Super Mai Hydropower Limited: Ratings upgraded to [ICRANP-IR] BBB- and [ICRANP] LBBB-/A3

December 27, 2021

Summary of rated instruments

Instrument * (limits in NPR million)	Last rated limits	Current rated limits	Rating Action
Issuer Rating	NA	NA	[ICRANP-IR] BBB-; upgraded from [ICRANP-IR] BB+
Long-term loans; Fund based	1,100	1,100	[ICRANP] LBBB-; upgraded from [ICRANP] LBB+
Short-term loans; Fund based	30	30	[ICRANP] A3; upgraded from [ICRANP] A4+
Total	**1,130**	**1,130**	

** Instrument details are provided in Annexure-1*

Rating action

ICRA Nepal has upgraded the issuer rating of Super Mai Hydropower Limited (SMHL) to [ICRANP-IR] BBB- (pronounced ICRA NP issuer rating triple B minus) from [ICRANP-IR] BB+ (pronounced ICRA NP issuer rating double B plus). Issuers with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations. Such issuers carry moderate credit risk. This rating is only an opinion on the general creditworthiness of the rated entity and is not specific to any debt instrument.

ICRA Nepal has also upgraded the long-term rating assigned to the bank limits of SMHL to [ICRANP] LBBB- (pronounced ICRA NP L triple B minus) from [ICRANP] LBB+ (pronounced ICRA NP L double B plus) and upgraded the short-term rating to [ICRANP] A3 (pronounced ICRA NP A three) from [ICRANP] A4+ (pronounced ICRA NP A four plus).

Rationale

The ratings upgradations consider the consistent operational and financial performance of the project with the project supplying the net energy of ~84%[1] to Nepal Electricity Authority (NEA) for both FY2020 and FY2021. The ratings also consider the gradual improvement in gearing level supported by repayment of project loans and improvement in reserves (despite dividend distribution). The capitalisation profile is expected to further improve after the proposed IPO and its use to downsize the project debts, as per the plan of the company (assuming full subscription). The reduction in borrowing cost following the swapping of the company's loan to new bank[2] also remains a positive. This has resulted in a comfortable coverage ratio; DSCR of 1.31x and interest coverage of 1.94x for FY21. The ratings also factor the availability of all five tariff escalations amid early project completion which is expected to support the return indicators going forward. 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 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 concentration of company's cashflow/revenue profile on a single project. The financial profile of the company therefore remains vulnerable to the project downtime that may occur from geological risk/natural calamities. 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. Likewise, the ratings remain constrained by the provision of 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 five months of wet season (mid-July to mid-November; SMHL having 3 months of energy >90% in that time slot). The ratings are also constrained by the interest

[1] *operating at ~58% net plant load factor (PLF) vs. contract PLF of 69%*

[2] *Loan swapped to new bank during FY2020/21, current effective interest rate of ~5.51% as of mid-Oct 2021.*

rate volatility risk on the bank borrowings and 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 timely raise the proposed IPO, achieve its designed operating parameters, hydrology of the river with 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.

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 (Rated IR BBB-) and 9.6MW Super Mai A HPP (Rated LBB/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.

Consistent operational performance: The operational 7.8-MW Super Mai HEP supplied ~84% of the contracted energy for FY2020 as well as FY2021. The project operated at ~58% net PLF compared to the contract PLF of 69%. The generation also remained supported by the low transmission loss of ~0.49% for FY2021. 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 year FY2021, the operating margin of the company remained at ~89% with net profit margin of ~22%, which remains supported with consistent generation trend and increase in tariff rates with 3% annual escalation. Similarly, return on net worth (RONW) of the company stood at ~11%. The company also declared a cash dividend of ~11.5% to its equity shareholders for FY2021. Similarly, amid recent swapping of loans to the PSU bank (Rastriya Banijya Bank) which has lower lending rates vis-à-vis banking sector players the coverage indicators also improved to a DSCR of 1.31x and an ICR of 1.94x in FY2021.

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 in the base year FY2019 tariffs for five times. The project having been developed within its RCOD, is eligible for all the five escalations.

Credit challenges

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 enables NEA to decline the offtake of up to 10% of monthly contract energy (mid-July to mid-November) 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.

Concentration risk and natural calamities risk: The project being the only project under the company is subjected to concentration risks for its operational and financial parameters. Similarly, any disruptions in the project due to natural calamities could also impact its revenue and liquidity profile.

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
Issuer Rating Methodology

About the company

Super Mai Hydropower Limited (SMHL), incorporated on July 2, 2017, as a public limited 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 paid-up capital of the company as of mid-July 2021 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 project was commissioned on October 28, 2018, i.e., 21 months prior its RCOD of July 16, 2020, at a total project cost of ~NPR 1,488 million against the budgeted cost of ~NPR 1500 million. The project has generated ~84% of the contracted energy for FY2021.

Key Financial Indicators

Amount in NPR million	Audited		
	8.5MFY2019	FY2020	FY2021
Operating Income (OI)	105	218	211
Profit after tax	-10	46	46
OPBDITA/OI (%)	86%	90%	89%
ROCE (%)	10%	10%	10%
Total debt/Tangible net worth (TNW; times)	2.84	2.46	2.26
Total Outside Liability/TNW (times)	2.85	2.46	2.27
Total Debt/OPBDITA (times)	8.46	5.38	5.35
Interest coverage (times)	1.45	1.87	1.94
DSCR (times)	1.34	1.44	1.31
NWC/OI (%)	16%	21%	18%

Annexure-1: Instrument details

Instrument * (limits in NPR million)	Last rated limits	Current rated limits	Rating Action
Issuer Rating	NA	NA	[ICRANP-IR] BBB-; upgraded from [ICRANP-IR] BB+
Term Loan (long term; fund based)	1,100	1,100	[ICRANP] LBBB-; upgraded from [ICRANP] LBB+
Working Capital	30	30	[ICRANP] A3; upgraded from [ICRANP] A4+
Total	**1,130**	**1,130**	

Analyst Contacts

Mr. Sailesh Subedi, (Tel No. +977-1-4419910/20)
sailesh@icranepal.com

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

Mr. Basanta Chapagain, (Tel No. +977-1-4419910/20)
basanta@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.