

## Mathillo Mailun Khola Jalavidhyut Limited

### Ratings

| Facilities                 | Amount<br>(Rs. Million)   | Rating <sup>1</sup>                    | Rating Action |
|----------------------------|---|--|---------------|
| Long Term Bank Facilities  | 1,875.00  | CARE-NP BB<br>[Double B]               | Reaffirmed    |
| Short Term Bank Facilities | 90.00   | CARE-NP A4<br>[A Four]                 | Reaffirmed    |
| Total Facilities           | 1,965.00<br>(One Thousand Nine Hundred and Sixty-Five Million Only) |  |               |
| Issuer Rating              | NA  | CARE-NP BB (Is)<br>[Double B (Issuer)] | Reaffirmed    |

*\*The issuer rating is subject to the company maintaining overall gearing not exceeding 2.75x 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 Mathillo Mailun Khola Jalavidhyut Limited (MMKJL). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations, in Nepal.

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

### Detailed Rationale & Key Rating Drivers

The ratings assigned to MMKJL remain constrained by the residual project implementation risk and operations stabilization risk thereafter associated with its under-construction hydropower project. The ratings also factor in power evacuation risk, hydrology risk associated with run-of-the-river power generation, and risk of natural calamities and exposure to volatile interest rate. The ratings, however, continue to derive strength from experienced board members and management team, presence of power purchase agreement (PPA) with sufficient period coverage, moderate counter party risk, and government support for the power sector.

*Going forward, timely commencement of commercial operations of the project as envisaged under contingency evacuation plan with swift stabilization of operations thereafter leading to generation of expected revenue will be the key rating sensitivities.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### Residual project implementation and operations stabilization risk thereafter

MMKJL is setting up a 14.3 MW Mathillo Mailun Khola Jalavidhyut Limited (MMKJP) in Rasuwa district of Nepal. The project is in final stages of implementation having completed all construction works and conducted dry test and wet test (no load test). Commissioning of the project has been delayed by the ongoing construction works at Trishuli 3B Hub substation, which is under the scope of NEA. The total cost of project is around Rs. 2,500 Mn, which is being funded in debt to equity in the ratio of 75:25. Incurred cost on the project was Rs. 2,501 Mn (including advances) as on April 13, 2023, funded by debt of Rs 1,732 Mn and equity of Rs. 750 Mn. However, due to delay in commissioning of the project from earlier expected commercial date of operations (COD), the project cost is likely to escalate mainly due to increased interest during construction. This is expected to be funded from equity. The company had paid-up capital of Rs. 1,000 Mn against committed equity funding of Rs. 625 Mn towards the project cost.

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

Required Commercial Operation Date (RCOD) of the project has been extended till October 19, 2023 from earlier RCOD of April 30, 2023 and the company is expected to commence its operations from mid-January, 2024 under contingency power evacuation plan. As the project is in final stages of its implementation, the company remains exposed to the risks associated with project implementation in terms of commissioning of project within the envisaged timelines and satisfactory operations thereafter to achieve the envisaged revenue.

**Power evacuation risk**

The power generated from the project will be evacuated through a 15 km long 132 kV transmission line to the Trishuli 3B Hub Substation and power from Trishuli 3B substation will be further evacuated to an operational Matatirtha Substation in Kathmandu valley by NEA through 220 kV transmission line which has been already constructed by NEA. The construction of transmission line from powerhouse to Trishuli 3B substation which is within scope of MMKJL has already been completed. However, Trishuli 3B Hub is still under construction. So, to prevent the loss of generated power from MMKJP in absence of required infrastructure, MMKJP has proposed to evacuate power under a contingency plan. Until the Trishuli 3B hub becomes operational, power generated from the project will be evacuated via a tower-to-tower connection setup. Timely construction of substation by NEA will be key monitorable aspect from revenue generation prospective, as the project will operate under take and pay model during this period.

**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 river flows are high (Mid-April to Mid-December) and less during the winter season (Mid-Dec to Mid-April). The project is proposed to utilize discharge from Mailung Khola which is a perennial river and having partly snow-fed and partly a rain fed catchment area of 72 sq kms. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ khola.

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

**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.

**Key Rating Strengths****Associated with large group having multiple hydropower projects and experienced board members**

MMKJL is part of Sanima Hydro Group which is promoted by group of Non-Resident Nepalese. In addition to the hydropower projects, the promoters of Sanima Group have made their investments in different other sectors. MMKJL has 3 Board of Directors, chaired by Mr. Rameshwor Rijal, who has more than 37 years of experience in different organization. He has served as Department Chief for Public Works Department of Kathmandu Metropolitan City Office. Mr. Ajay Karki, MSc, Director, has more than 2 decades of experience in hydropower design and construction of different hydropower companies within Sanima Group of companies. Company management team is led by Mr. Kangada Prasai. He is associated with the company in the capacity of General Manager and has over one decade of experience in different capacities. He has served as Engineering Geologist in multiple Hydropower Companies in the past.

**Power purchase agreement with sufficient period coverage**

PPA for MMKJP was signed between NEA and Molnia Power Limited on September 09, 2011 for sale of 14.3 MW power to be generated from the project and the PPA was later transferred in the name of MMKJL on April 26, 2018. The contracted energy for 14.3MW is 79.67 million Units (MU) annually. The contracted Plant Load Factor (PLF) for total 14.3 MW is 63.60%. PPA has been entered for the period of 30 years from the COD or till validity of generation license whichever is earlier. Tariff rate as per PPA 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 5 years.

**Favorable Government policies towards power sector**

Government of Nepal (GoN) considers hydropower generation as a 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 the 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 2026. 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 augurs well for the sector.

**About the Company**

Mathillo Mailun Khola Jalavidhyut Limited (MMKJL) is a Public Limited company, incorporated as on August 14, 2012. It is promoted by institutional investors majorly related to Sanima Hydro group and other institutes which include Banks and Insurance companies also for setting up of a 14.3 MW run-of-river, Mathillo Mailun Khola Jalavidhyut Project (MMKJP) in BOOT (Build, own, Operate and Transfer) mechanism and located at Rasuwa district of Nepal.

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