

Laughing Buddha Power Nepal Limited: [ICRANP-IR] B- assigned

December 19, 2022

Summary of rating action:

Instrument	Rated Amount	Rating Action
Issuer Rating	NA	[ICRANP-IR] B-; assigned

Rating action

ICRA Nepal has assigned an issuer rating of [ICRANP-IR] B- (pronounced ICRA NP issuer rating B minus) to Laughing Buddha Power Nepal Limited (LBPNL or the company). Issuers with this rating category are considered to have high risk of default in timely servicing of financial obligations. The rating is only an opinion on the general creditworthiness of the rated entity and not specified to any debt instrument.

Rationale

The assigned rating factors in the recent delay¹ in serving the bank obligations by LBPNL on account of the liquidity pressures, given the company's weak financial position resulting from a high debt level and subdued energy generations from the three operational projects² (aggregating to 6.5MW, average generations of ~46% of contract energy in the last five years ending FY2021; 62% in FY2022). The company's weak financial profile (accumulated loss of ~NPR 631 million as of mid-July 2022 against its paid-up capital of ~NPR 685 million; capital erosion of 92%) was also contributed by the recurring impact on the projects from multiple natural calamities³ and weak project hydrology. Given the accumulated loss, fully escalated tariffs, and the limited project tenure (~20 years remaining), future improvement in the company's financial profile (if any) will remain highly dependent on better project generation. Also, the rating remains impacted by the absence of a deemed generation clause in the power purchase agreement (PPA), which exposes the projects to high hydrological risks in case of any adverse river-flow scenarios, without receiving any compensation from the Nepal Electricity Authority (NEA; rated at [\[ICRANP-IR\] AA+](#), the sole purchaser and distributor of electricity in Nepal). The same is further exacerbated by the shared hydrological profile of all operational projects (drawing water from the same river).

Nonetheless, the assigned rating takes comfort from the promoter support (including institutional promoters), reflected in the funding received by the company from time to time. The management plan of reducing debt levels by utilising funds from the proposed IPO, could reduce the debt burden on the company and improve its financial metrics to some extent (assuming full subscription). This will remain a key rating monitorable. The rating also considers the low tariff risks with the presence of the power purchase agreement (PPA) that provides for fixed tariffs and escalations (fully escalated for all three projects). Additionally, the rating considers the low offtake risk for the projects amid the take-or-pay PPAs, and the positive demand outlook for the energy sector with the increasing energy consumption in the nation and the increasing prospects of energy cross-border trade. The rating also takes note of the low evacuation risk for the projects, given the presence of the NEA's operational Lamosanghu substation (grid connection point) in Sindhupalchowk district.

Going forward, LBPNL's ability to achieve its designed operating parameters for all three projects and raise and utilise the IPO issue as per its plan will remain the key rating monitorable/sensitivity. Moreover, continued promoters' support and interest rate volatility in the market would also remain among the key rating sensitivities.

¹ Delays are for less than 30 days and therefore doesn't constitute a default as per ICRA Nepal's policy on default recognition.

² 3-MW Chaku Khola Hydroelectric project (HEP) (since January 2013), 1.69-MW Middle Chaku Khola HEP (since February 2013) and 1.80-MW Lower Chaku Khola HEP (since August 2013),

³ Major includes August 2014 Jure landslide, April 2015 earthquake, July 2016 Bhotekoshi flooding, July 2019 Chaku Khola flooding and June 2021 Melamchi flooding

Key rating drivers

Credit strengths

Promoters' support – The promoter's profile of the company comprises both institutions and individuals from diverse business segments. The company has received funding support from promoters for debt servicing (albeit with some delays) during liquidity stress. Promoters' continued support remains crucial in meeting the company's debt obligations in the medium term, unless mitigated by improved generation and/or reduced debt levels.

Lower evacuation risk – The evacuation risks for the projects remain on the lower side amid the presence of operational evacuation structures. The power generated from the 1.69-MW Middle Chaku HEP and the 3-MW Chaku Khola HEP are being evacuated through the individual 2.5-km 33 KV and 1.5-km 33 KV transmission lines, respectively, from their powerhouses to the switchyard of the 1.8-MW Lower Chaku HEP. Consequently, the combined energy from all three projects is evacuated through the ~21-km 33 KV transmission line to the NEA's operational Lamosanghu substation.

Low tariff and offtake risks with presence of PPA at predetermined tariffs and escalations – The company's tariff and offtake risks remain low given the PPAs with the NEA (the sole purchaser and distributor of electricity in Nepal) for all the three projects under a take-or-pay modality. As per the PPA, pre-defined tariffs for the 3-MW Chaku Khola HEP is: for first 1.5 MW, rates are NPR. 3.72 per unit (wet)/ NPR. 5.27 per unit (dry) and for the additional 1.5 MW, rates are NPR. 5.08 (wet)/ NPR. 8.89 (dry). For the 1.69-MW Middle Chaku HEP, rates are NPR. 5.08 (wet)/ NPR. 8.89 (dry) and for the 1.8-MW Lower Chaku HEP, rates are NPR. 3.90 (wet) and NPR. 5.52 (dry). The tariffs for all the projects are fully escalated.

Credit challenges

Weak project performance leading to weak financial profile – Despite being in operation from 2013, the power generation from the projects have remained weak amid weak project hydrology and the recurring impact of multiple natural calamities. The average net-combined generation for the projects stood at ~46% of the contract energy during the last five years of operations ending FY2021 (62% in FY2022). The weak project generation has accordingly weakened the projects' cash flows which, coupled with high debt obligations (gearing of ~14 times in mid-July 2022) and interest expenses, have resulted in losses/weak profits. This is reflected in the accumulated loss of ~NPR 631 million as of mid-July 2022 against its paid-up capital of ~NPR 685 million. Going forward, the improvement in the projects' performance and/or reduction of debt burden will remain crucial in determining the profitability and coverage indicators.

Natural calamities, interest rate volatility and concentration risks– All three projects, situated in Sindhupalchowk district of Nepal, have witnessed many natural disasters over the past years, such as August 2014 Jure landslide, April 2015 earthquake, July 2016 Bhotekoshi River flooding, July 2019 Chaku River flooding and recently June 2021 Melamchi River flooding. These events have impacted the projects' operation and generation. Similarly, the company is exposed to concentration risks for its operational and financial parameters, as all the three projects are in the same vicinity and share the same hydrology and project infrastructures. Any damages to one project may also affect the operational efficiency of the other two projects. Likewise, the company's substantial debt burden (though expected to reduce through the proposed IPO) and the high interest rate environment also remain among the rating concerns.

High hydrological risks – The lack of a deemed generation clause in the PPAs exposes the projects to hydrology risks in case of any adverse river flow scenarios without receiving any compensation from the NEA towards the revenue loss, which remains a concern.

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

Links to applicable criteria:

[Issuer Rating Methodology](#)

About the company

Incorporated on September 15, 2005, and converted into a public limited company on December 31, 2015, Laughing Buddha Power Nepal Limited (LBPNL) owns and operates three hydropower projects, namely, the 3-MW Chaku Khola HEP, the 1.69-MW Middle Chaku Khola HEP and the 1.8-MW Lower Chaku Khola HEP in Sindhupalchowk district of Bagmati Province of Nepal. As of mid-October 2022, the paid-up capital of the company is ~NPR 685 million; with major shareholding by Mr. Khuma Prasad Aryal (~19%), M/s Sharma & Company Pvt. Ltd. (~15%) and M/s Shakti Investment Company Pvt. Ltd. (~13%).

All the projects are run-of-river type, developed at 40% probability of exceedance with designed discharge of 4.5 m³/sec for the Chaku Khola HEP and the Middle Chaku Khola HEP, whereas the Lower Chaku Khola HEP has been developed at 65% probability of exceedance with designed discharge of 3 m³/sec. The water from the tailrace of the 1.69-MW Middle Chaku Khola HEP is utilised by the 3-MW Chaku Khola HEP. Similarly, the water from the tailrace of the Chaku Khola HEP is being utilised by the 1.8-MW Lower Chaku Khola HEP. The average generation from these projects was 46% in the last five years ending FY2021 and 62% in FY2022.

Key Financial Indicators

Particulars	FY2019 (Audited)	FY2020 (Audited)	FY2021 (Audited)	FY2022 (Provisional)
Operating Income (OI; NPR million)	97	18	48	85
OPBDITA/OI	63%	-67%	44%	53%
Total debt/Tangible net worth (TNW; times)	4	217*	184	14
Total outside liabilities/ TNW (times)	4	245*	199	17
Total debt/ OPBIDTA (times)	12	-64	38	17
Interest Coverage (times)	1.21	-0.23#	1.70	2.90
DSCR (times)	0.42	-0.23#	1.70	1.60

*Due to huge losses from FY2019 flooding

At same level for FY2020 and FY2021 with no repayments of principal amount.

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About ICRA Nepal Limited

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