

Bikash Hydropower Company Limited: [ICRANP-IR] BB and [ICRANP] LBB/A4 assigned

October 16, 2023

Summary of rating action

Facility/Instrument (Amounts in NPR million)	Rated amount	Rating Action
Issuer Rating	NA	[ICRANP-IR] BB; assigned
Long-term loan limits (Term loans- TL)	951.7	[ICRANP] LBB; assigned
Short-term Loans (Bridge gap loan within TL above)	(30.0)	[ICRANP] A4; assigned
Total	951.7	

Rating action

ICRA Nepal has assigned an issuer rating of [ICRANP-IR] BB (pronounced ICRA NP Issuer Rating Double B) to Bikash Hydropower Company Limited (BHCL/the company). Issuers with this rating are considered to have a moderate risk of default regarding the 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 also assigned the long-term rating of [ICRANP] LBB (pronounced ICRA NP L Double B) to the long-term bank loans and the short-term rating of [ICRANP] A4 (pronounced ICRA NP A Four) to the short-term bank loans of the company.

Rationale

The assigned ratings take comfort from the timely commissioning of the company's 4.55 megawatt (MW) hydroelectric project [even before its required commercial operation date (RCOD)], making it eligible for all eight tariff escalations. This, along with the project's relatively high plant load factor (PLF) of ~79% [given its design under 50% probability of exceedance (PoE) model] and a high share of annual dry energy at ~39% (which enjoys better tariff) are likely to support the long-term return indicators. Additionally, the company's debt coverage/service indicators are expected to remain supported by the company's plan of utilising proposed initial public offering (IPO) proceeds for loan downsizing (assuming full subscription). The ratings are also supported by the project's low tariff and offtake risks, given the long-term power purchase agreement (PPA) with the Nepal Electricity Authority (NEA), with predetermined tariffs and escalations.

Nonetheless, the ratings mainly remain constrained by the project's modest generation trend so far (~65% of contract energy from RCOD till mid-September 2023) amid the evacuation constraints. The ratings are also impacted by the sizeable cost overruns reported in commissioning the project (~37% against the initial estimates) leading to relatively higher project cost (~ NPR 246 million per MW corresponding to ~NPR 36 million per GWH of annual energy). Rating concerns also arise from the hydrological risks, given the absence of a deemed generation clause in the PPA along with other stringent terms. Going forward, timely upgradation of NEA's evacuation structures would remain imperative in ensuring the project's ability to achieve its design operating parameters and thus remains a key rating sensitivity.

Key rating drivers

Credit strengths

Timely project commissioning; high dry energy mix to support revenue profile – The project started its commercial operation on March 01, 2023, i.e., ~4.5 months before its RCOD of mid-July 2023, making it eligible for all eight tariff escalations, which remains a positive for the company's long-term revenue profile. The project's PPA has also been executed under the six-month dry season and six-month wet season modality, with a relatively higher dry energy mix of ~39% (subject

to higher tariffs) amid the project’s high PoE at ~50%. This reflects positively on the project’s levelised tariff, which coupled with the tariff escalations are likely to support the company’s long-term revenue and profitability prospects.

Low tariff and offtake risks – The tariff and offtake risks are low as the company has a 30-year PPA with NEA for its entire project capacity of 4.55 MW. The pre-defined tariff rates are NPR 4.8 per kilowatt-hour (kWh) for the wet season (June to November) and NPR 8.4 per kWh for the dry season with a 3% annual escalation clause on the base tariffs for eight times.

Credit challenges

Modest generation trend amid evacuation constraints – The project’s operational performance remained modest so far with the project supplying ~65% of the cumulative contract energy since its RCOD till mid-September 2023. This was mainly on account of the frequent tripping issues along the low-capacity alternate transmission line [33 kilovolts (KV)]. The evacuation constraints are likely to subdue the generation performance until the upgradation of NEA’s evacuation structures (to the proposed 132 KV transmission line) is completed.

High-cost overruns leading to relatively high project cost – The project was commissioned at a cost of ~NPR 1,118 million, i.e., a cost overrun of ~37% against its initial budget, leading to relatively high project cost of ~ NPR 246 million per MW corresponding to ~NPR 36 million per gigawatt hours (GWh) of annual saleable energy under the PPA. However, the higher dry energy mix slightly compensates for the increased cost.

High hydrological risks amid the absence of a deemed generation clause in the PPA, with other stringent terms – The absence of a deemed generation clause in the PPA exposes the project to high hydrological risks in the event of any adverse river flow scenario, with no compensation for such losses. Moreover, the stringent PPA terms could result in a proportional reduction of annual energy sales revenue in case of weak generation during the dry season (<30% of annual energy). Additionally, the PPA has a clause regarding conditional offtake for 10% of the PPA capacity in five wet months for the entire project life, which also remains a concern.

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

Links to the applicable criteria:

[Issuer Rating methodology](#)

[Corporate Credit Rating Methodology](#)

About the company

Incorporated on February 08, 2017, as a private limited company, Bikash Hydropower Company Limited (BHCL) was converted to public limited on January 28, 2022, to facilitate public participation. The company’s paid-up capital was ~NPR 464 million as of mid-September 2023, which is to be increased to NPR 909 million (after proposed IPO). As on the same date, major promoters included Mr. Khagendra Neupane (~14% stake), Mr. Krishna Prasad Ghimire (~8%), Mr. Saroj Dhital (~8%), Mr. Raj Kumar Gurung (~7%), Mr. Indra Bahadur Dhakal (~5%) and Mr. Sunil Shrestha (~4%), among others.

The company is operating a run of river (RoR) type project, Upper Machha Khola Small Hydropower Project, with installed capacity of 4.55 MW in Gorkha district of Gandaki Province of Nepal. The project’s PPA is based on ~50% PoE (Q50) model, for which the design discharge is ~2.63m³/sec while the gross head is 219.5m. At ~79% contract PLF, the annual saleable energy is ~31.157 GWh with a dry energy mix of ~39% in the annual energy mix. The project was completed at a total cost of ~NPR 1,118 million (~37% cost escalation against the initial estimates), which was funded in a debt-to-equity ratio of ~58:42.

Key financial indicators

	4.5M FY2023
Operating income (Revenue in NPR million)	47
OPBDITA/OI	79%
Total debt/Tangible net worth (TNW) (times)	1.53

	4.5M FY2023
Total Debt/OPBDITA	6.56
Interest coverage (times)	1.35
DSCR (times)	1.36
Net working capital/OI (%)	-26%
Current ratio	0.48

Analyst Contacts

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

Mr. Rajib Maharjan (Tel No. +977-1-4419910/20)
rajib@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

All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA Nepal.

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.