

PRESS RELEASE

GHALEMDI HYDRO LIMITED

October 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Issuer Rating	NA	IRN B (Is)	Reaffirmed
Long Term Bank Facilities	712.22	IRN B	Assigned
Short Term Bank Facilities	30.00	IRN A4	Assigned
Total	742.22		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has reaffirmed the issuer rating of IRN B (Is) [Single B (Issuer)]. Issuers with this rating are considered to have the high risk of default regarding timely servicing of financial obligations.

Infomerics Nepal has also assigned the rating of IRN B (Single B) to the long-term bank facilities of NPR 712.22 Mn and IRN A4 (A Four) to the short-term bank facilities of NPR 30.00 Mn.

Detailed Rationale

The bank loan rating assigned and reaffirmation of issuer rating assigned to Ghalemdi Hydro Limited (GHL) mainly factor in the strong and experienced promoters & management team along with Power Purchase Agreement (PPA) covering majority of the project's lifespan, at predetermined rates. The ratings also factor in the improving demand for electricity and GoN support for the power sector. Nonetheless, the ratings remain constrained mainly by the low power generation by its plant, due to low dispatch instruction of Load Dispatch Center (LDC), although the contingency has been removed on Mid-April 2024. The ratings also factor in the weak financial risk profile, where EBITDA margin has declined in FY24, on account of higher overhead costs, despite increase in Total Operating Income (TOI). The company is also incurring losses since its operation, on account of high finance costs. However, infusion of right share has improved its capital structure. Furthermore, the company is exposed to implementation and funding risk of the project being constructed by its subsidiary (Shangrila Urja Private Limited), which is in nascent stages of construction, and financial closure for its debt portion has not been tied up. Going forward, the ability of the company to reduce the gap between contracted plant load factor (PLF) and operational PLF on a sustained basis, strengthen its capitalization and coverage indicators, and efficiently utilize its right share proceeds for funding ongoing project of its subsidiary will remain key sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters and management

GHL is governed by eight member board of directors (BoD), chaired by Mr. Kishor Subedi, who has more than a decade of experience in various industries. Mr. Narayan Babu Adhikari, Director, also has more than a decade of experience in manufacturing and trading sector. Additionally, the board benefits from the expertise of Er. Sharad Raj Shrestha, an independent director with a rich history of working on major projects in Nepal and Japan.

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

GHL had entered into a PPA with NEA as on April 13, 2012 for sale of 5 MW power to be generated from the project. The period of the PPA is 30 years from commercial operation date (COD) or till validity of Generation License (expiry date of 25MW is 2105-09-13 BS), whichever is earlier.

However, PPA period may be extended with mutual consensus during the last six months of validity. Tariff rate as per PPA for wet season (Mid-April to Mid-December)/dry season (Mid-December to Mid-April) is NPR 4.8/8.4 per kWh. For these PPA rates, escalation allowed is 3% per annum on the base tariff for five times after COD.

Favorable government policies towards the power sector

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

Low PLF of the project due to contingent plan, however contingency removed in April 2024

In FY24, GHJ's PLF stood at 58.94% of contracted energy, marginally improving from 56.95% in FY23 (FY22: 51.59%). The PLF was mainly constrained by an agreement with NEA to transmit power via the 132kV Dana-Kushma-Pokhara line on a take-and-pay basis until the 220kV Dana-Kushma-New Butwal transmission line was completed. However, as per the 7th amendment of PPA signed on April 16, 2024, the contingency has been removed because of completion of 220/132/33 kV Dana Substation. Thus, the stabilization and streamlining of production in coming years is expected to improve. The company's ability to continue to improve the gap between operational PLF and contracted PLF, on a sustained basis, will remain a key monitorable aspect.

Below average financial risk profile

GHJ commenced commercial operations of its run-of-river project in Myagdi, Nepal, on February 17, 2020. Despite a low PLF, the company achieved a CAGR of ~14% in TOI from FY21 to FY24, reaching NPR 102 million in FY24. However, the EBITDA margin declined to ~57% in FY24 from ~63% in FY23 (FY22: ~69%), primarily due to right share issuance expenses and increased overhead costs. The FY23 margin drop compared to FY22 was driven by a landslide-induced penstock burst, halting production in July-August 2022 and incurring substantial repair costs. Furthermore, the company incurred losses of approximately -75% in FY23 and FY24, largely due to high finance costs.

Weak debt-service coverage indicators albeit improved capital structure

The interest coverage ratio of GHJ remained low at 0.52x and 0.58x in FY23 and FY24 respectively, due to high interest expenses, accounting for ~98% of TOI in FY24 (~123% of TOI in FY23). Furthermore, DSCR also stood low at 0.25x in FY24 vis-à-vis 0.39x in FY23. However, the overall gearing ratio stood at 0.48x in FY24, significantly improving from 2.29x in FY23, due to infusion of equity through right share issue amounting to NPR 1,100 Mn. Furthermore, the company's total debt to GCA stood negative over past four years (FY21 to FY24).

Project implementation and funding risk of investee project

Shangrila Urja Private Limited (SUPL), a subsidiary of GHJ (~59%), is constructing the Chhujung Khola Hydropower Project (CKHP) with an estimated total cost of NPR 9,300 Mn, funded through NPR 7,440 Mn in debt and NPR 1,860 Mn in equity. As of mid-September 2024, GHJ had injected NPR 405 Mn (of its commitment of NPR 1,100 Mn) from its right share proceeds. However, SUPL is yet to secure financial closure for the debt portion, posing a funding risk. Further, the project remains in the early stages of development, with land acquisition and regulatory approvals completed, while road access is still under progress.

Analytical Approach: Standalone

Applicable Criteria:

[Issuer Rating Methodology](#)

[Corporate Credit Rating Methodology](#)

Past Rating Rationale:

[Ghalemdi Hydro Limited: Issuer Rating Assigned](#)

About the Company:

Ghalemdi Hydro Limited (GHL) underwent conversion from a private limited company to a public limited company on January 05, 2014 and subsequently got listed on NEPSE on February 17, 2019. The company was established to develop, own and operate "Ghalemdi Khola Hydroelectric Project" with a capacity of 5 MW in the Myagdi district of Nepal, with the entire power generated intended for sale. GKHP boasts an 84.70km² catchment area, a design discharge of 3.50m³/s at 41.40% PoE and a gross head of 149.83m. Furthermore, the company has invested in ongoing projects of its subsidiary, SUPL (~59% shareholding). The project under SUPL include "Chhujung Khola Hydropower Project" (CKHP) of 63 MW. CKHP has 203.985km² catchment area & 8.41m³/s design discharge at 40% PoE with gross head of 910m.

Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23	FY24
	Audited	Audited	Audited	Unaudited
Total Operating Income (NPR Mn)	69	92	97	102
EBITDA Margin (%)	64.51	68.84	63.31	56.95
Interest Coverage Ratio (x)	0.51	0.78	0.52	0.58
Current Ratio (x)	1.12	0.76	0.40	1.10
Overall Gearing Ratio (x)	1.65	1.94	2.29	0.48

*Classification as per Infomerics Nepal standards

Earnings before Interest Tax Depreciation Amortization (EBITDA)

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn)	Rating
Fund Based Bank Facilities- Term Loan	Long Term	712.22	IRN B
Fund Based Bank Facilities- Short Term Loan	Short Term	30.00	IRN A4
Total Facilities		742.22	

Analyst Contacts

Mr. Girish Bhatta

Tel No.+977-1-4583304/4585906

girish.bhatta@infomericsnepal.com

Mr. Sanjeev Dangol

Tel No.+977-1-4583304/4585906

sanjeev.dangol@infomericsnepal.com

Relationship Contact

Mr. Rabin Pudasaini

Tel No.+977-1-4583304/4585906

rabin.pudasaini@infomericsnepal.com



Infomerics Credit Rating Nepal Limited

About Infomerics Credit Rating Nepal Limited:

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Infomerics Credit Rating Nepal Limited

Tanka Prasad Marga, Baneshwor Height, Kathmandu

Phone: +977-1-4583304/4585906

Email: info@infomericsnepal.com

Web: www.infomericsnepal.com

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