

## Ingwa Hydropower Limited

### Rating

Facility/Instrument	Amount (Rs. in Million)	Rating <sup>1</sup>	Rating Action
Issuer Rating	NA	CARE-NP BB (Is) [Double B Issuer]	Reaffirmed

\* The issuer rating is subject to overall gearing ratio of the company not exceeding 3.00x at the end of FY24 (FY refers to the twelve-month period ending mid-July).

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

### Detailed Rationale & Key Rating Drivers

The rating assigned to IHL continues to be constrained by the project implementation risk associated with its under-construction hydropower project, which is heightened further by cost overrun, majorly on account of flash floods at the project site during June 2023. Furthermore, the rating also continues to be constrained by hydrology risk associated with run-of-the-river power generation, risk of natural calamities, exposure to regulatory risk and volatile interest rates. The rating, however, continues to derive strengths from the experienced management team, presence of power purchase agreement (PPA) with sufficient period coverage, and low power evacuation risk. The rating also factors moderate counter party risk and government support for the power sector.

*Going forward, the ability the company to successfully execute the project within its estimated 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 and stabilization risk amid cost overrun

IHL is setting up a 9.70 MW Ingwa Khola Hydropower project in Panchthar district of Nepal. The earlier estimated cost of the project was Rs. 1,950 Mn (Rs. 201 Mn per MW) which has been revised to Rs. 2,400 Mn (Rs. 247 Mn per MW) majorly on account of flash floods at the project site during June 2023. Consequently, land development cost, hydro and electro mechanical costs increased which led to cost overrun by Rs. 450 Mn. The cost overrun is proposed to be funded while maintaining existing debt equity mix of 75:25. IHL has achieved financial closure as on September 29, 2023 for enhancement of loan amount to Rs. 1,768 Mn. IHL has achieved physical progress of ~90% and financial progress of ~87% till mid-November, 2023, which was funded by debt of Rs. 1,328 Mn and equity of Rs. 600 Mn. The cost overrun is likely to have adverse impact on debt coverage indicators amid fixed tariff structure, leading to increased financial burden on the company during the initial years of operations.

##### 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 summer season when seasonal river flows are high (mid-April to mid-December) and less during the winter season (mid-December to mid-April). IHL is proposed to utilize discharge from Ingwa Khola, a tributary of Kabele River,

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

having catchment area of 202 sq kms with 6.21 m<sup>3</sup>/s design discharge at 45.67% exceedance flow, based on Perennial River. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river.

**Exposure to volatile interest rate risk**

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

**Key Rating Strength****Experienced management team in hydropower sector with strong institutional promoter group**

IHL is managed under the overall guidance of the company's Board of Directors (BoD), who possesses wide experience in the various sector including hydropower projects. The board is chaired by Mr. Satish Neupane who has more than 15 years of experience and he is also the Chairman at API Power Company Limited [CARE-NP BB+ (Is)] and the director of Arun Valley Hydropower Development Company Limited [CARE-NP BBB- (Is)]. Other directors of the company also have experience in various sector. Furthermore, the board is supported by an experienced team across various functions.

IHL is promoted by institutional promoters mainly API (~25%), and Arun Kabeli Power Limited (~5%). Being backed by the institutional promoters, the company anticipates steady investment and knowhow for the construction and operation of hydropower project.

**Low offtake risk with sufficient period coverage**

IHL had entered into a long term PPA with Nepal Electricity Authority (NEA) as on July 24, 2011 for sale of 9.70 MW power to be generated from the project. The period of the PPA is 30 years from the date of 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. The tariff for wet season (mid-April to mid-December) is Rs 4.80 per kWh and for dry season (mid-December to mid-April) is Rs 8.40 per kWh with 3% escalation on base tariff for 5 years.

The contracted energy for the project is 65.73 million units at PLF of 77.36%. The required commercial operation (RCOD) of the project was mid-May 2023. The company had applied for extension till December 17, 2023. The company is likely to further apply for extension. If COD doesn't fall within RCOD, the company is bound to pay penalty to NEA as per PPA. Further, number of escalations in tariff rate will be reduced if there is delay in COD of the project than RCOD by more than 6 months.

**Lower Power evacuation risk**

The power generated from the project is proposed to be evacuated through ~16 km double circuit 33 KVA distribution line to the NEA's Kabeli substation located in Kabeli, Taplejung district which is operational. Furthermore, the transmission line from powerhouse to Kabeli substation which is within the scope of IHL is almost complete. Therefore, there is no major power evacuation risk.

**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 crossborder 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**

Ingwa Hydropower Limited (IHL) was incorporated on June 23, 2009 as Private Limited Company, which was later converted in Public Limited Company on August 25, 2014. The company has been promoted by institutional promoters and individual businessmen of Nepal for setting up of a 9.70 MW run-of-river, Ingwa Khola hydroelectric project (IHL) in Panchthar district of Nepal. The project is constructed under BOOT (Build, Own, Operate and Transfer) mechanism.

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