd. are in very initial stage of the projects. So, these projects where HIDCL has injected equity or disbursed loans are still in the implementation stage and continues to remain exposed to the residual risks associated with project implementation and satisfactory operations thereafter. Similarly, the hydropower projects which recently into an operation are exposed to stabilization risk and streamlining of production in coming years remains to be seen.

**Moderate revenue profile which will be concentrated in hydropower sector in future**

The main source of revenue for HIDCL continues to remain interest income from bank's term deposits. Income from term deposit increased to Rs. 1,062 Mn during FY22 (FY21: Rs. 934 Mn) which was ~69% of total income as on FY22. Although the major income source of HIDCL over the medium-term is expected to be from dividend income from investment in different entities and interest income on loans from project financing, it continues to be concentrated in the form of interest income from bank deposits for the near-term. Interest income on loan is on increasing trend and increased to Rs. 457 Mn during FY22 (FY21: Rs. 341 Mn), which is ~30% of total income as on FY22. Dividend Income during FY22 was 0.92% of total income. Most of the hydro projects where HIDCL has invested are either under construction stage or under preliminary stages of operation requiring more time to implement and stabilize, which can impact the revenue prospects of HIDCL in short to medium term. Diversifying investments and associated risk to ensure fair returns and ploughing back of returns will be the key challenges.

**Hydrology risk associated with run-of-the-river power generation affecting profitability of the company**

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 times when seasonal river flows are high and much less during the drier months. HIDCL is investing in the companies which generates electricity from discharge of rivers, comprising of mountainous and hilly terrain. Hence, the projects are exposed to risk associated with variation in discharge of water from the aforesaid rivers, which may affect the revenue generation of the companies where HIDCL has invested in the form of equity share capital or loans and advances.

**About the Company**

Hydroelectricity Investment and Development Company Ltd. (HIDCL) also known as Jalvidhyut Lagani Tatha Bikas Company Limited is public limited company, incorporated on July 11, 2011. HIDCL was established as a specialized development financial institution to mobilize funds from domestic and international resource base to cater the needs of investments in hydroelectricity generation, transmission and distribution projects in Nepal. Realizing the requirement of special wing with financial strength, professional expertise and single point agenda; Government of Nepal (GoN) had incorporated HIDCL.

Brief financial performance of Hydroelectricity Investment and Development Company Limited (HIDCL) during last 3 years is given below:

(Rs. In Million)

Particulars	FY20 (A)	FY21 (A)	FY22 (A)
Revenue	1,664	1,299	1,551
PBILDT	1,593	1,244	1,492
PAT	1,028	800	958
Loans to power projects	3,668	4,150	6,453

A: Audited

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#### About CARE Ratings Nepal Limited:

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