

Jhyamolongma Hydropower Development Company Limited

Rating

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

Details of instruments/facilities in Annexure-1

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

Detailed Rationale & Key Rating Drivers

The rating assigned to the long-term bank facilities of JHDC remains constrained by project implementation risk associated with its under-construction hydropower, which is heightened further by cost overrun, majorly on account of change in scope of the project. The rating also factors in the partial funding risk for the additional debt required for the cost overrun, which is expected to be funded maintaining debt equity mix as earlier envisaged. The rating continues to take into account hydrology risk associated with run-of-the-river power generation, exposure to volatile interest rates, and risk of natural calamities. 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 along with generation of expected revenue thereafter will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Project implementation risk and operations stabilization risk thereafter

JHDC is setting up a 32 MW run-of-river Karuwa Seti Hydropower Project (KSHP) in Kaski district of Nepal. The earlier estimated cost of the project was Rs. 5,800 Mn (Rs. 181 Mn per MW) which has been revised to Rs. 6,855 Mn (Rs. 214 Mn per MW) majorly on account of the change of scope of project. Due to overlapping issues with a downstream under construction project, KSHP's powerhouse had to be shifted to an upward location, which also led to other changes in hydromechanical and civil structures. The cost overrun is proposed to be funded while maintaining existing debt equity mix of 70:30. The project had achieved ~78% physical progress as on August end, 2023. Financial progress as on June 22, 2023 was ~70%, which was funded by debt of Rs. 3,322 Mn and equity of Rs. 1,413 Mn. Of the total equity of Rs. 2,057 Mn, Rs. 1,413 Mn had been infused as on June 22, 2023. Required Commercial Operation Date (RCOD) is April 24, 2024 and if the project is not completed by the RCOD, it would be required to pay delay penalty. Furthermore, if COD is delayed by more than six months, there are restriction clauses in escalation of tariff rate. Hence, it is crucial of the company to complete the project within the timelines to benefit from the accelerated clauses of tariff increments. Any delay in the same could lead to further 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

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

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

Exposure to volatile interest rate

The company's interest rates are based on 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. Higher interest rates than envisaged could result in squeezed margins of the company. Hence, funding taken by the company is exposed to volatile interest rate.

Risk of Natural Calamities

In Nepal, hydropower projects are usually located in terrains that are topographically challenging making their construction and operations vulnerable to adversities of nature. Floods and landslides that tend to occur in these areas pose threat to these power projects damaging their infrastructures as well as impacting their timely completion. Moreover, disruption in their construction in turn could lead to time and/or cost overrun, negatively impacting the project's financial aspects. Moving forward also, these natural calamities can adversely affect the smooth flow of power generation and distribution, which can further impact financial returns of the projects. JHDC is also exposed to such risks of natural calamities that might cause infrastructural, operational and financial damages to the project.

Key Rating Strengths

Association with 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-Lekhnath-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 power generation as priority sector and intends to maximize private sector participation in generation of electricity by offering different exemptions and facilities on power sector. 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 2027. As per various directives from NRB, 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. Also, increasing trend of cross-border energy trade and its growing prospect in upcoming days supported by new bilateral agreements between Nepal and India for additional export of power to India from Nepal augurs well for the long- term demand prospect for the power sector in Nepal.

About the Company

Jhyamalongma 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 Machhapuchhare Himal in Nepal. The project has 234 km² catchment area and 15.30 m³/s design discharge at 41.7% probability of exceedance.

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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