

Rating Rationale
Mathillo Mailun Khola Jalvidhyut Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating¹	Rating Action
Long Term Bank Facilities	1875.00	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	90.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	1965.00		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BB-’ to the long-term bank facilities and ‘CARE-NP A4’ to the short-term bank facilities of Mathillo Mailun Khola Jalvidhyut Limited (MMKJL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MMKJL is constrained by project implementation risk and stabilization risk thereafter given its initial stage of construction including the power evacuation risk and MMKJL’s exposure to regulatory risk. The rating is also constrained by MMKJL’s 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 estimated project cost, MMKJL’s association with the group having experience in hydropower projects, shortage of power in the country and government support for the power sector. The ability of MMKJL to timely complete the project without any time or cost overrun and availability of sufficient hydrology and timely completion of transmission infrastructure are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Project implementation risk and stabilisation risk; given its initial stage of construction

The project is expected to be completed by July 2021 and the project is at the initial stage of construction. Till May 29, 2019, ~9% of the total project cost has been incurred. Civil contractor for the project is selected and the contract agreement has been entered. Contract for Electro Mechanical (EM) works is under bidding stage and contract for Hydro Mechanical (HM) works and Transmission line is yet to be initiated. As the project is in its initial stage and 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

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

operations thereafter. Timely completion of the project 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 15Km long 132KV Transmission Line to the Trishuli 3B Hub Substation which is currently under construction by NEA. Power from Trishuli 3B substation will be further evacuated to an operational Matatirtha Substation in Kathmandu valley. Construction of transmission line from powerhouse to Trishuli 3B substation is within the scope of MMKJL. The construction works in relation to Transmission line are yet to be started. Timely completion of the transmission lines and construction of substation will be key rating sensitivity.

Exposure to volatile interest rate

Nepalese banking sectors are 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 changed by change in liquidity position which leads to change in interest rate. Interest rate has been changing frequently in Nepal market since last 1-2 year. Therefore, funding from Bank and Financial Institutions are exposed to volatile interest rate.

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). MMKJL is proposed to utilize discharge from Mailung Khola which is a perennial river having partly snow-fed and partly a rain fed catchment area of 72 sq kms. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola.

Exposure to regulatory risk

Government of Nepal (GON) has recently established Nepal Electricity Regulatory Commission (NERC) for regulating generation, transmission and distribution of electricity in Nepal. NERC has issued a directive to take approval before public issuance of share capital. It poses a new challenge to hydropower companies which has to go through an additional approval process before it can issue shares to public. Hence, the hydropower companies planning for public issuance of share capital is exposed to risk associated with delay in approval process which may delay project funding and eventually delay the project.

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

MMKJL has 3 Board of Directors, chaired by Mr. Rameshwor Rijal who has more than ~37 years of management experience. He has served as Department Chief for Public Works Department of Kathmandu Metropolitan City Office. Company management team is led by Mr. Kangada Prasai, General Manager of the company and has over one decade of working experience. He has been supported by other experience management team members.

Group having multiple hydropower projects

MMKJL is part of Sanima Hydro Group which is promoted by group of Non-Resident Nepalese who are related to Sanima Group having businesses in Hydropower, Banking and Insurance sector. Sanima Hydro group has been developing a number of hydropower projects by setting up Special Purpose Vehicles (SPV) companies. Sanima Hydro Group has installed capacity of 31.60 MW and ~480 MW projects through multiple companies in initial stages of construction and surveys.

Financial closure achieved for the full project cost

The total cost of the project is envisaged at Rs.2500 Mn to be funded in debt equity ratio of 75:25 (debt of Rs 1875 Mn and equity of Rs. 625 Mn). MMKJL achieved financial closure for the project on September 04, 2017. Till May 27, 2019, Rs. 304.92 Mn has been infused by shareholders. Out of the total project cost; MMKJL has incurred cost of Rs. 229.68 Mn (including Rs. 43.65 Mn advances) till June 15, 2019 which is funded through equity.

Power purchase agreement with sufficient period coverage

MMKJL had entered into a long term PPA with NEA as on September 09, 2011 for sale of 14.3 MW power to be generated from the project. The period of PPA is 30 years from the date of COD or till validity of Generation license. The contracted Plant Load Factor (PLF) for total 14.3 MW is 63.60% with total contracted energy of 79.67 Million Units (MU). Tariff rate as per PPA is Rs 4.80 per kWh for wet season (Mid-April to Mid-December) and Rs 8.40 per kWh for dry season (Mid-December to Mid-April) with 3% annual escalation on base tariff for 5 years. 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

MMKJL is exposed to counter party payment risk pertaining to Nepal Electricity Authority (NEA), which has been making consecutive losses in past till FY 2016 and carry huge accumulated loss in its book. However, 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, net loss is declining over the period and NEA is generating positive gross cash accruals. 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 May 2018, the current peak electricity demand is about 1300 MW. 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 up to 450 MW power from India 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

Mathillo Mailun Khola Jalvidhyut Limited (MMKJL) is a Public Limited company, incorporated as on August 14, 2012. It is promoted by institutional investors majorly related to Sanima Hydro group and other institutes which includes Banks and Investment companies for setting up of a 14.3 MW run-of-river, Mathillo Mailun Khola Jalvidhyut Project (MMKJP) in Rasuwa district of Nepal. The major shareholder of the company as on May 27, 2019 are Sanima Mai Hydropower Ltd. (38.53%) and Molnia Power Ltd (24.28%). The project is constructed under BOOT (Build, own, Operate and Transfer) mechanism. As per the Generation License, from Government of Nepal – Ministry of Energy, obtained as on January 04, 2013, the project shall be handed, on whatever conditions the project is, to the Government of Nepal after expiry of Generation License.

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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	1875.00	CARE-NP BB-
Short Term Bank Facilities	Working Capital Loan	90.00	CARE-NP A4
Total		1965.00	