PRESS RELEASE

NUMBUR HIMALAYA HYDROPOWER LIMITED

December 2024

Rating

Instruments/ Facilities	Amount (NPR Mn)	Rating	Rating Action
Issuer Rating	NA	IRN BBB- (Is)	Assigned

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the issuer rating of IRN BBB- (Is) [Triple B Minus (Issuer)]. Issuers with this rating are considered to have the moderate risk of default regarding timely servicing of financial obligations. Such issuers carry moderate credit risk.

Detailed Rationale

The rating assigned to Numbur Himalaya Hydropower Limited (NHHL) factors in the strong and experienced promoters group namely MV Dugar group. Similarly, the rating also takes note of experienced management team alongside presence of long term Power Purchase Agreement (PPA) covering majority of the project's lifespan, at predetermined rates. The rating also takes note of strong and consistent operational performance of the project since commercial operation date (COD) with the project generating ~99%, ~92%, ~88% and ~102% of contracted energy during 5MFY22, FY23, FY24 and 3MFY25 respectively. The rating also derives comfort from healthy EBITDA margin of the project (~83.7% in FY23 and 82.33% in FY24) alongside strong interest coverage indicators (1.8x in FY23 and 1.6x in FY24) . The rating also factors in the low power evacuation risk alongside improving demand for electricity and Government of Nepal support for the power sector.

However, these rating strengths are constrained by leveraged albeit improving capital structure (Overall gearing ratio of 3.51x in FY24 vis-à-vis 3.70x in FY23) owing to high debt portion of the project. The rating is further constrained by the hydrology risk associated with run-of-the-river (ROR) power generation, risk of natural calamities inherent in operational hydropower projects and interest volatility risk. Going forward, the company's ability to maintain the current operational efficiency alongside reducing the gap between contracted plant load factor (PLF) and operational PLF on a sustained basis, strengthen its coverage indicators, improve gearing ratios and efficiently utilize its IPO proceeds for funding ongoing projects of its sister concern will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters and management team with strong group support

NHHL is promoted by individuals from MV Dugar group, a business conglomerate with wide experience and expertise across various sectors including hydropower sector with MV Dugar Group successfully overseeing management and construction of hydroelectric project exceeding 300 MW in capacity. NNHL is led by its board of directors chaired Mr. Vivek Dugar who have decades of experience in leading various business organization including other hydroelectric projects. Similarly, another director Motilal Dugar, is Chairman of MV Dugar Group and is a leading industrialist in hydropower sector of Nepal with more than 47 years of experience. NHHL also boasts presence of an institutional promoter by Mogha Energy DMCC, having objective of investing in hydropower projects in Nepal. The Board of Directors are well supported by well-seasoned and experienced management team led by CFO Mr. Purna Man Napit. Presence of such experienced promoters and management personnel assists NNHL to successfully navigate through challenges and achieve desired objectives and is a rating positive.

Satisfactory operational and financial performance

The project has been operational since February 8, 2022, with an initial Plant Load Factor (PLF) of ~51% for the last five months of FY22, generating 99% of contracted energy. Over the next two years, the energy generation moderated to ~92% and 88% of contracted PLF in FY23 and FY24 respectively due to a combination of natural factors, including drought, and infrastructure upgrades at the New Khimti Substation. Despite the reduced generation in FY24, operational efficiency remained satisfactory. Revenue from electricity sales reached NPR 270 Mn in FY22, NPR 744 Mn in FY23, and NPR 732 Mn in FY24. EBITDA margins remained strong at ~82%-83%, though slight moderation occurred from initial year of operation due to increased maintenance costs. Net profit was NPR 32 Mn in FY22, NPR 68 Mn in FY23, and NPR 19 Mn in FY24 (provisional figure), with the decline attributed to lower sales and higher finance charges. Gross Cash Accruals (GCA) followed a similar trend, decreasing from NPR 280 Mn in FY23 to NPR 231 Mn in FY24. However, with improved hydrology and a fully operational substation, the energy generation averaged ~102% of contracted energy with NHHL generating revenue of ~NPR 316 Mn during 3MFY25. The company's ability to maintain the current operational efficiency alongside reduce the gap between contracted PLF and operational PLF on a sustained basis is key rating monitorable.

Power Purchase Agreement covering significant life of the project, at predetermined tariffs

NHHL had entered into a PPA with NEA as on March 06, 2015 for sale of 24.20 MW power to be generated from the project on take or pay basis. But 7 years later on June 30,2022, company entered into PPA for sale of additional electricity of 4.84 MW to be sold on take and pay basis and amended the PPA with NEA. The period of the PPA is 30 years from commercial operation date (COD) or till validity of Generation License (expire date of is FY2050), whichever is earlier. 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.

Improving market demand with Government support for the power sector

According to the NEA's Annual Report, the annual peak electricity demand during FY23 was 1,870 MW from 1,748 MW during FY22. Additionally, the total energy demand for the time period was 8,850 GWh during FY21 which increased to 11,064 MW during FY22 which further increased to 12,369 MW during FY23 of which 1,833 GWh were imported from India and the remaining was generated domestically. The total export to India soared to 1,333 GWh in FY23 against 493 GWh in FY22. With this the net import of electricity reduced to ~510 GWh representing ~4.12% of total electricity available. Further, NEA has earned ~NPR 10.54 Bn from exporting electricity to India in FY23. Hence, the prospects remain positive in view of improving generation, growing demand with scope of export. 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 2027 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

Leverage albeit improving capital structure

The capital structure of NHHL is leveraged owing to high debt funded project (debt equity ratio 80:20). However, the gearing ratio is in improving trend with the same standing at to 3.51x as on mid-July 2024, improving from 3.70x in FY23 with scheduled repayment of loans and accrual of profit. In addition, on account of reduced GCA owing to moderation in electricity generation due to low water flow, the Total Debt/GCA has moderated slightly during the year from 17.07x in FY23 to 19.91x in FY24. However, the coverage indicators including interest coverage ratio is moderate at 1.61x in FY24 (1.80x in FY23). The DSCR also remains moderate at 1.12x in FY24 (1.35x in FY23). The ability of the company to improve its capital structure will remain key monitorable.

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. NHHL is utilizing discharge from tailrace of Likhu Khola located at Ramechhap and Solukhumbu District, having catchment area of 421 km2. 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.

Risk of Natural Calamities
Hydropower projects are prone to risk from natural disasters, such as floods, landslides and earthquakes, as the projects are generally located in challenging terrains with uncertain geology. These occurrences can significantly disrupt infrastructure, leading to construction delays and inflated costs. Moreover, they may disrupt power generation and evacuation, consequently affecting the financial performance of the projects. Hydropower projects like LAHP are inherently exposed to risk of these natural calamities, which may affect the project's execution, functioning and financial performance.

Analytical Approach: Standalone

Applicable Criteria:
Issuer Rating Methodology

About the Company:
Numbur Himalaya Hydropower Limited ("the Company") was incorporated as a private limited company on August 21, 2007 which was later converted into public company on April 04, 2021 for the development and implementation of the hydro power project. The company was established to develop, own and operate Likhu Khola "A" Hydropower Project (LAHP) with a capacity of 29.04 MW in Solukhumbu and Ramechhap district of Nepal, with 24.2 MW scheduled to be sold on "Take or Pay" basis and additional 4.84 MW sold on "Take and Pay" basis. LAHP boasts catchment area of 421 km^2, a design discharge of 19.11 m^3/s at 40% PoE and available gross head of 150.93m. The company is promoted by individuals from MV Dugar Group and institutional promoter by Mogha Energy DMCC. The major shareholders as on September 10, 2024 are Mr. Vivek Dugar (~36%), Mr. Motilal Dugar (~33%), Mr. Shubham Dugar (~8%) and Mogha Energy DMCC (~7%). NNHL is planning to utilize its entire IPO proceed in construction of Lapche Khola Hydropower Project, a 160 MW project being constructed by its sister concern Nasa Hydropower Limited.

Financial Indicators (Standalone)

For the year ended* As on	5MFY22	FY23	FY24
	Audited		Provisional
Total Operating Income (NPR Mn)	284	755	738
EBITDA Margin (%)	92.05	83.74	82.33
Interest Coverage Ratio (x)	1.91	1.80	1.61
Current Ratio (x)	0.48	1.11	1.78
Overall Gearing Ratio (x)	3.74	3.70	3.51

Analyst Contacts

Mr. Girish Bhatta
Tel No.+977-1-4583304/4585906
girish.bhatta@infomericsnepal.com

Mr. Raunak Mulmi
Tel No.+977-1-4583304/4585906
raunak.mulmi@infomericsnepal.com

Relationship Contact

Mr. Rabin Pudasaini
Tel No.+977-1-4583304/4585906
rabin.pudasaini@infomericsnepal.com

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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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