

## PRESS RELEASE

### **BUTWAL POWER COMPANY LIMITED**

March 2024

#### Ratings

Instrument/Facilities	Amount (NPR Mn)	Rating	Rating Action
Issuer Rating	NA	IRN A- (Is)	Assigned
<b>Total</b>	<b>NA</b>		

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the issuer rating of IRN A- (Is) [Single A Minus (Issuer)]. Issuers with this rating are considered to have an adequate degree of safety regarding the timely servicing of financial obligations.

#### Detailed Rationale

The issuer rating assigned to Butwal Power Company Limited (BPCL) derives strength from the satisfactory operational and financial performance of the company marked by robust cash accruals. The rating also factors BPCL's comfortable liquidity position supported by sustained cash generation from operations and significant cash reserves. The rating also derives strength from strong parentage with an experienced board of directors and seasoned management team, BPCL's association with a large group involved in multiple hydropower projects and hydropower-related consultancy services, stable operational margins, and a comfortable capital structure with adequate debt coverage indicators. The ratings also factor in the presence of a power purchase agreement (PPA) with sufficient period coverage, moderate counterparty risk, and favorable government policies for the power sector.

These rating strengths are partially offset by exposure to group companies and related capital commitments, hydrology risk associated with run-of-the-river power generation, and exposure to regulatory risk. The rating also takes into account losses in its power distribution segment amid higher operating expenses coupled with lower approved tariffs. Going forward, the ability of the company to successfully reduce the gap between operational PLF and contracted PLF on a sustained basis with timely receipt of payments from the Nepal Electricity Authority (NEA) is the key rating sensitivity. Also, the company's ability to generate sufficient cash flow to effectively transition its power distribution business will be key rating sensitivity. Furthermore, any substantial increase in exposure to group companies or substantial capital commitment that could lead to material deterioration in the company's current capital structure will also be key rating sensitivities.

#### Detailed Description of Key Rating Drivers

##### Key Rating Strengths

##### **Strong promoter group with experienced directors/ management team**

BPCL is majorly promoted by the Government of Nepal (GoN), Nepal Electricity Authority (NEA) and other institutional promoters. GoN has direct ownership of 7.42% and NEA holds 0.86% of the shareholding as of mid-July 2023. The majority shareholding is held by Shangri-La Energy Limited, which is an investment vehicle incorporated by six business houses in Nepal. The company has an experienced board of directors and is led by a seasoned management team. The company is managed under the overall guidance of a Board of Directors chaired by Mr. Padma Jyoti, who has experience of over 5 decades including 2 decades of experience in the hydropower sector. Leading the management team is Mr. Uttar Kumar Shrestha, CEO, who previously held the position of Managing Director of NEA before joining BPCL.

##### **Satisfactory financial performance with a comfortable liquidity position**

The projects owned by BPCL have been in commercial operations since the mid-1990s. The operational and financial performance of the company has been satisfactory. The company is mainly into the generation and distribution of power and the revenue from the same stood at more than NPR 700 Mn in FY22 and FY23, though declined by ~7% year-on-year in FY23 to NPR 724 Mn due to lower generation during FY23. The power distribution segment of the company has been incurring losses amid higher operating expenses coupled with lower distribution tariffs. Dividend income increased to

NPR 44 Mn in FY23 from NPR 11 Mn in FY22. EBITDA margin has been healthy at ~39% in FY23 though declined from 41% in FY22 owing to higher operational expenses. BPCL booked revenue of NPR 414 Mn from power generation and distribution during H1FY24. The company has a comfortable liquidity position on account of sustained cash generation from operations over the period. BPCL had cash and bank deposits of NPR 514 Mn at the end of FY23 (FY22: NPR 1,063 Mn). Furthermore, the company had significant investments of NPR 4,268 Mn at the end of FY23 which increased from NPR 3,505 Mn at the end of FY22, though remained invested in unquoted equity shares of group companies.

### **Healthy capitalization and debt service coverage indicators**

The company's capital structure has been historically comfortable supported by steady growth in reserves with healthy cash flows coupled with lower reliance on external borrowings. Lower borrowings, coupled with a robust net worth base exceeding NPR 7 billion have resulted in nearly negligible overall gearing over the past 3 FYs (FY21-FY23). The overall gearing stood comfortable at 0.01x as of mid-July 2023, improving from 0.03x as of mid-July 2022. Also, the interest coverage of the company stood healthy at 26x in FY23, improving from 25x in FY22, mainly on account of stable EBITDA coupled with a lower interest outgo. Also, the company's total debt to GCA has been satisfactory at 0.22x in FY23 improving from 0.52x in FY22. The company expects to conclude the FPO amounting to more than NPR 2 billion before FY25, which is expected to further aid the company in enhancing its net worth base and ultimately its investment portfolio.

### **PPA with sufficient period coverage and favorable Government policies**

BPCL had entered into a PPA with NEA for 30 years for the sale of 12MW power to be generated from Jhimruk Hydropower Plant (JHC) till mid-July 2043 at a fixed tariff of NPR 5.236 per unit. Also, for the Andhikhola Hydropower Plant (AHC), BCPL had entered into a PPA with NEA for the sale of 9.4 MW of power to be generated from the project. The period of the PPA is 30 years from the date of commercial operation (COD) or till the validity of the Generation license, whichever is earlier. The tariff for 5.1MW is NPR 4.48 per unit and tariff for upgraded capacity of 4.3MW is 5.08 per unit for the wet season (mid-April to mid-December) and NPR 8.89 per unit for the dry season (mid-December to mid-April).

The GoN has prioritized the development of the hydropower sector as a means of ensuring energy security, lowering dependency on imported fossil fuels, and positioning Nepal as a significant exporter of electricity in the region. These include attractive tax incentives like income tax holidays and reduced indirect taxes on essential equipment, encouraging investments from the private sector. Additionally, Nepal Rastra Bank (NRB) has designated it as a priority sector for lending and has mandated banks to allocate a minimum share of their advances to the energy sector, ensuring that sufficient financial support is available for the development of hydroelectric projects. This, coupled with the government's strategic partnerships for the generation and export of power makes the long-term demand outlook for the Nepalese hydropower sector promising.

## **Key Rating Weaknesses**

### **Exposure and capital commitments to group companies**

BPCL has investments in subsidiaries and associate companies of NPR 3,455 Mn which is equivalent to ~47% of its tangible net worth as of mid-July 2023. The majority of the investment is into the companies in the generation of electricity and others include companies in designing and providing consulting engineering services in different hydropower projects in Nepal and abroad. Two of the subsidiaries' companies namely Khudi Hydropower Limited and Nyadi Hydropower Limited are operating 4MW and 30MW hydropower plants. BPCL has invested in 5 companies developing hydropower projects with a combined capacity of 646.7MW and has made a capital commitment of more than NPR 7 billion; out of which the company has already invested ~34% of the total commitment. The company plans to fulfill the commitment mainly through the FPO proceeds and internal accruals of the company. As the projects are in the initial stages of construction, these are exposed to execution and stabilization risks associated with the projects. Any substantial cost overrun in under-construction projects could require additional investments from BPCL to these companies. Higher than currently envisaged fund flow from BPCL to the companies could impact BPCL's financial risk profile. Also, any adverse impact on the financial risk profile of the companies would limit the future revenue profile of the company. Thus, additional investments in the group companies will remain a key monitorable factor from an analytical perspective.

## Hydrology risk associated with run-of-the-river power generation

Run-of-the-river power (ROR) projects are sensitive to seasonal variations in river flows, producing more electricity during the wet season and less during the dry season as these projects have little or no capacity for water storage and rely on the flow of river water for power generation. Prolonged low water levels resulting from droughts or irregular rainfall can lead to operational strain and thus revenue loss. JHC and AHC utilize discharge from Jhimruk Khola and Andhikhola which are based on perennial rivers. This exposes the projects to risks associated with variations in water discharge from these rivers.

## Risk of natural calamities

Nepal lies in a seismically active region along the Himalayan belt, making the country vulnerable to earthquakes, landslides, and floods, all of which pose significant threats to hydropower infrastructure. In addition, the country's rugged topography and monsoon rains make it prone to landslides and floods, which can cause structural damage and disrupt project operations. These disasters not only result in costly repairs and prolonged downtime but also affect the financial viability of hydropower projects by reducing power generation, thereby impacting their financial performance.

**Analytical Approach:** Standalone

## Applicable Criteria:

[Issuer Rating Methodology](#) & [Power Projects Rating Methodology](#)

## About the Company:

Butwal Power Company Limited (BPCL) is a public limited company, incorporated in 1965, by GoN and United Mission to Nepal. GoN privatized the company by divesting majority shareholding to private investors in 2003. As of mid-July 2023, major shareholders of the company are Shangri-la Energy Limited, GoN, NEA, IKN Nepal A.S., Norway, and United Mission to Nepal. The company is mainly into the generation of power and is currently distributing power in 4 districts of Nepal. Currently, BPCL owns and operates two hydropower plants namely Jhimruk Hydropower Plant (JHC) and Andhikhola Hydropower Plant (AHC) of 12MW and 9.4MW capacity respectively.

## Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23
	Audited	Audited	Audited
Total Operating Income (NPR Mn)	971	786	769
EBITDA Margin (%)	52.17	41.39	39.37
Interest Coverage Ratio (x)	26.07	25.41	26.39
Current Ratio (x)	8.90	5.64	4.62
Overall Gearing Ratio (x)	0.02	0.03	0.01

\*Classification as per Infomerics Nepal standards

## Analyst Contacts

### Mr. Girish Bhatta

+977-1-4583304/4585906

[girish.bhatta@infomericsnepal.com](mailto:girish.bhatta@infomericsnepal.com)

### Mr. Atish Ratna Shakya

+977-1-4583304/4585906

[atish.shakya@infomericsnepal.com](mailto:atish.shakya@infomericsnepal.com)

## Relationship Contact

### Mr. Rabin Pudasaini

+977-1-4583304/4585906

[rabin.pudasaini@infomericsnepal.com](mailto:rabin.pudasaini@infomericsnepal.com)



# Infomerics Credit Rating Nepal Limited

## **About Infomerics Credit Rating Nepal Limited:**

Infomerics Credit Rating Nepal Ltd. is Nepal's third Credit Rating Agency licensed by the Securities Board of Nepal (SEBON) on March, 2022. Infomerics Nepal is a subsidiary of Infomerics Valuation and Rating Private Limited (Infomerics India) which is a SEBI registered and RBI accredited Credit Rating Agency licensed in 2015. Infomerics Nepal aims to provide investors with objective analysis and evaluation of credit worthiness of Banks, NBFCs, Large Corporates and Small and Medium Scale Units (SMUS) via its rating and grading services. Thus, it is playing a key role in serving the financial markets by reducing the information asymmetry among varied lenders and investors and facilitating borrowers/issuers to various fundraising opportunities/avenues. Infomerics observes and maintains ethical standards in its activities. For more information, visit <https://infomericsnepal.com/>

## **Infomerics Credit Rating Nepal Limited**

Tanka Prasad Marga, Baneshwor Height, Kathmandu

Phone: +977-1-4583304/4585906

Email: [info@infomericsnepal.com](mailto:info@infomericsnepal.com)

Web: [www.infomericsnepal.com](http://www.infomericsnepal.com)

**Disclaimer:** Ratings assigned by Infomerics Nepal are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics Nepal reserves the right to change, suspend or withdraw the credit ratings at any point in time. Ratings assigned by Infomerics Nepal are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics Nepal is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.