Sahas Urja Limited: Ratings upgraded to [ICRANP-IR] BBB- and [ICRANP] LBBB-/A3

December 11, 2023

Summary of rating action

Instrument* (NPR Million)	Previous Rated Amount	Current Rated Amount	Rating Action
Issuer Rating	NA	NA	[ICRANP-IR] BBB-; upgraded from [ICRANP-IR] BB+
Long-term loans	8,650	11,199.2	[ICRANP] LBBB-; upgraded from [ICRANP] LBB+
Short-term loans	50	400	[ICRANP] A3; upgraded from [ICRANP] A4+
Total	**8,700**	**11,599.2**	

** Instrument details are provided in Annexure-1*

Rating action

ICRA Nepal has upgraded the issuer rating assigned to Sahas Urja Limited (Sahas) to [ICRANP-IR] BBB- (pronounced ICRA NP Issuer Rating triple B minus) from [ICRANP-IR] BB+ (pronounced ICRA NP Issuer Rating double B plus). Issuers with this rating are considered to have a moderate degree of safety regarding timely servicing of financial obligations.

ICRA Nepal has also upgraded the long-term rating assigned to Sahas to [ICRANP] LBBB- (pronounced ICRA NP L triple B minus) from [ICRANP] LBB+ (pronounced ICRA NP L double B plus) and short-term loan rating to [ICRANP] A3 (pronounced ICRA NP A three) from [ICRANP] A4+ (pronounced ICRA NP A four plus).

Rationale

The rating upgradation factors in the commencement of commercial operation of the 86MW Solu Khola (Dudh Koshi) hydropower project (HPP) from March 2023[1], eliminating the project execution risk. The ratings also take comfort from the long-term power purchase agreement (PPA) with Nepal Electricity Authority (NEA) at predetermined tariffs and annual tariff escalations under the take-or-pay modality, which eliminates the tariff and offtake risks related to the project. The project was commissioned at a relatively economical capital cost of ~NPR 175 million per MW[2], which remains a strong positive amid the relatively fixed energy tariff (and escalation) regime under the PPA. Following the latest revision in required commercial operation date (RCOD), the project's late COD penalty has declined significantly from the previous estimate and the project is eligible for all eight-tariff escalation which remains a positive for the long-term profitability profile of the company. The project is connected to the operational Tingla substation of NEA through a 132 KV transmission line enabling effective evacuation of the energy generated by the project. During the first ~9 months of operation, the project has met ~88% of cumulative contract energy during the period, which remains healthy among the ICRA Nepal rated universe of hydropower players. Additionally, the relatively higher installed capacity of the project remains positive from the perspective of the economies of scale.

Nonetheless, the ratings remain constrained by concentration of company's cashflow/revenue profile on a single project. The financial profile of the company therefore remains vulnerable to the project downtime that may occur from geological risk/natural calamities, especially during its nascent stages of operation when the liquidity cushion with the company and debt service reserve account (DSRA) with the lender banks remains low. The ratings are also constrained by the absence of a deemed generation clause in the PPA, which exposes the project to hydrological risks without receiving any compensation from NEA in case of adverse flow in the river. However, the presence of long-term gauge data along with partial snow-fed hydrology of the Solu river offsets the hydrological risk to some extent. Interest rate volatility on bank borrowings also remains a rating concern given the relatively fixed revenue profile of hydropower projects.

[1] COD from 1st March 2023, as against a RCOD of 18th January 2023.

[2] Based on the latest budget estimate; final cost remains to be submitted by the company to lender bank but is likely to remain at around budgeted levels.

Going forward, Sahas' ability to operate as per the designed parameters consistently over a reasonable period, manage interest rate volatility, and maintain adequate liquidity buffer to cushion any shock arising from potential project downtime would be the key rating sensitivities.

Key rating drivers

Credit strengths

Prior experience of promoters/directors in hydropower sector remains a comfort – The company's directors and major promoters were previously involved in the development of other hydropower projects, which provides comfort to the operational and maintenance aspect of the project over the long term. The promoters' experience is also reflected in their ability to commission the 86 MW project economically and timely vis-à-vis other large-scale projects in the region.

Lower project cost to support return and coverage indicators – Despite ~24% cost escalation from the original budget, the project was commissioned at relatively economic rate (vis-à-vis other similar aged peers), partly aided by the economies of the scale (revised cost was ~NPR 14.7 billion as compared to the original cost estimate of ~NPR 11.9 billion). This fares better for the project's return and debt coverage indicators amid the fixed tariff and fixed escalations regime. This coupled with relatively better gross plant load factor (69%) at contract energy, satisfactory project generation thus far and the eligibility for all eight annual tariff escalations on the base tariff are expected to support the company's long-term revenue and profitability profile. However, the ability of the project to maintain generation performance over a longer timeframe remains to be established.

Low tariff and offtake risks and low evacuation risk – The project's tariff and offtake risks remain low as the company has a 30-year PPA with the NEA (the sole purchaser and distributor of electricity in Nepal) for its entire project capacity. As per the PPA, the pre-defined tariffs are NPR 4.8 per kWh for the wet season (eight months) and NPR 8.4 per kWh for the dry season (starting mid-December till mid-April) with 3% annual escalation on the base tariff for eight times. Since the company has been able to meet the RCOD date of January 2023 with only ~1.5 months[3] of delay, the applicability of the tariff escalation clause for the project remains intact for the prescribed full term. The project's evacuation risk also remains low given its connection with NEA's operational Tingla Substation via a 132 KV double circuit transmission line, under the grid connection agreement with NEA.

Credit challenges

Hydrological risks – The lack of a deemed generation clause in the PPA exposes the project to high hydrology risks in case of any adverse river flow scenarios without receiving any compensation for such losses. However, the Solu River being a gauged one as well as having a partial snow-fed support provides comfort in this front to some extent.

Revenue concentration on single project – As the 86 MW project is the only project under Sahas, its revenue and overall financial profile remains dependent on the steady operation of the project. As such, any disruptions in the project due to natural calamities/ technical downtime has a direct impact on the company's revenue and liquidity profile. The risk remains even pronounced during the early period, wherein the company's reserve position and debt service reserve account (DSRA) balance with lender remains low. Any disruption of project cashflows could impact on the company's ability to meet its obligations in a timely manner.

Link to previous rating rationale:
[Rationale Sahas-Urja-Limited- IR & BLR- May 2022]

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

Links to applicable criteria:
Issuer Rating Methodology
Corporate Credit Rating Methodology

[3] *The number of available escalations would be adversely affected in the manner of- one tariff escalation for delay in commissioning by over six months from the required COD with a further tariff escalation loss for every one-year delay in COD thereafter.*

About the company

Incorporated in February 2014 as a private limited company, Sahas Urja Limited (Sahas) was converted to a public limited company in September 2014 to facilitate public participation. The company owns and operates 86MW Solu Khola (Dudh Koshi) HEP in Solukhumbu District, Province 1 of Nepal. The project commenced operations from March 2023 and has a contract energy of 520.20 GWh (Dry Season: 101.27 GWh and Wet Season: 418.93 GWh), as per the PPA with Nepal Electricity Authority (NEA). The run-of-the river (R-o-R) type project has been designed at ~40% probability of exceedance (Q40) model. The project was commissioned at an estimated cost of around NPR 14.7 billion using ~76% debt financing.

The paid-up capital of the company as of mid-July 2023 was NPR 3,500 million including 30% public shareholding. As on same date, the major promoters include Mr. Mahendra Kumar Giri with 1.60% stake, Mr. Sushil Thapa with 1.48% stake, Ms. Anupama Thapa with 1.43% stake and Mr. Him Prasad Pathak with 1.36% stake, among others.

Key financial indicators

Amount in NPR Million	FY2023 (Provisional)	Q1FY2024 (Provisional)
Operating income (OI; NPR million)	611	893
OPBDITA/OI (%)	86%	92.5%
Total debt/Tangible net worth (TNW)	1.89	1.82
Total outside liabilities/TNW (times)	2.03	1.88
Total debt/OPBDITA (times)	20.36	3.30
Interest coverage (times)	1.10	2.05
NWC/OI (%)	86%	18%

Note: Sourced from company data.

Annexure-1: Instrument details

Instrument (Amount in NPR Million)	Previously Rated	Current Rated	Rating Action
Fund-based facilities; Long-term loan	8,650.0	11,199.2	[ICRANP] LBBB-; upgraded from [ICRANP] LBB+
Fund-based facilities; short term loan (Overdraft)	-	350.0	[ICRANP] A3; upgraded from [ICRANP] A4+
Non-fund-based facilities; short-term loan (Bank guarantee)	50.0	50.0	
Total	**8,700.0**	**11,599.2**	

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About ICRA Nepal Limited

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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.

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