

Jhyamolongma Hydropower Development Company Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	4,060.00	CARE-NP BB [Double B]	Assigned
Total Facilities	4,060.00 [Four Billion and Sixty Only]		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB' to the long-term bank facilities of Jhyamolongma Hydropower Development Company Limited (JHDC).

Detailed Rationale & Key Rating Drivers

The ratings assigned to JHDC are constrained by project implementation risk and operation stabilization risk associated with its under-construction hydropower project. The rating also factors in the hydrology risk associated with run-of-the-river power generation, exposure to regulatory risk and volatile interest rates. The rating, however, derives strength from JHDC's association with group having multiple hydropower projects and experienced promoters and management team and presence of power purchase agreement (PPA) with sufficient period coverage. The ratings also factor in low power evacuation risk, moderate counter party risk and government support for the power sector.

Going forward, the ability of the company to successfully execute the project within envisaged cost and time and early stabilization thereafter will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Project implementation and stabilization risk

JHDC is setting up a 32 MW run-of-river Karuwa Seti Hydropower Project (KSHP) in Kaski district of Nepal. The total cost of the project is envisaged at Rs. 5,800 Mn (Rs. 181 Mn per MW) to be funded in debt to equity ratio of 70:30. The total debt amounting to Rs. 4,060 Mn has been tied up. The financial progress of the project till April, 2022 was 47% of the total project cost. Execution of the project was slightly impacted in FY20 and FY21 due to recurring lockdowns which had disrupted the availability of work force and required materials at the site. This exposes the company towards project execution risk in terms of completion of the project within the envisaged time and cost.

Required Commercial Operation Date (RCOD) of the project is April 24, 2023 (earlier April 25, 2022) and the company has applied for the extension of RCOD till April 24, 2024 on account of pandemic. The company expects the commercial operation of the project to be by April 15, 2024. If the project is not completed within the mentioned RCOD, then the company is required to pay delay penalty. Furthermore, if COD is delayed by 6 months to 18 months from RCOD, there are restriction clauses in escalation of tariff rate. Its is crucial of the company to complete the project within the timelines to have the accelerated clauses of tariff. Any delay in the same would lead to impact on project returns and debt servicing capabilities which is critical from analytical perspective.

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 wet season when river flows are high (Mid-April to Mid-December) and less during the dry season (Mid-December to

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

Mid-April). The power project is proposed to utilize available head and flow from Seti Khola (river). The project utilizes discharge from Seti Khola (river) having catchment area of 234 sq. kms based on Perennial River. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola. Since there is no minimum commitment on revenue in PPA in case of adverse river flows scenario, the company is exposed to hydrology risk of the power project for the generation of revenue.

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. Furthermore, increased bank rates announced in the Monetary Policy for FY23 is likely to add to the upward pressure on interest rates going forward. Any significant rate hikes could put increased interest burden on the 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 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

Associated with the group having multiple hydropower projects and experienced board members and management team

JHDC is part of KC Group of companies which is one of the leading organizational groups in Nepal. The promoters of KC group of companies have made their investments in diversified sectors like hydropower projects, construction, hospitality and housing, manufacturing, educational institutions, banking and insurance. This provides comfort to the company in terms of technical and operational assistance. JHDC has three members in its Board of Directors, chaired by Mrs. Prem Kumari K.C, who is also chairperson of Himshree Food Pvt Ltd and have experience in the field of Hydropower, Education and Hospitality industries. Mr. Roshan K.C, managing director, is director at Machhapuchchhre Bank Ltd., and other operational and under-construction hydropower companies. He is supported by other experienced management team.

Power purchase agreement with sufficient period coverage

The total installed capacity of the plant is 32 MW. JHDC had entered into a long term PPA with NEA as on August 04, 2017 for sale of 32 MW power to be generated from the project on take and pay basis. The contracted Plant Load Factor (PLF) for total 32 MW is 60.34% with total contracted energy of 169.15 MU. PPA has been entered for the period of 30 years from the COD or till validity of generation license (obtained on June 29, 2020 for 35 years) whichever is earlier. PPA period may be extended with mutual consensus during the last six months of validity. Tariff rate as per PPA is Rs 4.80 per Kwh for wet season (Mid-April – Mid-December) and the tariff rate for dry season (Mid-December-Mid-April) 8.4 per Kwh with 3% annual escalation on base tariff for 8 years.

Low Power Evacuation Risk

The Power generated from the project is proposed to be evacuated through 10 km long 132KV Transmission Line to NEA Modi-Lekhath-Lahachowk transmission line at Lahachowk, Kaski district which is operational and which connects further to the national grid. JHDC is responsible for construction of transmission line up to Lahachowk Substation. Bidding process is yet to be initiated for construction of Transmission line. The company has finalized the design for alignment of transmission lines however; the erection of poles is yet to be commenced. Timely completion of the transmission lines will be key rating sensitivity.

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

Jhyamolongma Hydropower Development Company Limited (JHDC) is a public limited company, incorporated on May 18, 2001 as private limited company and later on converted as public limited company on July 3, 2022. It is promoted by individual promoters majorly related to K.C group of companies for setting up of a 32 MW run-of-river, Karuwa Seti Hydropower Project (KSHP) in Ranipauwa-11, Pokhara, Kaski district of Nepal. The power project is proposed to utilize available head and flow from Seti Khola (river) which originated from Annapurna and Machhapuchre Himal in Nepal. The project has 234 km² catchment area and 15.30 m³/s design discharge at 41.7% exceedance flow.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	4,060.00	CARE-NP BB
Total Facilities		4,060.00	

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