

Buddhabhumi Nepal Hydropower Company Limited: Ratings upgraded to [ICRANP-IR] BB-and [ICRANP] LBB-/ A4; ratings removed from ‘Issuer not Cooperating’ category

April 22, 2024

Summary of rating action

Instrument* (Amount in NPR million)	Previous Rated Amount	Current Rated Amount	Rating Action
Issuer Rating	NA	NA	[ICRANP-IR] BB-; upgraded from [ICRANP-IR] B+ and removed from ‘Issuer Not Cooperating’ category
Long-term loans; fund-based	886.3	957.4	[ICRANP] LBB-; upgraded from [ICRANP] LB+ and removed from ‘Issuer Not Cooperating’ category
Short-term loans; fund-based	20.0	20.0	[ICRANP] A4; reaffirmed and removed from ‘Issuer Not Cooperating’ category.
Short-term loans; non-fund based	(370.0)	(320.0)	
Total	906.3	977.4	

Rating action

ICRA Nepal has upgraded the issuer rating assigned to Buddhabhumi Nepal Hydropower Company Limited (BNHCL) to [ICRANP-IR] BB- (pronounced ICRA NP Issuer Rating double B minus) from [ICRANP-IR] B+ (pronounced ICRA NP Issuer Rating B plus).

ICRA Nepal has also upgraded and revised the long-term rating assigned to BNHCL to [ICRANP] LBB- (pronounced ICRA NP L double B minus) from [ICRANP] LB+ (pronounced ICRA NP L B plus) and reaffirmed the short-term loan rating at [ICRANP] A4 (pronounced ICRA NP A four).

The ratings have been removed from the ‘Issuer Not Cooperating’ category.

Rationale

The ratings upgradation of BNHCL factors in the commencement of commercial operation of the 4.993 MW Lower Tadi Khola hydropower project (HPP) from March 24, 2022, and good generation performance of the project (~90% of contract energy generated till 7MFY2024 vs. ~83% of contract energy in FY2023). Project design under higher probability of flow exceedance (~54% against 40% for most HPPs), high dry energy mix (~23%) and high contract PLF (~73%) under the power purchase agreement (PPA) is likely to support the project’s revenue metrics over long term. The ratings also positively factors in the revenue visibility stemming from long-term PPA (under take-or-pay modality) with Nepal Electricity Authority (NEA) at predetermined tariffs and the project’s eligibility for all five annual tariff escalations. Similarly, the rating also positively factors in low evacuation risk for the project given the presence of NEA’s operational Samundratar sub-station (grid-connection point) and Samundratar-Trishuli 3B 132 kV transmission lines.

Nonetheless, the ratings remain constrained by the relatively higher project cost of ~NPR 292 million per MW and concomitant high debt burden (given 69% debt financing of project capex). This is likely to subdue the return and debt coverage indicators, given the fixed tariff regime which doesn’t compensate for higher capital cost. Some concerns also arise as project performance over the longer term remains untested. Sustained generational efficiency remains critical to the financial profile of the company, given the high debt burden and single project dependence of the company. The financial profile and debt servicing ability also remains vulnerable to project downtime caused by geological risk/natural calamities; especially during the early years when the debt burden is high and liquidity cushion, debt service reserve accounts (DSRA) with the lender banks are low. Rating concerns also arise from the probability of shorter project

economic life¹ due to the shorter tenure of generation license vis-à-vis PPA, due to delayed execution of project vis-à-vis initial estimates. Similarly, rating concerns also arise from the limited prior experience of the promoters in hydropower sector as well as hydrological risks arising from changing climatic conditions (including variation in monsoon precipitation), given the absence of a deemed generation clause in the PPA.

ICRA Nepal notes the equity raising plans of the management through rights issue. The ability to successfully raise the capital will also remain a key monitorable going forward.

Rationale

Key rating drivers

Credit strengths

Good project generation performance and low evacuation risk – The project, which is in commercial operation since March 24, 2022, was able to generate ~90% of the contract energy till 7MFY2024 vs. 83% of contract energy in FY2023. Progressive generation performance following the commissioning remains a positive for incremental financial profile of the company. The project’s ability to continue/improve the current generation levels will remain essential for the longer-term improvement in operational, financial and credit profile of the company.

The power generated from the project is evacuated to the NEA’s Samundrarat substation through 33 KV transmission line. The energy is then evacuated from Samundrarat substation through 132KV transmission line to operational Trishuli 3B substation. Therefore, evacuation risk remains on lower side.

Relatively high probability of exceedance, plant load factor and dry energy proportion – The Tadi Khola HPP is developed under ~54% probability of exceedance model (vs. 40% for most of the recent projects) which corresponds with a higher plant load factor (PLF) of ~73% at contract energy. Similarly, the contract energy has higher dry energy mix of ~23% (~15% for most projects) which qualifies for higher energy tariff under PPA. A higher PLF and dry energy mix remains positive for project’s revenue metrics. Similarly, the Tadi river is also partly snow-fed, which supports hydrology during the dry season.

Low tariff and offtake risks given the long-term PPA– The project’s tariff and offtake risks remain low given the PPA for its entire capacity with NEA at pre-determined tariffs and escalations. 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 with 3% annual escalation on the base tariff, for first five years. NEA extended the required commercial operation date in line with the actual commercial operation date factoring in the pandemic impact. Therefore, project remains eligible for all tariff escalations despite the delayed commissioning.

Credit challenges

Relatively higher project cost – The 4.993 MW project is developed at cost of ~NPR 1,460 million (i.e. ~NPR 292 million per MW) at D: E of 69:31. High project capex and high debt financing has a dampening impact on the project’s profitability and debt coverage metrics as the tariff structure doesn’t compensate for higher project cost.

Revenue dependency on single project; climatic and hydrology risks – The company’s revenue is dependent on the single operational project. The lack of a deemed generation clause in the PPA makes the project and the company’s revenue vulnerable to hydrology risk in the event of adverse river flow, without compensation from NEA for any losses. Nonetheless, the generational track record so far remains satisfactory which coupled with the fact that Tadi river is partly snow-fed, mitigates the hydrological concerns to some extent.

¹ Project period is 30 years from COD as per PPA (valid till March 2052) while its generation license is valid till April 2048

PPA life capped by energy generation license –The validity of the PPA is 30 years from COD (valid till March 2052) or 35 years from the generation license date (valid till April 2048). Due to this, the project revenue realisation period is likely to be limited to ~26 years, which could limit the revenue potential over the project life.

Link to the previous detailed rating rationale:

[Rationale – Buddhabhumi Nepal Hydropower Company Limited – Issuer Not Cooperating October 2023](#)

[Rationale – Buddhabhumi Nepal Hydropower Company Limited –Issuer Rating and BLR Surveillance March 2022](#)

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

Links to the applicable criteria:

[Issuer Rating Methodology](#)

[Corporate Credit Rating Methodology](#)

About the company

Incorporated in October 2007 as a private limited company, Buddhabhumi Nepal Hydropower Company Limited (BNHCL) was converted to public limited company in August 2017 and floated an IPO in October 2021. The company has developed a 4.993MW Lower Tadi Khola HPP in Nuwakot District, Province 3 of Nepal. The project is a run of the river (R-o-R) type and has been developed at 53.80% probability of exceedance (Q53.8). The project came into commercial operation in March 2022.

The paid-up capital of the company as of mid-January 2024 was NPR 400 million. Major promoters of the company are Mr. Purna Lal Shrestha (~8% stake), Mr. Pramod Khadka (~8%), Mr. Anil Kumar Thapa (~5%) among others.

Key financial indicators

	FY2022 (Audited)	FY2023 (Audited)
Operating income (OI; NPR million)	14	180
OPBDITA/OI (%)	8.02%	79.07%
Total debt/Tangible net worth (TNW)	2.61	2.71
Total outside liabilities/TNW (times)	2.93	3.02
Total debt/OPBDITA (times)	249.99	6.84
Interest coverage (times)		1.77
DSCR (times)		1.74
NWC/OI (%)	-115%	-33%

Source: Company's website

Analyst Contacts

Mr. Sailesh Subedi (Tel No. +977-1-4519910/20)

sailesh@icranepal.com

Ms. Kushum Bhattarai(Tel No. +977-1-4519910/20)

kushum@icranepal.com

Relationship Contacts

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

barsha@icranepal.com

About ICRA Nepal Limited

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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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