

Mai Khola Hydropower Limited: Rating reaffirmed

March 04, 2024

Summary of rating action

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

Rating action

ICRA Nepal has reaffirmed the issuer rating of Mai Khola Hydropower Limited (MKHL) at [ICRANP-IR] BB+ (pronounced ICRA NP Issuer Rating Double B plus), indicating a moderate risk of default in the timely servicing of financial obligations. The sign of + (plus) or – (minus) appended to the rating symbol indicates their 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 reaffirmation considers the company's improved gearing of 0.9 time as of mid-January 2024, aided mainly by recent IPO and regular repayments/slight prepayment from IPO proceeds. This has led to improved total debt to OPBDITA metrics at 4.8 times for H1FY2024. The rating also considers the project's (operational 3 MW Super Mai Cascade Hydropower Project) lower capital cost at ~NPR 187 million per MW and the project being eligible for all eight tariff escalations, which augurs well for the company's return and coverage metrics. ICRA Nepal also takes positive note of the project's low tariff and offtake risks amid the firm power purchase agreement (PPA) with the Nepal Electricity Authority (NEA) under a take-or-pay modality at pre-determined tariffs and escalations. Additionally, the rating considers the experience of the promoters and the key management in the hydropower sector, which provides comfort to the project's operational and maintenance aspects.

Nonetheless, the rating remains constrained by the project's weakened operational performance during FY2023 with net generation down to ~70% of contract energy as against ~82% in FY2022, amid lower hydrology and frequent interruptions in the upstream Super Mai-A Hydro Power Project (HPP). The rating also remains constrained by MKHL's majority of IPO funds being invested in two under-construction hydropower projects, which would have long gestation periods and could also necessitate further support requirements in case of unexpected cost overrun. Furthermore, the hydrology risks arising from changing climatic conditions (including variation in monsoon precipitation) also continue to remain among the rating concerns. Going forward, the project's hydrology and its ability to achieve designed operating parameters would be the key drivers for determining the project return metrics and debt coverage indicators for the company.

Key rating drivers

Credit strengths

Improved gearing, mainly backed by recent IPO – The company's gearing has improved to 0.9 times by mid-January 2023 from ~1.8 times in mid-July 2022, mainly supported by the IPO of ~NPR 192 million. Additionally, scheduled repayments of project loans, along with slight prepayment from IPO proceeds led to improved total debt to OPBDITA metrics to 4.8 times for H1FY2024 from 7.4 times in FY2022. However, the extent of improvement was much lower than anticipated as the company opted to make lower prepayment of debt (NPR 40 million) from IPO proceeds, as against its earlier commitment of fully utilizing the IPO proceeds towards loan downsizing. Despite repeated project disruptions, MKHL's liquidity profile was supported by the IPO issuance in April 2023.

Lower project cost results in satisfactory coverage indicators – The project's relatively lower cost of ~NPR 187 million per MW, combined with its eligibility for all eight tariff escalations, augurs well for return and coverage metrics (debt service coverage ratio of 1.3-1.4 in last 12-18 months).

Experienced promoters – Ngadi Group Power Limited is MKHL’s major promoter, which holds 35.7% stake in the company and is the developer of the operational 5MW Siuri Khola hydropower project. Additionally, the company’s directors and senior management have significant experience in hydropower project development and operation, which remains a positive.

Low tariff/offtake risk and low evacuation risks – MKHL has entered into PPA with NEA (sole purchaser and distributor of electricity in Nepal) for its entire project capacity for a period of 30 years from COD. By virtue of this PPA, there is predefined tariff rate for the purchase of energy i.e., the tariff for wet season (mid-April to mid-December) is NPR 4.8 per kWhr while that for dry season is NPR 8.4 per kWhr. For the PPA rates, escalation allowed is 3% per annum on the base tariff for eight consecutive years after commercial operation date (COD). With this, the tariff risks are minimal. The offtake risks for the project are low given with presence of take or pay PPA for the entire energy.

Credit challenges

Volatile operational performance – The 3 MW project generated ~70% of contract energy for FY2023 as against ~82% in FY2022 and ~71% in FY2021. The major reason behind the volatile generation trend was the unfavourable hydrological conditions and frequent interruptions in the upstream Super Mai-A HPP. As MKHL’s project serves as the cascade project of Super Mai-A HPP, maintenance issues at Super Mai-A HPP has been causing regular halts in generation of MKHL’s project, resulting in weak generation in recent periods.

Climatic and geographical risks – The hydropower projects in Nepal generally remain exposed to high hydrological risks, as their revenues are directly linked to river flow scenarios. These projects are mostly developed on ungauged rivers and are not entitled to receive any compensation for lower revenues due to hydrological fluctuations, from the NEA or any Government bodies. Despite being a gauged river, Mai river has exhibited volatile hydrology, which remains an area of concern. Furthermore, the difficult terrain and high river discharge during monsoon season have been impacting several Nepalese projects on a YoY basis. Though the property damage and loss of profit insurance provides some cushion, elongated shutdown (after natural calamities) as seen in multiple projects (including MKHL) and low recovery from insurance claim (only ~20% of property damage claim amount of MKHL was found eligible by insurers) also remain the concerns.

Interest rate volatility risk, project concentration risk – Given the relatively fixed revenue profile and high debt funded capex, hydropower companies’ profitability remains dependent on interest rate volatility as it affects the debt burden on the company’s cashflows. Accordingly, spiked borrowing rates during FY2023 was also among the factors impacting the company’s profitability for the year. These concerns are accentuated by the company being reliant on a single project for its cash flow requirements.

Link to the previous rating rationale:

[Mai Khola Hydropower Limited-Issuer-Rating-August 2022.pdf](#)

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

Link to the applicable criteria:

[Issuer Rating Methodology](#)

About the company

Incorporated as a private limited company on August 1, 2016, Mai Khola Hydropower Limited (MKHL) was converted to a public limited company on July 2, 2021. The company is operating a 3MW Super Mai cascade hydropower project in Ilam district of Koshi Province of Nepal. The project is a run of the river (R-o-R) type and was developed at 40% probability of exceedance (Q40). The project was commissioned on July 15, 2020 and was developed at a cost of ~NPR 560 million. The project has grossly generated ~70% of contracted energy for FY2023.

The paid-up capital of the company as of mid-January 2024 was ~NPR 392 million out of which 51% was promoters held and remaining ~49% was held by public. As on same date, the major promoters include M/s Ngadi Group Power Limited (35.7% stake), Mr. Srijesh Guragain (5.1%), Mr. Dinesh Gurung (2.6%), Mr. Saurav Guragain (2.6%), Mr. Gyanendra Kumar Sharma (2.6%), Mr. Bhusan Guragain (2.4%), among others.

Key Financial Indicators

Particulars	FY2021	FY2022	FY2023	H1FY2024*
Operating Income (OI; revenues in NPR million)	70	70	73	44
OPBDITA/OI (%)	87%	79%	80%	81%
Total debt/Tangible net worth (TNW; times)	2.9	1.8	1.0	0.9
Total Outside Liabilities/TNW (times)	2.9	1.9	1.0	0.9
Total Debt/OPBDITA (times)	6.9	7.4	6.7	4.8
Interest coverage (times)	1.7	2.1	1.8	1.8
DSCR (times)	1.6	1.9	1.4	1.3
Net Working Capital/OI (%)	18%	58%	17%	14%

*Audited till FY2023 and provisional for H1FY2024

Analyst Contacts

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

Mr. Rajib Maharjan (Tel No. +977-1-4519910/20)
rajob@icranepal.com

Mr. Nahid Siddiqui (Tel No. +977-1-4519910/20)
nahid.siddiqui@icranepal.com

Relationship Contacts

Ms. Barsha Shrestha (Tel No. +977-1-4519910/20)
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:+977-1-4519910/20
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.