

## Super Mai Hydropower Limited: [ICRANP-IR] BB+ assigned; [ICRANP] LBB+/A4+ reaffirmed

December 23, 2020

### Summary of rated instruments

Instrument *	Rated Amount (NPR Million)	Rating Action
Issuer Rating	NA	[ICRANP-IR] BB+; Assigned
Long-term loan; Fund based	1,100	[ICRANP] LBB+; Reaffirmed
Short-term loan; Fund based	30	[ICRANP] A4+; Reaffirmed
<b>Total</b>	<b>1,130</b>	

\* Instrument details are provided in [Annexure-1](#)

### Rating action

ICRA Nepal has assigned an Issuer rating of [ICRANP-IR] BB+ (pronounced ICRA NP issuer rating double B plus) to Super Mai Hydropower Limited (SMHL). ICRA Nepal has also reaffirmed a long-term rating of [ICRANP] LBB+ (pronounced ICRA NP L double B plus) to long-term loan and a short-term rating of [ICRANP] A4+ (pronounced ICRA NP A four plus) to short-term loan of SMHL.

### Rationale

The ratings consider the satisfactory operational and financial performance of the project with the project supplying net energy of ~84%<sup>1</sup> to Nepal Electricity Authority (NEA) for FY2020. The return indicators as well as debt service coverage ratio remained comfortable for the operational period. Also, the ratings consider the early completion (21 months prior its RCOD<sup>2</sup>) of the project (operational since the last 25 months), which enabled it in availing all the five tariff escalations that would be supporting the return and coverage indicators amid the fixed tariff and fixed escalation regime. The ratings also consider the experience of the promoters and the key management team in the related sector, which provides comfort for the operational and maintenance aspects of the project. Similarly, the assigned ratings consider the low tariff risk and low offtake risk amid the already signed PPA with NEA, the sole purchaser and distributor of electricity in Nepal at pre-determined tariff rates and escalations along with positive demand outlook for the energy sector owing to the supply-demand gap in the power sector as well as the increasing energy consumption in the nation.

Nonetheless, the ratings remain constrained by the moderate project cost of NPR 1,488 million (NPR 191 million per MW) and 10% reserve margin clause in PPA, which could impact the revenue profile of the project till FY2031/FY2032 in case of generation of more than 90% of energy for the period as specified in the PPA. The ratings are also constrained by the short supply penalty and/or loss of revenues that the company might face for the differences in availability declaration (AD)<sup>3</sup> and actual energy supplied as indicated in the PPA. Also, the ratings are constrained by the absence of a deemed generation clause in the PPA, which exposes the project to high hydrological risks without receiving any compensation from NEA in case of adverse flow in the river; this is further accentuated by the fact that the hydrology of the river is dependent on a rain-fed perennial source. The ratings are also constrained by the counterparty credit exposure of NEA, which has a moderate financial profile (with recent improvements). This is partly mitigated by the sovereign support of the Government of Nepal (GoN) to NEA and its past track record of timely payments to independent power producers (IPPs).

Going forward, SMHL's ability to raise the proposed IPO, achieve its designed operating parameters, good hydrology of the river from a rain-fed source 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.

<sup>1</sup> operating at ~58% net plant load factor (PLF) vs. contract PLF of 69%

<sup>2</sup> Required Commercial Operation Date was July 16, 2020

<sup>3</sup> Availability declaration cannot be lower than 50% of contract energy in both dry and wet seasons. Supply of energy lower than 80% of AD attracts short supply penalty while excess generation more than AD is not eligible for any payments.

## Key rating drivers

### Credit strengths

**Experience of promoters in hydropower sector:** The company's board and senior management have prior experience and technical expertise in the hydropower/engineering sector. Mr. Mohan Bikram Karki, Chairman as well as major promoter of the project, was previously involved as the Managing Director in the operational 998-kW Kutheli Bukhari Small Hydropower and 9.6MW Super Mai A HPP (**Rated BB/A4+**) and is also involved in various capacities in other under-construction hydropower projects, such as the 3-MW Super Mai Cascade HPP, the 9.51-MW Mai Beni HPP and the 8.63-MW Chepe Khola Small HPP. Similarly, the engagement of other promoters and directors in other under-construction as well as operational hydropower projects provides operational and maintenance support to the company at times of need.

**Satisfactory operational performance:** The operational 7.8-MW Super Mai HEP grossly generated 88% of the contracted energy for FY2020 with net energy supply of ~84% to the NEA. The project operated at ~58% net PLF for FY2020 compared to the contract PLF of 69%. Net generation also remained supported by the low transmission loss of ~0.29% for 8.5M FY2019 and 0.38% for FY2020. Going forward, the hydrology support and the generation trend would determine the revenue profile of the company.

**Adequate return indicators and comfortable coverage ratios:** For the complete operational year FY2020, the operating margin of the company remained at ~90% with net profit margin of ~21% and return on net worth (RONW) of ~11%. The company also provided a cash dividend of ~7.16% to its equity shareholders. Similarly, the DSCR remained comfortable at 1.44x along with ICR of 1.9x for the same year.

**Low tariff risk because of long-term PPA at predetermined tariffs and escalations:** The tariff risk is low as the company has a 30-year PPA for the project with NEA for its entire project capacity of 7.8 MW. The pre-defined tariff rates are NPR 4.8 per kWh for the wet season (mid-April–mid December) and NPR 8.4 per kWh for the dry season with a 3% annual escalation clause in the tariff for five times. The project having been developed within its RCOD, is eligible for all five escalations.

### Credit challenges

**Moderate-to-high project cost and exposure to short supply penalty and/or loss of revenue:** The project cost of NPR 1,488 MW (NPR 191 per MW) for the 7.8-MW project is on a relatively higher side, despite the same being within the budgeted cost of NPR 1,500 million. This, along with past exposure of the project towards short supply penalty and/or loss of revenues for failure to properly declare AD, could constrain its revenue profile. Going forward, the prudent declaration of AD so as to avoid short supply penalty and/or loss of revenues could favourably impact the profitability and coverage ratios of the company.

**Low offtake risk, although provision of 10% reserve margin for project can impact revenue profile:** The offtake risk for the project is low, given the presence of the take-or-pay PPA for the entire energy from the 7.8-MW capacity. However, the provision of 10% reserve margin clause in the PPA is for the period of FY2019/FY2020 to FY2031/FY2032, which empowers NEA to offtake 10% energy based on the dispatch instruction of the load dispatch centre. NEA is not bound to pay any compensation to SMHL for non-offtake of such energy, which may impact the revenues of the latter if such a scenario prevails. Nonetheless, the risk is reduced to some extent, given the present demand–supply gap in the energy sector as well as the increasing energy demand in the country.

**High hydrology risk due to lack of deemed generation clause in PPA:** 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. Additionally, a rain-fed perennial source could affect hydrology of the river with fluctuations in rainfall in the basin. There were instances of short supply penalty payment for failure to properly declare AD due to lack of river hydrology and precipitation data.

**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

Super Mai Hydropower Limited (SMHL), incorporated on July 2, 2017 as a public limited company, has been established with the objectives of investment and development of hydropower project. The paid-up capital of the company as of mid-October 2020 is NPR 400 million, which is a 100% promoter held. As on the same date, the major promoters include Mr. Mohan Bikram Karki (~19%), Mr. Buddhi Bdr Karki (~14%) and Mr. Sabita Bartaula (~14%) and other 14 shareholders aggregately holding nominal shares aggregating to ~53% of total paid-up capital.

The company is operating a 7.8-MW Super Mai HPP in Ilam district, Province 1 of Nepal. The project is a run-of-the-river (R-O-R) type and has been developed at 40% probability of exceedance (Q40).

The project was commissioned 21 months prior its RCOD on October 28, 2018 against the required COD of July 16, 2020 within the total project cost of ~NPR 149 million against the budgeted cost of ~NPR 150 million. The project has grossly generated ~88% of the contracted energy for FY2020.

## Key Financial Indicators

Amount in NPR million	Audited	
	8.5MFY2019	FY2020
Operating Income (OI)	105	218
Profit after tax	-10	46
OPBDITA/OI (%)	86%	90%
ROCE (%)	10%	10%
Total debt/Tangible net worth (TNW; times)	2.84	2.46
Total Outside Liability/TNW (times)	2.85	2.46
Total Debt/OPBDITA (times)	8.46	5.38
Interest coverage (times)	1.45	1.87
DSCR (times)	1.34	1.44
NWC/OI (%)	16%	21%

## Annexure-1: Instrument details

Instrument *	Rated Amount (NPR Million)	Rating Action
Issuer Rating	NA	[ICRANP-IR] BB+; Assigned
Term Loan (long term; fund based)	1,100	[ICRANP] LBB+; Reaffirmed
Working Capital	30	[ICRANP] A4+; Reaffirmed
<b>Total</b>	<b>1,100</b>	

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## About ICRA Nepal Limited

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