Himalayan Hydropower Limited: Issuer rating and long-term rating upgraded; short-term rating reaffirmed

June 10, 2024

Summary of rating action

Instrument * (Amounts in NPR million)	Previous Rated Amount	Current Rated Amount	Rating Action
Issuer Rating	NA	NA	[ICRANP-IR] BB-; upgraded from [ICRANP-IR] B+
Long-term limits	1,542	1,498	[ICRANP] LBB-; upgraded from [ICRANP] LB+
Short-term limits	40	40	[ICRANP] A4; reaffirmed
Total	**1,582**	**1,538**	

** Instrument details are provided in Annexure-1*

Rating action

ICRA Nepal has upgraded the issuer rating of Himalayan Hydropower Limited (HHL/the company) to [ICRANP-IR] BB- (pronounced ICRA NP issuer rating double B minus) from [ICRANP-IR] B+ (pronounced ICRA NP issuer rating B plus). This rating is only an opinion on the general creditworthiness of the rated entity and is not specific to any debt instrument.

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

Rationale

The ratings upgrade factors in improved revenue profile of the company, following the post-flood rehabilitation of the project in FY2022. As a major portion of damages were covered from insurance, the long-term financial burden on the project from the recent damages remains relatively low. The 11.88MW Namarjun Madi hydropower project (HPP), owned by the company, generated ~93% of contract energy in FY2023 and ~100% of contract energy till 10MFY2024, which remains positive. The ratings also take comfort from the long-term power purchase agreement (PPA) with Nepal Electricity Authority (NEA) and low evacuation risk for the project given the presence of NEA's operational Lekhnath substation in Kaski (grid connection point). Additionally, the positive demand outlook for the energy sector amid the increasing energy consumption in the nation, and improving energy export prospects of the country, remain rating positives.

Nonetheless, the ratings remain constrained by the relatively higher project cost of NPR 2,690 million (NPR 226 million per MW), which subdues the return prospects amid the fixed tariff and escalation regime. Although the project was developed under a relatively better debt equity ratio of 60:40, the debt burden remains high as repayment has just commenced. As such, the coverage ratio is likely to remain stretched over the near term. The ratings are also constrained by the limited project's economic life (~27 years vs. 30 years' PPA life) on account of long (~4 years) delay in project commissioning vis-à-vis required commercial operations date. Hydrological risk (from changing climactic condition and variation in precipitation) also remains a concern as it has a direct impact on the operational and financial performance of the company. Single project concentration of revenues and risk of project downtime from geological risk/natural calamities as well as interest rates volatility remain among the rating concerns.

Going forward, HHL's ability to achieve its designed operating parameters, project hydrology and interest rate volatility in the market would be the key drivers for determining the project return metrics and other coverage indicators for the company.

Key rating drivers

Credit strengths

Good operational performance: The 11.88 MW project was commissioned on September 28, 2020 (Q1FY2021) but was closed due to damages from floods/landslides in FY2022, for ~9 months. However, the project generation has remained healthy both prior to as well as after the flood/landslide. Post-rehabilitation, the project generated ~93% of contract energy in FY2023 and ~100% of contract energy till 10MFY2024. Though the generation trend has remained good so far, supported by snow-fed hydrology of the river, its ability to achieve its design operating parameters along with adequate hydrological support over a longer time frame, remains to be seen and remains among a key rating consideration.

Lower evacuation risk: The power generated from the project is being evacuated from HHL's powerhouse to NEA's Lekhnath substation, via a shared transmission line. This is being done under a tripartite agreement between HHL, Madi Power Pvt. Ltd. (developer of 25MW Upper Madi Khola HPP) and Sikles Hydropower Pvt. Ltd. (developer of 13MW Sikless HPP). As per the terms of agreement, HHL evacuates its energy from its project to 132-kV bus bar in the switchyard of 25MW Upper Madi HPP which is then connected further to NEA's substation.

Low tariff and offtake risks with presence of long-term PPA at predetermined tariffs and escalations: The tariff risk for HHL is low as the company has a 30-year PPA for entire project capacity with the NEA. The pre-defined tariff rates are NPR 4 per kWh for the wet season (mid-April–mid December) and NPR 7 per kWh for the dry season with a 3% annual escalation clause in the tariff for nine times. Although the tariff rates are ~20% lower compared to the tariff for newer projects, the PPA for the project has no tariff escalation loss clause for any project delays. Hence, the company is eligible for all nine tariff escalations.

Credit challenges

Relatively higher project capex and accumulated loss to supress return and coverage indicators: The 11.88-MW Namarjun Madi HPP was developed at the total cost of ~NPR 2,690 million with 60% debt financing. The company has also availed NPR 80 million of loan for the rehabilitation works. The company also carries accumulated losses in its balance sheet (NPR 306 million as of mid-July 2023) due to the losses during breakdown period as well as late COD penalty of ~NPR 60 million paid at the start of operations, which results in a moderate financial profile. Going forward, the return indicators and coverage ratios would remain mainly contingent upon the energy generation trend and the interest rate outlook.

Hydrological, geological and interest rate risks – The generational efficiency of the project is likely to remain driven by the project hydrology which in turn remains dependent on climatic factors (including annual precipitation). However, Madi river is a partially snow-fed river, which is expected to support the flow during the dry season. The project's healthy generation (albeit over a short time frame) also provides some comfort on the project hydrology.

Similarly given the project terrain, the risk of events like flood, landslide, etc also remain high. Any disruption in the project due to natural calamities can have a direct impact on the company's financial profile, given the single project dependence for cash flows. The company's financial profile would also remain exposed to interest rate volatility in the banking sector, as the revenue profile of the company is relatively fixed.

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

Links to the applicable criteria:

Corporate Credit Rating Methodology

Issuer Rating Methodology

Link to the previous rating rationale:

Himalayan Hydropower Limited_IR and BLR Surveillances_May 2023

About the company

Incorporated in December 2004 as a private limited company, Himalayan Hydropower Limited (HHL) was converted to public limited company in May 2017 to facilitate public participation. The paid-up capital of the company as of mid-July 2023 is NPR 1,095 million including NPR 225 million (~21% of total capital) raised through an Initial Public Offering (IPO) in FY2022. As of mid-April 2024, the major promoter shareholders include Mr. Khom Bahadur KC with ~12% stake, Sanima Bank Limited (~5%), and Mr. Sudhir Yadav (~2%), among others.

The company is operating an 11.88MW Namarjun Madi HPP in Kaski District, Gandaki Province of Nepal. The run of the river (R-o-R) project was developed at 40% probability of exceedance (Q40) at a total cost of NPR 2,690 million. The project was commissioned from September 28, 2020, and was halted for ~9 months following the flood in July 2021. The project resumed operations in February 2022 and has recovered ~90% of rehabilitation expense from insurance company.

Key Financial Indicators

Amount in NPR million	Audited		
	FY2021	FY2022*	FY2023
Operating Income (OI)	171	95	293
OPBDITA/OI (%)	75%	17%	79%
Total debt/Tangible net worth (TNW; times)	2.7	2.1	2.0
Total Outside Liability/TNW (times)	3.0	2.5	2.1
Total Debt/OPBDITA (times)	11.04	36.03	6.84
Interest coverage (times)	1.0	0.1	1.3
DSCR (times)	0.4	0.6	0.4
NWC/OI (%)	0%	35%	23%

*Project was affected by the flood due to which the project was closed for ~9 months; hence distorted numbers for FY2022.

Annexure-1: Instrument details

Instrument (NPR Million)	Previous Rated Amount	Current Rated Amount	Rating Action
Long-term Limits (A)	**1,542**	**1,498**	
Fund-based; Long-term loan	1,542	1,498	[ICRANP] LBB-; upgraded from [ICRANP] LB+
Short-term Limits (B)	**40**	**40**	
Fund-based; Working capital loan	40	40	[ICRANP] A4; reaffirmed
Total (A+B)	**1,582**	**1,538**	

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About ICRA Nepal Limited

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