

PRESS RELEASE

HIMALAYA URJA BIKAS COMPANY LIMITED

March 2023

Ratings

Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	2,702.09	IRN BB	Assigned
Short Term Bank Facilities	57.91	IRN A4+	Assigned
Total	2,760.00		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the long term rating of IRN BB (Double B) to the long term bank facilities of NPR 2,702.09 Mn and short term rating of IRN A4+ (A Four Plus) to the short term bank facilities of NPR 57.91 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Himalaya Urja Bikas Company Limited (HUBCL) 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, low power evacuation risk, improving demand for electricity and GoN¹ support for the power sector. These rating strengths are partially offset by the deteriorated capital structure, project stabilization risk given its initial stage of operation and hydrology risk associated with the run of river project. Going forward, the ability of the company to reduce the gap between contracted plant load factor (PLF) and operational PLF on a sustained basis and strengthen its capitalization and coverage indicators with successfully raising of its right share at a par will remain a key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Strong and experienced promoters & management team

The largest promoter of HUBCL is Arun Valley Hydropower Development Company Limited (AHPC), which operates the 3MW Piluwa Khola Small Hydroelectric Project (PKHEP) and the 9.94MW Kabeli B-1 Cascade Hydroelectric Project (KBHEP). HUBCL has six board of directors (BoD), and Mr. Hari Prasad Pandey serves as the chairman. The directors have been involved in various businesses, including the power sector, for many decades, which provides additional comfort regarding their market presence and knowledge. Furthermore, the BoD is supported by an experienced Project in –charge, Mr. Bishnu Prasad Pandey and his team.

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

HUBCL has entered into a PPA with the Nepal Electricity Authority (NEA) for the sale of power generated from both projects, namely “7 MW Upper Khimti-II Hydropower Project (UKHP-II)” and “12 MW, Upallo Khimti Hydropower Project (UKHP)”. The period of the PPA is 30 years from the commercial operation date (COD) or until the expiration of the Generation License, whichever comes earlier (the expiry date of 7-MW project is 2107/12/12 BS and 12-MW project is 2105/09/02 BS). However, the PPA period may be extended by mutual consent during the final six months of its validity. The tariff rate as per the PPA for the wet season (mid-April to mid-December)/dry season (mid-December to mid-April) is NPR 4.8/8.4 per kWh for the 7MW and NPR 4/7 per kWh for the 12MW project. The escalation allowed for these PPA rates is 3% per annum on

¹ Government of Nepal

the base tariff for nine consecutive years for the 12-MW project and five consecutive years for the 7-MW project after COD.

Low power evacuation risk

The construction of 132-KV transmission line connecting Garjyang substation to the New Khimti Substation was completed in October 2022. Additionally, HUBCL has started supplying electricity to the national grid through the 132-KV transmission line from October 18, 2022. However, the company is under conditional COD due to the ongoing installation of a 200 MVA transformer and under-construction single circuit line from Garjyang to Khimti. Therefore, until these requirements are met, the company will remain exposed to the power evacuation risk to some extent.

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 IPP² 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, the prospects remain positive in view of improving generation, growing demand with scope of export³. Also, GoN considers hydropower generation as priority sector and intends to maximize private sector participation in the generation of hydroelectricity by offering different exemptions and facilities. Individuals or entities commencing commercial operations, transmission, and distribution of electricity before Mid-April 2026 are eligible for a 100% income-tax exemption for the first 10 years followed a 50% exemption for the next five years.

Key Rating Weaknesses

Deteriorated capital structure given its initial year of operation

The project has been operational since May 31, 2022 (7-MW) and June 20, 2022 (12-MW). In the first seven months of FY23 (7MFY23), the operational PLF for both projects was ~33% of contracted energy. Despite the low PLF, the company achieved a total operating income (TOI) of NPR 125 Mn and an EBITDA margin of ~80% in the same period, with positive gross cash accruals (GCA). However, due to the low profitability, the long-term solvency ratio remained on the higher side in the first six months of FY23 (6MFY23). The overall gearing ratio stands at 3.06x in the same period, indicating a high level of debt relative to equity with the moderate interest coverage ratio of 1.10x. Going forward, the expected utilization of the proposed right shares for loan repayment is likely to lower the gearing and further support the debt coverage indicators.

Project stabilization risk

HUBCL began commercial operation of two run-of-the-river projects in the Ramechhap district of Nepal on May 31, 2022 (UKHP-II, 7 MW) and June 20, 2022 (UKHP, 12 MW). The project cost has increased to NPR 194 Mn per MW from the initial estimate of NPR 166 Mn per MW, funded through the total debt of NPR 2,763 Mn (75%) and the remaining from equity. The delay in the construction of the Garjyang Substation and the New Khimti Bay Extension, along with the impact of Covid-19, resulted in an increment of interest during construction (IDC) and management expenses. The project is in the early stage of operations, thus the stabilization and streamlining of production in the coming years remain 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 aspect to keep an eye on.

² Independent Power Producers

³ NEA has already exported NPR 11.16 bn between June 2, 2022 to December 18, 2022

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

The ROR projects are directly exposed to risks associated with variation in discharge of water from the river. HUBCL is utilizing discharge from tailrace of Khimti Khola located at Ramechhap District, having catchment area of 99 km² for UKHP-II, 7 MW and 61.50 km² for UKHP, 12 MW. 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.

Analytical Approach: Standalone

Applicable Criteria:

[Power Projects Rating Methodology](#)

About the Company:

Incorporated in November 1999, as a Private Limited was later converted to Himalaya Urja Bikas Company Limited (HUBCL) in November 2014. The company has been set up to build, own and operate two Hydroelectric Project (HEP) of 7 MW and 12 MW both in Ramechhap district of Nepal, for the sale of entire power. The 7-MW project has 99 Km² catchment area & 6.45 m³/s design discharge at 41% PoE⁴ and 12-MW project has 61.50 Km² catchment area & 5.16 m³/s design discharge at 43% PoE. M/s Arun Valley Hydropower Development Company Limited (4.39%), Ms. Tulasha Devi Pandey (4.05%) and Mr. Shree Ram Pandey (3.12%) are the major shareholders as on March 14, 2023.

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn.)	Rating
Fund Based Bank Facilities- Term Loan	Long Term	2,702.09	IRN BB
Fund Based Bank Facilities-Working Capital Loan	Short Term	57.91	IRN A4+
Total Facilities		2,760.00	

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About Infomerics Credit Rating Nepal Limited:

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⁴ Probability of exceedance



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