

**Rating Rationale  
Himalayan Power Partner Limited**

**Rating**

Facility	Amount (Rs. In Million)	Rating	Rating Action
Long Term Bank Facilities	3,170.00	CARE-NP BB [Double B ]	Assigned
Short Term Bank Facilities	99.00	CARE-NP A4 [A Four ]	Assigned
<b>Total Facilities</b>	<b>3,269.00</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Ltd. (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 Himalayan Power Partner Limited (HPPL).

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of HPPL is constrained by significant time and cost overrun, exposure to volatile interest rates, and project implementation and stabilization risk. Further, the rating is also constrained by hydrology risk associated with run of the river power generation, geological risk, and power evacuation risk. The ratings, however, derives strength from strong promoters with experienced board members and management team, power purchase agreement (PPA) with sufficient period coverage, and moderate counter party risk. The rating also factors in low estimated project cost including financial closure achieved for major portion of debt and equity has been injected fully, shortage of power at present coupled with increasing demand of power in the country and government support for the power sector.

Timely execution of the project within the required commercial operation date (RCOD) avoiding any time or cost overrun along with sufficient hydrology and timely receipt of the payments from NEA will be the key rating sensitivities.

**Detailed Description of the Key Rating Drivers**

**Key Rating Weaknesses**

*Significant time and cost overrun*

Project cost has escalated by 6.23% to Rs 4,499 Mn from initial estimated cost of Rs 4,235 Mn mainly due to increase in interest during construction (IDC) owing to delay in completion of the project. Besides that, other factors that contributed to cost overrun includes increase in engineering, administration and management cost, and environmental mitigation and land acquisition cost.

RCOD of the project was June 15, 2017 which was extended to August 31, 2019 due to delay in construction of the project as a result of earthquake, redesign of project structure, change in civil contractor, and delay in excavation of Headrace Tunnel (HRT) due to weak geology. RCOD was further extended to April 12, 2020 as the project was not completed mainly due to slowed down of project’s construction work on account of delay in completion of NEA’s substation and transmission line. Now, project is expected to be commercial operate by Mid-April 2020. If project will not be completed within extended RCOD of April 12, 2020, HPPL has to

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

pay late Commercial Operation Date (COD) penalty to NEA and the number of escalations in tariff rate will be reduced if delay in COD of the project is more than 12 months from RCOD.

***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 is changed by change in liquidity position which lead 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.

***Project implementation and stabilization risk***

The project has achieved ~70% financial progress on the basis of cost incurred till Nov 16, 2019. Further, till Nov end 2019 majority of civil work in intake, HRT breakthrough, concreting over ~600m HRT (out of 2,780m), installation of ~2500m (out of 3,247m) water conductor pipe and ~550m (out of 700m) penstock pipe, construction of powerhouse building, installation of EOT crane, and ~300 m (out of 400m) concreting work at tailrace has been completed. Further, all the major Electro Mechanical (EM) equipment's have been delivered at site and switchyard work is in progress.

It would be challenging for the company to complete the remaining work including dry test and wet test along with achieving financial closure for Rs 264 Mn term loan within expected COD of Mid-April, 2020. Hence, 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.

***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). HPPL is proposed to utilize discharge from Dordi Khola, perennial river which is major tributary of Marsyangadi River, having catchment area of 277 sq. Kms. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/khola.

***Geological risk***

The project area is supposed to possess significant geological risks as the access road is prone to landslides during monsoon and other projects in Dordi corridor were affected by July 2019 flood. Though the impact of the flood was not significant for the HPPL, the project continues to expose from geological risk.

***Power evacuation risk***

Power generated from the project was proposed to be evacuated through 3 Km long transmission line to NEA's proposed Udipur Substation at Lamjung. However, due to delay in construction of proposed Udipur Substation by NEA, HPPL has alternative plan where HPPL has to construct 3 Km long 132KV transmission line which will be connected to under construction Kritipur to Middle Marsyangdi transmission line. Agreement with NEA and detail design for alternative power evacuation has been completed. Timely completion of transmission line work within the scope of HPPL and NEA will be key rating sensitivity.

**Key Rating Strengths*****Strong promoters with reputed board members and experienced management team***

NRN Infrastructure and Development Ltd. (NRNIL), is major promoter shareholders of the company with 35.70% stake. NRNIL is promoted by a group of Non-Resident Nepali (NRN) and entities associated with them. Presently, NRNIL has invested in four companies including HPPL, in the form of share capital, to develop four hydropower projects with total capacity of 142.4 MW which are under construction and development phase.

HPPL has 7 board of directors chaired by Mr. Jiba Nath Lamichhane, who has more than two and half decades of experience in national and international business. He was awarded by Prawal Janasewshree in 2013 for his outstanding contribution to Nepal and Nepali Diaspora. Mr. Chandra Prasad Dhakal, director, is having more than 2 decades of experience in various business and is chairperson of IME Group of companies having business across various sectors including banking, remittance, hydropower and cable car. He is also chairperson of Global IME Bank Ltd. Mr. Guru Prasad Dhakal, executive director, who looks after the day to day work of the company, has more than three decades of experience in Infrastructure/ Transportation Engineering Department of Roads of Government of Nepal.

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

HPPL has entered into PPA with NEA on June 15, 2012 for sale of 27 MW power to be generated from the project. The period of the PPA is 30 years from COD or till validity of Generation License (obtained on July 7, 2011 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 times on yearly basis. The contracted energy of the project is 142.32 million units (MU), at PLF of 61%. RCOD of the project is April 12, 2020.

***Moderate counter party risk***

HPPL 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 FY19 (provisional), NEA earned profit of Rs 7,205 Mn (Rs 2,897 Mn during FY18). Further, during FY19, NEA achieved gross cash accrual of Rs 11,915 Mn (Rs 7,107 Mn in FY18). 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 generating positive gross cash accruals. Further, NEA has been making timely payment to independent power producers (IPPs) in past.

***Low estimated project cost including financial closure achieved for major portion of debt and equity has been injected fully***

The estimated project cost was low at Rs 4,499 Mn (i.e. Rs 167 Mn per MW) even after increment in the initial estimated project cost of Rs 4,235 Mn (i.e. Rs 157 Mn per MW). The estimated project cost of Rs. 4,499 Mn is proposed to be funded in debt equity ratio of 76:24 (i.e. Rs 3,434 Mn debt and Rs 1,065 Mn equity). Financial closure for Rs 3,170 Mn debt was achieved on Nov 7, 2013. The company has approached the consortium bank to provide additional debt of Rs 264 Mn to fund the increased project cost however, financial closure for the same is yet to be achieved. Till Nov 16, 2019, Rs 2,024 Mn debt has been utilized over the project. Further, the required equity share capital of Rs 1,065 Mn is already infused by the promoter and public shareholders in the ratio of 70:30.

***Shortage of power at present coupled with increasing demand of power in the country***

As per the NEA's Annual Report for FY19, the current peak electricity demand is 1,320 MW. The total domestic installed capacity stands at 1,178 MW which includes 617 MW owned by NEA and 561 MW by private sector IPPs. Overall, during FY19, total energy demand was 7,584 GWh which was met by import of 2,813 GWh from India whereas balance was met by domestic generation. As per NEA, electricity demand is in increasing trend and is expected to increase in future with increase in electricity consumption through the promotion of electric vehicles and replacing cooking gas with electricity, increase in access of population using electricity etc.

***Government support for the power sector***

GoN considers hydropower generation as priority sector and intends to maximize private sector participation in generation of hydroelectricity by offering different exemptions and facilities. GoN has announced full tax exemption for first 10 years and 50% tax exemption for next 5 years to those who generate electricity within mid-April 2024. Income tax will be levied only 20% despite the normal tax rate for entity in Nepal is 25%. Also, GoN has declared to provide grant of amount equivalent to Rs. 5 Mn per MW installed capacity after receiving evidence of formal COD of power plant.

**About the Company**

HPPL is a public limited company, incorporated on July 7, 2013. The company is developing 27 MW run-of-river, Dordi Khola Hydropower Project (DKHP) in Lamjung district of Nepal. The project is constructed

under BOOT (Build, own, Operate and Transfer) mechanism. As per the Generation License, obtained on July 7, 2011 the project shall be handed, on whatever condition the project is, to the Government of Nepal after expiry of Generation License, which is 35 years. It is promoted by institutional as well as individual promoters from different background. The company is listed on Nepal Stock Exchange. NRN Infrastructure and Development Ltd. (35.70% stake), and individual/institutions related to IME group which includes Mr. Chandra Prasad Dhakal (7.20% stake), Worldwide Investment Pvt. Ltd. (6.96% stake), and Usha Investment Pvt. Ltd. (4.65% stake) are the major promoter shareholders 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	3,170.00	CARE-NP BB
Short Term Bank Facilities	Working Capital Loan	99.00	CARE-NP A4
<b>Total Bank Facilities</b>		<b>3,269.00</b>	