

Panchakanya Mai Hydropower Limited: Ratings downgraded to [ICRANP] LD/D

November 6, 2023

Summary of rated instruments

Instrument *(Amount in NPR million)	Previous Rated Amount	Current Rated Amount	Rating Action
Long-term loan; Fund based	1,527.00	1,395.25	[ICRANP] LD; downgraded from [ICRANP] LB-
Short-term loan; Fund based	35.00	35.00	[ICRANP] D; downgraded from [ICRANP] A4
Total	1,562.00	1,430.25	

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

Rating action

ICRA Nepal has downgraded the long-term rating of Panchakanya Mai Hydropower Limited (PMHL or the company) to **[ICRANP] LD** (pronounced ICRA NP L D) from [ICRANP] LB- (pronounced ICRA NP L B minus). ICRA Nepal has also downgraded the short-term rating of PMHL to **[ICRANP] D** (pronounced ICRA NP D) from [ICRANP] A4 (pronounced ICRA NP A four).

Rationale

The assigned ratings factor in the delay in servicing of the debt obligations by PMHL. As reported, there has been a delay of over 30 days in debt servicing by the company during Q4FY2023. Because of cashflow constraints and high leverage, the company has also made delays in debt-servicing during Q1FY2024 (albeit within 30 days), which underscores a sustained liquidity pressure on the company. Accordingly, the rating action has been taken based on ICRA Nepal's Default Recognition Policy. Going forward, a track record of timely debt servicing will be the key rating sensitivity.

Key rating drivers

Credit strengths

Operational project with low tariff risk, off-take risk and evacuation risk: Both projects under PMHL are in operations since 2016/2017. The project's tariff and offtake risks remain low as the company has a long-term PPA with the NEA (sole purchaser and distributor of electricity in Nepal) for a major portion of project capacity (excluding 3.02 MW out of the combined installed capacity of 18.1 MW). As of now, the project is connected to the NEA's operational Godak substation which reduces evacuation risks.

Credit challenges

Trend of delays in servicing the debt obligations: The project has seen delay in repayment of its debt obligation in the past as well as in recent time having a significant delay above 30 days in Q4FY2023. Shorter delays have also been reported during Q1FY2024.

Weak coverage and return metrics: The project capex of PMHL remains on a higher side (per MW cost of ~230 million) with a high debt equity ratio of 68:32. As a result, the financial burden on the company is high, which coupled with the current high-interest rate environment has stretched the coverage indicators as well as return metrics. Given the high debt burden, any slack/seasonality in generation and operational cashflows increases the possibility of default.

High hydrology risk, given 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, rain-fed perennial source could affect hydrology of the river with fluctuations in rainfall in the basin. Fluctuation in hydrology of the rivers were seen in the month of May and June FY2023 where net generation reduced to 43% and 39% respectively for 12MW and to 41% and 32% respectively for 6.1MW projects from the respective generations of 57% and 55% in FY2022.

Link to the previous rating rationale

[Rationale_Panchakanya-Mai Hydropower-Ltd: Ratings downgraded to \[ICRANP\] LB-/A4](#)

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](#)

About the company

Panchakanya Mai Hydropower Limited (PMHL), incorporated on May 21, 2016, as a public limited company, has a paid-up capital of ~NPR 1,100 million as of mid-April 2020, which is 80% promoter held and 20% public held. As on same date, the major promoters include M/s Panchakanya Power Development Pvt. Ltd. (~39%), Mr. Prem Bahadur Shrestha (~25%), Mr. Dhurba Kumar Shrestha (~6%), General public (30%).

The company is operating two hydropower projects viz. 12MW Upper Mai HEP and cascade 6.1MW Upper Mai “C” HEP in Ilam district, Province 1 of Nepal. The 12MW Upper Mai HEP project is in operation since June 23, 2016 and was developed at a cost of ~ NPR 2,273 (NPR 228 million per MW) at a D:E ratio of 67:33. The cascade 6.1MW Upper Mai “C” HEP is in operation since July 24, 2017 and was developed at a total cost of NPR 1,201 million (NPR 235 million per MW) at a D:E ratio of 71:29. Both the projects are run of the river (R-o-R) types and have been respectively developed at 38% and 35% of probability of exceedance. Though the installed capacities of these projects are 12MW and 6.1MW respectively for Upper Mai HEP and Upper Mai “C” HEP; PPA has been signed for the respective capacities of 9.98MW and 5.1MW only.

The 12MW Upper Mai project generated ~86% of contract energy for FY2023 (average generation of ~86% in the last six years ending FY2023) while the cascade 6.1MW Upper Mai “C” project has generated ~84% contract energy for FY2023 (average generation of ~84% in the last six years ending FY2023).

Key Financial Indicators

	Audited				Provisional
	FY19	FY20	FY21	FY22	FY23
Operating Income	322	370	348	376	375
OPBDITA/OI (%)	82%	84%	87%	83%	85%
PAT/OI (%)	-17%	-15%	0%	-13%	-3%
Gearing (times) (Total Debt/TNW)	2.27	2.34	2.31	2.14	2.02
OPBDITA/Interest (times)	1.18	1.42	1.74	1.75	1.48
DSCR (times)	1.28	0.82	1.16	0.88	0.99
NWC/OI (%)	-3%	5%	-8%	20%	7%
Total Outside Liabilities/TNW (times)	2.38	2.49	2.54	2.21	2.10
Total Debt/OPBDITA (times)	8.24	6.79	6.90	6.33	5.76

Annexure-1: Instrument details

Instrument * (Amount in NPR million)	Previous Rated Amount	Current Rated Amount	Rating Action
Term Loan (long-term; fund based)	1,527.00	1,395.25	[ICRANP] LD; downgraded from [ICRANP] LB-
Working Capital loan (Short-term; fund based)	35.00	35.00	[ICRANP] D; downgraded from [ICRANP] A4
Total	1,562.00	1,430.25	

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About ICRA Nepal Limited

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