Sagarmatha Jalbidhyut Company Private Limited: Long-term rating upgraded to [ICRANP] LBB; [ICRANP]A4+ assigned

July 13, 2020

Summary of rated instruments

Instrument *	Rated Amount (NPR Million)	Rating Action
Long-term rating; fund-based	1,340	[ICRANP] LBB; upgraded
Short-term rating; fund-based	30	[ICRANP] A4+; assigned
Total	**1,370**	

** Instrument details are provided in Annexure-1*

Rating action

ICRA Nepal has upgraded the long-term rating of Sagarmatha Jalbidhyut Company Private Limited's (SJCPL) to [ICRANP] LBB (pronounced ICRANP L double B) from [ICRANP] LBB- (pronounced ICRA NP L double B minus) to its long-term loan and assigned a short-term rating of [ICRANP] A4+ (pronounced ICRANP A four plus) to its short-term loan.

Rationale

SJCPL's rating upgradation considers the early completion of its 9.6-MW Super Mai A HPP project, seven months prior its required commercial operation date (RCOD[1]), and the completion of the same within its budgeted cost of NPR 1,790 million (NPR 186 million per MW). The early completion has enabled the project to avail of all the eight available tariff escalations which remain crucial in determining long-term tariff rates and revenue of the project amid the fixed tariff and fixed escalation regime. It will enable the project in collecting around four months of revenue before the repayment[2] of the loan begins. This, coupled with the ballooning repayment schedule for the long-term loan, would support the return and coverage indicators of the company. Also, the ratings consider the prior experience of the promoters and the key management team in the related sector, which remain a comfort for the operational and maintenance aspects of the project. The ratings also consider the low tariff risk and low off-take risk amid an already signed PPA with the Nepal Electricity Authority (NEA), the sole purchaser and distributor of electricity in Nepal with pre-determined tariff rates and escalations on a take-or-pay basis.

Nonetheless, the ratings remain constrained by the 10% reserve margin clause in the PPA, which could impact the revenue profile of the project in case the generation exceeds 90% of the energy for the period specified in the PPA. The ratings are also constrained by the short supply penalty and/or loss of revenue that the company might face for the differences in availability declaration (AD) and actual energy supplied, as indicated in the PPA. The ratings are also concerned by the absence of a deemed generation clause in the PPA, which exposes the project to high hydrological risks without any compensation from the NEA in case of the adverse flow in the river. This is further accentuated by the dependence of the hydrology of the river on a rain-fed perennial source. The counterparty credit exposure of the NEA, which has a moderate financial profile (with recent improvements), is also worrisome. This, however, is partly mitigated, given the sovereign support of the Government of Nepal (GoN) to the NEA and its past track record of timely payments to independent power producers (IPPs).

Going forward, SJCPL's ability to achieve its designed operating parameters, good hydrology of the river and interest rate volatility in the market would be the key drivers for determining the project return metrics and other coverage indicators for the company.

[1] *Required Commercial Operational Date (RCOD) is January 13, 2021.*

[2] *Repayment of loan distributed over 12 years through 48 quarterly installments; first repayment to begin from mid-October 2020.*

Key rating drivers

Credit strengths

Prior experience of the promoters in hydropower projects - SJCPL's promoters and the management team have prior experiences in under-constructional as well as operational hydropower projects. Mr. Mohan Bikram Karki and Mr. Rajendra Prasad Gautam, directors as well as promoters, have also developed the operational 7.6 Super Mai HEP (rated BB+/A4+ by ICRA Nepal) in the same vicinity, 21 months prior to its RCOD and within the budgeted cost. Their related past experiences are expected to aid the operational & maintenance aspects of the project in the days ahead.

Project developed within the budgeted cost seven months prior its RCOD - The project is in commercial operation stage since June 14, 2020 as against its RCOD of January 13, 2021. The project, estimated to be developed at a budgeted cost of NPR 1,790 million (NPR 186 million per MW) in a D:E ratio of 75:25, has incurred NPR 1,626 million (91% of the budgeted cost) till the commercial operation date. Some finishing works across the civil, HM and EM components are yet to be completed within the remaining budget. With its early completion, the project is eligible for all the eight tariff escalations of 3% on the base rate, which would support the revenue profile of the company amid the fixed tariff and fixed escalations regime.

Moderate return and coverage indicators - The company's return and coverage indicators are expected to remain moderate, supported by a good revenue profile with eight tariff escalations amid the fixed tariff and fixed escalation scenario. The indicators also remain supported with four months of revenue collection before the loan repayment begins and the ballooning repayment modality for its long-term loan. The cumulative debt servicing coverage ratio (DSCR) is expected to be around 1.17x with a levelised cost of NPR 4.36 and a levelised tariff of NPR 6.19. Nonetheless, the project's generation trend, yet to be established, would determine the return and coverage indicators going forward.

Low tariff risk, given long-term PPA at predetermined tariffs and escalations - The tariff risk of the project is low as the company has a 30-year PPA with the NEA for its entire project capacity of 9.6MW. The pre-defined tariff rates are NPR 4.8 per kWh for the wet season (mid-April to mid-December) and NPR 8.4 per kWh for the dry season with a 3% annual escalation for eight times. The project is eligible for all the eight tariff escalations.

Credit challenges

Low offtake risk, however, provision of 10% reserve margin in PPA likely to impact revenue profile: The offtake risk for the project is low, given the take-or-pay PPA for the offtake of energy from the 9.6-MW capacity. However, the provision of a 10% reserve margin clause in the PPA for the specified period empowers the NEA to offtake such 10% energy based on the dispatch instruction of the load dispatch centre. The NEA is not bound to pay any compensation to SJCPL for the non-offtake of such energy. The prevalence of such a scenario would affect the revenue profile of the company.

Exposure to short supply penalty or loss of revenue: A mismatch in the Availability Declaration (AD) and the actual generation from the project could lead to short supply penalty[3] if the company fails to supply less than 80% of the AD, except in cases of the NEA's fault or scheduled outage or force majeure events. Similarly, the NEA is not liable to pay for the energy supplied above the AD declared by the project, which would result in loss of revenue to the company.

High hydrology risk, given lack of deemed generation clause in PPA: The lack of a deemed generation clause in the PPA exposes the project to hydrological risks, given the absence of any compensation for losses in adverse river flow scenarios. Additionally, a rain-fed perennial source could affect the hydrology of the river with fluctuations in rainfall in the basin.

[3] *Penalty payable is equal to 0.8 X that months Contract Energy – Electricity supplied to Authority – that month's non-production of electricity by company due to Authority's fault or Scheduled outage or uncontrollable situation) X that month's purchase rate per kWh of electricity.*

Analytical approach: For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below.

Links to applicable criteria:
Corporate Credit Rating Methodology

About the company

Sagarmatha Jalbidhyut Company Private Limited (SJCPL), incorporated in November 2015 as a private limited company, has a paid-up capital of the ~NPR 439 million as of mid-June 2020, which is 100% promoter held. As on the same date, major promoters include Mr. Rajendra Gautam (~44%), Mr. Madhav Prasad Mainali (18%), Mr. Mohan Bikram Karki (18%), Mr. Rajendra BC (14%), Mr. Krishna Prasad Neupane (3%) and Mr. Buddhi Bahadur Karki (3%).

The company is operating a 9.6-MW Super Mai-A HPP in Ilam district, Province 1 of Nepal since June 14, 2020. It is a run-of-the-river (RoR) type project and has been developed at 40% probability of exceedance (Q40). The project has been commissioned seven months prior its RCOD (January 13, 2021) and has been developed within a budgeted cost of NPR 1,790 million in a D:E ratio of 75:25. The project has been financed by a consortium of four banks in lead of Sanima Bank Limited which was rated at [ICRANP-IR] A.

Annexure-1: Instrument details

Instrument *	Rated Amount (NPR Million)	Rating Action
Fund-based facilities; long-term loan (A)	**1,340**	
Term Loan (long term; fund based)	1,340	[ICRANP] LBB; upgraded from [ICRANP] LBB-
Fund-based facilities; short-term loans (B)	**30**	
Bridge gap loan (within the term loan)	(300)	[ICRANP] A4+; assigned
Overdraft (short term; fund based)	30	[ICRANP] A4+; assigned
Non-fund based facilities; short-term loan (C)	**0**	
Letter of Credit (within the term loan)	(755)	[ICRANP] A4+; assigned
Total (A+B+C)	**1,370**	

Analyst Contacts

Mr. Kishor Prasad Bimali, (Tel No. +977-1-4419910/20)
kishor@icranepal.com

Mr. Purushottam Sedhai, (Tel No. +977-1-4419910/20)
purushottam@icranepal.com

Relationship Contacts

Ms. Barsha Shrestha, (Tel No. +977-1-4419910/20)
barsha@icranepal.com

About ICRA Nepal Limited

ICRA Nepal Limited, the first Credit Rating Agency of Nepal, is a subsidiary of ICRA Limited (ICRA) of India. It was licensed by the Securities Board of Nepal (SEBON) on October 3, 2012. ICRA Nepal is supported by ICRA Limited through a technical support services agreement, which envisages ICRA helping ICRA Nepal in areas such as rating process and methodologies, analytical software, research, training, technical and analytical skill augmentation.

Our parent company, ICRA Limited, was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies.

For more information, visit www.icranepal.com

ICRA Nepal Limited,
Sunrise Bizz Park, 6th Floor, Dillibazar, Kathmandu, Nepal.
Phone:+977 1 4419910/20
Email: info@icranepal.com
Web: www.icranepal.com

ICRA Nepal ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. The ICRA Nepal ratings are subject to a process of surveillance which may lead to a revision in ratings. Please visit our website (www.icranepal.com) or contact ICRA Nepal office for the latest information on ICRA Nepal ratings outstanding. All information contained herein has been obtained by ICRA Nepal from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Nepal in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion and ICRA Nepal shall not be liable for any losses incurred by users from any use of this publication or its contents.