

PRESS RELEASE

BALEPHI HYDROPOWER LIMITED

November 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Issuer Rating	NA	IRN BB- (Is)	Reaffirmed
Long Term Bank Facilities	6,674.71 (reduced from 6,714.73)	IRN BB-	Reaffirmed
Short Term Bank Facilities	100.00	IRN A4	Reaffirmed
Total	6,774.71		

Details of facilities are in Annexure 1 below

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

Infomerics Nepal has also reaffirmed the rating of IRN BB- (Double B Minus) assigned to the long-term bank facilities of NPR 6,674.71 Mn and IRN A4 (A Four) to the short-term bank facilities of NPR 100.00 Mn.

Detailed Rationale

The reaffirmation of issuer rating assigned to Balephi Hydropower Limited (BHL) and its bank facilities continue to derive strength from the experienced seven-member board, chaired by Mr. Sanjay Kumar Sah, Vice President and group CFO of Golyan Group and supported by the expertise of independent director Mr. Prakash Kafle, who is the COO of Litmus Industries Limited and Vice President of Ramesh Corp. BHL benefits from a long-term Power Purchase Agreement (PPA) with the Nepal Electricity Authority (NEA), covering 30 years from the commercial operation date (COD) for the sale of 36 MW of power. The ratings also factor in the improving demand for electricity and Government of Nepal (GoN) support for the power sector.

Nonetheless, the ratings remain constrained by BHL's operational challenges, including its inability to maintain a PLF above 80% of contracted energy, which led to a significant short-supply penalty. This shortfall, driven by lower hydrology and infrastructure issues, highlights recurring risks that could further impact profitability. BHL's financial risk profile remains modest, with FY24 showing an increased total operating income of NPR 850 Mn but a decline in EBITDA margin to ~76% from ~89% in FY23 due to rising generation expenses. The company continues to report net losses because of high depreciation and finance costs. Its leveraged capital structure, with a high gearing ratio of 7.78x as on mid-July 2024 (5.10x in FY23) due to declining tangible net worth, and weak debt-service coverage ratios further pressure its financial stability. Going forward, the expected utilization of the proposed right share for repaying bank and director's loans is anticipated, along with a focus on reducing the gap between operational and contracted PLF will remain key sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters and management

BHL is governed by seven member board of directors (BoD), where four members are promoters, two members are appointed from public, and one member is an independent director. The board is chaired by Mr. Sanjay Kumar Sah, who has more than a decade of experience in various industries, and currently the Vice President and group CFO of Golyan Group. Additionally, the board benefits from the expertise of Mr. Prakash Kafle, independent director, having more than a decade of experience, and is the COO of Litmus Industries Limited and Vice President of Ramesh Corp. Furthermore, Mr. Subash Aryal, CEO of BHL, also has a decade of experience in relevant sector. The

experienced and qualified pool of the board and top management is expected to support the business risk profile going forward.

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

On 15 December 2015, BHL and NEA had a long-term PPA in place for 30 years from COD, for the sale of 36 MW of power that would be generated by the project. The total 36 MW's contracted Plant Load Factor (PLF) is 67.49%. Tariff rate as per PPA for 36 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 eight times after completion of 12 months from COD. However, the project was liable to sizeable penalties and loss of tariff escalations of one year amid delayed project execution from its Required Commercial Operation Date (RCOD).

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

PLF below 80% of contracted energy leading to short supply penalty

According to the PPA, if a company fails to supply at least 80% of contracted energy or its declared availability—whichever is lower—except in uncontrollable circumstances, it incurs a short-supply penalty at 80% of the rate differential for the applicable monthly tariff. In FY24, BHL's generation stood between 48–78% in five months due to lower-than-expected hydrology, leading to a penalty of ~NPR 50 Mn, up from ~NPR 41 Mn in FY23. This was mainly due to issues with civil structures and machinery breakdowns, posing a recurring risk of penalties that could further impact profitability.

Modest financial risk profile

The project has been in operation since November 22, 2022. During FY23, the operational PLF (Plant Load Factor) had been ~44% of generation energy (~81% of contracted energy). The PLF in FY24 stood at ~50% of generation energy (~74% of contracted energy) in FY24. The decline in PLF was due to machinery breakdown, and problems in civil structure amid natural disaster. The total operating income (TOI) stood at 850 Mn in FY24 increasing from NPR 559 Mn in 8MFY23 (A). The EBITDA margin stood at ~76% in FY24, declining from ~89% in FY23, mainly due to increase in generation expenses involving repair and maintenance expenses. However, the company incurred net losses in both years due to high depreciation and finance costs.

Leveraged capital structure with weak debt-service coverage capabilities

The company's capital structure stood leveraged, with overall gearing ratio of 7.78x as on mid-July 2024, increasing from 5.10x as on mid-July 2023. This was mainly due to deterioration of tangible net-worth in FY24 because of the losses incurred. The total debt in FY24 amounted to NPR 7,103 Mn, consisting of long term loan, overdraft loan, and loan from directors. The company expects to repay the director's loan, as well as prepay portion of long term loan from the right share proceeds. This is expected to improve the gearing ratio of the company moving forward. The interest coverage ratio stood low at 0.85x in FY24 vis-à-vis 0.99x in FY23 on account of high interest expenses. The DSCR also stood low at 0.22x in FY24 compared to 0.33x in FY23. Furthermore, the company's total debt

to GCA stood negative.

Hydrology risk associated with R-o-R projects

Run-of-the-river (ROR) projects have no or little capacity for storage of water leading to high dependence on the river water flow for power generation. Due to this, these projects have higher generation during wet season and lower during dry season. ROR projects are directly exposed to risk associated with variation in discharge of water from the river. The project has 20.80 m³/s design discharge at 41.60% exceedance flow. 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. Nonetheless, the project river "Balephi Khola" is a snow fed river, which lowers the concern to some extent.

Analytical Approach: Standalone

Applicable Criteria:

[Issuer Rating Methodology](#)

[Corporate Credit Rating Methodology](#)

Past Rating Rationale:

[Balephi Hydropower Limited: Bank Facilities and Issuer Rating Assigned](#)

About the Company:

Balephi Hydropower Limited (BHL) was initially incorporated in February 2012 as a private limited company and was later converted to public limited in January 2017 to encourage public participation. The company currently operates 36 MW operational project, Upper Balephi-A Hydroelectric Project (UBAHEP), located at Sindhupalchowk district of Nepal. The project has been in commercial operation since November 22, 2022. UBAHEP, a run of river covers a catchment area of 434 km², has a design discharge of 20.80m³/s at 41.60% PoE⁴ with gross head of 208m. BHL has a paid-up capital of NPR 1,827.97 Mn, as of mid- July 2023, which is held by both promoters and public in a ratio of 80:20. The major promoters include Mr. Sulav Agrawal (14.60%), Mr. Sushil Gupta (14%), Mr. Shakti Kumar Golyan (12.55%), Mr. Sandeep Kumar Sharda (11.34%), among others.

Financial Indicators (Standalone)

For the year ended** As on	FY23*	FY24
	Audited	Unaudited
Total Operating Income (NPR Mn)	559	850
EBITDA Margin (%)	89.40	76.01
Interest Coverage Ratio (x)	0.99	0.85
Current Ratio (x)	0.71	0.31
Overall Gearing Ratio (x)	5.10	7.78

*8 months

**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	6,674.71	IRN BB-
Fund Based Bank Facilities- Short Term Loan	Short Term	100.00	IRN A4
Total Facilities		6,774.71	



Infomerics Credit Rating Nepal Limited

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

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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