

PRESS RELEASE

BUTWAL POWER COMPANY LIMITED

June 2025

Rating

Instruments/ Facilities	Amount (NPR Mn)	Rating	Rating Action
Issuer Rating	NA	IRN A- (Is)	Reaffirmed
Long Term Bank Facilities	72.16	IRN A-	Assigned
Short Term Bank Facilities	700.00	IRN A2+	Assigned
Total	772.16		

Details of facilities are given in Annexure-1

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the rating of IRN A- [Single A Minus] to the long-term bank facilities and IRN A2+ [A Two Plus] to the short-term bank facilities. Also, Infomerics Nepal has reaffirmed the issuer rating of IRN A- (Is) [Single A Minus (Issuer)]. Issuers with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations.

Detailed Rationale

The reaffirmation of the rating assigned to Butwal Power Company Limited (BPCL) and ratings assigned to its bank facilities derive strength from the satisfactory operational and financial performance of the company marked by robust cash accruals. The ratings also factor BPCL's comfortable liquidity position supported by sustained cash generation from operations and liquid investments in listed shares of subsidiary company. The ratings also derive 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 towards the power sector.

These rating strengths are partially offset by exposure of the company to group companies and related capital commitments, hydrology risk associated with run-of-the-river power generation, and exposure to regulatory risk. The ratings also take into account losses in its power distribution segment amid higher operating expenses coupled with relatively lower approved tariffs. Going forward, the ability of the company to steadily improve its operational margins on a sustained basis with timely receipt of payments from the Nepal Electricity Authority (NEA) will be 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 2024. 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, Jhimruk Hydropower Plant and Andhikhola Hydropower Plant, 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 around NPR 694 Mn in FY24, though declined by ~4% year-on-year from FY23 (NPR 724 Mn) amid lower power generation during FY24. In 9MFY25, BPCL generated NPR 559 Mn revenue from power generation and distribution, an increase of ~ NPR 15 Mn compared to same period in FY24. The power distribution segment of the company has been incurring losses amid higher operating expenses coupled with lower distribution tariffs. Dividend income constrained to NPR 28 Mn in FY24 from NPR 44 Mn in FY23. EBITDA margin has been healthy at ~36% in FY24 though declined from 39% in FY23 owing to higher operational expenses. 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 38 Mn at the end of FY24 (FY23: NPR 514 Mn). Furthermore, the company had significant investments of NPR 4,626 Mn at the end of FY24 which increased from NPR 4,268 Mn at the end of FY23, though remained majorly invested in unquoted equity shares of group companies. Out of the total investments of NPR 4,268 Mn, NPR 1,075 Mn has been invested in publicly traded listed shares of Nyadi Hydropower Limited (NYADI).

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 (FY22-FY24). The overall gearing stood comfortable at 0.01x as of mid-July 2024, constant to mid-July 2023. Also, the interest coverage of the company stood healthy at 20x in FY24 (FY23: 26x). Also, the company's total debt to Gross Cash Accruals has been satisfactory at 0.37x in FY24 (0.22x in FY23). The company expects to conclude the right issue amounting to more than NPR 1 billion, which is expected to further aid the company in enhancing its net worth base and ultimately its investment portfolio.

Power Purchase Agreement 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 (JPP) till mid-July 2043 at a fixed tariff of NPR 5.326 per unit. Also, for the Andhikhola Hydropower Plant (APP), BPCL 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 the wet season (mid-April to mid-December) is NPR 4 per kWh and for the dry season (mid-December to mid-April) is NPR 7 per kWh with a 3% escalation on base tariff for 9 times every year after the completion of 12 months from COD.

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 3,825 Mn which is equivalent to ~45% of its tangible net worth as of mid-July 2024. The majority of the investment is into the companies in the generation of hydroelectricity and others include companies in designing and providing consultancy services in water resource-based infrastructure projects. Two of the invested companies namely Khudi Hydropower Limited and Nyadi Hydropower Limited are operating 4MW and 30MW hydropower plants respectively. BPCL has invested in 5 companies developing hydropower projects with a combined capacity of 646.7MW (including Khudi Hydropower Limited and Nyadi Hydropower Limited) and has made a capital commitment of more than NPR 9 billion; out of which the company has already invested ~27% of the total commitment. The company plans to fulfill the commitment mainly through the right issue proceeds and internal accruals of the company. As the projects are in the initial stages of construction, such projects 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 the run-of-the-river (ROR) power generation

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. JPP and APP 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.

Environmental risk

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](#)

Past Rating Rationale:

[Butwal Power Company Limited: Issuer Rating Assigned](#)

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 and Andhikhola Hydropower Plant of 12MW and 9.4MW capacity respectively.

Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23	FY24	9MFY25
	Audited	Audited	Audited	Audited	Unaudited
Total Operating Income (NPR Mn)	971	786	769	722	628
EBITDA Margin (%)	52.17	41.39	39.37	35.85	48.99
Interest Coverage Ratio (x)	26.07	25.41	26.39	19.86	50.09
Current Ratio (x)	8.90	5.64	2.80	1.90	1.33
Overall Gearing Ratio (x)	0.02	0.03	0.01	0.01	0.03

*Classification as per Infomerics Nepal standards

EBITDA: Earning Before Interest Tax Depreciation Amortization

Annexure 1: Details of Facilities

Instruments/ Facilities	Type of Facilities	Amount (NPR Mn)	Rating
Long Term Bank Facilities-Term Loan	Term Loan	68.41	IRN A-
Long Term Bank Facilities-Term Loan (Proposed)	Term Loan	3.75	IRN A-
Short Term Bank Facilities-Fund Based Loan	Short Term	500.00	IRN A2+
Short Term Bank Facilities-Non-Fund Based Loan	Short Term	200.00	IRN A2+
Total		772.16	

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About Infomerics Credit Rating Nepal Limited:

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