

CEDB Hydropower Development Company Limited

Rating

| Facilities | Amount (Rs. in Million) | Ratings ¹ | Rating Action |
|----------------------|----------------------------|------------------------------------------------|-------------------|
| Issuer Rating | NA | CARE-NP BB (Is) [Double B (Issuer)] | Reaffirmed |

**The issuer rating is subject to overall gearing of the company not exceeding 0.50x at the end of FY24 (FY refers to the twelve-month period ending mid-July)*

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of 'CARE-NP BB (Is)' assigned to CEDB Hydropower Development Company Limited (CHDC). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations in Nepal.

Detailed Rationale & Key Rating Drivers

The rating assigned to CHDC continues to be constrained by concentrated investment in hydropower sector, equity commitment with long gestation period of its investments, lack of clarity on proposed investment plans and high debtor levels and collection period. The rating also factors in limited value generation on its investments.

The rating, however, continues to derive strength from experienced directors and management expertise, majority of current investments in operational hydropower projects with satisfactory plant load factor (PLF), moderate financial risk profile, and adequate liquidity profile. The rating also factors in government support for the power sector having positive prospects for the company's investments over the medium term.

Going forward, generation of adequate returns from its investments and timely collection of receivables will be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Equity commitments, concentrated investments and long gestation period of its investments

CHDC's total investments stood at Rs. 449 Mn as on mid-July 2023 (FY22: Rs. 449 Mn) made in the form of equity shares of under-construction/operational projects of other hydropower generation companies. CHDC expects to increase its investment base to around Rs. 902 Mn till FY25, including equity commitment of around Rs. 300 Mn to Kasuwa Khola Hydropower Limited (KKHL) for its under-construction 45MW Kasuwa Khola Hydropower Project (KKHP) and Rs. 223 Mn to its fully owned subsidiary Khare Investment Limited (KIL). With regard to equity commitments in KKHP, CHDC has made investment in shares amounting to Rs. 20.76 Mn till mid-July 2023. Total investment in KIL stood at Rs. 230 Mn (including advance for share amounting to Rs. 180 Mn) as on mid-July 2023. Being an investment company, the return prospects of CHDC largely depend on the performance of its investee companies. The company has no significant plans to raise funds in the form of borrowings; hence, timely returns and exits from existing investments is critical to meet any future commitments in other hydropower projects. Furthermore, any major regulatory changes related to investment companies which may impact the financial risk profile of the company will remain concern from analytical perspective.

Exposure to group companies

CHDC has invested in its associated companies to the tune of Rs. 449 Mn respectively at the end of FY23 (FY22: Rs. 449 Mn). Furthermore, the company has also provided loans and advances to its group companies amounting to Rs. 227 Mn as on mid-July 2023 (Rs. 220 Mn as on mid-July 2022). The total exposure to group aggregated is Rs. 676 Mn as on mid-July 2023 which is

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

~50% of its net worth. The company has also provided corporate guarantee of Rs. 3,618 Mn for the hydropower projects being developed by its associated companies. Any adverse impact on the financial risk profile on its associated companies would indirectly expose the guarantor towards meeting the outstanding debt obligation with limited revenue profile.

High debtor levels and collection period

The collection period of the CHDC continues to remain elongated. CHDC has debtors amounting to Rs. 473 Mn at the end of FY23 over total revenue of Rs. 161 Mn which was Rs. 487 Mn during FY22 over total revenue of Rs. 174 Mn. High debtors' level was on account of management fees receivables from one of the clients amounting to Rs. 356 Mn, however the management is likely to recover the same through share-based payments. The average collection period stood at 215 days in FY23 (FY22: 141 days) excluding said receivables. With stabilization risk associated to its three hydropower projects on account of high-power evacuation risk and flash floods along with one project still in under- construction phase with no means of regular cash flows yet, the timely collection of its management fees will remain key monitorable aspect from perspective of cash flow generation.

Key Rating Strengths

Experienced directors and management expertise

CHDC has five members in its Board of Directors, chaired by Mr. Anil Kumar Rungta, who has more than two decades of experience in investment and finance sector. Mr. Vinay Kumar Bhandari is the Chief Executive Officer of the company since 2009. He has more than two decades of experience in hydropower sector. He has worked as Project Development Expert/ Consultant, Electricity Distribution System Consultant and Hydropower & Environmental Specialist for various hydropower projects.

Satisfactory operational performance of majority of current investments

CHDC, through its subsidiary and associate companies, has made investments in seven operational hydropower projects, increasing from six operational projects during last review following commissioning of 5 MW Rukum Gad Hydropower Project (RKHP). A 4.40 MW Radhi Small Hydropower project (RSHP) located at Lamjung district of Nepal under the name of Radhi Bidhyut Company Limited operated at average PLF of 89% of contracted energy during last five years ended in FY23. Similarly, another project of 0.18 MW Syange Mini Hydropower Project (SMHP) located at Lamjung district of Nepal under the name of Syange Bidhyut Company Limited operated at average PLF of 82% of contracted energy during last five years ended in FY23. Company is directly involved in operation of 11 MW Tallo Khare Khare HPP under Universal Power Company Limited, which operated at PLF of 87% of contracted energy during FY23. These operational projects have satisfactory PLF levels. However, operational performance of 30 MW Nyadi Hydropower Project (NHP), 12 MW Dordi I Hydroelectric Project (DHP) and 5 MW RKHP has been subdued during FY23 on account of high evacuation risk for first two projects as the projects are classified as "Projects under Contingency Plan" and flash floods affecting the later power plant.

Moderate financial risk profile

The company earns revenue from management fees for managing day to day operation of different hydropower projects under its group, which is based on mutual consensus between CHDC and respective companies. The management fees is decided under four phases i.e development phase, under construction phase, operational phase till the repayment of project term loans and operational phase after repayment of project term loans. Other sources of revenue include interest income from Fixed Deposits (FD), dividend income from its subsidiary and investee companies and gains on sale of shares. During FY23, CHDC's total revenue decreased by ~7% y-o-y to Rs. 161 Mn during FY23 (FY22: Rs. 174 Mn) mainly due to substantial decrease in management fees on account of termination of contractual agreements with these hydropower projects, although interest and dividend income increased. PAT remained steady at Rs. 115 Mn during FY22 and FY23 respectively. The company has projected management fees to the tune of RS. 21.60 Mn during FY24 and following periods. With decrease in management fees, returns from its four subsidiary

companies and seven operational hydropower projects through subsidiary and investee companies will remain key monitorable aspects from revenue generation perspective.

Adequate liquidity profile with minimal debt on books

CHDC has adequate liquidity profile, as on Mid- July 2023 as company was holding fixed deposit of Rs. 185 Mn (FY23: 225 Mn). CHDC doesn't have any project long term or short-term borrowing, and only outstanding hire purchase loan of Rs. 0.73 Mn at the end of FY23. The overall gearing ratio and debt equity ratio of the company remained negligible; however, adjusted gearing (including corporate guarantees given) remains substantial.

About the Company

CEDB Hydropower Development Company Limited (CHDC) is a public limited company, incorporated on November 30, 2009 as CEDB Hydro Fund Limited, and later the name was changed to CEDB Hydropower Development Company Limited effective from July 11, 2018. The main objective for incorporation of CHDC is to invest in hydropower projects. The paid up capital of CHDC stood at Rs. 839.41 Mn as on Mid-July, 2023 with promoters and public holding mix in ratio of ~70:30.

Financial Performance

| | (Rs. in Million) | | |
|---------------------------------------|------------------|----------|----------|
| For the Period Ended / as at Mid-July | FY21(UA) | FY22(UA) | FY23(UA) |
| Total Operating Income | 233 | 174 | 161 |
| PBILDT | 199 | 157 | 142 |
| PAT | 148 | 115 | 116 |
| Investments | 448 | 449 | 449 |

UA: Unaudited

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