Samyukta Urja Limited

Rating

Facilities	Amount (Rs. Million)	Rating[1]	Rating Action
Long Term Bank Facilities	2,521.25	CARE-NP BB [Double B]	Reaffirmed
Total Facilities	2,521.25 [Two Billion Five Hundred Twenty-One Million and Two Hundred Fifty Thousand 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 Samyukta Urja Limited (SUL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of SUL continues to be constrained by project implementation risk associated with its under-construction hydropower project which is accentuated further by high power evacuation risk amid changes in power evacuation route. Furthermore, the rating also continues to be constrained by hydrology risk associated with run-of-the-river power generation, risk of natural calamities and volatile interest rates. The rating, however, continues to derive strengths from SUL's experienced promoters and management team, low offtake risk coupled with income profile supported by moderate contracted plant load factor (PLF) and dry energy mix, and government support for the power sector.

Going forward, the ability of the company to successfully execute the project within envisaged 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

SUL is setting up 21.30 MW Thulo Khola Hydropower Project (TKHP) in Dhawalagiri Zone, Myagdi District of Nepal. The total cost of the project is envisaged at Rs. 3,602 Mn (Rs. 169 Mn per MW) to be funded in debt to equity ratio of 70:30. The total debt amounting to Rs. 2,521 Mn has been fully tied up. The financial progress of the project till December 22, 2023 was ~53% of the total project cost (funded by debt of Rs. 1,109 Mn and equity of Rs. 801 Mn). The cost per MW at present estimation is comparatively lower vis- à -vis other similar sized hydropower plants in Nepal. The low project cost reduces the pay-back period of investors and normally supports in achieving the breakeven at lower revenue. It is critical from credit perspective to complete the project within the envisaged time and cost.

Required Commercial Operation Date (RCOD) of the project is May 27, 2024. If the project is not completed within the RCOD, then the company is required to pay delay penalty. Furthermore, if COD is delayed by 6 months to 18 months from RCOD, there are restriction clauses in escalation of tariff rate. Hence, it is also crucial for the company to complete the project within these timelines to be entitled for the accelerated clauses of tariff.

High power evacuation risk

The proposed power evacuation route of the project has been changed since the time of last rating. The previously proposed evacuation route via Dana substation was deemed unfeasible amid crowding of projects and relatively low-capacity

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

transmission lines. Consequently, power generated by TKHP is now proposed to be evacuated through 220/132 KV double circuit transmission line to Rahupiple substation at Myagdi District which is under construction. TKHP shall build 6.5 km long 220 KV single circuit transmission line to 220 KV switchyard of Rahughat Mangale Hydropower Project (RMHP, 35.5 MW) owned by Tundi Power Company Private Limited (TPCPL). The combined power of these two projects shall be evacuated to switchyard of Upper Rahughat Mangale Hydropower Project (48.5 MW, cascade of RMHP under TPCPL). After which, combined power of these three projects shall be evacuated to Rahupiple Substation, construction of which is under the scope of NEA. Since the power evacuation from TKHP will now be contingent upon timely completion of the evacuation structures by these three projects and more importantly of Rahupiple substation by the NEA, the company is exposed to high power evacuation risk.

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). The power project is proposed to utilize available head and flow from Thulo Khola (river). The project utilizes discharge from Thulo Khola (river) having catchment area of 95.5 sq. kms based on snow-fed river. Since there is no minimum commitment on revenue in PPA in case of adverse river flows scenario, the company is exposed to hydrology risk of the power project for the generation of revenue. Additionally, the project is also exposed to dry-energy short-supply penalty in case the project fails to supply a minimum of 30% of the annual energy generation in the dry months. Hence, the project's performance will be exposed to the inherent risk associated to the natural hydrological patterns, variability in water discharge and optimized power generation efficiency throughout the year.

Exposure to volatile interest rate

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

Key Rating Strength

Experienced promoters and management team

SUL is managed under the overall guidance of its six-member Board of Directors (BoD), who possess wide experience in the various sector including hydropower projects. Dr. Badri K.C., chairman, has more than 15 years of experience in various sectors and is also the chairman of Sayapatri Hydropower Limited and Global Products Private Limited. Other directors also have vast experience in myriad fields ranging from hydropower projects, construction, hospitality and housing, manufacturing, educational institutions, banking, insurance, etc. This provides comfort to the company in terms of construction, technical and operational assistance. The board is aptly supported by experienced management team across various departments.

Low offtake risk

SUL entered into a long term PPA with NEA as on May 31, 2018 for sale of 21.30 MW power to be generated from the project on take or pay basis. PPA has been entered for the period of 30 years from the COD or till validity of generation license (obtained on March 23, 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 and the tariff rate for dry season is 8.4 per Kwh with 3% annual escalation on base tariff for 8 years. Following six-months of wet and six-months of dry season, the total contracted energy of the project is 119.88 MU (PLF of 64.25%) with decent dry energy mix of ~31% of the total contracted energy coupled with 8 tariff escalations augur well with the company's income profile. Additionally, the counterparty payment risk associated with NEA is deemed moderate, given its full ownership by the Government of Nepal. Such arrangements are expected to provide revenue stability and sustainability to the company.

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

Samyukta Urja Limited (SUL), incorporated on November 14, 2018 as private limited company and later converted to public limited company on July 14, 2023, is involved in setting up of a 21.30 MW Thulo Khola Hydropower Project (TKHP) in Gandaki Pradesh of Nepal. The project 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**	**2,521.25**	**CARE-NP BB**
Total Facilities		**2,521.25**	

Contact Us

Analyst Contact
Ms. Poonam Agarwal
+977-01-4012628
poonamagarwal@careratingsnepal.com

Mr. Santosh Pudasaini
+977-9802312855
pudasaini.santosh@careratingsnepal.com

Relationship Contact
Mr. Achin Nirwani
+977-9818832909
achin.nirwani@careratingsnepal.com

About CARE Ratings:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).