

Ingwa Hydropower Limited

Rating

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Issuer Rating	NA	CARE-NP BB (Is) [Double B (Issuer)]	Assigned

**The issuer rating is subjected to the company maintaining the overall gearing not exceeding 3.0x at the end of FY22.*

CARE Ratings Nepal Limited (CRNL) has assigned Issuer rating of 'CARE-NP BB (Is)' to Ingwa Hydropower Limited (IHL). The Issuers with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations in Nepal.

Detailed Rationale & Key Rating Drivers

The issuer rating assigned to IHL is constrained by project implementation risk, hydrology risk associated with run-of-the-river power generation, exposure to regulatory risk and volatile interest rates.

The rating, however, derives strength from the experienced management team, presence of power purchase agreement (PPA) with sufficient period coverage, and low power evacuation risk. The rating also factors in moderate counter party risk and government support for the power sector.

Going forward, the ability the company to successful execute the project within its estimated cost and time and early stabilization thereafter are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Project Implementation Risk

IHL is setting up 9.70 MW Upper Ingwa Khola Hydropower project in Panchthar district of Nepal. The total cost of the green-field project is estimated at Rs. 1,951.56 Mn (Rs. 201.19 Mn per MW), which is proposed to be funded in the debt equity ratio of ~75:25 (bank debt of Rs. 1,460 Mn and equity of Rs. 491.56 Mn). The debt of the project has been fully tied up. The project is at initial stage of construction and the expected COD of the project is mid-May 2023. Out of the total capex planned, IHL has incurred total expenditure of Rs. 205.29 Mn out of Rs. 1,951.56 Mn.

Till November 2021, the company has completed the preliminary and preparatory works related to access road and camp houses for the site staff accommodation. The contracts for the civil, hydro mechanical and electro-mechanical works have been awarded to the respective contractors. Since the project is at initial stage of implementation, the company is exposed towards project execution risk in terms of completion of project with-in the envisaged time and cost.

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-December to mid-April). IHL is proposed to utilize discharge from Ingwa Khola, a tributary of Kabeli river, having catchment area of 202 sq kms with 6.21 m³/s design discharge at 45.67% exceedance flow, based on perennial river. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications.

Exposure to regulatory risk coupled with volatile interest rate

Electricity Regulatory Commission (ERC) under the Government of Nepal (GoN) is 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.

Nepalese banking sectors are fixing floating 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 (BFIs) remains volatile to change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 2-3 years. Therefore, funding from BFIs is subject to volatile interest rate.

Key Rating Strength**Experienced management team backed by institutional promoters**

IHL is managed under the overall guidance of the company's Board of Directors (BoD), who possesses wide experience in the various sector including hydropower projects. The board is chaired by Mr. Satish Neupane who has more than 15 years of experiences and is associated with various capacities at management levels with various hydro power companies. He is supported by other experienced directors namely Mr. Guru Prasad Neupane and Mr. Sanjeev Neupane along with a team of experienced management personnel.

IHL is promoted by three institutional hydropower promoters namely API Power Company Limited, Rairang Hydropower Development Company Limited and Arun Kabeli Power Limited. Being backed by the institutional promoters, the company anticipates steady investment and knowhow for the construction and operation of hydropower project.

Power Purchase agreement having sufficient period of coverage with moderate counter party risk

IHL had entered into a long term PPA with Nepal Electricity Authority (NEA) as on July 24, 2011 for sale of 9.70 MW 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 (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 5 years.

The contracted energy for the project is 65.73 million units at PLF of 77.36%. The required commercial operation (RCOD) of the project is mid-May 2022. The company is in the process of extension of RCOD. If COD doesn't fall within RCOD, the company is bound to pay penalty to NEA as per PPA. Further, number of escalation in tariff rate will be reduced if there is delay in COD of the project than RCOD by more than 6 months.

The company has signed PPA with NEA is owned by Government of Nepal and hence counter party default risk is low; however, timely realization of critical for the company and from analytical perspective also.

Lower Power evacuation risk with moderate counter party risk

The power generated from the project is proposed to be evacuated through ~16 km double circuit 33 KVA distribution line to the NEA's Kabeli substation located in Kabeli, Taplejung district which is in operation. Therefore, there is no major power evacuation risk except the construction of transmission line from the powerhouse to the NEA substation which is under the scope of the company.

Favorable Government policies towards 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. As per various directives from NRB whereby all

the banks (type A, B C, D) have to allocate minimum share of their total advances to energy sector which argues well for the sector.

About the Company

Ingwa Hydropower Limited (IHL) was incorporated on June 23, 2009 as Private Limited company, which was later converted in Public Limited company on August 25, 2014. The company has been promoted by institutional promoters and individual businessmen of Nepal for setting up of a 9.70 MW run-of-river, Upper Ingwa Khola hydroelectric project (UIKHP) in Panchthar district of Nepal. The project is constructed under BOOT (Build, Own, Operate and Transfer) mechanism.

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