

Greenlife Hydropower Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	3,956.53 [Three thousand Nine Hundred Fifty Six Million and Five Hundred Thirty Thousand only]	CARE- NP B- [Single B Minus]	Assigned

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP B-' to the long term bank facilities of Greenlife Hydropower Limited (GLH).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of GLH is constrained by significant cost overrun in the project leading to relatively high project cost with substantial debt on the books coupled with financial closure yet to be achieved for the full revised project cost. The rating also factors in the promoter group having limited experience in hydropower sector, time overrun leading to decreased project life, low tariff rate for major part of contracted energy leading to low return from the project and project implementation & stabilization risk associated with the hydropower projects. The rating is also constrained by exposure to fluctuation in foreign currency exchange rate, exposure to volatile interest rate, hydrology risk associated with run of the river power generation and power evacuation risk.

The rating, however, derive strength from power purchase agreement (PPA) with sufficient period coverage, moderate counter party risk and government support for the power sector.

Going forward, timely execution of the project avoiding any further cost overrun and swift stabilisation of operations thereafter will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Significant time and cost overrun leading to high cost of project

The initial estimated cost of the project was Rs. 4,795 Mn (Rs. 3,338 Mn for 25MW and Rs. 1,457 Mn for 15MW). There have been several cost revisions and the estimated cost of the project has been revised to Rs. 8,249 Mn (Rs. 6,792 Mn for 25MW and Rs. 1,457 Mn for 15MW). The estimated cost per MW is high at Rs. 272 Mn for 25 MW and Rs. 97 Mn for 15 MW, with overall cost of Rs. 206 Mn per MW. Estimated cost has increased multiple times on back of delay in completion of the project, increase in cost of electro-mechanical works due to increase in foreign exchange rate and substantial interest during construction due to delay in project completion. Furthermore, the project has been impacted by COVID-19 with non-availability of materials and labour resources adding to the delay in project completion. As the cost of project per MW is substantially high for the first phase of 25MW, timely completion of the second phase of 15MW without any further cost overrun will be critical for the project as it will likely reduce the overall cost per MW of the project to a more manageable level.

Project implementation and stabilization risk

On the basis of cost incurred till mid-July 2022, around 87% of financial progress has been achieved in the project. GLH has applied to NEA for extension of the RCOD by one year to March 31, 2023. The construction timeline of the project has

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

been delayed multiple times amid COVID imposed restrictions. Any further time overrun will lead to cost overrun and consequently impact the financial risk profile of the company. Furthermore, any delay in completion of the 25 MW phase of the project will also lead to delay in completion of the 15MW phase, timely completion of which is critical from overall cost perspective. Hence, the company continues to remain exposed to the risks associated with project implementation and satisfactory operations thereafter as the plant is located in the Himalayan region where the uncertain geology and adverse climatic conditions plays a major role in timely completion of the planned activities. Completion of the project within the revised cost is critical from credit perspective.

Furthermore, out of total revised estimated project cost of Rs 8,249 Mn, Rs 6,187 Mn is proposed to be funded by debt and Rs 1,800 Mn by equity. Balance Rs. 262 Mn is proposed to be funded through director's loans. Out of Rs 6,187 Mn to be funded from debt, financial closure for Rs 5,017 Mn debt has been achieved till mid-January 2022. Financial closure for balance Rs. 1,170 Mn debt is yet to be achieved. This exposes the company towards project execution risk in terms of partial yet to be tied-up debt completion of the project with-in the revised envisaged timelines.

Low tariff rate for major part of contracted energy leading to low return from the project and decreasing project life amid substantial delay in execution

The economic life of the project is likely to be impacted by the multiple delays in its execution. Had the project (first phase) been operational by mid-July 2022, as expected by management, generation license which was obtained on May 11, 2011, would have been valid for next ~24 years only, resulting in a six-year loss of revenue from project. However, the project is expected to get delayed even further, resulting in the company losing prospective revenue from the project. Furthermore, tariff rate for 25MW contracted capacity is low (i.e. Rs 4/7 per kWh for wet/dry season) in comparison to tariff rate for additional 15MW contracted capacity (i.e. Rs 4.8/8.4 per kWh for wet/dry season), due to which overall return from the project is expected to be on a lower side.

Promoter group having limited experience in hydropower sector

The promoter group of the company has limited prior experience of executing power projects and the project under consideration is the first power project being developed by the group. GLH has 7 members in board of directors chaired by Mrs. Yanchen Doma Lama, major promoter shareholder of GLH. Mrs. Keshang Dikee Lama, Managing Director, manages day to day operations.

Power evacuation risk

The power generated from the project is proposed to be evacuated through 18km long 132KV transmission line to NEA's Singati substation and then connected to national grid through Singati-Lamosangu Transmission line via Lamosangu substation. Construction of transmission line from powerhouse to Singati substation and construction of the Singati-Lamosangu transmission line are currently in progress. If Singati-Lamosangu transmission line is not completed till the completion of project, GLH will not be able to evacuate full power generated from the project. Timely completion of transmission line by both NEA and GLH will also be crucial for the company from revenue generation perspective.

Key Rating Strengths

Power purchase agreement with sufficient period coverage

GLH had entered into a long term PPA with NEA as on October 10, 2010 for sale of 25MW power which was amended to 40MW on June 4, 2017. The period of the PPA is 30 years from the Commercial Operation Date (COD) or till validity of Generation License (received on May 11, 2011 for 35 years), whichever is earlier. PPA period may be extended with mutual

consensus during the last six month of validity. For the 25MW project, the tariff for wet season (Mid-April to Mid-December) is Rs 4 per kWh and for dry season (Mid-December to Mid-April) is Rs 7 per kWh with 3% escalation on base tariff for 9 times. For additional 15MW project, the tariff for wet season is Rs 4.80 per kWh and for dry season is Rs 8.40 per kWh with 3% escalation on base tariff for 8 times.

About the Company

GLH was incorporated on September 20, 2009 as Greenlife Energy Pvt. Ltd. and later converted to public limited company on June 23, 2017. It is promoted by institutional promoters and individual promoters from different background for setting up of 40 MW run-of-river Khani Khola 1 Hydropower Project (KK1HP) in Dolakha district of Nepal. The power project is proposed to be constructed in two phases. In the first phase, the generation capacity will be 25 MW by utilizing discharge from Khani Khola which will be upgraded to 40 MW in the second phase by adding discharge from Hanapu Khola and Napke Khola.

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