

Numbur Himalaya Hydropower Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	4,796.00	CARE-NP BB+ [Double B Plus]	Revised from CARE-NP BB
Total Facilities	7,438.00 (Seven Thousand Four Hundred Thirty-Eight Million Only)		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has revised rating to 'CARE-NP BB+' from 'CARE-NP BB' assigned to the long-term bank facilities of Numbur Himalaya Hydropower Limited (NHHL).

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the NHHL factors in successful commissioning of the project. The rating continues to be constrained by project stabilization risk, offtake risk of additional energy, hydrology risk associated with run-of-the-river power generation, exposure to volatile interest rate risk and regulatory risk.

The rating, however, derives strengths from strong promotor and experienced management team, 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 of the company to stabilize the operations of newly commenced hydro power project and to generate energy equivalent to contracted are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Power purchase agreement with sufficient period coverage for partial capacity

NHHL had entered into a long term PPA with Nepal Electricity Authority (NEA) as on March 6, 2015 for sale of 24.2 MW power to be generated from the project on take or pay basis. The contracted energy for 24.2 MW is 135.68 Million Units (MU) annually with the contracted Plant Load Factor (PLF) for total 24.2 MW is 64%. Total installed capacity of the plant is 29.04 MW and for the remaining power generated from 4.84 MW would be on take and pay basis (power purchase agreement is yet to be signed). The company is exposed to offtake risk for the power generated above contracted energy.

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 river flows are high (Mid-April to Mid-December) and less during the winter season (Mid-Dec to Mid-April). NHHL is proposed to utilize discharge from Likhu Khola having catchment area of 421 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 volatile interest rate

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy, with substantial upward pressure on interest rates in the last 2-3 quarters. Any further significant rate hikes could put increased interest burden on the

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

Exposure to regulatory risk

Government of Nepal (GoN) has recently 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 Strength

Strong promoters and experienced management team

NHHL is part of MV Dugar Group which has business across different sectors along with Banks, Insurance, Automobiles, Construction etc. Mr. Motilal Dugar, Chairman of NHHL and Executive Chairman of the group, is established businessman of Nepal and has more than 47 years of experience and is Chairman of Sunrise Bank Limited [CARE-NP A-]. The company's management team is led by Mr. Vipin Arora, Chief Executive Officer of the company and has more than 42 years of experience in various organizations related to hydropower and energy sector. He is supported by other experienced management team.

Project commenced operations though Stabilization risk persists

NHHL had incurred an expenditure of Rs 5,463.67 Mn towards the hydro power project of 29.04 MW which has a total revised estimated cost of Rs. 5,996.13 Mn. The expenditure incurred has been funded through term loan of Rs. 4,341.42 Mn and balance from the promoters' contribution in the form of equity capital. The hydro power plant commenced commercial operations in February 08, 2022. The project generated the total energy of Rs. 12.05 GWh in the initial 2 months of operations. Though the project has commenced its operations; the stabilization and streamlining of production in coming years remains to be seen. Furthermore, Required Commercial Operation Date (RCOD) of the project was July 16, 2020. The company has applied for the extension of RCOD with NEA. The company is in the process of taking necessary approvals for extension of RCOD with NEA. It is crucial for the company to take necessary extension of RCOD approvals to avail the benefits of all the escalations.

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

Numbur Himalaya Hydropower Limited (NHHL) is a public company, incorporated as on August 21, 2007. The company has set up a 29.04 MW run-of-river, Likhu A Hydropower Project (LAHP) in Solukhumbu and Ramechhap district of Nepal. The company has received FDI investment from Mogha Energy DMCC, UAE. MV Dugar Group is developing other two hydropower projects in Likhu river adjacently. Further the group is developing another peaking run of river (PROR) hydropower project of 160 MW in Lapchii Khola. The projects are constructed under BOOT (Build, own, Operate and Transfer) mechanism.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	4,796.00	CARE-NP BB+
Total Facilities		4,796.00	

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