Dordi Khola Jal Bidyut Company Limited: Ratings reaffirmed

June 10, 2024

Summary of rating action:

Instrument* (Amounts in NPR Million)	Last Rated Amount	Current Rated Amount	Rating Action
Issuer Rating	NA	NA	[ICRANP-IR] B+; reaffirmed
Long-term loans; Fund-based	1,774	1,774	[ICRANP] LB+; reaffirmed
Short-term loans; Fund-based	30	30	[ICRANP] A4; reaffirmed
Short-term loans; non-fund based	(615)	(600)	
Total	**1,804**	**1,804**	

Rating action

ICRA Nepal has reaffirmed the issuer rating of Dordi Khola Jal Bidhyut Company Limited (DKJBCL or the company) at [ICRANP-IR] B+ (pronounced ICRA NP Issuer Rating B Plus). Issuers with this rating are considered to have 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.

ICRA Nepal has also reaffirmed the company's long-term loan rating at [ICRANP] LB+ (pronounced ICRA NP L B plus) and reaffirmed its short-term loan rating of [ICRANP] A4 (pronounced ICRA NP A four).

Rationale

The ratings mainly remain constrained by the evacuation constraints in the company's 12MW Dordi-I hydroelectric project (HEP), which has led to significantly lower offtake during the wet seasons and hence inadequate cash inflows vis-à-vis the debt obligations. DKJBCL is currently evacuating energy through a contingency plan i.e., switchyard of middle-Marsyangdi HEP, while bypassing Udipur substation (the original grid connection point under power purchase agreement-PPA and grid-connection agreement with the Nepal Electricity Authority-NEA). Under this arrangement, the company could only evacuate ~54% of contract energy during the five months in last peak wet season, while the dry season generation has been ~100% (albeit with limited track record so far). Though the company has made a claim to NEA in respect of the lost revenue, outcome of the same remains to be seen, thereby raising concerns from the possible revenue loss in the wet season, until the upgradation of 220kV Udipur substation is completed by NEA. The ratings also remain constrained by the project's relatively higher cost at ~NPR 242 million per MW (~63% debt funded), which has led to modest coverage indicators with total debt to OPBDITA of ~6.2 times and DSCR of 1.1 times (including the deemed income, as claimed from NEA) in 9MFY2023. Given the likely continuation of liquidity/debt servicing pressures over the near term, the company's ability to timely raise the proposed rights issue and accordingly downsize the debt levels, would remain crucial. Further, the rating also continues to remain impacted to an extent by the project's reduced economic life[1] due to its delayed commissioning. Furthermore, the ratings also take note of the interest rate volatility, inherent hydrological/climatic risks and natural calamities risks, in addition to the single-project concentration risk for the company.

Nonetheless, the ratings derive comfort from the prior experience and technical expertise of the company's directors and senior management in the hydropower sector. ICRA Nepal takes further note of the project's low tariff and offtake risks over the longer term, amid the presence of long-term PPA with NEA, under a take-or-pay modality at pre-determined tariffs and escalations (notwithstanding the current take-and-pay modality, under the alternative evacuation plan, which the company has been contesting). Going forward, the company's ability to achieve its designed operating parameters and the receipt of timely/adequate promoter support to ensure debt servicing until the period of low generation, will remain the key rating sensitivities.

[1] *Project period would have been till FY2052 (i.e. 30 years from COD) as per the PPA, while its generation license validity till FY2049, will constrain its economic life.*

Key rating drivers

Credit strengths

Institutional shareholding and prior experience of major promoters/directors in the sector – The board and senior management of the company have prior experience and technical expertise in the hydropower/engineering sector and are associated with various projects including Radhi Bidyut Company Limited (operational 4.4 MW Radhi small hydropower project rated [ICRANP-IR] BB+), Rapti Hydro and General Construction Limited (under-construction 5 MW Rukum Gad Hydropower Project rated [ICRANP-IR] B&/LB&/A4&), Universal Power Company Limited (operational 11 MW Tallo Khare Khola Hydropower Project) as well as 183kW micro hydropower operational since early 2000. The company is a part of the CEDB Group (flagship company being CEDB Hydropower Development Company Limited) that has multiple investments in the hydropower sector. These provide comfort from the perspective of project's operational and maintenance aspects.

Low tariff risk amid presence of long-term PPA; low offtake risk over long term – The project's tariff and offtake risks remain low as the company has a 30-year PPA with the NEA 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 with 3% annual escalation on the base tariff, for five consecutive years (for the initial 10.3MW) and for eight consecutive years (for the additional 1.7MW) under the take-or-pay modality of PPA. Nonetheless, the offtake is likely to remain high over the near term due to weak evacuation structures (until the completion of Udipur Substation) and hence the necessity to operate at lower capacity in the peak wet months.

Credit challenges

Energy evacuation through contingency plan resulting in lower energy generation/evacuation – Due to the delays in construction of 220kV Udipur substation, DKJBCL has been compelled to use alternate evacuation route through switchyard of middle-Marsyangdi HEP as a contingent evacuation arrangement. Despite the take-or-pay clause in the PPA, the alternative energy evacuation has been subject to take-and-pay modality with temporary suspension of short-supply claim (to be paid by project in case of lower supply) as well as liquidated damage claim clause (to be paid by NEA, in case of lower evacuation owing to constraints at its end), under the PPA. Though the company has claimed ~NPR 124 million for lower offtake till mid-April 2024, the outcome of the same remains to be seen. In the meanwhile, the project has generated and evacuated only ~54% of contract energy in five wet season months, amid lower generation instruction from NEA, while the dry season generation was ~100% of contract energy for the Nepali calendar year ending on mid-April 2024. The presence of the contingency arrangements will reduce the revenue visibility for the project over the near to medium term. Hence, timely completion of the 220kV Udipur substation and end of the alternative evacuation arrangement will remain crucial for the company's revenue visibility under the PPA terms.

Relatively higher project cost to stretch the coverage indicators – The project was constructed at a total cost of ~NPR 2,902 million (~NPR 242 million per MW) with a debt to equity ratio of ~63:27. The significant loan component and lower revenues (amid evacuation constraints in wet season) are likely to negatively impact the coverage indicators, with total debt to OPBDITA of ~6.2 times and borderline DSCR of 1.1 times in 9MFY2024 (DSCR would have been <1 in case unrealised revenues, as claimed from NEA, are to be excluded and have been supported to an extent by deferral in payment of retention money). The coverage indicator could be aided after the proposed debt reduction from the right issue proceeds, which is in pipeline.

Low revenue realisation period with shortening of project life –The validity of the project's PPA is 30 years from commercial operation date (i.e. valid till FY2052) or 35 years from the generation license date (valid till FY2049 including one-year blanket extension for Covid-19 impact). Due to this, the project's revenue realisation period is expected to be lesser than the PPA life, thus impacting the overall revenue profile of the project, to an extent.

High climatic and geological risks – The project's generation will remain dependent on the river's hydrology, which in turn depends on the climactic factors. However, the Dordi river being a gauged river with snow-fed origin mitigates the concern to some extent. Given the difficult project terrain, the risk of events like flood, landslide, etc. also remain high, as seen in the past. DKJBCL's ability to ensure strong insurance coverage (including property damage and loss of profit) covering such risks will remain critical to its long-term financial and operational profile.

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

Link to the previous rating rationale:
Dordi Khola Issuer and bank loan rating surveillance – June 2023

About the company

Incorporated on February 26, 2010 as a public limited company, Dordi Khola Jal Bidyut Company Limited (DKJBCL) is operating a 12MW Dordi-I HEP in Lamjung district, Gandaki Province of Nepal. The project is a run of the river (R-o-R) type and has been developed at 40% probability of exceedance (Q40). The 12 MW project has been completed at a total cost of NPR 2,902 million (~NPR 242 million per MW) and is in commercial operation since October 3, 2022.

The paid-up capital of the company as of mid-April 2024 was NPR 1,054 million including ~28% raised through IPO. As of the same date, the major promoters include M/s Radhi Bidyut Co. Ltd. (15.17%), Mr Arun Gautam (1.44%), M/s Lamjung Energy Development Co. Ltd. (1.11%), M/s CEDB Hydropower Development Co Ltd (1.11%), M/s Khare Investment Ltd. (1.09%) and Mr Pashupati Shamsher Ja. Ba. Ra (0.92%), among others.

Key Financial Indicators

	Audited	Provisional
	FY2023*	**9MFY2024**
Operating Income (OI; revenues in NPR Million)	218	254
OPBDITA/OI (%)	80%	85%
Total debt/Tangible net worth (TNW; times)	1.7	1.7
Total Outside Liabilities/TNW (times)	2.1	2.1
Total Debt/OPBDITA (times)	7.7	6.2
Interest coverage (times)	1.0	1.1
DSCR (times)	1.0	1.1
NWC/OI (%)	-90%	-71%

*Project operational for 9 months in FY2023

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About ICRA Nepal Limited

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