

Rating Rationale

Taksar Pikhuwa Khola Hydropower Private Limited

Rating

Facilities	Amount (Rs. In Million)	Rating	Remarks
Long Term Bank Facilities	1,200	CARE-NP BB [Double B]	Assigned
Total Facilities	1,200		

Details of Facilities in Annexure 1

CRNL has assigned Rating of ‘CARE-NP BB’ to the long term bank facilities of Taksar Pikhuwa Khola Hydropower Private Limited (TPKH).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Taksar Pikhuwa Khola Hydropower Private Limited (TPKH) is constrained by project implementation risk including the power evacuation risk and stabilization risk thereafter given its initial stage of construction. The ratings are also constrained by TPKH relatively high project cost estimates, its exposure to volatile interest rates and hydrology risk associated with run of the river power generation.

The rating, however, derives strength from board members and management having experience in hydro power sector, presence of power purchase agreement (PPA) with sufficient period coverage and moderate counter party risk. The ratings also factors in achievement of financial closure for the project, receipt of all the major approvals for the construction of the project, shortage of power in the country and government support for the power sector.

The ability of TPKH to timely complete the project within the projected Required Commercial Operation Date (RCOD) without any time or cost overrun and availability of sufficient hydrology and timely receipt of the payments from NEA are the key rating sensitivities.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Project implementation risk and stabilisation risk

The project is at the initial stage of construction and is exposed to significant project implementation risks. The RCOD of the project is Feb 2020 and till January 1, 2019, ~ 29% of the total project cost has been incurred. The civil contractor for the project is selected however, contract agreement is yet to be entered. The company has entered into contract agreement for hydro mechanical works. As the major part of the project work has to be completed, the company continues to remain exposed to the risks associated with project implementation and satisfactory operations thereafter given that the plant is being executed in the Himalayan region where the uncertain geology and adverse climatic conditions of the area plays a major part in the timely completion of the planned activities. Timely completion of the projected within the estimated cost and time and satisfactory operations thereafter are the key rating sensitivities.

Power evacuation risk

The Power generated from the project will be evacuated through 5Km long 33KV Transmission Line to the operational Bhojpur Substation. Preparation of 5Km long 33KV transmission line from powerhouse to Bhojpur substation is within the scope of TPKH. The land required for the power evacuation will be purchased or taken on lease after the completion of transmission line survey. Timely completion of the transmission line and transmission of the generated power after completion of the project will be key rating sensitivities.

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

Run-of-the-river 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. It, thus, generates much more power during summer season when seasonal river flows are high (Mid-April to Mid-December) and less during the winter season (Mid-Dec to Mid-April). TPKH is proposed to utilize discharge from Perennial river Pikhua Khola having catchment area of 253 sq kms. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/khola.

High per MW estimated project cost and exposure to volatile interest rates

The estimated cost of project is Rs 215 Mn per MW which is relatively high due to high cost of transportation, increase in materials and labour cost. Further, 70% of the total project cost is being funded by debt. Nepalese banking sector is fixing interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions will be dependent on their liquidity position which leads may lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 1-2 year exposing TPKH to volatile interest rate.

Key Rating Strengths***Board members and management having experience in hydro power sector***

TPKH has 3 Board of Directors. Chaired by Mr. Narayan Ballav Panth has ~4 decades of experience in legal sector, banking and financial sector. He is director in United Modi Hydro Power Ltd (UMHPL). Also, he is chairman at Dev Saving and Credit Co-Operative Ltd., Dev Multipurpose Investment Co. Ltd., and Dev Leasing Company Pvt. Ltd. the day to day operations of the company are looked after by Mr. Narendra Ballav Panth, CEO. He has ~10 years of working experience and is director of UMHPL and Singati Hydropower Project Limited. He has been supported by other experience management team members.

Financial closure achieved for estimated project cost

The total cost of the project is envisaged at Rs.1720 Mn to be funded in debt: equity ratio of 70:30 and the company achieved the financial closure on January 21, 2018 with tie up of debt of Rs 1,200 Mn from consortium banks. As on January 1, 2019, TPKH has incurred Rs.502.40 Mn towards project cost.

Power purchase agreement with sufficient period coverage

TPKH had entered into a long term PPA with Nepal Electricity Authority (NEA) as on December 16, 2016 for sale of 8MW power to be generated from the project. The period of the PPA is 30 years from the date of COD or till the 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. The contracted energy for the project is at Plant Load Factor (PLF) of 64.94%. Required

Commercial Operation date (RCOD) of the project is February 6, 2020. As per the PPA, the company will be charged penalty in case there is delay in the commercial operation of the project.

Moderate counter party risk

TPKH is exposed to counter party payment risk pertaining to NEA, which has been making consecutive losses in past till FY16 and carry huge accumulated loss in its book. As per the annual report published by NEA, during FY18 (provisional), NEA earned profit of Rs 1,010.21 Mn (Rs 1,502.28 Mn during FY17). The counter party payment risk is moderated by the fact that, NEA is fully owned by government of Nepal and NEA is generating positive gross cash accruals and further, NEA has been making timely payment to independent power producer (IPPs) in past.

Shortage of power in the country

As per the statistics presented in report published by Ministry of Energy Nepal on July 2018, the current peak electricity demand is about 1300MW. The total domestic installed capacity stands 1073 MW which includes 562 MW generated by NEA and 511 MW generated and supplied by private sector IPPs. To meet the current demand, NEA is importing upto 450 MW power from beside domestic generation.

Government support for the power sector

GoN considers hydropower generation as priority sector and tries to involve private sector participation in power generation by offering different incentives. The sector is exempted from income tax for first 10 years and 50 percent for additional 5 years to those which generate electricity within Mid-April 2024. Income tax will be levied only 20% despite that normal tax rate for entity in Nepal is 25%. Furthermore, GoN has declared to provide grant of amount equivalent to Rs. 5 Mn per MW installed capacity after the formal COD of the power plant.

About the Company

TPKH is a Private company, incorporated as on April 23, 2014. It is promoted by individual promoters from different background for setting up of an 8 MW run-of-river, Taksar Pikhuwa Khola Hydropower Project (TPKHP) in Bhojpur district of Nepal. The power project is proposed to utilize available head and flow from Pikhuwa Khola (river).

The estimated cost of the project is Rs 1720 Mn which is proposed to be financed in Debt equity ratio of 70: 30. The major shareholders of the company are Mr. Panchabir Singh Tuladhar (36.49%), Mr. Narayan Ballav Panth (36.49%) and Mr. Ambika Prasad Dhakal (22.63 %). The project is constructed under BOOT (Build, own, Operate and Transfer) mechanism and the project shall be handed over to the Government of Nepal after expiry of Generation License, which is 35 years from June 17, 2016.

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Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	1,200	CARE-NP BB
Total Bank Facilities	Total Bank Facilities	1,200	