

## Samyukta Urja Private Limited

### Rating

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	2,521.25	CARE-NP BB [Double B]	<b>Assigned</b>
<b>Total Facilities</b>	<b>2,521.25</b> <b>[Two Billion Five Hundred Twenty-One million and Two Hundred Fifty Thousand Only]</b>		

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 Samyukta Urja Private Limited (SUPL).

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of SUPL is constrained by project implementation 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 SUPL's experienced promoters and management team, presence of power purchase agreement (PPA) with sufficient period coverage 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 risk

SUPL is setting up a 21.30 MW Thulo Khola Hydropower Project (TKHP) in Dhawalagiri Zone, Myagdi District of Nepal. The total cost of the project is envisaged at Rs. 3,602 Mn (Rs. 169 Mn per MW) to be funded in debt to equity ratio of 70:30. The total debt amounting to Rs. 2,521 Mn has been fully tied up. The financial progress of the project till November 30, 2022 was 23% of the total project cost. The cost per MW at present estimation is comparatively lower than any other hydropower plants in Nepal. The low project cost reduces the pay-back period of investors and normally supports in achieving the breakeven at lower revenue. It is very critical from credit perspective to complete the project within the envisaged time and cost and since the project is at initial stages of its implementation, this also exposes the company towards project execution risk.

Further, power generated from the project is proposed to be evacuated through 22 km long 132 KV single circuit Transmission Line to Dana Substation at Kuinemangale, Myagdi District which is operational. SUPL is responsible for construction of transmission line up from hydro power project to Dana Substation. Any delays in the same would lead to impact on project returns and debt servicing capabilities.

##### 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 (June to November) and less during the dry season (December to May).

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and other CARE publications

The power project is proposed to utilize available head and flow from Thulo Khola (river). The project utilizes discharge from Thulo Khola (river) having catchment area of 95.5 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.

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. The project is also subjected to dry-energy short-supply penalty in case the project fails to supply a minimum of 30% of the annual energy generation in the dry months.

#### **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. Increased bank rates announced in the Monetary Policy for FY23 is likely to add to the upward pressure on interest rates, which is also evident in the recent rate hikes taken by BFIs. Any further 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**

##### **Experienced promoters and management team**

SUPL is managed under the overall guidance of its six-member Board of Directors (BoD), who possess wide experience in the various sector including hydropower projects. Dr. Badri K.C., chairman, has more than 15 years of experience in various sectors and is also the chairman of Sayapatri Hydropower Limited and Global Products Private Limited. Other directors also have up to twenty-five years of experience in myriad fields ranging from hydropower projects, construction, hospitality and housing, manufacturing, educational institutions, banking, insurance, etc. This provides comfort to the company in terms of construction, technical and operational assistance. The board is aptly supported by experienced management team across various departments.

##### **Power purchase agreement with sufficient period coverage**

The estimated total installed capacity of the plant is 21.30 MW. SUPL had entered into a long term PPA with NEA as on May 31, 2018 for sale of 21.30 MW power to be generated from the project on take or pay basis. PPA has been entered for the period of 30 years from the COD or till validity of generation license (obtained on March 23, 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 and the tariff rate for dry season is 8.4 per Kwh with 3% annual escalation on base tariff for 8 years.

Required Commercial Operation Date (RCOD) of the project is July 31, 2023 and the company has applied for the extension of RCOD till July 31, 2024 on account of delays in construction amid the pandemic. The company expects the commercial

operation of the project to be by July 31, 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. It is crucial for the company to complete the project within the timelines to have the accelerated clauses of tariff.

### **Favorable Government policies towards power sector**

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**

Samyukta Urja Private Limited (SUPL), incorporated on November 14, 2018, is involved in setting up of a 21.30 MW Thulo Khola Hydropower Project (TKHP) in Gandaki Pradesh of Nepal. The project will be constructed under BOOT (Build, own, Operate and Transfer) mechanism.

### **Annexure-1: Details of Instruments/Facilities**

<b>Name of the Instrument</b>	<b>Type of the Facility</b>	<b>Amount (Rs. Million)</b>	<b>Rating</b>
<b>Long Term Bank Facilities</b>	<b>Term Loan</b>	<b>2,521.25</b>	<b>CARE-NP BB</b>
<b>Total Facilities</b>		<b>2,521.25</b>	

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