

Numbur Himalaya Hydropower Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	4,986.00 (Increased from Rs. 4,796 Mn)	CARE-NP BBB- [Triple B Minus]	Revised from CARE-NP BB+
Short Term Bank Facilities	80.00	CARE-NP A3 [A Three]	Assigned
Total Facilities	5,066.00 (Five Thousand and Sixty-Six Million Only)		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has revised the rating assigned to the long-term bank facilities of Numbur Himalaya Hydropower Limited (NHHL) to 'CARE-NP BBB-' from 'CARE-NP BB+'. CRNL has also assigned 'CARE-NP A3' to the short-term bank facilities of NHHL.

Detailed Rationale & Key Rating Drivers

The revision of ratings assigned to the bank facilities of NHHL factors in the satisfactory operational and financial performance of the company marked by sustained power generation since its commissioning leading to net profitability with adequate gross cash accruals during FY22 (Audited, FY refers to the twelve-month period ending mid-July) and FY23 (Unaudited). Locked in interest rates, until FY24, at a much lower rate than the prevailing market rates also provide comfort in terms of lighter debt servicing burden in the initial years of operations. The ratings continue to derive strength from strong promoter and experienced management team, presence of power purchase agreement (PPA) with sufficient period coverage and moderate counter party risk. The ratings also factor in government support for the power sector.

The ratings, however, is constrained by relatively leveraged capital structure owing to high debt funded project cost. The ratings also factor in risk of natural calamities inherent in operational hydropower project, hydrology risk associated with run-of-the-river power generation, exposure to volatile interest rate risk beyond FY24 and regulatory risk.

Going forward, the ability the company to reduce the gap between operational PLF and contracted PLF on sustained basis and availability of sufficient hydrology with timely receipt of payments from Nepal Electricity Authority (NEA) will be the key rating sensitivities. Also, the company's ability to maintain debt service coverage indicators as envisaged, even after floating rates will be key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoters and experienced management team

NHHL is part of MV Dugar Group which has business across different sectors along with Banks, Insurance, Automobiles, Construction etc. Mr. Motilal Dugar, Chairman of NHHL and Executive Chairman of the group, is established businessman of Nepal and has more than 47 years of experience and was Chairman of Sunrise Bank Limited [CARE-NP BBB+]. Mr. Samrath Mogha, president of Mogha Energy DMCC has been serving as Managing Director of MV Dugar Hydro Division. Mogha Energy DMCC having objective of investing in hydropower projects in Nepal has invested Rs. 192 Mn equity (out of Rs. 1,181 Mn total share capital including advances for share capital) in NHHL as on April 13, 2023. It is an investment company providing technical expertise in renewable energy greenfield projects. The company's management is supported by experienced team.

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

Satisfactory operating and financial performance of power project

NHHL started commercial operation of the run-of the river 29.04 MW Likhu A Hydropower Project (LAHP) in Solukhumbu district of Nepal since February 08, 2022. During FY22 (5 months) and FY23, the energy generated as a % of contracted energy was 98% and 93%, respectively. The power generation was moderated slightly during FY23 on account of lower dispatch instructions from NEA due to issues in transformer in NEA New Khimti substation which affected power generation for 3 months period from Mid-April to Mid-July 2023. However, barring such period, the company reported PLF of 98% of contracted energy during 9MFY23 (Unaudited, refers to nine-month period ended Mid-April 2023). Nonetheless, the financial performance of the company has been satisfactory with operating income through sale of electricity of Rs. 744 Mn during FY23 (FY22: Rs. 270 Mn). The company reported net profit of Rs. 47 Mn with gross cash accruals of Rs. 260 Mn in FY23 (FY22: Rs. 32 Mn and Rs 124 Mn, respectively). The energy generation in dry months has been relatively better during FY23 ranging from 97%- 100% of contracted energy, which bodes well for the revenue profile of the company as tariff rate during dry seasons are higher than wet seasons. Sustained power generation coupled with annual escalations on tariff rate is likely to improve operational cash flows from the project in upcoming years. The company's ability to reduce the gap between operational PLF and contracted PLF, on a sustained basis, will remain a key monitorable aspect.

Power purchase agreement with sufficient period coverage

NHHL had entered into a long term PPA with Nepal Electricity Authority (NEA) as on March 6, 2015 for sale of 24.20 MW power to be generated from the project on take or pay basis and on June 30, 2022 for sale of additional 4.84 MW power to be generated on take and pay basis. The contracted energy for 29.04 MW is 150.00 Million Units (MU) annually with the contracted Plant Load Factor (PLF) of 58.96%. PPA has been entered for the period of 30 years from the COD or till validity of generation license whichever is earlier. PPA period may be extended with mutual consensus during the last six months of validity. 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. Required Commercial Operation Date of the project was extended till February 08, 2022 (COD: February 08, 2022) thus company is not liable for any late COD penalty and is eligible for all five escalations on tariff rate.

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 midApril 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.

Key Rating Weaknesses**Leveraged capital structure**

NHHL's overall gearing ratio stood high at 3.76x at the end of FY23 owing to the relatively high debt funded project cost of Rs. 6,233 Mn (Rs. 215 Mn per MW) which was financed through Debt equity mix of 80:20. The cost was revised from initially estimated Rs. 5,996 Mn mainly on account of increased civil construction cost, Interest During Construction (IDC) and management/administrative expenses due to time over-run. Interest coverage ratio stood moderate at 1.73x in FY23. However, the risk is moderated by ballooning repayments over 15 years coupled with interest rate for the larger portion of the loan being

locked at lower rate of 7.50% till FY24. This coupled with relatively better gross cash accruals (GCA) of the company during initial year of operations augurs well for the debt servicing capabilities of the company in the initial years of operations. The ability of the company to sustain its net profitability while maintaining debt service coverage indicators at envisaged level thereby lowering its gearing levels is critical from credit 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 summer season when river flows are high (Mid-April to Mid-December) and less during the winter season (Mid-Dec to Mid-April). NNHL is proposed to utilize discharge from Likhu Khola having catchment area of 421 sq. kms based on snow-fed 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 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. NNHL is also exposed to such risks of natural calamities that might cause infrastructural, operational and financial damages to the project.

Exposure to volatile interest rate risk and regulatory risk

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.

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

Numbur Himalaya Hydropower Limited (NNHL) is a public company, incorporated as on August 21, 2007. It is promoted by individual promoters majorly related to MV Dugar group which has investments in other institutes which includes Banks, Construction company and Automobiles trading. 29.04 MW run-of-river, Likhu A Hydropower Project (LAHP) in Solukhumbu and Ramechhap district of Nepal came into operation on February 08, 2022. The project is constructed under BOOT (Build, own, Operate and Transfer) mechanism.

Brief financial performance of NNHL during FY22 and FY23 is given below:

Particulars	(Rs. In Million)	
	FY22 (A)	FY23 (UA)
Income from operations	270	744
PBILDT Margin (%)	91.64	81.84
Overall Gearing (times)	3.74	3.76
Interest Coverage (times)	1.80	1.73
Total Debt/ Gross Cash Accruals (times)	36.13	18.42

A: Audited, UA: Unaudited

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	4,986.00	CARE-NP BBB-
Short Term Bank Facilities	Working Capital Loan	80.00	CARE-NP A3
Total Facilities		5,066.00	

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