

## Sayapatri Hydropower Limited

### Rating

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
<b>Issuer Rating</b>	<b>NA</b>	<b>CARE-NP BB (Is) [Double B (Issuer Rating)]</b>	<b>Reaffirmed</b>

*\*The issuer rating is subject to overall gearing not exceeding 2.5x at the end of FY25.*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating of CARE-NP BB (Is) assigned to Sayapatri Hydropower Limited (SPHL). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations, in Nepal.

### Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to SPHL continues to be constrained by modest operating performance of its hydropower plant during FY24 amid low hydrology, especially during the dry season. The rating also factors in hydrology risk associated with run-of-the-river power generation, risk of natural calamities, and exposure to volatile interest rates. The rating, however, continues to derive strength from SPHL's experienced board members and management team, moderate capital structure, presence of power purchase agreement with sufficient period coverage, moderate counter party risk and favourable government policies towards the power sector.

*Going forward, the ability of the company to continue to reduce the gap between operational PLF and contracted PLF with timely receipt of payment from Nepal Electricity Authority (NEA) are the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

#### Subdued operating performance of the power project amid low hydrology

SPHL has been operating a run-of-the-river 2.5 MW Daram Khola 'A' hydro power project in Baglung district of Nepal since June 2016. Revenue from power generation has remained subdued at Rs. 57 Mn during FY24 (refers to twelve-month period ending mid-July), fairly stable from Rs. 56 Mn during FY23 amid modest power generation. PLF, against contracted capacity, stood at 70.08%, up from 67.63% during FY23. Modest generation over the years was on account of low river hydrology, witnessed especially during the dry seasons. Further, PBILD<sup>1</sup>, in absolute amount, decreased from Rs. 50 Mn during FY23 to Rs. 47 Mn during FY24 while net profit and gross cash accruals remained stable at Rs. 1 Mn and Rs. 19 Mn respectively. The company's ability to reduce the gap between operational PLF and contracted PLF will remain a key monitorable aspect.

#### Hydrology risk associated with run-of-the-river power generation

Run-of-the-river (ROR) power is considered an unsteady source of power, as a run-of-the-river project has little or no capacity for water storage and therefore is dependent on the flow of river water for power generation. ROR, therefore, generates much more power during times when seasonal river flows are high (Mid-April to Mid-December) and much less during the drier months (Mid-Dec to Mid-April). SPHL utilizes discharge from Daram Khola (tributary of Badi Gad river, which is a major tributary of the Kali Gandaki River), a perennial river, having catchment area of 84 sq. kms based on water source from forest. Consequently, the project's performance is exposed to the inherent risk associated to the natural hydrological patterns, variability in water discharge and optimized power generation efficiency throughout the year.

<sup>1</sup>Complete definitions of the ratings assigned are available at <https://www.careratingsnepal.com/> and in other CRNL publications

**Risk of natural calamities**

In Nepal, hydropower projects are usually located in terrains that are topographically challenging making their operations vulnerable to adversities of nature. Floods and landslides that tend to occur in these areas pose threat to these power projects damaging their infrastructures. These natural calamities can adversely affect the smooth flow of power generation and distribution, which can impact financial returns of the projects. SPHL is also exposed to such risks of natural calamities that might cause infrastructural, operational and financial damages to the project.

**Exposure to volatile interest rate**

SPHL's interest rates are based on floating interest rate regime, where a certain premium is added to the monthly base rate and interest rate is changed accordingly on monthly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system, which leads to changes in interest rates. Being debt funded project, higher interest rates than envisaged could result in squeezed margins of the company, impacting its liquidity profile.

**Key Rating Strengths****Experienced Board members and management team**

SPHL has seven board of directors with wide experience in the power sector as well as other industries. The board is chaired by Dr. Eka Narayan Chapagain, who is the former general secretary of the Association of Doctoral Non-Resident Nepalese (NRNA) holding 6.84 % shares of the company. The other directors of the company have also long experience in different sectors including hydropower sector. SPHL, in the past obtained financial support in the form of short-term loans from directors and promoters to meet any shortfall in cash flows due to lack of sufficient cash flow generation from the operations.

**Low offtake risk and moderate counterparty risk**

SPHL entered into PPA with NEA as on April 1, 2012 for sale of 2.5MW power with annual contracted PLF of 62.74% against the installed capacity. The period of PPA is 30 years from the commercial operation date (COD) or till validity of Generation License, whichever is earlier. The tariff for wet season (Mid-April to Mid-December) is Rs 4.80 per kWh and for dry season (Mid-December to Mid-April) is Rs 8.40 per kWh with 3% escalation on base tariff for 5 years from the COD. The contracted energy for wet season is 11.18 million units and for dry season 2.56 million units. Additionally, the counterparty payment risk associated with NEA is deemed moderate, given its full ownership by the Government of Nepal. Such arrangements are expected to provide revenue stability and sustainability to the company.

**Moderate capital structure, albeit with moderate coverage indicators**

Capital structure of SPHL has remained moderately leveraged at the end of FY24 with overall gearing ratio improving to 1.04x from 1.14x at the end of FY23 on account of decrease in long-term debt amid scheduled term loan repayment. Gearing ratio further improved to 0.95x at the end of H1FY25 owing to scheduled repayment of term loans. Similarly, Total Debt/GCA declined to 13.31x during FY24 from 14.54x during FY23 on account of lower debt levels in spite of stable GCA in FY24. Total Debt to GCA further improved to 6.06x at the end of H1FY25 aided by scheduled term loan repayment during the period. The interest coverage ratio of the company improved to 1.70x during FY24 from 1.60x during FY23.

### Favorable Government policies towards power sector

The Government of Nepal (GoN) has prioritized hydropower generation as a crucial sector for economic development and aims to enhance private sector involvement by offering a range of incentives and facilities. In line with this objective, GoN has introduced a comprehensive tax incentive package, providing full tax exemption for the initial 10 years and a 50% tax exemption for the subsequent five years to individuals or entities engaged in the commercial operation, transmission, and distribution of electricity until mid-April 2028. These incentives are designed to encourage investment and promote growth in the hydropower sector. Additionally, directives from the Nepal Rastra Bank (NRB) mandate that all banks are to allocate a minimum share of their total advances to the energy sector. This strategic initiative is expected to contribute to the financial support and development of projects within the energy sector which augers well for the sector. The industry outlook of Nepalese power sector is likely to remain stable over the long-term with increasing domestic demand for generation backed by growing national demand with an average growth rate of around 11% p.a. over the last five years (2018-2023). Additionally, increasing cross-border energy trades coupled with bilateral treaty signed between Nepal and India for export of 10,000 MW electricity to India over a period of 10 years has further boosted the demand outlook for the power sector in Nepal.

### About the Company

SPHL is a public company, incorporated on July 30, 2007, promoted by institutional as well as individual promoters from different background. It is currently operating 2.5 MW Daram Khola 'A' hydro power project in run-of-river scheme located at Baglung district, Nepal. The project is constructed under BOOT (Build, own, Operate and Transfer) mechanism.

Brief financials of SPHL are given below:

(Rs. Million)

For the Period Ended / as at Mid-July,	FY23	FY24	H1FY25
	(A)	(A)	(UA)
Income from Operations	56	57	38
PBILDT Margin (%)	79.78	81.13	82.13
Overall Gearing (times)	1.14	1.04	0.95
Interest Coverage (times)	1.60	1.70	2.84
Total Debt/ Gross Cash Accruals (times)	14.54	13.31	6.06

A: Audited; UA: Unaudited

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