

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]	Reaffirmed
Total Facilities	9509.50		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of ‘CARE-NP BB’ to the long-term bank facilities 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 and stabilization risk, power evacuation risk and hydrology risk associated with run of the river power generation. The rating is also constrained by SMTHL’s exposure to volatile interest rates and exposure to regulatory risk. The rating, however, derives strength from board members and management having experience in hydro power sector, SMTHL’s association with the group having experience in hydropower projects and presence of power purchase agreement (PPA) with sufficient period coverage. The ratings also factors in financial closure achieved for the full project cost, moderate counter party risk, power demand & supply gap coupled with increasing demand 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.

Impact of Corona Virus on the Project Implementation

The outbreak of Coronavirus disease 2019 (COVID-19) which was recognized as Pandemic by World Health Organization, Government of Nepal (GoN) imposed travel restrictions and countrywide lockdown since March 24, 2020 closing most of the organizations which resulted in slowing down of the economic activities. GoN allowed construction works to continue around Nepal during lockdown period also with proper safety measures.

Due to the countrywide lockdown there were several impacts in under-construction projects like unavailability of contract labor and construction material due to partial operations of manufacturing units across Nepal. In case of SMTHL, contractor’s resources were available in project site during lockdown hence resource availability was not impacted. With respect to supply of construction material, SMTHL coordinated with local government to issue travel approvals to ease the supply. Further, SMTHL has reported continuous work during lockdown period. However, company is in process of ascertaining any impact in time and cost caused by COVID-19.

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 RCOD of the project is September 13, 2021 for 52.1 MW and July 17, 2022 for 20.90 MW. On the basis of cost incurred till April 12, 2020, the company has achieved financial progress of ~23%. Contracts for Civil construction, Hydro Mechanical works, Electro Mechanical works and Transmission line has been awarded. The project has 3,370 m long and 6.5 m diameter headrace tunnel (HRT), and 202 m long and 2.25 m diameter penstock shaft. Four turbines (each having 18.25 MW capacity), four generators and four transformers is proposed to be used in the project. As per the progress report of April 2020, submitted by the company, 53% of overall tunnel length (includes Headrace Tunnel (HRT), Settling Basin, Sediment Flushing Tunnel etc.) has been excavated out of total 6633 m tunnel structures. Excavation of HRT is inprogress with ~37% completion. Hydromechanical works is inprogress with construction of intake gate frame inprogress. Though, there is progress in project, the company continues to remain exposed to the risks associated with project implementation and satisfactory operations thereafter. With tentative date for completion as Mid July 2022, there is high probability of penalty being levied for 52.1 MW project if RCOD is not extended. Timely completion of the project within the estimated cost and time and satisfactory operations thereafter are the key rating sensitivities.

Power evacuation risk

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 Basantapur Substation both of which are under construction by NEA. Contracts for transmission line and sub-station within the scope of NEA has been awarded and construction of the same in-progress. As per the NEA's annual report for FY19, construction work is inprogress with expected completion date as December 2020. Construction of transmission line from powerhouse to Dhungesangu substation is within the scope of SMTHL. Contract for construction transmission line has been entered by the company. 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.

Exposure to regulatory risk

Government of Nepal (GoN) has established Electricity Regulatory Commission (ERC) for regulating generation, transmission and distribution of electricity in Nepal. ERC will be the regulator under the GoN which will be responsible for regulating hydropower companies in Nepal. Policies and the directives issued by ERC like approval process for IPO issuance, PPA approval through ERC poses a new challenge to hydropower companies. Hence, sector is prone to regulatory risk and changes in other policies by GoN.

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 has served as CEO in a promoter company; Sanima Mai Hydropower Ltd [CARE-NP BBB+/A3+] 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.

Financial closure achieved for the full project cost

The total cost of the project is envisaged at Rs.12680 Mn to be funded in debt equity ratio of 75:25 (debt of Rs 9509.50 Mn and equity of Rs. 3170.50 Mn). SMTHL has entered into consortium loan agreement for Rs 9509.50 Mn term loan. Out of Rs 3170.50 Mn of equity, till December 16, 2019, 1,834 Mn has been infused by shareholders.

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 November 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.

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 FY16 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 the past.

Power demand & supply gap 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 by building charging station and replacing cooking gas with electricity, increase in access of population using electricity (78% in FY19) etc.

Government support for the power sector

Government of Nepal (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 for such person/entity who get permission for commercial operation, transmission and distribution of electricity up to mid-April 2024. 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 complete 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 run-of-river, Middle Tamor Hydropower Project (MTHP) in Taplejung district of Nepal. The major shareholder of the company is Sanima Mai Hydropower Ltd [CARE-NP BBB+/A3+] (26.18% as on December 16, 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.

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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	9,509.50	CARE-NP BB
Total		9,509.50	