

Orbit Energy Private Limited

Rating

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	3,870.00	CARE-NP BB- [Double B Minus]	Assigned
Total Facilities	3,870.00 [Three Thousand Eight Hundred and Seventy Million 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 Orbit Energy Private Limited (OEPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of OEPL is constrained by project implementation risk associated with its two under-construction hydropower projects, partial debt for which is yet to be tied up. The rating also factors in the 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 OEPL's experienced promoters and management team and presence of power purchase agreement (PPA) with sufficient period coverage though partial offtake risk associated with additional energy generation. The rating also factors in moderate counter party risk and government support for the power sector.

Going forward, the ability of the company to successfully execute both projects within the envisaged cost and time will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Project implementation risk

OEPL is setting up of two run-of-river hydropower projects, namely 21.5 MW Sabha Khola-B Hydropower Project (SKBHPP), and 6.3MW Sabha Khola-C Hydropower Project (SKCHPP), which is cascade of SKBHPP, in Sankhuwasabha district of Nepal. Total cost of both the projects is envisaged at Rs. 5,325 Mn (Rs. 192 Mn per MW and Rs. 194 Mn per MW for SKBHPP and SKCHPP respectively) to be funded in a debt-to-equity ratio of 72:28 (total debt of Rs. 3,868 Mn and equity of Rs. 1,484 Mn). Financial closure for Rs. 2,500 Mn debt has been achieved and ~36% of the equity commitment (including advanced share capital) has been infused by the shareholders. The company's ability to tie-up the remaining debt component will remain a key monitorable.

SKBHPP has achieved ~22% of financial progress as on July 16, 2023 and SKCHPP is in nascent stage of construction with ongoing contract bidding process for civil, hydromechanical, and electromechanical works. The original Required Commercial Operation Date (RCOD) of SKBHPP was June 14, 2021. However, RCOD has been extended till May 07, 2025. Similarly, original RCOD of SKCHPP was July 18, 2022 and has been extended till July 15, 2024. This exposes the company towards project execution risk in terms of completion of both the projects within the envisaged time and cost.

Given the projects are in early stages of construction, the company is likely to apply for further extension of the RCOD. If both the projects are not completed within their respective revised RCOD, the company will be liable to pay delay penalty. Furthermore, if COD is delayed by more than 6 months from RCOD, there are restriction clauses in escalation of tariff rate. It is, therefore, critical for the company to complete the project within the timeline to avail the accelerated clauses of tariff.

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

Extension of RCOD and completion of project construction within extended RCOD and envisaged cost will be key monitorable aspect.

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). Both the projects are proposed to utilize available head and flow from Sabha Khola, Yaksuwa Khola, and Majuwa Khola (river) having catchment area 119.50 km² 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

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. 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. OEPL is also exposed to such risks of natural calamities that might cause infrastructural, operational and financial damages to the project.

Key Rating Strengths

Experienced promoter/directors and management team

OEPL is part of BG Group Private Limited, that has a portfolio of multiple hydropower projects in under construction as well as operational phase. This provides comfort to the company in terms of technical and operational assistance. OEPL has three members in its Board of Directors, chaired by Mr. Batu Lamichhane, who has over two decades of experience in hydropower and construction sector. He is the chairman of Bailee International Private Limited, and executive chairperson of Baibhab Power Nepal Private Limited and had also served as executive chairperson of Singati Hydro Energy Limited [CARE-NP BB(Is)], The directors of the company also have long experience across various sectors ranging from hydropower, construction, manufacturing, etc. Furthermore, the board is supported by an experienced team in the related field.

Power purchase agreement with sufficient period coverage though partial offtake risk associated with additional energy generation

Total installed capacities of SKBHPP and SKCHPP are 21.5 MW 6.3MW respectively. However, OEPL had entered into a long term PPA for SKBHPP-15.1MW and SKCHPP-4.196MW with Nepal Electricity Authority (NEA) as on July 10, 2017 and March 24, 2019 respectively on a take or pay basis except for 10% of contracted energy under reserve margin (take and pay modality) for the period of mid-June till mid-October. Although, additional energy generation capacity of 6.4 MW and 2.104

MW for SKBHPP and SKCHPP respectively had been approved on August 28, 2022, amended PPA is yet to be signed for both the projects, exposing OEPL to partial offtake risk associated with additional energy generation. Contracted Plant Load Factor (PLF) for SKBHPP-21.5MW and SKCHPP-6.3MW is 67% each with total contracted energy of 126.41 MU and 36.98 MU respectively. PPA has been entered for the period of 30 years from COD or till validity of generation license whichever is earlier. PPA period may be extended with mutual consensus during the last six months of validity. Tariff rate for both the projects as per PPA is Rs. 4.80 per kWh for wet season (June to November) and the tariff rate for dry season (December to May) is Rs. 8.40 per kWh with 3% annual escalation on base tariff for 8 years.

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

Orbit Energy Private Company (OEPL) is a private limited company that was initially incorporated as Pokhari Hydropower Company Private Limited (PHCPL) on August 19, 2009 and was later renamed to OEPL on August 24, 2017. The company is involved in setting up of two run-of-river hydropower projects, namely Sabha Khola-B (21.5MW) Hydropower Project (SKBHPP), and Sabha Khola-C (6.3MW) Hydropower Project (SKCHPP) in Sabhapokhari VDC of Sankhuwasabha district. The projects will be constructed under BOOT (Build, own, Operate and Transfer) mechanism.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	3,870.00	CARE-NP BB-
Total Facilities		3,870.00	

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