

Pure Energy Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	1,750.00 (Increased from 1,528.00 Mn)	CARE-NP BB [Double B]	Reaffirmed
Total Facilities	1,750.00 (One Thousand Seven Hundred and Fifty Million Only)		

**Details of instruments/facilities in Annexure-1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB' assigned to the long-term bank facilities of Pure Energy Limited (PEL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of PEL continues to be constrained by operations stabilization risk associated with its newly setup solar photovoltaic (PV) project and leveraged capital structure as on FY23 end (Unaudited; FY refers to the twelve-month period ending mid-July). The rating factors in exposure to regulatory risk, volatile interest rates and climatic conditions and technological risk.

The rating, however, derives strength from strong promoters and experienced management team and presence of power purchase agreement (PPA) with sufficient period coverage. The rating also factors in moderate counter party risk and positive outlook of renewable power industry. The rating takes cognizance of successful commencement of commercial operations of "Block 2" solar power project along with completion of construction of "Block 1" solar power project with commercial operations expected from October 2023.

Going forward, the ability of the company to swiftly stabilize the operations of the newly commenced solar PV project leading sustained operational Plant Load Factor (PLF) in line with contracted PLF will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Stabilization risk associated with its newly setup solar PV project

PEL is setting up a 20 MW solar power project in 2 phases (Block-1 and Block-2) having installed capacity of 10 MW under each phase in Banke district of Nepal. 10 MW "Block 2" solar PV project has successfully commenced its commercial operations on May 01, 2023. The cost of setting up 10 MW "Block 2" solar PV project was Rs. 1,171 Mn (Rs. 117 Mn per MW). During FY23 (~2.5 months of operations), the energy generated and invoiced was in line with the contracted energy. Though the company has achieved the expected Plant load factor (PLF); however, to achieve its designed operating parameters remains to be seen and will remain a key monitorable.

With regard to 10 MW "Block 1" solar power project, all the physical works has been completed as on August 2023 and the project is likely to commence its commercial operations from October 2023 onwards. The total cost of 10 MW "Block 1" solar PV project is Rs. 1,212 Mn (Rs. 121 Mn per MW). Required Commercial Operation of the project (RCOD) was May 25, 2023 and the company has applied for extension of RCOD. In case the RCOD is not further extended, there are penalty clauses for delay of commencement of operations. As both the projects are in early stage of operations, stabilization and streamlining of production in coming years remains to be seen.

Leveraged capital structure attributed to high debt funding mix in newly setup power generation project

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

PEL's overall gearing ratio stood leveraged at 2.98x at the end of FY23. The project cost for 20 MW solar power project increased by 6% to Rs. 2,383 Mn from originally estimated Rs. 2,249 Mn on account of increased cost of modules and Engineering, Procurement and Construction (EPC) contract coupled with high upfront lease rental payments related to 10 MW "Block 1" solar PV project. The project cost is financed in the debt equity mix of 73:27. Owing to limited period of operations in FY23 and higher debt levels, total debt to GCA stood elevated at 39.22x in FY23. Similarly, interest coverage ratio stood modest at 1.47x in FY23. Furthermore, the company has substantial interest outgo lined up over the next couple of years amid high debt levels. Thus, achievement of operational PLF as envisaged to be able to service the debt repayment obligations from operations will be crucial from analytical perspective.

Exposure to volatile interest rate 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.

Exposure to regulatory risk

Government of Nepal (GoN) has recently established Electricity Regulatory Commission (ERC) as a regulatory body to regulate generation, transmission and distribution of electricity in Nepal among others. The right granted to ERC for PPA approval, prior approval of IPO issuance, approval of mergers, prescribe condition for maintaining standards of electricity placed outside transmission line and examine the standard, prescribe maintenance of proper internal control system, account systems and auditing method along with perform surprise check, inspect and investigate the licensed persons and imposing fine for non-compliance of applicable act, regulations and directives poses a new challenge to power sector companies. Hence, sector is prone to regulatory risk and changes in other policies by GoN.

Operations exposed to climatic conditions and technological risks

The solar module panels which are being ordered / installed by the company have mono-crystalline bi-facial technology and expected to have relatively lower degradation and are more efficient energy generation which likely to benefit the company in having desired plant load factor (PLF) levels. However, achievement of desired Capacity Utilization Factor (CUF) going forward may be subject to amount of degradation of modules as well as technological risks. Furthermore, the company may book lesser revenues in the event of non-generation of power due to variation in weather conditions. This in turn might affect its cash flows and debt servicing ability of the company.

Key Rating Strength

Strong promoters and experienced management team

PEL is promoted by individual promoters of Golyan group and REnergy Developers Pvt Ltd. Golyan Group has business across different sectors along with manufacturing, international trade & services, banking, insurance, real estate, plastic, textile, hospitality, energy etc. The group is also setting up hydropower projects with total installed capacity of 212.7 MW which is at different stages of surveys and constructions, thus providing it ability to deal with risk factors and long term commitment in power sectors. REnergy Developer Private Limited is a renewal energy project developer based in India, having capabilities to execute the entire process of setting up solar energy plant. Mr. Akshay Golyan, Chairman of the company, has more than a decade of experience in manufacturing, real estate, hotel industry and other sectors and holds 60% shares of PEL as on mid-July 2023.

The day to day management of the company is managed by Mr. Parwin Aryal, CEO, who has more than 23 years' experience in several industries including hydropower and energy sector. The operations of the company are well supported by the technical team for smooth functioning of business operations.

Power purchase agreement with sufficient period coverage

The total installed capacity of the grid connected solar PV plant is 20 MW divided into "Block-1" and "Block-2", each with installed capacity of 10 MW. PEL has entered into long term power purchase agreement (PPA) with Nepal Electricity Authority (NEA) on November 28, 2021 for sale of 20 MW power to be generated from the project on take or pay basis. PPA has been entered for the period of 25 years from the COD or till validity of generation license whichever is earlier. PPA for solar PV plant is entered at tariff rate of Rs. 7.30 per kWh

Positive outlook for renewable power industry

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 solar power through Alternative Energy Promotion Centre. 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 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. Hence, the major drivers for the growth in solar capacity addition including government initiation on encouragement of solar power for both residential and commercial purpose, fixed tariff rates throughout the year, technological advancement, shorter implementation schedules and lower fuel availability risks as compared to conventional sources of energy, shows positive outlook on long- term demand for the renewable power sector.

About the company

Pure Energy Ltd (PEL) is a public limited company, incorporated on June 19, 2018. It is promoted by individual promoters related to Golyan group and REnergy Developers Pvt Ltd. for setting up a 20 MW grid connected solar photovoltaic (PV) project in Raniyapur Village Development Committee, Banke district of Nepal. 10 MW "Block 2" solar PV project came into operation on May 01, 2023.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	1,750.00	CARE-NP BB
Total Facilities		1,750.00	

Contact us

Analyst Contact

Ms. Monika Rawal
 Contact No.: +977-01-4012628
 Email: monika.rawal@careratingsnepal.com

Mr. Santosh Pudasaini
 Contact No.: +977-01-4012630
 Email: santosh.pudasaini@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani
 Contact No.: +977 9818832909

Email: achin.nirwani@careratingsnepal.com

About CARE Ratings Nepal Limited:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.