

Peoples Hydropower Company Limited

Rating

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Issuer Rating	NA	CARE-NP BB (Is) [Double B (Issuer)]	Reaffirmed
Long Term Bank Facilities	7,273.00 (Increased from 6,160.00)	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	150.00	CARE-NP A4 [A Four]	Reaffirmed
Total Bank Facilities	7,423.00 (Seven Thousand Four Hundred Twenty Three Million only)		

* The issuer rating is subject to overall gearing not exceeding 2.30x at the end of FY23.

** Details of facilities in Annexure-1.

CARE Ratings Nepal Limited (CRNL) has reaffirmed issuer rating of 'CARE-NP BB (Is)' assigned to Peoples Hydropower Company Limited (PHCL). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations in Nepal.

Also, CRNL has reaffirmed the rating of 'CARE-NP BB' assigned to the long term bank facilities and 'CARE-NP A4' assigned to the short term bank facilities of PHCL.

Detailed Rationale & Key Rating Drivers

The ratings assigned to PHCL and its bank facilities continue to remain constrained by the project implementation and stabilization risk thereafter associated with its under construction hydro project, hydrology risk associated with run-of-the-river power generation and exposure to regulatory risk coupled with volatile interest rate. The ratings also took cognizance of the major time and cost overrun in the project.

The ratings, however, continue to derive strengths from the experienced board members and management team and power purchase agreement with sufficient period of coverage. The ratings also factor in low power evacuation risk, favorable government policies towards power sector and moderate counter party risk.

Going forward, the ability of the company to timely complete the project within envisaged cost and time without any further time or cost overrun 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

PHCL is setting up a 54 MW run-of-river Super Dordi Hydropower Project Kha (SDHPK) in Lamjung district of Nepal. The total cost of the greenfield project is envisaged at Rs. 10,390 Mn (Rs. 192 Mn per MW) to be funded in the debt to equity ratio of 70:30. The total debt amounting to Rs. 7,273 Mn has been fully tied up. The financial progress of the project till mid-July 2022, was around 80% of the total project cost. Execution of the project was impacted during FY20 and FY21 due to recurring lockdowns amid the pandemic and flash floods in the region during the period. Although the project is in final

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

stages of construction, it remains exposed towards residual project execution risk in terms of completion of the project within the envisaged cost and time.

Required Commercial Operation Date (RCOD) of the project is February 11, 2023 (earlier April 27, 2021 which was extended from July 13, 2020). If the project is not completed within the mentioned RCOD, then the company is required to pay delay penalty. Any further delay in the same would lead to impact on project returns and debt servicing capabilities which is critical from analytical perspective.

Significant time overrun along with cost overrun in the project execution

The cost of the 54 MW SDHPK underwent several revisions following a significant time overrun, majorly on account of recurring flash floods in the project site coupled with the restrictions imposed by Government of Nepal (GoN) due to the pandemic. The total cost of SDHPK was envisaged at Rs. 8,800 Mn to be funded in debt equity ratio of 70:30 (debt of Rs 6,160 Mn and equity of Rs. 2,640 Mn). However, the same has been now revised to Rs. 10,390 Mn (Rs. 192 Mn per MW) which is proposed to be financed in the debt equity ratio of 70:30 with the debt amount of Rs. 7,273 Mn and remaining amount through equity. The original Required Commercial Operation Date (RCOD) of the project July 13, 2020, was extended multiple times due to the delay in construction, resulting in a higher project cost than envisaged. The increased debt portion has been fully tied up and the company has completed the IPO amounting to Rs. 800 Mn in November 2022. During the initial years of operations, the capital structure of the company is expected to remain leveraged characterized by a relatively higher overall gearing.

Hydrology risk associated with run-of-the-river power generation

Run-of-the-river power is considered to be 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 times when seasonal river flows are high and much less during the drier months. PHCL is generating electricity from discharge of Dordi Khola having catchment area of 142.45 sq. kms based on snow-fed river. Hence, any variation in discharge of water might impact the energy generation of project which is of key importance for the company from the revenue generation perspective.

Exposure to regulatory risk

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.

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 few quarters. A contractionary monetary policy for FY23 coupled with increasing inflation has only added to the upward pressure on interest rates, resulting in the rate hikes taken by BFIs in the first quarter of FY23. 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.

Key Rating Strengths

Experienced board members and management team

PHCL has seven members in its Board of Directors, chaired by Mr. Udaya Nepali Shrestha, who has more than four decades of experience. He has also served as Chairman of Nepal SBI Bank Ltd. and Nepal Investment Bank Ltd. in the past. Mr. Keshav Bahadur Rayamajhi, Managing Director, has over a decade of experience in hydropower sector apart from other management experience. He is currently a Director of Global IME Bank Ltd. Furthermore, the board is supported by other experienced team members.

Power Purchase agreement with sufficient period of coverage

PHCL had entered into a long term PPA with Nepal Electricity Authority (NEA) as on February 25, 2015 for sale of 49.6 MW power to be generated from the project which was later amended on February 27, 2019 for additional 4.4 MW with total 54 MW power to be generated from the project. The period of the PPA is 30 years from COD or till validity of Generation License, whichever is earlier. The tariff as per PPA for 49.6 MW is Rs 4.80 per kWh for wet season (Mid-April to Mid-December) and Rs 8.40 per kWh for dry season (Mid-December to Mid-April) with 3% annual escalation on base tariff for 8 years. For additional 4.4 MW, the definition of wet season is June to November and dry season is December to May with same tariff rate.

Low power evacuation risk

The power to be generated from the project is proposed to be evacuated through 5.2 Km long 132KV transmission line to Kirtipur Substation in Lamjung. The kirtipur substation is operational and currently connected to the national power grid line via Udipur Hub. The transmission line from powerhouse to Kirtipur substation which is within the scope of PHCL is under construction. Timely completion of the transmission line by PHCL will be crucial for the company from revenue generation perspective.

Favorable Government policies towards power sector

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

Peoples Hydropower Company Private Limited was incorporated on October 9, 2007 as a private limited company which was later converted into public limited company as Peoples Hydropower Company Limited (PHCL) on February 27, 2019. It is promoted by individual promoters and institutional promoters and is setting up a 54 MW run-of-river, Super Dordi Hydropower Project Kha (SDHPK) in Lamjung district of Nepal in "BOOT" (Build, Own, Operate and Transfer) model.

Annexure 1: Details of the Facilities rated

Nature of the Facilities	Type of facilities	Amount (Rs. in Mn)	Rating
Long Term Bank Facilities	Term Loan	7,273.00	CARE-NP BB [Double B]
Short Term Bank Facilities	Working Capital Loan	150.00	CARE-NP A4 [A Four]
Total		7,423.00	

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