

## Peoples Hydropower Company Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
<b>Issuer Rating</b>	<b>NA</b>	<b>CARE-NP BB (Is) [Double B (Issuer)]</b>	<b>Reaffirmed</b>
<b>Long Term Bank Facilities</b>	<b>8,123.00 (Increased from 7,273.00)</b>	<b>CARE-NP BB [Double B]</b>	<b>Reaffirmed</b>
<b>Short Term Bank Facilities</b>	<b>150.00</b>	<b>CARE-NP A4 [A Four]</b>	<b>Reaffirmed</b>
<b>Total Bank Facilities</b>	<b>8,273.00 (Eight Thousand Two Hundred Seventy-Three Million only)</b>		

*\*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 are constrained by operations stabilization risk associated with its recently-commissioned hydropower project as power generated by the project is being evacuated under contingency plan, which is likely to limit the company's income prospects as power purchase agreement for projects operational under a contingency plan follow take and pay modality and power generation also depends on dispatch instructions from Nepal Electricity Authority (NEA). The ratings also continue to be constrained by hydrology risk associated with run-of-the-river power generation, exposure to interest rate risk, and risk of natural calamities. The ratings, however, continue to derive strength from the experienced board members and management team, power purchase agreement with sufficient period of coverage, and favorable government policies towards power sector.

*Going forward, the ability of the company to stabilize operations of its hydropower project by generating and supplying sufficient energy as contracted leading to sustained cash flow from operations as envisaged will be the key rating sensitivity.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### Operations stabilization risk amid challenges in power evacuation

PHCL commenced commercial operations of its 54 MW run-of-river Super Dordi Hydropower Project Kha (SDHPK) in Lamjung district of Nepal from May 22, 2023. The power generated from the project was originally proposed to be evacuated through 5.2 Km long 132KV transmission line to the operational Kirtipur Substation in Lamjung and subsequently join national grid via Udipur substation. However, as Udipur substation is still under construction by NEA, NEA and PHCL agreed upon a contingency plan, whereby SDHPK's power is being transmitted through Middle-Marsyangdi Hydropower Station for the time being. Under this plan, power purchase by NEA is under the take-and-pay modality and power generation also depends on NEA's dispatch instructions. As a result, the project has been operating at a low capacity with average power generation of

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

22.06% of installed capacity during the first six months of operations ending mid-November 2023. While under the contingent plan, the project's average PLF is expected to be much lower than contracted, particularly during the wet months. Thus, timely completion of aforementioned substation by NEA will be crucial for the company from power supply and revenue generation 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 wet season when river flows are high (mid-April to mid-December) and less during the dry season (mid-December to mid-April). PHCL utilizes discharge from Dordi River with a catchment area of 142.45 sq. km. Any variation in discharge of water from the aforesaid river can impact energy generation of the project, which is of key importance from revenue generation perspective.

### **Exposure to volatile interest rates**

PHCL's interest rates are based on floating interest rate regime, where a certain premium is added to the monthly base rate and interest rate is changed accordingly on monthly 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 changes in interest rates. Given the company's relatively high debt to equity proportion (~70:30), its debt servicing burden is likely to remain on a higher side during initial years of operations. Higher interest rates than envisaged could result in squeezed margins of the company, impacting its liquidity profile. Hence, funding sourced by the company from BFIs makes it exposed to interest rate volatility.

### **Risk of natural calamities**

In Nepal, hydropower projects are usually located at terrains that are topographically challenging, making their 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 and impacting their operations and financial returns. PHCL is also exposed to such risks of natural calamities as seen in the past when its project construction was interrupted by floods multiple times, resulting in time and cost overruns.

### **Key Rating Strengths**

#### **Board members and management with experience in the hydropower sector**

PHCL has seven directors, with the BoD chaired by Mr. Udaya Nepali Shrestha, who has more than four decades of experience in various sectors, including 30 years in different capacities for the Government of Nepal. He has also served as the 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 the hydropower sector apart from other management experiences. He is further supported by other qualified management team members.

#### **Power purchase agreement with sufficient period of coverage**

Developed under the BOOT (Build, Own, Operate and Transfer) model, SDHPK is owned by PHCL, holding a 35-year Generation License from Ministry of Energy, Government of Nepal. The project operates under a Power Purchase Agreement (PPA) with NEA, which covers 30 years from the COD or till validity of generation license, whichever is earlier. The PPA was signed on February 25, 2015 for sale of 49.6 MW power, which was later amended on February 27, 2019 for additional 4.4 MW with total 54 MW power to be generated from the project. Tariff rate 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 the additional 4.4 MW, definition of wet season is June to November and dry season is December to May with the same tariff rates. Additionally, the counterparty payment risk associated with NEA is deemed moderate, given its full ownership by the Government of Nepal. Such arrangements provide revenue stability and sustainability to the company. However, the offtake risk remains high while the project is operating under the contingency plan.

### 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 the same by offering different exemptions and facilities. GoN has introduced a comprehensive tax incentive package, providing full tax exemption for first 10 years and 50% tax exemption for the subsequent five years to the individuals/ entities who start commercial operation, transmission and distribution of electricity until mid-April 2027. Various directives from NRB, whereby all the banks (class A, B C, D) have to allocate a minimum share of their total advances to the energy sector, argue well for the sector. Moreover, long-term demand prospect for the Nepalese power sector is supported by new bilateral agreements for additional export of power to India.

### About the Company

Peoples Hydropower Company Private Limited was incorporated on October 9, 2007 as a private limited company and later converted into public limited company as Peoples Hydropower Company Limited (PHCL) on February 27, 2019. It is promoted by individual and institutional promoters and has set up 54 MW run-of-the-river Super Dordi Hydropower Project Kha (SDHPK) in Lamjung district of Nepal under the "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	8,123.00 (increased from 7,123.00)	CARE-NP BB [Double B]
Short Term Bank Facilities	Working Capital Loan	150.00	CARE-NP A4 [A Four]
<b>Total</b>		<b>8,273.00</b>	

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