

## PRESS RELEASE

### MODI ENERGY LIMITED

December 2022

#### Rating

| Instrument    | Amount (NPR. Mn) | Rating       | Rating Action |
|---------------|------------------|--------------|---------------|
| Issuer Rating | NA               | IRN BB+ (Is) | Assigned      |

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the issuer rating of IRN BB+ (Is) [Double B Plus (Issuer)]. Issuer with this rating is considered to have the moderate risk of default regarding timely servicing of financial obligations.

#### Detailed Rationale

The issuer rating assigned to Modi Energy Limited (MEL) derive strengths from the strong and experienced promoters & management team and Power Purchase Agreement (PPA) covering the majority of the project's lifespan, at predetermined rates. The rating also factors in the moderate counter party risk, improving demand for electricity, GoN<sup>1</sup> support for the power sector and average financial risk profile. These rating strengths are partially offset by project implementation risk given its initial stage of operation, hydrology risk and high power evacuation risk. Going forward, the ability of the company to reduce the gap between contracted plant loan factor (PLF) and operational PLF, on a sustained basis and the ability to strengthen its capitalization and coverage indicators with successfully raising of its initial public offering (IPO) at a par will remain a key rating sensitivities.

#### Detailed Description of Key Rating Drivers

##### Key Rating Strengths

##### Strong and experienced promoters & management team

MEL's board of directors comprise of six individuals. Mr. Pashupati Murarka, who has over 36 years of professional experience and connections to various management and director levels, chairs the board. Also, MEL derives strengths from the financial flexibility of its promoter groups viz. Debenara Group, Murarka Organization, KL Dugar Group, and Shanker Group. These groups are in business for many decades which provides an additional comfort regarding market presence/market knowledge. Further with the experienced and qualified pool of top management is again expected to support the business risk profile going forward.

##### Power Purchase Agreement covering the majority of the project's lifespan, at predetermined rates

On 06 September 2011, MEL and NEA<sup>2</sup> had a long-term PPA in place for the sale of 20 MW of power that would be generated by the project. The total 20MW's contracted Plant Load Factor (PLF) is 66.86%. Tariff rate as per PPA for 20 MW is NPR 4.80 per kWh for wet season (Mid-April to Mid-December) and NPR 8.40 per kWh for dry season (Mid-December to Mid-April) with 3% annual escalation on base tariff for 5 times for first five year after completion of 12 months from COD date, subject to approval of extension of RCOD<sup>3</sup>. Commercial operation date (COD) of the project was achieved on September 30, 2021. MEL has requested for extension of required COD to September 30, 2021 which is yet to be approved. Only four escalations will be given to the company if the same is not approved by NEA, which could affect the project's payback period.

<sup>1</sup> Government of Nepal

<sup>2</sup> Nepal Electricity Authority- Government owned entity which is a sole off taker of electricity in Nepal

<sup>3</sup> Required commercial date of operation

## **Improving market demand with Government support for the power sector**

According to the NEA's Annual Report the total available energy in the system increased by ~25% to 11,064 GWh, out of which NEA and its subsidiaries contributed ~47.32% whereas import from India and purchase from domestic IPP<sup>4</sup> accounted for 13.94% and 38.74% respectively. Hence, the contribution of the internal generation to the total energy consumption remained higher at ~86% in FY22 vis-à-vis 68% in FY21. Similarly, the total energy consumption was 8,823 GWh in FY22, an increment of ~22% over FY21. The total export to India soared to 493 GWh in FY22 against 38 GWh in FY21. With this the net import of electricity reduced to 1,050 GWh representing ~9.5% of total electricity available. Hence remains positive in view of improving generation, growing demand with scope of export<sup>5</sup>. Also, GoN considers hydropower generation as priority sector and intends to maximize private sector participation in generation of hydroelectricity by offering different exemptions and facilities. 100% tax exemption is given to all such person/entity who starts commercial operation, transmission and distribution of electricity up to mid-April 2026 for first 10 years and 50% tax exemption for next 5 years.

## **Average financial risk profile**

The project has been in operation since September 30, 2021 for 9.5 months in FY22 with operational PLF of ~43% of contracted energy. MEL has achieved sales of NPR 355 Mn with EBITDA margin of ~84% in FY22(UA)<sup>6</sup> with positive gross cash accruals (GCA). However, long term solvency ratio remained at higher side in FY22 mainly due to low profitability. Nonetheless, DSCR remained moderate at 1.02x in FY22 with interest coverage ratio of 1.04x and overall gearing ratio of 2.15x at the end of FY22. Going forward, the expected utilization of the proposed IPO for loan repayment is likely to lower the gearing and further support the debt coverage indicators.

## **Key Rating Weaknesses**

### **Project implementation risk given its initial stage of operation**

MEL started commercial operation from September 30, 2021. It is the run-of-the river 20 MW Lower Modi Khola Hydropower Project (LMKHP) located at Parbat district of Nepal. The project was setup with project cost of NPR 6,062.38 Mn (i.e. NPR 303.12 Mn per MW)<sup>7</sup> funded through total debt of NPR 4,014.15 Mn and remaining through equity. The project is in the early stage of operations; thus, the stabilization and streamlining of production in coming years remains to be seen. The company's ability to continue to reduce the gap between operational PLF and contracted PLF, on a sustained basis, will remain a key monitorable aspect.

### **Hydrology risk associated with run-of-the-river (ROR) power generation**

ROR projects are directly exposed to risk associated with variation in discharge of water from the river. MEL is utilizing discharge from tailrace of Modi Khola located at Parbat district, having catchment area of 552 kms<sup>2</sup>. Further, the lack of a deemed generation clause in the PPA exposes the project to hydrology risk in case of adverse river flow scenarios without receiving any compensation for such losses.

### **High power evacuation risk**

The power evacuation risk is high as power generated from the project is being evacuated through the 132 kV transmission line through a loop in loop out method to one of the towers of a privately owned and operational United Modi Hydropower Project which is further connected to the NEA Modi Power Station, which makes

<sup>4</sup> Independent Power Producers

<sup>5</sup> NEA has already exported NPR 11.16 bn between June 2, 2022 to December 18, 2022

<sup>6</sup> Unaudited, refer to 9.5 months' period ended mid-July 2022

<sup>7</sup> Project cost was impacted on account of damage in the headrace tunnel due to the weak geographical structure of the project site

the project fall under the 'Projects Under Contingency Evacuation Plan' list of NEA. MEL will shift its power connection to the New Modi Substation from mid-April 2023 and until that the company will remain exposed to high power evacuation risk. This had resulted Load Dispatch Centre (LDC) of NEA to instruct MEL to run at lower capacity without any compensation from NEA.

**Analytical Approach:** Standalone

**Applicable Criteria:**

[Issuer Rating Methodology](#)

**About the Company:**

Incorporated in November 1996, as Manang Trade Link Private Limited was later converted to Modi Energy Private Limited (MEL) on May 28, 2017 which again converted to Modi Energy Limited (MEL) in June 21, 2018. The company has been set up to build, own and operate 20 MW run-of-river, Lower Modi Khola Hydropower Project (LMKHP) in Parbat district of Nepal, for sale of entire power. The project has 552 Km<sup>2</sup> catchment area and 26.52 m<sup>3</sup>/s design discharge at 40% exceedance flow. M/s Modi Investment Pvt. Ltd is a single institutional promoter whereas Mr. Pashupati Muraraka and Mr. Shrish kumar Murarka are the major individual promoters.

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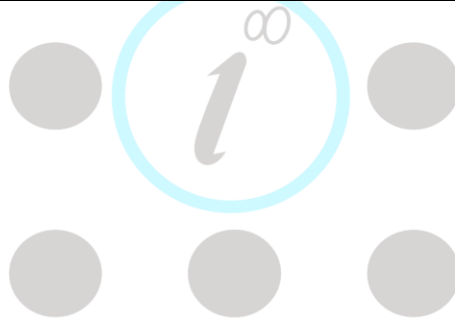
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