

Rating Rationale

Sanima Middle Tamor Hydropower Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	9509.50	CARE-NP BB [Double B]	Assigned
Total Facilities	9509.50		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BB’ to the long-term bank of Sanima Middle Tamor Hydropower Limited (SMTHL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SMTHL is constrained by project implementation risk including the power evacuation risk, financial closure yet to be achieved for partial project cost and stabilization risk thereafter given its initial stage of construction. The rating is also constrained by SMTHL’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 SMTHL’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 SMTHL 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 completion of transmission infrastructure are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Financial closure yet to be achieved for the project cost

The total cost of the project is envisaged at Rs.12679.50 Mn to be funded in debt: equity ratio of 75:25. SMTHL has entered into consortium loan agreement for Rs 8259.80 Mn term loan, however for the balance Rs. 1249.70 Mn, financial closure is yet to be achieved. As on April 13, 2019, SMTHL has incurred Rs.992 Mn towards project cost which was funded through the equity infusion (including calls in advance) by the promoters.

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

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

The RCOD of the project is September 13, 2021 for 52.1 MW and July 17, 2022 for 20.90 MW and the project is at the initial stage of construction. Till April 13, 2019, ~ 8% of the total project cost has been incurred and the project is expected to achieve COD from mid-July 2022. Civil contractor for the project is selected and the contract agreement has been entered. The Contract agreement for Hydro Mechanical & Electro Mechanical works is still under negotiation. 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 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 11Km long 220KV Transmission Line to the proposed Dhungesangu (Hangpang) Substation. Power from Dhungesangu Sub Station will be further evacuated to Inaruwa Substation via Basantapur Substation both of which are under construction by NEA. Construction of transmission line from powerhouse to Dhungesangu substation is within the scope of SMTHL. The bidding process is in progress for construction of Transmission line within the scope of SMTHL. Timely completion of the transmission lines and substations by both SMTHL and NEA 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). SMTHL is proposed to utilize discharge from Tamor Khola having catchment area of 2002 sq. kms based on snow-fed river. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola.

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

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

SMTHL has 4 Board of Directors, chaired by Mr. Binaya Kumar Shrestha who has more than 2 decades of management experience. Dr. Subarna Das Shrestha, Director, has ~27 years of experience with 25 years in Hydropower sector. He is also a CEO in a promoter company; Sanima Mai Hydropower Ltd and is a Past President of Independent Power Producers Association of Nepal (IPPAN). Company management team is led by Dr. Jugal Bhurtel, CEO of the company and has more than ~30 years of working experience. He has been supported by other experience management team members.

Large group having multiple hydropower projects

SMTHL 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.

Power purchase agreement with sufficient period coverage

SMTHL had entered into a long term PPA with NEA as on January 10, 2017 for sale of 52.10 MW power and entered into another PPA with NEA on Nov 30, 2018 for additional sale of 20.90 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 73 MW is 67.15% with total contracted energy of 429 MU. Tariff rate as per PPA for 52.10 MW 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 8 years. In case of additional 20.90 MW definition of wet season is (June to November) and dry season is (December to May) with same tariff rate. 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

SMTHL 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. The total domestic installed capacity stands 1073 MW which

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

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

Sanima Middle Tamor Hydro Power Ltd (SMTHL) is a Public Limited company, incorporated as on May 05, 2016. It is promoted by individual promoters from different background, institutional investors majorly related to Sanima Hydro group and other institutes which includes Banks and Insurance companies for setting up of a 73 MW (4x18.25 MW) run-of-river, Middle Tamor Hydropower Project (MTHP) in Taplejung district of Nepal. The major shareholder of the company is Sanima Mai Hydropower Ltd. (22.86% as on June 14, 2019). 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 December 10, 2018 the project shall be handed, on whatever conditions the project is, to the Government of Nepal after expiry of Generation License, which is 35 years.

Analyst Contact

Mr. Bidhan Ojha
bidhan.ojha@careratingsnepal.com
 Tel No.: +977-01-4445473

Relationship Contact

Mr. Sajan Goyal
sajan.goyal@careratingsnepal.com
 Tel No.: 9818832909/+977-01-4445472/3/4

Disclaimer

CRNL’s ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is 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 CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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	9,509.50	CARE-NP BB
Total		9,509.50	

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