

**Rating Rationale  
Green Ventures Limited**

**Rating**

<b>Facilities</b>	<b>Amount (Rs. In Million)</b>	<b>Rating<sup>1</sup></b>	<b>Remarks</b>
Long Term Bank Facilities	7,620.00	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	150.00	CARE-NP A4 [A Four]	Assigned
<b>Total Facilities</b>	<b>7,770.00</b>		

*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 Green Ventures Limited (GVL).

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of Green Ventures Limited (GVL) is constrained by project implementation and stabilization risk, and power evacuation risk related to the transmission of generated power. The rating is also constrained by relatively high estimated cost of project, exposure to volatile interest rates and hydrology risk associated with run of the river power generation. The ratings, however, derives strength from industrial experience of directors and promoters, presence of power purchase agreement (PPA) with sufficient period coverage and moderate counter party risk. The rating also factors in achievement of financial closure for estimated project cost, receipt of all major approvals for construction of the project, shortage of power in the country and government support for the power sector. The ability of the company to timely execute the project within the 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.

**Detailed Description of the Key Rating Drivers**

**Key Rating Weaknesses**

***Project implementation risk and stabilisation risk***

RCOD of the project is October 16, 2020 and on the basis of cost incurred till April 30, 2019, GVL has achieved ~29% financial progress. Till June 2019, access road construction, contractor’s selection for civil, hydro mechanical (HM) and electro mechanical (EM) work has been completed. Beside this, river diversion work and Adit tunnel excavation works are completed. Excavation work of headrace tunnel (~65% completed), Surge shaft and powerhouse is in progress. As the major part of the project work yet to be completed, the company continues to remain exposed to the risks associated with project implementation and satisfactory operations thereafter.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com)

***Power evacuation risk***

The Power generated from the project will be evacuated through 24Km long 220KV single circuit transmission line to the NEA's New Khimti Substation which is under construction. Construction of transmission line from powerhouse to New Khimti substation is within the scope of GVL. GVL along with other projects in Likhu corridor is exploring an alternative plan, for power evacuation by construction of a pooling hub in Likhu corridor. Timely completion of the transmission lines and substation will be key rating sensitivity.

***High estimated project cost and exposure to volatile interest rate***

The estimated cost of project is Rs 194 Mn per MW which is relatively higher mainly due to high cost estimates for contingencies (Rs 1057 Mn) and IDC (Rs 1,348) to cushion any cost overrun in future. Further, the project is being funded by 75% debt of total project cost. Nepalese banking sectors are fixing interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate is changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions (BFIs) is 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 BFIs 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). GVL is proposed to utilize discharge from Likhu Khola having catchment area of 655 sq kms based on snow fed river. The project has 25.53m<sup>3</sup>/s design discharge at 40% exceedance flow and gross head of 244.3m. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid khola.

**Key Rating Strengths*****Industrial experience of directors and promoters***

GVL has 5 board of directors chaired by Mr. Subhash Chandra Sanghai, who is executive committee member of Nepal Chamber of Commerce and involved in manufacturing and trading business. Other directors of the company are involved in banking, insurance, manufacturing, trading and other businesses.

***Power purchase agreement with sufficient period coverage***

GVL had entered into a PPA with NEA as on February 2, 2011 for sale of 52.4MW power to be generated from the project. The period of the PPA is 30 years from the date of commercial operation date (COD) or till validity of Generation License (obtained on March 11, 2012 for 35 years), whichever is earlier. PPA

period may be extended with mutual consensus during the last six month of validity. 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 8 years. The contracted energy for the project is 295.83 million units (MU), at PLF of 65.34%. If the commercial operation of the project doesn't occur within RCOD (i.e. October 16, 2020), the company is bound to pay penalty to NEA as per the PPA. Also, number of escalation in the tariff rate will reduce if the delay in RCOD is more than 6 months.

***Moderate counter party risk***

GVL 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.

***Financial closure achieved for estimated project cost***

The estimated total cost of the project is Rs. 10,163 Mn to be funded in debt: equity ratio of 75:25 and the company achieved the financial closure on December 15, 2017 for Rs 7,620 Mn term loan and Rs 150 Mn working capital loan. Till April 30, 2019, Rs 1,297 Mn term loan has been utilized and Rs 1,915 Mn capital has been injected by promoter shareholders (which include 1,494 Mn paid up capital and Rs 421 Mn advance for share capital).

***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

Green Ventures Ltd (GVL) is a Public company, incorporated on December 7, 2004 as private limited company, later on February 25, 2019 converted to public limited company. The company is developing 52.4 MW run of- river, Likhu-4 Hydropower Project (L4HP) in Okhaldhunga and Ramechhap district of Nepal, for sale of entire power within Nepal. The power project is proposed to utilize available head and flow from Likhu Khola (river). The project is constructed under BOOT (Build, own, Operate and Transfer) mechanism.

It is promoted by one institutional promoter and other individual promoters. As on April 30, 2019, GVL has 20 promoters' shareholders, contributed Rs 1,915 Mn equity share capital. Triveni Energy Pvt. Ltd. (10.72%), Mr. Govinda Lal Sanghai (10.61%), Mr. Birendra Kumar Sanghai (10.60%), Mr. Aditya Sanghai (7.97%) and Mr. Suvash Chandra Sanghai (6.68%) are the major promoter shareholder of the company.

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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	7,620.00	CARE-NP BB
Short Term Bank Facilities	Overdraft Loan	150.00	CARE-NP A4
<b>Total Bank Facilities</b>	<b>Total Bank Facilities</b>	<b>7,770.00</b>	