

Laughing Buddha Power Nepal Limited: Rating downgraded to [ICRANP-IR] C+

April 22, 2024

Summary of rating action:

Facility	Rated amount	Rating Action
Issuer Rating	NA	[ICRANP-IR] C+; downgraded from [ICRANP-IR] B-

Rating Action

ICRA Nepal has downgraded the issuer rating of Laughing Buddha Power Nepal Limited (LBPNL/the company) to [ICRANP-IR] C+ (pronounced ICRA NP Issuer Rating C plus) from [ICRANP-IR] B- (pronounced ICRA NP Issuer Rating B minus). Issuers with this rating are considered to have very high risk of default regarding 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

Rationale

The rating downgrade mainly factors in the sustained delays¹ (of up to 30 days) in serving the bank obligations by LBPNL on account of the continued liquidity pressures amid the consistently weak energy generation from the company's three operational projects² (aggregating to ~6.5MW with average generation of ~55% of contract energy in last three years ending mid-July 2023). The rating is also impacted by the company's weak financial profile with sizeable accumulated losses of ~NPR 683 million as of mid-January 2024 (i.e. ~99% of its paid-up capital), mainly on account of weak generation trend, which was further accentuated by the impact of multiple natural calamities³ on the project. Further, the company is facing significant liquidity pressures as evidenced by sizeable buildup of payables (mainly relating to repair costs to damages from last instance of flood). Given the significantly depleted net worth base, fully escalated tariffs and the reducing project tenure (~19 years remaining), the company's incremental financial profile will remain highly dependent on the project's energy generation trend.

Nonetheless, the rating continues to draw comfort from the low tariff and off-take risks, amid already signed power purchase agreement (PPA) with the Nepal Electricity Authority (NEA), at pre-determined tariff rates and escalations. Further, the rating also takes note of the continued funding support by the promoters to facilitate debt servicing (albeit with some delays).

Key Rating Drivers

Credit Strengths

Low tariff and offtake risks – The tariff and offtake risks for the company's HEPs remain low, given the presence of firm PPAs with the NEA (the sole purchaser and distributor of electricity in Nepal) under a take-or-pay modality. As per the PPAs, pre-defined tariffs for the 3-MW Chaku Khola HEP is NPR 3.72 per unit (wet) and NPR. 5.27 per unit (dry) for the first 1.5 MW, and NPR 5.08 (wet)/NPR 8.89 (dry), for the additional 1.5 MW. For the 1.69-MW Middle Chaku HEP, rates are NPR 5.08 (wet)/ NPR 8.89 (dry) and for the 1.8-MW Lower Chaku HEP, rates are NPR 3.90 (wet) and NPR 5.52 (dry). These tariffs for all three projects are already fully escalated.

Promoters' support – The promoters of the company comprises both institutions and individuals from diverse background. The company has continued to receive incremental funding support from the promoters to aid debt servicing (albeit with some delays). ICRA Nepal expected continuation of similar support over the medium term, unless

¹ Delays are for less than 30 days and therefore doesn't constitute a default as per [ICRA Nepal's policy on default recognition](#).

² 3-MW Chaku Khola Hydroelectric project (HEP) (operational since January 2013), 1.69-MW Middle Chaku Khola HEP (since February 2013) and 1.80-MW Lower Chaku Khola HEP (since August 2013)

³ Major incidents include August 2014 Jure landslide, April 2015 earthquake, July 2016 Bhotekoshi flooding, July 2019 Chaku Khola flooding and June 2021 Melamchi flooding.

mitigated by improved generation and/or reduced debt levels. Any spillover of the extent of delays in serving bank obligations top beyond 30 days, will have a downward pressure over the rating.

Credit Challenges

Sustained weak project performance leading to weak financial profile and delays in debt servicing – Despite being in operation from 2013, the power generation from the projects have remained consistently weak amid weak project hydrology, transmission losses and the recurring impact of multiple natural calamities. The average net-combined generation for the projects stood at ~55% of the contract energy during the last three years of operations ending FY2023 (~59% in FY2023). The sustained weak project generation has led to sizeable losses over the years (negative net worth base of NPR 9 million as of mid-January 2024), which coupled with high debt obligations lead to significantly weak coverage metrics. Accordingly, the company has largely continued to delay in servicing the bank obligations, which however still remain within 30 days, mainly through promoter support. Going forward, the improvement in the projects' performance and/or reduction of debt burden will remain crucial in determining the company's incremental financial profile.

High concentration risks – All three projects under the company are situated in Sindhupalchowk district of Nepal and have witnessed multiple natural disasters in the past, thus impacting the projects' operation for elongated timelines. Hence, the concentration risks remain high as all three projects share the same hydrology and use a common evacuation infrastructure. Any damages to one project may also affect the operations of the other projects. Likewise, the company's substantial debt burden (though proposed to be reduced from proposed IPO proceeds) and the high interest rate volatility also remain among the rating concerns.

Hydrological and geological risks – The generation efficiencies of the projects remain dependent on the river's hydrology, which in turn remains dependent on climactic factors (including monsoon fluctuations). Given the project terrain, the risk of events like flood, landslide, etc also remain high, as seen in the past. LBPNL's ability to ensure continuation of insurance coverage (including property damage and loss of profit) covering such risks will remain critical to its long-term financial and operational profile.

Link to the previous rating rationale:

[Rationale - Laughing Buddha Power Nepal Limited Fresh Issuer Rating December 2022](#)

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

Link to the applicable criteria:

[Issuer Rating Methodology](#)

About the Company

Incorporated on September 15, 2005, and converted into a public limited company on December 31, 2015, Laughing Buddha Power Nepal Limited (LBPNL) owns and operates three hydropower projects, namely, the 3-MW Chaku Khola HEP, the 1.69-MW Middle Chaku Khola HEP and the 1.8-MW Lower Chaku Khola HEP in Sindhupalchowk district of Bagmati Province of Nepal. As of mid-January 2024, the paid-up capital of the company was ~NPR 685 million; with major shareholding by Mr. Khuma Prasad Aryal (~19%), M/s Sharma & Company Private Limited (~15%) and M/s Shakti Investment Company Private Limited (~13%), among others. All the projects are run-of-river type, with designed discharge of 4.5 m³/sec and probability of exceedance of 40% for the Chaku Khola HEP and the Middle Chaku Khola HEP, whereas the Lower Chaku Khola HEP has been developed at 65% probability of exceedance with designed discharge of 3 m³/sec. The water from the tailrace of the 1.69-MW Middle Chaku Khola HEP is utilised by the 3-MW Chaku Khola HEP. Similarly, the water from the tailrace of the Chaku Khola HEP is being utilised by the 1.8-MW Lower Chaku Khola HEP. The average generation from these projects was ~55% in the last three years ending FY2023 and ~59% in FY2023.

Key financial indicators

	Audited					Provisional
	FY2019	FY2020	FY2021	FY2022	FY2023	H1FY2024
Operating income (Revenue in NPR million)	97	18	48	89	88	56
OPBDITA/OI	63%	-67%	44%	57%	49%	54%
Total debt/Tangible net worth (TNW) (times)	4	217*	184	10	32	-76
Total outside liabilities/TNW (times)	4	245*	199	12	39	-91
Total Debt/OPBDITA	12	-64	38	15	18	13
Interest coverage (times)	1.14	-0.23 [#]	0.37	1.00	0.79	1.14
DSCR (times)	0.42	-0.23 [#]	1.70	1.56 ^{**}	0.57	0.72

*Due to deteriorated net worth base amid huge losses on account of elongated operational disturbances after the July 2019 flooding.

[#] At same level with no repayments of principal amount and moratorium for interest as well.

^{**} This was also aided by non-operating income (receipt of insurance claim); excluding which the same was less than 1 time.

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About ICRA Nepal Limited

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