

Sanvi Energy Limited

Ratings

Facilities	Amount (Rs. Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	1,842.65	CARE-NP BB+ [Double B Plus]	Reaffirmed
Short Term Bank Facilities	95.39	CARE-NP A4+ [A Four Plus]	Reaffirmed
Total Facilities	1,938.04 (One Thousand Nine Hundred and Thirty Eighty Million and Forty Thousand Only)		

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

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of 'CARE-NP BB+' assigned to long term bank facilities and 'CARE-NP A4+' assigned to the short term bank facilities of Sanvi Energy Limited (SEL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SEL continues to be constrained by project implementation risk associated with its under construction cascade project, hydrology risk associated with run-of-the-river power generation, exposure to regulatory risk and risk of natural calamities.

The ratings, however, derive strength from experienced board members and management team, moderate operational performance of the operational project and financial risk profile in FY23 (Unaudited; FY refers to twelve months period ending mid-July), 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.

Going forward, the ability of the company to successfully execute the under construction project without cost and time overrun and early stabilization thereafter are the key rating sensitivities. The company's ability to successfully reduce the gap between operational Plant Load Factor (PLF) and contracted PLF and availability of sufficient hydrology with timely receipt of payments from Nepal Electricity Authority (NEA) will also remain key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Project implementation risk associated with cascade project

SEL is setting up a 5.2 MW Jogmai Cascade Hydroelectric Project (JCHP) in Illam district of Nepal. The estimated cost of the project is 1,009 Mn which is proposed to be funded by debt to equity ratio of 75:25 (debt of Rs 757 Mn and equity of Rs. 252 Mn). The total debt amount of Rs. 757 Mn has already been tied up. As on August 17, 2023, around 36% of the total project cost has been incurred. Construction work of the project has been delayed from the Required Commercial Operation Date (RCOD) of July 22, 2021 mainly on account of restrictions amid the covid19 pandemic and was extended till July 2023. Delay in construction was also partly on account of challenges in acquisition of land for the project, which has been resolved. Furthermore, the company has applied for extension of RCOD with Nepal Electricity Authority (NEA). Thus, approval from the NEA for revised RCOD is critical from analytical perspective. If approved, the extension is likely to provide some cushion to complete the project in revised timeframe. If the project is not completed within the approved RCOD, then the company will be required to pay delay penalty. Furthermore, if Commercial Operation Date (COD) is delayed by 6 months to 18 months from RCOD, there are restriction clauses in escalation of tariff rate. It is crucial for the company to complete the project within the timelines to avail the accelerated clauses of tariff. Any delay in the same would impact the project's expected returns and debt servicing capabilities which is critical from credit perspective.

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

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). JKSHEP and JCHEP utilizes discharge from Jogmai Khola having catchment area of 104.18sq. kms and 118.10sq. 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 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. SEL 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**

SEL is managed under the overall guidance of the company's Board of Directors (BoD), who possesses wide experience in the power sector. SEL has seven directors in its Board of Directors, chaired by Mr. Anup Acharya, having more than three decades of experience in construction sector. He is also associated with Seti khola Hydropower Private Limited (CARE- NP BB/ A4). Mr. Bhanu Bhakta Pokharel, Managing Director, has more than three decades of experience. The BoD is further supported by other experienced management team members.

Moderate operational performance and financial risk profile

SEL generates revenue by selling the power generated through its 7.6 MW Jogmai Khola Small Hydroelectric Project (JKSHEP) at Ilam District since May 2017. Total Operating Income of SEL decreased by around 13% year-on-year to Rs. 216 Mn in FY23 due to lower electricity generation amid lower hydrology at the plant. Plant Load Factor (PLF) of the company was moderate at 83.22% of the contracted energy during FY23, deteriorated from 98.96% amid lower hydrology. Consequently, PBILDT margin also declined to 79.26% during FY23 from 81.94% in FY22. With decrease in PBILDT, PAT of the company also decreased to Rs. 27 Mn in FY23 from Rs. 53 Mn in FY22.

Overall gearing ratio stood moderate at 2.13x at the end of FY23, improved from 2.18x at the end of FY22 on account of increase in net worth of the company with accretion of profits to the reserves and infusion of Rs. 5 Mn by the promoters. Interest coverage ratio of the company stood moderate at 1.74x in FY23, deteriorated from 2.03x in FY22 amid decline in PBILDT. Total debt to Gross Cash Accruals (GCA) ratio stood high at 15.20x at the end of FY23, deteriorated from 11.05x at the end of FY22. However, additional term debt associated with 5.2 MW cascade project of around Rs. 757 Mn, which is expected to come on the books in coming years is likely to lead to some moderation of SEL's gearing levels and debt service coverage indicators over the medium term.

Power purchase agreement with sufficient period coverage

SEL had entered into a PPA for a period of 30 years for JKSHEP and JCHEP from the date of COD or till validity of Generation License, whichever is earlier. Tariff rate as per PPA is Rs 4.80 per Kwh for wet season (Mid-April to Mid-December) and the tariff rate for dry season (Mid-December- Mid April) is 8.40 per Kwh, with 3% annual escalation on base tariff for 5 years in case of

JKSHEP and for 8 years in case of JCHEP. RCOD of the under construction cascade project was July 22, 2021 which was further extended till July 2023. The company is in the process of extension of RCOD with NEA.

Favorable Government policies towards power sector

Government of Nepal (GoN) considers hydropower generation as a 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 the 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 2026. 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 augurs well for the sector.

About the Company

Sanvi Energy Limited (SEL) is a public limited company incorporated in 2011 as a private limited company and later on converted to public limited company on July 09, 2020. It is promoted by individual promoters having long experience in the hydropower and other sectors for setting up Hydroelectric Project in Nepal. SEL has two hydropower projects out of which one is in operation and one under construction. The projects are constructed under BOOT model (Build, Own, Operate and Transfer).

Financial Performance

(Rs. Million)

Particulars	FY21 (A)	FY22 (A)	FY23 (UA)
Income from Operations	224	249	216
PBILDT Margin (%)	71.73	81.94	79.26
Overall Gearing (times)	2.50	2.18	2.13
Interest coverage (times)	1.51	2.03	1.74
Current Ratio (times)	3.09	4.99	6.71
Total Debt/Gross Cash Accruals (times)	21.45	11.05	15.20

A: Audited; UA: Unaudited

Annexure-1: Details of Instruments/Facilities

Name of the Bank Facilities	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	1,842.65	CARE-NP BB+ [Double B Plus]
Short Term Bank Facilities	Working Capital Loan	91.49	CARE-NP A4+ [A Four Plus]
Short Term Bank Facilities	Non Fund Based Limits	3.90	CARE-NP A4+ [A Four Plus]
Total Facilities		1,938.04	

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