

Super Mai Hydropower Limited: Ratings reaffirmed

January 23, 2023

Summary of rating action:

Instrument (NPR Million)	Previous Rated Amount	Current Rated Amount	Rating Action
Issuer Rating	NA	NA	[ICRANP-IR] BBB-; reaffirmed
Long-term loan; fund based (Term loan)	1,100.00	941.49	[ICRANP] LBBB-; reaffirmed
Short-term loan; fund based (Working capital loan)	30.00	30.00	[ICRANP] A3; reaffirmed
Total	1,130.00	971.49	

Rating action

ICRA Nepal has reaffirmed the issuer rating of Super Mai Hydropower Limited (SMHL) at [ICRANP-IR] BBB- (pronounced ICRA NP issuer rating triple B minus), indicating a moderate degree of safety regarding timely servicing of financial obligations with a moderate credit risk. 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 reaffirmed the long-term rating of [ICRANP] LBBB- (pronounced ICRA NP L triple B minus) and the short-term rating of [ICRANP] A3 (pronounced ICRA NP A three) to the bank loan limits of SMHL.

Rationale

The ratings reaffirmation mainly considers the improved operational and financial performance of the company's 7.8 MW hydropower project (HPP) with net energy generation of ~94% for FY2022 (against ~86% on an average in earlier two years), leading to improved profitability indicators and financial profile. The company has been reporting gradual improvement in gearing levels, on back of regular term loan repayments as well as good internal accruals. While the recently announced 30% dividend would impact the leverage levels, the proposed IPO and the plans to utilise the IPO proceeds for loan downsizing would provide support. ICRA Nepal also takes positive note of the company's comfortable coverage ratios with DSCR of 1.75 times for FY2022. The ratings also factor the availability of all five tariff escalations amid early project completion which is expected to support the return indicators going forward. The promoters' and key management team's experience in the sector also provides comfort to the rating action. Similarly, the ratings consider the low tariff risk and low offtake risk amid the already signed Power Purchase Agreement (PPA) with Nepal Electricity Authority (NEA), the sole purchaser and distributor of electricity in Nepal at pre-determined tariff rates and escalations.

Nonetheless, the ratings remain constrained by concentration of company's cashflow/revenue profile on a single project. The company's financial profile would therefore remain vulnerable to any project downtime that may occur from geological risk/natural calamities. This concern is further accentuated by the non-continuation of loss of profit policy by the company for FY2023. The ratings are also impacted by the absence of a deemed generation clause in the PPA, which exposes the project to high hydrological risks without receiving any compensation from NEA in case of adverse flow in the project's river, which derives its hydrology mainly from the rainfall patterns. Likewise, the ratings further remain constrained by the provision of 10% reserve margin clause in the PPA, which could impact the project's revenue profile till FY2032 in case of generation of more than 90% of energy during the five months of wet season (mid-July to mid-November). The ratings are also constrained by the interest rate volatility risk on the bank borrowings, which would be impacting the debt service indicators, amid fixed tariff structure and volatility in hydrology. Going forward, the project's ability to achieve its designed operating parameters and interest rate volatility in the market would be the key drivers for determining the company's return metrics and other coverage indicators.

Key rating drivers

Credit strengths

Experienced promoters in hydropower sector – The company’s promoters, board and senior management have prior experience and technical expertise in the hydropower/engineering sector. Mr. Mohan Bikram Karki, major promoter of the project, was previously involved in the operational 998-kW Kutheli Bukhari Small Hydropower (Rated [\[ICRANP-IR\] BBB-](#)), 9.6MW Super Mai A HPP (Rated [\[ICRANP-IR\] BBB-](#)) and 3-MW Super Mai Cascade HPP (Rated [\[ICRANP-IR\] BB+](#)), in addition to his involvement in multiple under-construction hydropower projects in various capacities. Similarly, the engagement of other promoters and directors in other under-construction as well as operational hydropower projects provides operational and maintenance support to the company at times of need.

Improved operational performance – The operational 7.8-MW Super Mai HPP supplied ~94% of the contracted energy for FY2022, improving from ~84% in FY2021, mainly on back of better hydrological support amid good rainfall trend. The project operated at ~65% net plant load factor (PLF) compared to the contract PLF of ~69%. The generation also remained supported by the low transmission loss of 0.36% for the year. Going forward, the hydrology support and the generation trend would determine the company’s revenue profile.

Adequate return indicators and comfortable coverage ratios – For the year FY2022, the operating margin of the company remained at ~89%, which remained supported by improved generation and increase in tariff rates with 3% annual escalation. The company also declared a cash dividend of 30% to its equity shareholders for FY2022, which would be paid out during FY2023. Despite the increased interest rates, the coverage indicators reported improvement with DSCR of 1.75 times and an ICR of 3.16 times in FY2022 (1.31 and 1.94 respectively for FY2021).

Low tariff risk amid long-term PPA at predetermined tariffs and escalations – The tariff risk is low as the company has a 30-year PPA for the project with NEA for its entire project capacity of 7.8 MW. The pre-defined tariff rates are NPR 4.8 per kWh for the wet season (mid-April–mid December) and NPR 8.4 per kWh for the dry season with a 3% annual escalation clause in the tariff for five times. Since the project was developed within its RCOD, it is eligible for all the five escalations.

Credit challenges

Provision of 10% reserve margin during wet season can impact revenue profile, despite low offtake risks – The offtake risk for the project is low, given the presence of the take-or-pay PPA for the entire 7.8 MW capacity. However, the provision of 10% reserve margin clause in the PPA for the period of FY2020 to FY2032, which enables NEA to decline the offtake of up to 10% of monthly contract energy (mid-July to mid-November) based on the dispatch instruction of the load dispatch centre. NEA is not bound to pay any compensation to SMHL for non-offtake of such energy, which may impact the revenues of the latter if such a scenario prevails (reserve clause has not been exercised yet). The company has reported an average of 102% generation of contract energy during these five months in last three years. Nonetheless, the risk is reduced to some extent, given the present demand–supply gap in the energy sector as well as the increasing energy demand in the country.

High hydrology risk due to lack of deemed generation clause in the PPA – The lack of a deemed generation clause in the PPA exposes the project to high hydrology risk in case of adverse river flow scenarios without receiving any compensation for such losses. Additionally, a rain-fed perennial source could affect hydrology of the river with fluctuations in rainfall in the basin, which is also evident in the fluctuations in yearly generation pattern.

Concentration risk and natural calamities risk – The project being the only project under the company is subject to concentration risks for its operational and financial parameters. Similarly, any disruptions in the project due to natural calamities could also impact its revenue and liquidity profile. Further, non-continuation of loss of profit policy by the company for FY2023 could accentuates this risk.

Link to the previous rating rationale:

[Rationale-Super-Mai-Hydropower-Limited-Dec-2021](#)

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Issuer Rating Methodology](#)

About the company

Incorporated on July 2, 2017, Super Mai Hydropower Limited (SMHL) is mainly promoted by Mr. Mohan Bikram Karki (~14% stake), followed by Ms. Sabita Bartaula (~13%), Ms. Kriti Kumari Mahato (~6%), Mr. Bam Bahadur Thapa (~6%) and other 43 shareholder aggregately holding ~61% of total paid-up capital (NPR 400 million as of mid-January 2023). The company proposes to shortly issue an IPO amounting to NPR 100 million, which would be 20% of its post-IPO capital.

The company has been operating a 7.8MW Super Mai HPP in Ilam district, Province 1 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 project was commissioned on October 28, 2018, i.e., 21 months prior its required COD of July 16, 2020, within total cost of ~NPR 1,488 million as against the budgeted cost of ~NPR 1,500 million. The project has reported gross generation of ~94% of contract energy for FY2022.

Key Financial Indicators

Amount in NPR million	Audited			
	8.5MFY2019	FY2020	FY2021	FY2022
Operating Income (OI)	105	218	211	245
OPBDITA/OI (%)	86%	90%	89%	89%
Total debt/Tangible net worth (TNW; times)	2.84	2.46	2.26	1.80
Total Outside Liability/TNW (times)	2.85	2.46	2.27	1.82
Total Debt/OPBDITA (times)	8.46	5.38	5.35	4.31
Interest coverage (times)	1.45	1.87	1.94	3.16
DSCR (times)	1.34	1.44	1.31	1.75
Net Working Capital/OI (%)	16%	21%	18%	18%

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About ICRA Nepal Limited

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