

United Idi Mardi & R.B. Hydropower Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Issuer Rating	NA	CARE NP BB+ (Is) [Double B Plus (Issuer)]	Reaffirmed
Long Term Bank Facilities	929.96	CARE NP BB+ [Double B Plus]	Reaffirmed
Short Term Bank Facilities	210.82	CARE-NP A4+ [A Four Plus]	Reaffirmed
Total Facilities	1,140.78 (One Thousand One Hundred Forty Million and Seven Hundred Eighty Thousand Only)		

**The issuer rating is subject to total debt of the company not exceeding Rs. 950 Mn at the end of FY24(FY refers to the twelve-month period ending mid-July).*

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating of 'CARE-NP BB+ (Is)' assigned to United Idi Mardi & R.B. Hydropower Limited (UMHL). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations, in Nepal.

Also, CRNL has reaffirmed the rating of 'CARE-NP BB+' assigned to the long-term bank facilities and 'CARE-NP A4+' assigned to the short-term bank facilities of UMHL.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and issuer rating of UMHL is constrained by subdued operational performance of the company during FY23 amid power evacuation risk as the power generated from its operational Upper Mardi Hydropower Project (UMHP) is still being evacuated through contingent route. This has resulted into moderation in Total Operating Income (TOI) of the company during FY23. The ratings also factor in the hydrology risk associated with run-of-the-river power generation, risk of natural calamities and volatile interest rates.

The ratings, however, continue to derive strength from experienced board members/ management team and associated with the group having multiple hydropower projects, moderate financial risk profile and presence of power purchase agreement (PPA) with sufficient period coverage.

Going forward, switching of power evacuation through originally proposed substation 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 power evacuation through contingent route

UIMHL has commissioned run-of-the-river 7MW UMHP since October 2019. The power generated from UMHP was originally proposed to be evacuated through Lahachowk sub-station, the construction of which had been delayed, following which UMHP came into operations through alternative power evacuation channel i.e Hemja 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 fluctuating PLF levels of the company. Operational performance of the company remained

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

subdued with PLF of 75% of contracted energy during FY23 (PLF of 95% of contracted energy during FY22). Thus, shifting of its power evacuation to Lahachowk substation, obtaining necessary approvals from NEA in timely manner for the same and accordingly invoking 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 fluctuation in operating performance.

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 seasonal river flows are high (Mid-April to Mid-December) and less during the winter season (Mid-Dec to Mid-April). UIMHL is proposed to utilize discharge from Mardi Khola having catchment area of 40 sq kms with the design discharge of 2.60 M³/S at Q40 exceedance flow and available gross head of 335m. Mardi Khola is a perennial river and is one of the tributaries of Seti river which is one of the major tributaries of Sapta Gandaki River. Hence, the projects are exposed to risk associated with variation in discharge of water from the aforesaid rivers.

Exposure to volatile interest rate

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.

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 Strength

Associated with the group having multiple hydropower projects and experienced board members/ management team

UIMHL is part of KC Group of companies which is one of the leading organizational groups in Nepal. The promoters of KC group of companies have made their investments in diversified sectors like hydropower projects, construction, hospitality and housing, manufacturing, educational institutions, banking and insurance. This provides comfort to the company in terms of technical and operational assistance. UIMHL has total 6 board members. Mr. Prakash K.C, executive chairperson, has more than three decades of experience in Hydropower, Banking and Construction industries. Mr. Roshan K.C, managing director, is director at Machhapuchchhre Bank Ltd. (CARE-NP A-(Is)), and other operational and under-construction hydropower companies. He is supported by other experienced management team.

Moderate financial risk profile of the company

Total Operating Income (TOI) of the company slightly decreased by around 9% y-o-y to Rs. 169 Mn during FY23 owing to lower energy generation. PBILDT of the company in absolute amount thus decreased to Rs. 140 Mn during FY23 (FY22: Rs. 153 Mn). Decreased PBILDT coupled with increase in interest expenses amid increase in overall interest rates led to decrease in PAT to Rs. 17 Mn during FY23 (FY22: Rs. 52 Mn).

Overall gearing ratio stood leveraged at 2.14x at the end of FY23 (FY22: 2.11x). The gearing ratio slightly deteriorated mainly on account of decrease in net worth of the company following dividend payments of Rs. 44 Mn during FY23 despite scheduled repayment of term loans. Interest coverage ratios stood modest at 1.28x in FY23 (FY22: 1.80x). Total debt to GCA deteriorated to 29.30x at the end of FY23 owing to lower Gross Cash Accruals (GCA) (FY22: 14.93x).

Power purchase agreement with sufficient period coverage

UIMHL had entered into PPA with Nepal Electricity Authority (NEA) for 7MW as on June 7, 2016 for sale of entire power generated from the project. The PPA is signed for a period of 30 years from the COD or till validity of generation license whichever is earlier. RCOD of the project was mid-July 2020, however the project was completed 9 months before RCOD and hence, the company will be eligible for all the five escalations of 3% on base tariff. The tariff rate for wet season (Mid-April to Mid-December) is Rs 4.80 per kWh and for dry season (Mid-December to Mid-April) is Rs 8.40 per kWh with 3% escalation on base tariff for 5 years.

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. As per various directives from NRB, all the financial institutions regulated by NRB (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

United Idi- Mardi and R.B Hydropower Ltd (UIMHL) was initially incorporated as a private limited company as on March 1, 2010 and later on, it was converted to a public limited company as on April 17, 2018. It is promoted for setting up of a 7MW run-of-river, UMHP in Kaski district of Nepal. The project is constructed under BOOT model (Build, Own, Operate and Transfer).

Brief financial performance of UIMHL during last 3 years is given below:

(Rs. in Million)

Particulars	FY21 (A)	FY22 (A)	FY23 (UA)
Income from Operations	135	187	169
PBILDT Margin (%)	79.16	82.12	82.65
Overall Gearing (times)	2.38	2.11	2.14
Interest coverage (times)	1.32	1.80	1.28
Total Debt/Gross Cash Accruals (times)	16.16	14.93	29.30

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	929.96	CARE-NP BB+[Double B Plus]
Short Term Bank Facilities	Overdraft	25.00	CARE-NP A4+[A Four Plus]
Short Term Bank Facilities	Proposed	185.82	CARE-NP A4+[A Four Plus]
Total Facilities		1,140.78	

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