Samling Power Company Limited: Ratings reaffirmed

September 25, 2023

Summary of rating action

Instrument* (NPR in million)	Previous Rated Amount	Current Rated Amount	Rating Action
Issuer Rating	NA	NA	[ICRANP-IR] BB-; reaffirmed
Long-term loan limits	1,542.23	1,525.95	[ICRANP] LBB-; reaffirmed
Short-term loan limits	50	50.00	[ICRANP] A4; reaffirmed
Total	**1,592.23**	**1,575.95**	

** Instrument details are provided in Annexure-1*

Rating action

ICRA Nepal has reaffirmed the issuer rating of [ICRANP-IR] BB- (pronounced ICRA NP Issuer rating double B minus) to Samling Power Company Limited (SPCL or the company).

ICRA Nepal has reaffirmed the long-term rating at [ICRANP] LBB- (pronounced ICRA NP L double B minus) and also reaffirmed the short-term rating at [ICRANP] A4 (pronounced ICRA NP A four) respectively to the company's long-term loans and short-term loans.

Rationale

The ratings consider the satisfactory generation (~85% of contract energy for the operational ~7 months[1] in FY2022 and ~90% of contract energy in FY2023) of the 9.51-MW Mai Beni Hydropower Project following its timely commissioning in September 2021 (~two months prior to the required commercial operation date-COD). Because of timely commissioning, the project remains eligible for all the five tariff escalations, which remains a comfort for the incremental revenue profile over a medium term. The rating also factors in the low regulatory and off-take risks, given the off-take arrangement through a long-term power purchase agreement (PPA) with the Nepal Electricity Authority (NEA) under a take or pay modality. The ratings also factor the low evacuation risk given the presence of NEA's Godak Substation (a part of the Kabeli corridor transmission line and the connection point for the 9.51-MW Mai Beni HEP) which has been operational since October 2015. The rating continues to draw comfort from the financial strength, technical expertise, and related experience of the institutional promoters in hydropower sector.

However, the ratings remain constrained by the high per MW capital cost (NPR 235 million per MW including the actual rehabilitation cost for damages from the flash flood of October 2021) and relatively fixed tariff regime (which does not compensate for high incurred capital cost); which has weakened the long-term return indicators and debt coverage indicators of SPCL. The ratings also take note of absence of loss of profit (LOP) insurance at the time of flash flood and pending insurance receipt against the property insurance, which the management plans to utilize in the settlement of rehabilitation loan. Given the higher project cost, the generational efficiency of the project (sustained generations yet to be seen; 90% for FY2023) will remain critical to the overall financial profile of the company. Low cash build-up levels during the project stabilization period could constrain the debt coverage indicators, necessitating funding support from lenders/promoters. Given the high debt burden resulting from ~78% debt financing of project capex, the company also remains exposed to volatile interest rates. The rating is also constrained by the concentration of the company's cash flows/revenue profile on a single project and associated hydrological risk.

[1] Commissioned in September 2021, the project was affected by flashflood which halted the operations between October 2021 and February 2022.

Going forward, SPCL's ability to operate the project as per the designed parameters and ensure adequate fund availability during the time of low revenue/project disruptions will remain among the key rating sensitivities.

Key rating drivers

Credit strengths

Timely project completion and good generation – The 9.51 MW Mai Beni Hydro-electric Project, situated in Illam district, Province 1 of Nepal, was commissioned on September 17, 2021, against its required commercial operation date (RCOD) of November 18, 2021. The timely completion of the project has made the project eligible for all five-tariff escalation which remains a comfort for the long-term revenue profile. The plant has operated for ~19 months since its commissioning displaying a healthy and progressive generation performance, generating ~85% of contract energy in the operational seven months of FY2022 followed by ~90% of contract energy generation in FY2023.

Low tariff risk and off-take risk – SPCL has executed a PPA with the Nepal Electricity Authority (NEA) for its entire capacity, at a pre-determined energy tariff. Tariff rates are standard at NPR 4.8 and NPR 8.4 per unit during the wet and dry seasons, respectively, with five times 3% annual escalation on base tariff[2]. Firm PPA under a take or pay modality with the pre-defined tariff mitigates the off-take and tariff risks.

Low power evacuation risk – The evacuation risk for the project remains on a lower side given the fully operational evacuation structures at the grid connection point viz. NEA's Godak substation. The generated power is being evacuated through a 132kV ~4km long transmission line from SPCL's powerhouse to the said substation.

Experienced promoter Group – SPCL is a joint venture between two Groups (viz. CE Construction Private Limited and Urja Developers Private Limited) and individuals related to these group. The institutional promoters, their financial strength, technical expertise, and related sectoral experience remains a rating positive.

Credit challenges

High project cost coupled with high gearing level stretching the financial metrices – The 9.51-MW Mai Beni HEP was completed at a relatively higher cost of NPR 235 million per MW (including the rehabilitation cost after the flash flood); in a debt-equity mix of 78:22. Given the relatively fixed tariff structure, the higher capital cost and associated debt burden remains a long-term negative for the project's return indicators and debt coverage indicators. Although the project generation performance so far remains satisfactory, any slack in generation performance could weaken the debt servicing capacity of the company.

Hydrological risk amid lack of deemed generation clause in PPA – As with smaller rivers in the country, the long-term gauge record is not available for the Mai River[3] . Hence, the availability of water to sustain long-term energy generation remains a concern, since the PPA with the NEA does not contain the provision for deemed generation. The absence of deemed generation clause in PPA exposes the project towards high hydrology risk in case of adverse river flow scenarios without receiving any compensation for such losses. Nonetheless, the Mai River basin has many operational projects, with the earliest project being in operation since 1999[4] , which is a source of comfort.

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[2] For 9.008 MW capacity; for balance 500 KW capacity, 8-times 3% escalation is provided in the addendum PPA.
[3] Flow derived through correlation with nearest downstream station (with >30 years of recorded flow)
[4] 6.2 MW Puwa Khola of NEA

Exposure to volatile interest rate and single project dependency – Considering the high debt burden on the project with ~78% debt financing, interest rates volatility remains among the main concerns. Recent hardening of interest rates in banking sector therefore remains a concern. Furthermore, the company is exposed to concentration risk as its entire revenue is sourced from one operational project. Thus, any disruptions in the project could have major impact on the project's revenue and liquidity profile. Given the seasonality of the energy generation, disruptions during wet (monsoon) months could have a disproportionately high impact.

Link to the previous rating rationale

Rationale_Samling-Power-Company-Limited_IR Surv. And BLR Surv._ June, 2022

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

Samling Power Company Limited (SPCL), incorporated in 2014 is promoted by CE Construction Private Limited, Urja Developers (associated company of CE) and other individuals related to these companies. As of mid-July 2023, the major shareholders of SPCL are CE Construction Pvt Ltd (~5%), Urja Developers Pvt Ltd (~5%), Shambhu Prasad Phuyal (~3%), Grande Holdings Pvt Ltd (~2%), among others.

SPCL is a special purpose vehicle that is operating a run-of-the-river (ROR) based 9.51-MW Mai Beni hydroelectric project (HEP) in the Illam district of Eastern Nepal. The project has commissioned its operation since September 17, 2021, two months prior its RCOD of November 18, 2021. Developed under the 40% exceedance flow model, the project was developed at a cost of ~NPR 2,347 million including the rehabilitation cost (i.e., ~ NPR 235 million per MW). The company generated ~85% of its contract energy in FY2022 (~7 months operation) and ~90% in FY2023.

Key Financial Indicators

Indicators (NPR million)	FY2022*	FY2023
	Audited	Provisional
Operating Income	135	260
OPBDITA/OI	90%	87%
Total debt/Tangible net worth (TNW) (times)	2.77	2.98
Total outside liabilities/TNW (times)	2.89	3.02
Total Debt/OPBDITA	13.26	7.38
Interest Coverage (times)	0.98	1.29
DSCR (times)	0.98	1.17
Net working capital/OI (%)	59%	20%
Current Ratio	1.16	0.40

**Seven months of project operation due to the impact of flash flood.*

Annexure-1: Instrument details

Instrument (NPR Million)	Previous Rated Amount	Current Rated Amount	Rating Action
Long-term loan limits (A)	**1,542.23**	**1,525.95**	
Fund-based; Long-term loan (LTL)	1,542.23	1,525.95	[ICRANP] LBB-; reaffirmed
Short-term loan limits (B)	**50.00**	**50.00**	
Fund-based; Working capital loan	50.00	50.00	[ICRANP] A4; reaffirmed
Non-fund-based facilities; Bank guarantee with LTL	(30.00)	(30.00)	
Non-fund-based facilities; Letter of credit within LTL	(500.00)	(500.00)	
Total loan limits (A+B)	**1,592.23**	**1,575.95**	

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

Relationship Contacts

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

About ICRA Nepal Limited

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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

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