

PRESS RELEASE

UNITED MODI HYDROPOWER LIMITED

November 2023

Ratings

Instruments/ Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	850.14 (reduced from 1,012.41)	IRN BBB-	Revised
Short Term Bank Facilities	90.30 (reduced from 110.00)	IRN A3	Revised
Total	940.44		

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has upgraded the long term rating to IRN BBB- (Triple B Minus) from IRN BB+ (Double B Plus) to the long term bank facilities of NPR 850.14 Mn and short term rating to IRN A3 (A Three) from IRN A4+ (A Four Plus) to the short term bank facilities of NPR 90.30 Mn.

Detailed Rationale

The revision in the ratings assigned to the bank loan facilities of United Modi Hydropower Limited (UMHL) reflects improving capitalization and coverage matrices with improved operational profile. The ratings continue to derive strength from the experienced promoters and management team with Power Purchase Agreement (PPA) covering the majority of the project's lifespan, at predetermined rates. The rating also factors the moderate counter party risk, improving demand for electricity and GoN¹ support for the power sector. However, these rating strengths are partially offset by increase in interest cost resulting in a decreased PAT margin during FY23(UA)². Furthermore, investment in the under-construction project having involves execution and evacuation risk as well as hydrology risk associated with the run of river (ROR) project has also been factored. Going forward, the ability of the company to reduce the gap between contracted plant load factor (PLF) and operational PLF on a sustained basis along with the timely completion of UMHPL³ and its expected realization will be a key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters and management team

UMHL is managed under six-member board of directors chaired by Mr. Narendra Ballav Panth who has over 19 years of experience in various industries including hydropower generation. Mr. Sunil Bhakta Shrestha, Director, has over 29 years of experience in various industries. The directors of the company are supported by team of experienced management team with Mr. Bipin Sharma Paudel as a Plant Manager who has over 10 years of experience in the hydropower sector.

Improving capitalization and coverage matrices

The capitalisation and coverage matrices reflect improvement in the recent year in FY23. Although the total debt of the company increased from NPR 788 million as of mid-July 2021 to NPR 1,061 million as of mid-July 2022, primarily due to the company availing a term loan to fund its investment in UMHPL, its subsequently decreased to NPR 932 million in FY23 with regular debt repayments. Consequently, the overall

¹ Government of Nepal

² Unaudited, twelve months' period ended in mid-July

³ UMHL made investment of NPR 337 Mn during FY21 and additional NPR 338 Mn during FY22 on the equity shares of United Mewa Khola Hydropower Private Limited. The total cost of the project is estimated to be NPR 9,000 Mn (NPR 180 Mn per MW) to be funded through debt equity in the ratio 75:25 for which debt portion has already been tied up.

gearing ratio of the company slightly deteriorated from 0.63x as of mid-July 2021 to 0.79x as of mid-July 2022, but improved to 0.71x as of mid-July 2023, remaining at a comfortable level. Additionally, with an increase in finance costs, the interest coverage ratio deteriorated to 1.56x in FY22 over FY21, but showed improvement to 1.83x in FY23. The total debt to GCA⁴ of the company deteriorated from 5.67x in FY21 to 11.77x in FY22, nonetheless improved to 8.71x in FY23. Also, the Company has provided a dividend of 5% of paid up capital from FY20 and 7% of paid up capital from FY22.

Power Purchase Agreement covering the majority of the project's lifespan, at predetermined rates

The project is constructed under BOOT (Build, Own, Operate and Transfer) mechanism for which the company obtained Generation License, from Government of Nepal – Ministry of Energy, on August 18, 2009 valid for 35 years from the license obtained date. UMHL has a power purchase agreement with Nepal Electricity Authority (NEA) for a period of 30 years from Required Commercial Operation Date (RCOD) which may also be extended with mutual consensus through discussion from last six month of validity. The tariff for the wet season (mid-April to mid-December) is NPR 4 per kWh and for the dry season is NPR 7 per kWh with 3% annual escalation on the base tariff for nine times. By the Government's initiative to promote hydropower development, the company had entered into a promotional tariff rate agreement of NPR 4.80 and NPR 8.40 (for wet and dry seasons, respectively) with 3% annual escalation for five times on the base tariff which were availed up to mid-December, 2019. Power generated by the project is evacuated through a 4 km long 132 kVA single circuit transmission line to the switchyard of current project and then through common line to NEA Modi Substation at Patichaur, Parbat district. The contracted energy for the project is 61.01 million units (MUs). Also, the counter party payment risk pertaining to NEA is moderate as it is fully owned by Government of Nepal and has been regular in making payments to independent power producers (IPPs).

Improving market demand with Government support for the power sector

According to the NEA's Annual Report, the annual peak electricity demand during FY23 was 1,870 MW from 1,748 MW during FY22. Additionally, the total energy demand for the time period was 8,850 GWh during FY21 which increased to 11,064 GWh during FY22 which further increased to 12,369 GWh during FY23 of which 1,833 GWh were imported from India and the remaining was generated domestically. The total export to India soared to 1,236.90 GWh in FY23(UA) against 493 GWh in FY22. With this the net import of electricity reduced to ~510 GWh representing 4.12% of total electricity available. Further, NEA has earned ~NPR 11 Bn from exporting electricity to India in FY23 and NPR 12.50 Bn in 4MFY24⁵. Hence, the prospects remain positive in view of improving generation, growing demand with scope of export. Also, GoN considers hydropower generation as priority sector and intends to maximize private sector participation in the generation of hydroelectricity by offering different exemptions and facilities. Individuals or entities commencing commercial operations, transmission, and distribution of electricity before Mid-April 2027 are eligible for a 100% income-tax exemption for the first 10 years followed a 50% exemption for the next five years.

Key Rating Weaknesses

Moderation in financial profile however improved operational PLF

The total operating income (TOI) of the company decreased from NPR 288 Mn in FY21 to NPR 254 Mn in FY22 but improved to NPR 295 Mn in FY23 mainly due to an improvement in PLF from 49% in FY22 to 59% of generation capacity in FY23. Accordingly, the EBITDA margin improved to 75.87% in FY23 from 69.35% in FY21 and 60.63% in FY22. The interest cost of the company increased drastically by 85% in FY22 over FY21 and further increased by 24% in FY23 over FY22, mainly due to an increase in interest rate and an increase in total debt in FY22 over FY21. With increased interest cost, the PAT margin decreased to 11.27%

⁴ Gross Cash Accruals

⁵ Four months' period ended on mid-November

in FY23 from 22.09% in FY21, however it improved from 4.98% in FY22. With improved hydrology, the PLF of the company improved in Q1FY24 to 83.04% of generation capacity.

Investment on under-construction project having execution and evacuation risk

UMHL has invested on the equity shares of United Mewa Khola Hydropower Private Limited (UMHPL: 50 MW under-construction project) wholly funded through bank loan. The project is under execution risk with ~45% of overall physical progress achieved till April 2023 and financial progress was ~29% as on mid-May, 2023. Further, the power generated from the project is proposed to be evacuated through 7 km long 132kV transmission line to NEA's Dhunge Sanghu Substation at Taplejung district which is under construction. Power from Dhunge Sanghu substation will be further evacuated to Basantpur Substation⁶. The commercial operation of UMHPL is expected to begin within February 2025. Even after execution of the project, the income from investment will depend upon the satisfactory performance of the project.

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

Run-of-the-river (ROR) projects have no or little capacity for storage of water leading to high dependence on the river water flow for power generation. Due to this, such kind of projects have higher generation during wet season (Mid-April to Mid-December) and lower during dry season (Mid-Dec to Mid-April). ROR projects are directly exposed to risk associated with variation in discharge of water from the river. UMHL is currently utilizing discharge from tailrace of Modi Khola located at Kaski District. Further, in absence of a deemed generation clause in the PPA, the project is exposed to hydrology risk in case of adverse river flow without receiving any compensation for such losses from NEA.

Analytical Approach: Standalone

Applicable Criteria: [Power Projects Rating Methodology](#)

Past rating rationale: [Fresh bank loan rating assigned on July 2022](#)

About the Company:

UMHL is a public limited company having corporate office located at Kamaladi, Kathmandu. The company was earlier incorporated as a private limited company which was later converted to public limited to encourage public participation. The company has a 9.9 MW operational project, Lower Modi-1 Hydropower Project (LMHP), located at Kushma-08, Parbat, Nepal. The project came into commercial operation on November 24, 2012. LMHP has 575 km² catchment area & 27.0 m³/s design discharge at 40% PoE⁷ with gross head of 50m. As on 06th November 2023; Mr. Ashish Thapa, Mr. Sudhir Prasad Timilsina and Mr. Arjun Adhikari are the major shareholders of the company holding 3%, 2% and 2% respectively.

Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23
	Audited	Audited	Unaudited
Total Operating Income (in NPR Mn.)	288	254	295
EBITDA Margin (%)	69.35	60.63	75.87
Interest Coverage Ratio (x)	3.76	1.56	1.83
Current Ratio (x)	2.24	1.29	1.88
Overall Gearing Ratio (x)	0.64	0.85	0.73

Earnings before Interest Tax Depreciation Amortization (EBITDA)

*Classification as per Infomerics Nepal standards

⁶ 220 kV Basantpur substation constructed at Sankhuwasabha came into operation from November 27, 2023

⁷ Probability of exceedance

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn.)	Ratings
Fund Based Bank Facilities- Term Loan	Long Term	850.14	IRN BBB-
Fund Based Bank Facilities- Working Capital Loan	Short Term	90.00	IRN A3
Non Fund Based Bank Facilities- Performance Bond	Short Term	0.30	IRN A3
Total Facilities		940.44	

Analyst Contacts

Ms. Grishma Dhungana

Tel No.+977-1-4583304/4585906

grishma.dhungana@infomericsnepal.com

Mr. Nibesh Manandhar

Tel No.+977-1-4583304/4585906

nibesh.manandhar@infomericsnepal.com

Relationship Contact

Mr. Rabin Pudasaini

Tel No.+977-1-4583304/4585906

rabin.pudasaini@infomericsnepal.com

About Infomerics Credit Rating Nepal Limited:

Infomerics Credit Rating Nepal Ltd. is Nepal's third Credit Rating Agency licensed by the Securities Board of Nepal (SEBON) on March, 2022. Infomerics Nepal is a subsidiary of Infomerics Valuation and Rating Private Limited (Infomerics India) which is a SEBI registered and RBI accredited Credit Rating Agency licensed in 2015. Infomerics Nepal aims to provide investors with objective analysis and evaluation of credit worthiness of Banks, NBFCs, Large Corporates and Small and Medium Scale Units (SMUS) via its rating and grading services. Thus, it is playing a key role in serving the financial markets by reducing the information asymmetry among varied lenders and investors and facilitating borrowers/issuers to various fundraising opportunities/avenues. Infomerics observes and maintains ethical standards in its activities. For more information, visit <https://infomericsnepal.com/>

Infomerics Credit Rating Nepal Limited

Tanka Prasad Marga, Baneshwor Height, Kathmandu

Phone: +977-1-4483304/4485906

Email: info@infomericsnepal.com

Web: www.infomericsnepal.com

Disclaimer: Ratings assigned by Infomerics Nepal are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics Nepal reserves the right to change, suspend or withdraw the credit ratings at any point in time. Ratings assigned by Infomerics Nepal are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics Nepal is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors