

Nyadi Hydropower Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Issuer Rating	NA	CARE-NP BB- (Is) [Double B Minus (Issuer)]	Revised from CARE- NP BB (Is)
Long Term Bank Facilities	4,509.36 (Increased from 4,400.00)	CARE-NP BB- [Double B]	Revised from CARE- NP BB
Short Term Bank Facilities	100.00 (Decreased from 200.00)	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	4,609.36 (Four Thousand Six Hundred Nine Million and Three Hundred Sixty Thousand Only)		

**The issuer rating is subject to total debt of the company not exceeding Rs. 4,910 Mn at the end of FY24 (FY refers to the twelve-month period ending mid-July).*

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has revised the issuer rating assigned to Nyadi Hydropower Limited (NHL) 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 NHL from 'CARE-NP BB' to 'CARE-NP BB-'. Also, CRNL has reaffirmed the rating of 'CARE-NP A4' assigned to the short-term bank facilities of NHL.

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to NHL factors in lower than envisaged income from power sales amid power evacuation challenges as the power generated from NHL's operational Nyadi Hydropower Project (NHP) is still being evacuated through contingent route leading to net losses during FY22 and FY23. The rating also factors in leveraged capital structure amid high debt levels and accumulated losses, and modest debt coverage indicators at the end of FY23. The rating takes note of hydrology risk associated with run-of-the-river power generation and risk of natural calamities.

The ratings, however, continue to derive strength from NHL's experienced board members and the company being a part of group having multiple hydropower projects, power purchase agreement (PPA) with sufficient period coverage, and favorable government policies towards power sector.

Going forward, completion of originally proposed evacuation structures in timely manner, ability of the company to reduce the gap between operational Plant Load Factor (PLF) and contracted PLF and availability of sufficient hydrology with timely receipt of payments from NEA will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Subdued operational performance amid high power evacuation risk

The power generated from 30MW NHP was proposed to be evacuated through 132 kV transmission line to NEA's Tarikuna Substation, the construction of which had been delayed substantially. However, NHP came into commercial operations in

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications.

May 2022 through alternative power evacuation channel through 9.4 km long 132 kv transmission line which is ultimately connected to Middle Marsyangdi Substation.

The project currently falls under the 'Projects Under Contingency Evacuation Plan' and for projects evacuating power under a contingency plan, PPA's modality changes to take-and-pay from take-or-pay, making the project dependent on dispatch instructions from NEA. Low dispatch instructions, particularly during wet season has led to subdued operational performance of NHP with PLF of 61% of contracted energy during FY23 (PLF of 58% of contracted energy during FY22 (2 months)). Consequently, the company's revenue profile remains subdued with Total Operating Income (TOI) of Rs. 592 Mn during FY23 (FY22: Rs. 111 Mn). Thus, timely completion and shifting of power evacuation to Tarikune substation and accordingly invocation of original take-or-pay PPA arrangement will remain crucial for company's satisfactory operational performance. Until such time, the company is likely to continue to remain exposed to high power evacuation risk leading to modest operating performance.

Leveraged capital structure amid high debt levels and accumulated losses

The company's capital structure stood leveraged at 4.26x at the end of FY23 (FY22: 3.07x) on account of high debt levels. The final cost of project is Rs. 6,218 Mn (Rs. 207 Mn per MW) financed in debt equity mix of 73:23. Cost of the project increased from originally estimated on account of increased cost of supervision and management expenses due to delay in operation of proposed Tarikune substation coupled with increased transmission line cost to accommodate power evacuation through contingent route. High debt levels coupled with dilution in tangible net worth owing to consecutive net losses of Rs. 44 Mn and Rs. 209 Mn during FY22 and FY23 led to deterioration in overall gearing ratio. The company reported net losses during FY23 amid lower revenue generation than envisaged, high depreciation and interest expenses. Other coverage indicators such as Interest Coverage Ratio also stood modest at 1.06x at the end of FY23 (FY22: 1.28x). Total Debt/GCA stood high at 160.63x at the end of FY23 (FY22: Negative). Furthermore, the company has substantial principal payments lined from FY25 onwards. Thus, switching to original proposed substation and achievement of operational PLF as envisaged to be able to service the debt repayment obligations from operations will be crucial from analytical 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 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 Nyadi River having catchment area of 154.7 sq km. Hence, any variation in discharge of water might impact the energy generation, which is of key importance for the company from the revenue generation perspective.

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 as well as impacting their timely completion. Moreover, disruption in their construction in turn could lead to time and/or cost overrun, negatively impacting the project's financial aspects. Moving forward also, these natural calamities can adversely affect the smooth flow of power generation and distribution, which can further impact financial returns of the projects. USHP is also exposed to such risks of natural calamities that might cause infrastructural, operational and financial damages to the project.

Key Rating Strengths

Experienced Board Members and management team and part of renowned group

NHL's major stake is owned by Butwal Power Company Limited (BPCL) which owns and operates multiple hydropower projects in Nepal. This provides comfort to the company in terms of construction, operations and technical assistance. NHL has six members in its board of directors chaired by Mr. Om Prakash Shrestha, along with other directors having experience and business interests in hydropower as well as other sectors. The board is aptly supported by an experienced management team across various functions, led by Mr. Uttam Amatya, CEO, who has more than three decades of experience in Nepal Electricity Authority (NEA).

Power purchase agreement with sufficient period coverage

NHL had entered into a long term PPA with NEA as on May 26, 2015 for sale of 30 MW power to be generated from the project. The period of the PPA is 30 years from Commercial Operation Date (COD) or till validity of Generation License whichever is earlier. The project has differential tariff rate for wet season and dry season i.e., is Rs 4.80 and Rs 8.40 per kWh respectively with 3% escalation on base tariff for 8 times on annual basis. Following eight-months of wet and four-month of dry season, the total contracted energy of the project is 168.55 MU with relatively lower dry energy mix of ~20% of the total contracted energy, which, however, remains a constraint for company's income profile.

Favourable 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. 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 growing prospect in upcoming days supported by new bilateral agreements between Nepal and India for additional export of power to India from Nepal augurs well for the long-term demand prospect for the power sector in Nepal.

About the Company

Nyadi Hydropower Limited is a public company, incorporated on March 1, 2007. It is promoted by Butwal Power Company Limited (BPCL) and Lamjung Electricity Development Company Ltd. (LEDCO) for setting up a 30 MW run-of-river, Nyadi Hydropower Project (NHP) in Lamjung district of Nepal. The project is constructed under BOOT (Build, Own, Operate and Transfer) mechanism. The project came into commercial operation from May 12, 2022.

Financial Performance

For the year ended Mid-July	FY22	FY23
	(Audited)	(Unaudited)
Income from Operations	111	592
PBILD Margin (%)	87.13	84.71
Overall Gearing (times)	3.07	4.26
Interest Coverage (times)	1.28	1.06
Total debt/ GCA (times)	Negative	160.63

Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Term Loan	4,509.36	CARE-NP BB-
Short Term Bank Facilities	Working Capital Loan	100.00	CARE-NP A4
Total		4,609.36	

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