

Seed Energy Limited: [ICRANP-IR] BB- assigned

December 04, 2023

Summary of rating action

Instrument	Rated Amount	Rating Action
Issuer Rating	NA	[ICRANP-IR] BB-; assigned

Rating action

ICRA Nepal has assigned an issuer rating of [ICRANP-IR] BB- (pronounced ICRA NP issuer rating double B minus) to Seed Energy Limited (Seed/the company). Issuers with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations. The sign of + (plus) or – (minus) appended to the rating symbol indicates the entity's relative position within the rating categories concerned. The rating is only an opinion on the general creditworthiness of the rated entity and not specific to any debt instrument.

Rationale

The rating assigned to Seed Energy Limited, a private sector collective investment fund, factors the experience of its management team and promoters in multiple sectors including the financial sector, hydropower, and capital market. The rating also takes note of dividend as well as unrealised capital appreciation on some of its investments¹, which reflects positively on the company's longer term profitability prospects. The company has sizeable investments in hydropower companies² (~26% of its overall fund as of mid-October 2023 with plans to further increase); wherein the outlook remains positive given the revenue assurance associated with the hydropower projects and scope for capital appreciation offered by the investee companies upon their listing in the stock exchange. The company's modus-operandi are similar to that of private equity fund with focus on shareholder's/investor's wealth maximization, which reduces the volatility associated with secondary market trading which remains a positive. Although nominal, Seed also has a base-line revenue contribution from its portfolio of commercial advances/ rental revenue generating asset. This coupled with the current debt-free state of the company's balance sheet and on-balance sheet cash balance remains a positive for the company's liquidity profile.

Nonetheless, the rating is constrained by its limited track record of operations, profitability and returns (RoCE; an average of ~1% in the last three years ending FY2023). The RoCE currently remains diluted on account of recent mergers that increased the company's asset base and can be expected to improve as the company scales up and increases its investment portfolio and returns thereon, which however remains to be seen considering the company's plan to increase its capital base³. While the company focusses mainly on wealth maximization, the company's incremental stance towards cashflow generation/liquidity management will also remain a monitorable as it will have a bearing on the company meeting its operational requirement, creditor payment and/or debt repayment (in case of future borrowings).

Going forward, the company's ability to maintain the investment performance over a reasonable period of time and generate profitability therefrom will remain key rating sensitivities.

¹ Seed has investment in a listed scrip, Bindhyabasini Hydropower Development Company Limited (BHDC), from where it is receiving the returns; current market price as on December 03, 2023, is NPR 344/share.

² Two hydropower projects are in under construction phase, and one is an operational project under lock-in period.

³ Paid-up capital of NPR 889 million as at mid-October 2023 which is expected to increase to NPR 1,150 million through private placements and IPO.

Key rating drivers

Credit strengths

Comfortable short-term liquidity and unrealized investments in hand – Seed’s short-term liquidity profile is comforted by the on-balance sheet liquidity, rental income generating fixed asset (building) as well as dividend income from a portion of its equity investment. The company also has a lending portfolio of interest-bearing short-term advances which contributes to the base-line revenue of the company, albeit with a counterparty risk. This supports the company’s ability to meet the operating cashflow needs. However, its further investment plans and its leverage plans, if any, can impact on its liquidity.

Experienced and diversified management/promoter profile – Seed has a diversified promoter profile comprising of three institutional shareholders and 55 individuals from diverse sectors. The company’s management team is led by Mr. Ashish Shrestha, who has over two decades of experience across capital markets, management consulting and hydropower sector.

Credit challenges

Limited track record and subdued profitability so far – Incorporated in 2017 and converted to public company in 2022, Seed has a relatively limited track record in terms of business growth and profitability. Although the mergers with related entities in FY2022 and FY2023 has expanded Seed’s assets/capital base, its income streams from the investments (including dividend, rental, etc) remains small at present, which affects the overall return on capital employed. This can be expected to improve as the company increases its investment portfolio, planned to be financed through internal accruals as well as future equity raising programs.

Concentrated investment portfolio and illiquid assets in hand – The company has a sizeable portion of its investment in hydropower sector (~26% as at mid-October 2023) which it plans to further increase in future. While the outlook for hydropower sector (including revenue assurance and prospect of capital gain upon listing) remains positive, the sectoral concentration of fund in this sector exposes Seed to sectoral concentration risk. One of Seed’s investments in hydropower companies viz. Bindhyabasini Hydropower Development Company Limited (BHDC), has started generating returns (albeit nominal) and also offered the prospect of capital gain (based on the current market price) after the expiry of the lock-in period in mid-June 2025. Similar performance can be expected from Seed’s investment in other HPP (20MW Langtang HPP which is in advanced stage of completion). However, these equity investments in hydropower sector are subjected to lock-in period which raises the risk of liquidity, especially in the event of depletion of Seed’s on-balance sheet cash or acquisition of external borrowing that requires regular debt repayment. Moreover, the realisation of capital gain upon the expiry of lock-in period (if so chosen), remains subject to market risk.

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

Links to applicable criteria:

[Issuer Rating Methodology](#)

About the company

Incorporated in 2017 as a private limited and converted to a public limited on July 2022, SEED Energy Limited is an equity fund that has investment in equity and debt instruments across hydropower companies, manufacturing unit and a hotel unit.

As at mid-Oct 2023, its paid-up capital is NPR 889 million which is held by three investment companies (with 22% shares) and 55 other individual shareholders. As of mid-Oct 2023, its capital of NPR 889 million is mainly represented by its assets as land and building (~44%), equity investment in hydropower and other companies (~34%) and short-term interest-bearing advances (~9%).

Key Financial Indicators

Amount in NPR million	FY2021	FY2022	FY2022	Q1FY2023
	Audited	Audited	Audited	Provisional
Operating Income (OI)	1	8	15	5
OPBDITA/OI (%)	-55%	42.03%	30.2%	45.7%
Total debt/Tangible net worth (TNW; times)	NA*			
Total Outside Liability/TNW (times)				
Total Debt/OPBDITA (times)				
Interest coverage (times)				
DSCR (times)				
NWC/OI (%)	1,257%	685%	769%	566%

*Seed is a debt free entity as at mid-October 2023. Its total outside liability/TNW is also very low at 0.0041 times as at mid-October 2023.

Analyst Contacts

Mr. Sailesh Subedi (Tel No. +977-1-4519910/20)
sailesh@icranepal.com

Mr. Purushottam Sedhai (Tel No. +977-1-4519910/20)
purushottam@icranepal.com

Relationship Contacts

Ms. Barsha Shrestha (Tel No. +977-1-4519910/20)
barsha@icranepal.com

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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 4519910/20

Email: info@icranepal.com

Web: www.icranepal.com

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