

## Himalayan Hydropower Limited: Ratings downgraded to [ICRANP-IR] B+ and [ICRANP] LB+/A4

March 28, 2022

### Summary of rating action

Instrument* (NPR million)	Previous Rated Amount	Current Rated Amount	Rating Action
Issuer Rating	NA	NA	[ICRANP-IR] B+; downgraded from [ICRANP-IR] BB+
Fund-based, long-term loan	1,620	1,620	[ICRANP] LB+; downgraded from [ICRANP] LBB+
Fund-based, short-term loan	40	40	[ICRANP] A4; downgraded from [ICRANP] A4+
<b>Total</b>	<b>1,660</b>	<b>1,660</b>	

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

### Rating action

ICRA Nepal has downgraded the issuer rating of Himalayan Hydropower Limited (HHL or the company) to [ICRANP-IR] B+ (pronounced ICRA NP issuer rating B plus) from [ICRANP-IR] BB+ (pronounced ICRA NP issuer rating double B plus). Issuers with this rating are considered to have high risk of default regarding timely servicing of financial obligations. The rating is only an opinion on the general creditworthiness of the rated entity and not specific to any debt instrument.

ICRA Nepal has downgraded the HHL's long-term rating to [ICRANP] LB+ (pronounced ICRA NP L B plus) from [ICRANP] LBB+ (pronounced ICRA NP L double B plus) for its long-term loans. ICRA Nepal has also downgraded HHL's short-term rating to [ICRANP] A4 (pronounced ICRA NP A four) from [ICRANP] A4+ (pronounced ICRA NP A four plus) for its short-term loans.

### Rationale

The downward revision in ratings factors in the recent track record of delays in serving the bank obligations on account of the liquidity pressures, after the flood in June 2021 led to elongated shut down (around eight months) of the 11.88 MW Namarjun Madi hydropower project (HPP) under the company. HHL is yet to receive ~66% of its insurance claims and its proposed initial public offering (IPO) has been delayed, which has further stretched its liquidity outlook, amid the time-bound obligations that are planned to be paid from IPO proceeds. Given the project's limited operational track record (less than a year), the company is yet to build up a debt service reserve, which could have provided support during such force majeure events. The ratings also remain constrained by the relatively higher project development cost of NPR 226 million per MW, mainly on account of the sizeable cost escalations (~18%) and late COD penalties amid the delays in project completion (by nearly four years) compared to its required commercial operation date (RCOD). The ratings are also subdued by the limited experience of the major promoters and directors in hydropower project development and operation and the lack of adequate financial support from the promoters, leading to delays in payments towards banks. Also, the ratings remain impacted by the absence of a deemed generation clause in the power purchase agreement (PPA), which exposes the project to high hydrological risks in case of adverse river flow scenarios, without receiving any compensation from the Nepal Electricity Authority (NEA rated at [\[ICRANP-IR\] AA+](#), the sole purchaser and distributor of electricity in Nepal).

Nonetheless, the ratings take comfort from the fact that the project has resumed operations from February 28, 2022, and considering its good project generation trend prior to the flood (~96% net energy supply in 8.5MFY2021 with 11% excess dry energy), gradual ease in company's liquidity profile can be expected. Further, the ratings factor in the low tariff and offtake risks amid the already signed PPA with the NEA, at pre-determined tariff rates and escalations. Additionally, the positive demand outlook for the energy sector, owing to the supply-demand gap as well as the increasing energy consumption in the nation, remain rating positives.

Going forward, HHL's ability to achieve its designed operating parameters, timely/adequate receipt of balance insurance claims, timely completion of the proposed IPO, 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

**Good operational performance** - The 11.88 MW plant was commissioned on September 28, 2020 and operated for around eight and a half months till mid-June-2021 before getting hit by the flood. The project operated at ~48% net plant load factor (PLF) against contract PLF of 50% for the same period, supplying net energy of ~96% of contract energy with 11% excess energy during the dry season. After repairs to the flood damaged structures, the plant has recently resumed operations from February 28, 2022, and has generated 125% of contract energy in the 15-days period (till March 14, 2022). The plant's ability to consistently achieve its design operating parameters, along with adequate hydrological support over a longer time frame, remains to be seen.

**Low tariff and offtake risks with presence 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 the NEA for its entire project capacity. The pre-defined tariff rates are NPR 4 per kWh for the wet season (mid-April–mid December) and NPR 7 per kWh for the dry season (mid-December to mid-April) with a 3% annual escalation clause in the tariff for nine times. Although the tariff rates are 20% lower compared to the tariff for newer projects, the PPA for the project has no tariff escalation loss clause, which makes the company eligible for all nine tariff escalations despite the project's late commissioning by four years.

### Credit challenges

**Stretched liquidity further exacerbated by the impact of flood, leading to delays in serving bank obligations** - HHL's proposed IPO of NPR 225 million has been significantly delayed (process initiated in 2019) on account of various factors (including the pandemic and delays in regulatory approval processes). Meanwhile the end use of IPO funds has already been planned viz. settlement of loan against IPO taken for project development (NPR 150 million) and the rest towards partial payment of transmission line sharing cost to M/s. Madi Power P. Ltd (MPPL; total obligation is NPR 100 million, bank guarantee provided for, which is expiring on mid-August 2022). The flood in June 2021, which damaged the project's powerhouse and head works, further stretched the liquidity pressures through additional repair costs and elongated operational disturbances. Though the company had taken a six-month indemnity loss of profit (LOP) insurance as well as the property insurance coverages, its liquidity has been impacted in the interim as only 34% of the total claimed amount has been received so far (out of total claim of NPR 489 million including NPR 308 million towards property damages and NPR 181 million towards LOP). This impacted the company's debt servicing ability in lack of adequate financial support from the promoter, hence leading to delays in serving the bank obligations. Though the delays have been recently regularised, company's ability to manage the liquidity amid piling of various obligations remains to be seen. The timely issuance of IPO and receipt of balance insurance claims would remain crucial in managing the company's liquidity profile going forward.

**Relatively higher project development cost** - The 11.88-MW Namarjun Madi HPP was developed at the total cost of ~NPR 2,690 million i.e., escalated by ~18% compared to the revised budgeted cost of ~NPR 2,273 million. A higher project development cost has an adverse effect on the overall return indicators and coverage ratios. Since the debt financing is relatively low at 60%, ICRA Nepal expects the debt service indicators to remain adequate. However, the equity returns are likely to remain muted and would remain mainly contingent upon the energy generation trend and the interest rate outlook.

**Exposure to late COD penalty amid delayed project development** - The 11.88-MW project started operations from September 28, 2020, i.e., delayed by more than four years from the revised RCOD of September 2016. As a result, HHL was obliged to pay a late COD penalty<sup>1</sup> of ~NPR 60 million. This further stretched its liquidity profile during the initial days of operations.

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<sup>1</sup> Late COD penalty is calculated at 5% of revenues, based on contracted energy, that would have been generated during the difference in days between the RCOD and the COD.

**High hydrology risk due to lack of deemed generation clause in the PPA** - The lack of a deemed generation clause in the PPA exposes the project to high hydrological risks in case of adverse river flow scenarios, without receiving any compensation for such losses. However, Madi river being a partially snow-fed river is expected to assure requisite river flow during the dry season too. This, along with a good generation trend so far, provides comfort on this front.

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

**Links to applicable criteria:**

[Issuer Rating Methodology](#)

[Corporate Credit Rating Methodology](#)

## About the company

Incorporated in December 2004 as a private limited company, Himalayan Hydropower Limited (HHL) was converted to public limited company in May 2017 to facilitate public participation. The company's paid-up capital as of mid-January 2022 was NPR 870 million. As on the same date, major promoters include Mr. Khom Bahadur KC with ~15% stake, Mr. Man Bahadur Khadka Chhetri with ~4% stake and Mr. Sudhir Yadav with ~3% stake, among others. The company plans to raise 21% of required equity capital i.e., NPR 225 million from general shareholders through an IPO issue; post which the paid-up capital is expected to reach NPR 1,095 with a promoter-public shareholding of 79:21.

The company is operating 11.88MW Namarjun Madi HPP in Kaski District, Gandaki Province of Nepal. The project is a run of the river (R-o-R) type developed at 40% probability of exceedance (Q40) at a total cost of NPR 2,690 million. The project was commissioned on September 28, 2020, and after running for around 8.5 months till mid-June 2021 with net generation of ~96% (11% excess dry energy), it got damaged by the flood which forced the plant to close down for around eight months. After repairs of the damages, the project is up and running from February 28, 2022. The claims from the damage, both LOP and property damage insurance, is under the process of settlement. So far, the company has received NPR 165 million towards the same (NPR 135 million against property damage and NPR 30 million against LOP). The loan financing for the project was arranged through a consortium of five banks for a total term loan of NPR 1,620 million.

## Key Financial Indicators

Amount in NPR million	Audited
	FY2021
Operating Income (OI)	171
OPBDITA/OI (%)	75%
Total debt/Tangible net worth (TNW; times)	2.68
Total Outside Liability/TNW (times)	3.03
Total Debt/OPBDITA (times)	11.04
Interest coverage (times)	1.02
DSCR (times)	0.78*
NWC/OI (%)	-65%

\*Excluding late COD penalty of ~NPR 60 million

## Annexure-1: Instrument Details

Instrument* (NPR million)	Previous Rated Amount	Current Rated Amount	Rating Action
<b>Long-term limits (A)</b>	<b>1,620</b>	<b>1,620</b>	
Fund-based limits (Term loan)	1,620	1,620	[ICRANP] LB+; downgraded from [ICRANP] LBB+
<b>Short-term limits (B)</b>	<b>40</b>	<b>40</b>	
Fund-based limits (Working Capital)	40	40	[ICRANP] A4; downgraded from A4+
<b>Total (A+B)</b>	<b>1,660</b>	<b>1,660</b>	

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## About ICRA Nepal Limited

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