

Rating Rationale

Super Hewa Power Company Private Limited

Rating

Particulars	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities (Proposed)	673.40	CARE-NP BB- [Double B Plus]	Assigned
Total Facilities	673.40		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB-' to the long term bank facilities of Super Hewa Power Company Private Limited (SHPCPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to **Super Hewa Power Company Private Limited** (SHPCPL) is constrained by limited experience of the management in hydro power sector, high project implementation risk and hydrology risk associated with run-of-the-river power generation.

The rating, however, derives strength from presence of power purchase agreement (PPA) with sufficient period coverage and moderate counter party risk. The rating also factors in current demand & supply gap however possible oversupply in future and government support for the power sector.

Going forward, the ability the company to successful execute the project within cost and time estimates along with generation of expected revenue thereafter are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Limited experience of management in hydro power sector

SHPCPL is setting up its hydro power plant which is a new venture for its promoters who do not have any previous experience in power generation. The company has six directors on its Board. Mr. Harka Bahadur Tamang is the Chairman of the company and has more than 25 years of experience in different sectors which include real state, trading, stone and sand mining, civil construction, block factory. Mr. Nima Wangel Lama, Managing Director, has more than 10 years of experience in real estate. He is also a promoter of Sahas Urja Limited. The promoters have ventured into power generation industry due to the increasing demand and favourable government policies to support the same.

High project implementation and funding risk

SHPCPL is setting up a new hydro project of 5MW and the expected COD of the project is July 2022. The total cost of the project is envisaged at Rs. 962 Mn which will be funded through a debt equity

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

mix of 70:30. The debt for the same has not been fully tied up and the execution is at initial stages. The financial closure for the total loan requirement of Rs. 673 Mn is yet to be achieved for the project. As on March 13, 2021, out of the total capex planned, the company has incurred a total expenditure of Rs. 159.98 Mn funded through promoters' contribution. The project work is yet to be initiated hence, company continues to remain exposed to the risks associated with project implementation. Any delays in the implementation may impact the company's financial risk profile adversely and is also crucial from credit prospective. The company is also exposed towards project execution risk, in terms of completion of the project with-in the envisaged time and cost.

Power evacuation risk

The power generated from the project will be evacuated through 12 Km long 33kV transmission line to Baneshwor Substation. As per connection agreement for evacuation of power from the project, it is necessary to complete the Baneshwor substation and Baneshwor-Basantapur-Dhankuta -Lahan which are within the scope of NEA and further connected to national grid through Koshi corridor. Though, the construction works of Baneshwor substation has already been completed, the Koshi corridor is expected to be completed in near future. Timely completion of the transmission line within the scope of company; and substation and transmission line is within the scope of NEA and critical for the company for revenue generation.

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 (June to November) and less during the winter season (December to May). SHPCPL is proposed to utilize discharge from Hewa Khola having catchment area of 33.25 sq kms, based on perennial river. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river.

Key Rating Strengths

Power purchase agreement with sufficient period coverage

SHPCPL had entered into a long term PPA with Nepal Electricity Authority (NEA) as on April 10, 2018 for sale of 5MW power to be generated from the project. The period of the PPA is 30 years from the date of COD or till validity of Generation License, whichever is earlier. PPA period may be extended with mutual consensus during the last six months of validity. The tariff for wet season (June to November) is Rs 4.80 per kWh and for dry season (December to May) is Rs 8.40 per kWh with 3% escalation on base tariff for 8 years. The contracted energy of the project is 29.32 million units (MU) (i.e. 8.93 MU for dry season

and 20.39 MU for wet season). The RCOD of the project is July 16, 2021. The company is in the process of extension of RCOD with NEA. Also, the ministry of Energy, water resources and irrigation has decided to extend the RCOD by one year for the COVID impacted hydropower projects. If COD doesn't fall within RCOD, the company is bound to pay penalty to NEA as per the PPA. Further, number of escalations in tariff rate will be reduced if there is delay in COD of the project than RCOD by more than 6 months.

Moderate counter party risk

SHPCPL is exposed to counter party payment risk pertaining to Nepal Electricity Authority (NEA), which has been making consecutive losses in past till FY16. However, as per the annual report published by NEA, during FY20 (provisional), NEA earned profit of Rs 11,056 Mn (Rs. 9,812 Mn during FY19) resulting the accumulated profit in its book. Further, during FY20, NEA achieved gross cash accrual of Rs 16,056 Mn (Rs 14,664 Mn in FY19). The counter party payment risk is moderated by the fact that, NEA is fully owned by government of Nepal, and generating positive gross cash accruals. Further, NEA has been making timely payment to independent power producers (IPPs) in past.

Current demand & supply gap however possible oversupply in future

As per the NEA's Annual Report for FY20, the current peak electricity demand is 1,408MW. The total domestic installed capacity stands at 1,328 MW which includes 632 MW owned by NEA and 696 MW by private sector IPPs. Overall, during FY20, total energy demand was 7,894 GWh which was met by import of 1,721 GWh from India whereas balance was met by domestic generation.

However, considering under construction projects which are expected to generate electricity in next 2-3 years and electricity demand which has not increased substantially in past few years could create a situation of oversupply in near future in wet season. This could put pressure on NEA's payment capabilities which is sole counter party with majority of PPA signed on take or pay basis.

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 starts commercial operation, transmission and distribution of electricity up to mid-April 2024. Also, Unified Directive of 2020/21, has directed "Class-A" to allocate minimum 10% of credit to energy sector and "Class-B" and "Class-C" banks to allocate minimum 20% and 15% of total credit respectively to agriculture, energy, SMEs and tourism sector within mid-July 2024.

About the Company

Super Hewa Power Company Private Ltd. (SHPCPL) is incorporated as on November 23, 2010. It is promoted by an institutional as well as individual promoters from different backgrounds. SHPCPL is setting up of a 5 MW run-of-river Super Hewa Small Hydropower Project (SHSHP) in in "BOOT" (Build, Own, Operate and transfer) model and is located at Sankhuwasabha district of Nepal.

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Annexure 1: Details of the Facilities Rated

S. N.	Name of Bank	Type of the Facility	Amount (Rs. in Million)	Rating
1	Long Term Bank Facilities (Proposed)	Term Loan	673.40	CARE-NP BB-
	Total		673.40	