

## Mountain Hydro Nepal Limited: Ratings downgraded and moved to ‘Issuer not cooperating’ category with notice of ratings withdrawal

September 04, 2023

### Summary of rating action:

Instrument	Rated Amount (NPR Million)	Rating Action
Long-term loans	3,255	[ICRANP] LBB “ISSUER NOT COOPERATING”; downgraded from [ICRANP] LBB+ and moved to Issuer not cooperating category with notice for rating withdrawal.
Short-term loans	70	[ICRANP] A4 “ISSUER NOT COOPERATING”; downgraded from [ICRANP] A4+ and moved to Issuer not cooperating category with notice for rating withdrawal.
<b>Total</b>	<b>3,325</b>	

*\*Issuer did not cooperate fully/timely; based on limited available information.*

### Rating action

ICRA Nepal has downgraded and revised the long-term rating assigned to Mountain Hydro Nepal Limited (MHNL) to [ICRANP] LBB ‘Issuer not Cooperating’ (pronounced ICRA NP L double B, Issuer Not Cooperating) from [ICRANP] LBB+ (pronounced ICRA NP L double B plus). ICRA Nepal has also downgraded and revised the company’s short-term loan rating to [ICRANP] A4 ‘Issuer Not Cooperating’ (pronounced ICRA NP A four, Issuer Not Cooperating) from [ICRANP] A4+ (pronounced ICRA NP A four plus). The rating actions have been taken in accordance with the Credit Rating Regulations 2011, following limited cooperation from MHNL for rating information despite multiple follow-ups. The ratings have also been put on notice for withdrawal.

### Rationale

The ratings downgrade is mainly due to the major damages in MHNL’s 22.1-MW Lower Hewa Khola hydropower project (HPP) by the flash floods on June 18, 2023 (currently in repair process), amid the lack of loss of profit insurance policy, which could have cushioned the impact on the company’s revenue profile. As per the published provisional financial statements for FY2023, the company has reported major losses, mainly on back of provision for repair expenses at ~NPR 459 million. The company’s ability to timely secure funding sources for this as well as the quantum of recovery from property damage insurance will remain crucial. While the bank debt obligations falling due on mid-July 2023 were served from revenues in earlier months, the company will have to manage adequate funding sources for repayment of the bank obligations for the upcoming quarters. Hence, the rehabilitation timeline and timely/adequate funding support from promoters will remain key rating monitorable. However, in lack of adequate information from MHNL, the extent of the impact on the financial profile and debt coverage indicators cannot be ascertained.

ICRA Nepal assesses whether the information available about the entity is commensurate with its ratings and reviews the same as per Credit Rating Regulations 2011 as well as ICRA Nepal’s ‘Withdrawal/Suspension Policy’ available at [www.icranepal.com](http://www.icranepal.com).

As part of its process and in accordance with its rating agreement, ICRA Nepal has been trying to seek information from the entity to monitor its performance, but despite repeated requests by ICRA Nepal, the entity’s management remained largely non-cooperative till the extended deadline for rating surveillance. In the absence of requisite information on a timely manner and in line with the aforesaid policy of ICRA Nepal, a rating view has been taken on the entity based on the best available information.

For such ratings, the lenders, investors, and other market participants are advised to exercise appropriate caution while using the ratings as it may not adequately reflect the credit risk profile of the entity. The entity’s credit risk profile may have changed to a level greater than that represented by the rating symbol.

**Link to the previous detailed rating rationale:**

[Rationale – Mountain Hydro Nepal Limited –BLR Surveillance February 2022](#)

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

**Links to the applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Issuer Not Cooperating Guidelines](#)

## About the company

Incorporated on July 2005 as a private limited company, Mountain Hydro Nepal Limited (MHNL) was converted into a public limited company on June 2016 to facilitate public participation. MHNL has developed a 22.1MW Lower Hewa Khola HPP in Panchthar District, Koshi Province of Nepal, which has been in operation from August 06, 2019. This run of the river (R-o-R) project has been developed at 40% probability of exceedance (Q40), at a total cost of NPR 4,915 million. MHNL had a paid-up capital of ~NPR 1,250 million with net-worth of ~NPR 806 million as of mid-July 2023.

## Key financial indicators

	FY2020 (Audited)	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Provisional)
	Available during last rating exercise		Updates during current exercise	
Operating income (OI; NPR million)	470	519	608	498
OPBDITA/OI (%)	90%	88%	82%	88%
Profit after taxes (NPR million)	-112	-5	71	-449
Total debt/Tangible net worth (TNW)	3.3	3.2	2.8	3.6
Total outside liabilities/TNW (times)	3.4	3.3	2.9	4.4
Total debt/OPBDITA (times)	8.3	7.6	6.5	6.6
Interest coverage (times)	1.1	1.4	1.9	1.7
DSCR (times)	1.1	1.3	1.3	-0.1*

\*Owing to sizeable provision for repair expenses.

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## About ICRA Nepal Limited

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For more information, visit [www.icranepal.com](http://www.icranepal.com)

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