

Sanima Jum Hydropower Limited

Rating

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	8,700.00	CARE-NP BB [Double B]	Assigned
Total Facilities	8,700.00 [Eight Thousand and Seven Hundred 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 Sanima Jum Hydropower Limited (SJHL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of SJHL is constrained by project implementation risk associated with its under-construction hydropower project, debt component for which is yet to be fully tied up. The rating also factors in risk of natural calamities and hydrology risk associated with run-of-the-river for power generation. The rating, however, derives strength from SJHL's resourceful promoters, being part of Sanima Hydro Group, with extensive experience in construction and operations of multiple hydropower plants in Nepal. The rating also factors in low offtake risk and moderate counter party risk and government support for the power sector.

Going forward, the ability of the company to successfully execute the project 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 and stabilization risk thereafter

Shree Jum Khola Hydropower Limited (SJHL) is developing Jum Khola Jalvidhyut Aayojana (JKJA), a run-of-river hydro power project with a planned capacity of 56 MW in the Dolakha district of Nepal. The total estimated cost for this project is Rs. 11,600 Mn, translating to Rs. 207 million per MW. The financing structure of the project involves a debt-equity ratio of 75:25, leading to Rs. 8,700 million as bank finance which has not been fully tied up, while Rs. 2,900 million is in the form of equity. SJHL plans to raise 30% of the equity, amounting to Rs. 870 million, through the issuance of Initial Public Offering (IPO). This financing arrangement exposes SJHL to funding risks associated with partial debt and IPO issuance.

The Required Commercial Operation Date (RCOD) of the project is July 09, 2028. Currently, JKJA is in the early stages of construction, which exposes SJHL to project implementation risks. Any delays in the commencement of the project beyond 6 months from the RCOD will result in restrictions on the number of tariff escalations available, consequently diminishing return indicators and adversely impacting the revenue profile of SJHL. However, given the past experience of the promoters (being part of Sanima Group) in implementation of hydro power projects and bridging the funding gaps mitigates the risk to some extent.

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

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

these power projects damaging their infrastructures as well as impacting their timely completion. Additionally, the catchment of Jum Khola is exposed to glacial lake outburst flood (GLOF), which heightens the risks of floods and landslides. To mitigate these risks, SJHL is involved in construction of underground settling basin, water conveyance structure, and powerhouse. Moreover, disruption in their construction in turn could lead to time and/or cost overrun, thereby 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. SJHL's power project is inherently exposed to these natural calamities that have the potential to cause infrastructural, operational, and financial damages to the project.

Hydrology risk associated with run-of-the-river power generation

A Run-of-the-river (ROR) power project is recognized as a variable energy source of generation of power due to its reliance on natural river flow without significant water storage capacity. The dependency on river flow makes the power generation from the project highly responsive to seasonal variations. The project extracts discharge from Jum Khola, covering a catchment area of 995 sq. kms and dominated by snow and glacier in its upper part, characterized as a perennial snow-fed river. SJHL tends to produce higher electricity output during the wet season, from mid-April to mid-December, when river flows are abundant. Conversely, during the dry season, from mid-December to mid-April, power generation may be reduced due to lower river flows. However, hydrology risk is partially mitigated by presence of glacial lakes in its catchment, which generally melts during February and March, providing Jum Khola with steady source of discharge during dry seasons. Consequently, the project's performance will be exposed to the inherent risk associated to the natural hydrological patterns, and variability in water discharge throughout the year.

Key Rating Strengths

Experienced institutional promoters, directors and management team

SJHL is promoted by institutional promoters, Sanima Hydropower Limited (SHL) [rated CARE-NP BB+(Is)], and Sanima Mai Hydropower Limited (SHPC) [rated CARE-NP A-/A2], associated with Sanima Hydro Group. Currently, the group has five operational hydropower projects with a total capacity of 74MW, three under construction hydropower projects with a total capacity of 414 MW, and two hydropower projects of total capacity 30 MW in line of Power Purchase Agreement (PPA) with Nepal Electricity Authority (NEA), totaling to ten hydropower projects with total capacity of 518 MW. Among the operational hydropower projects, Sanima Hydropower Limited (SHL) is involved in operation of 2.6 MW run-of-the-river Sunkoshi Small Hydropower Project (SHP) and SHPC is involved in operation of a 22MW run-of-river Mai Hydropower Project (MHP) and a 7 MW Mai Cascade Hydropower Project (MCHP).

SJHL is managed under the overall guidance of a four-member board of directors chaired by Mr. Arun Kumar Ojha, Master of Science in Geology (M.Sc. Geology), who has over two decades of experience in hydropower and banking sector. He is also currently involved at Sanima Hydro Limited in the capacity of Executive Director. Mr. Sudhyumna Prasad Upadhyaya, Master in Business Studies (MBS) and Bachelor of Laws (LLB), is also a director of the company having experience of over two decades in Insurance sector. Currently, he is also associated with Sanima GIC Insurance in the capacity of Chief Executive Officer (CEO). Mr. Apar Neupane, MBS, has over two decades of experience in the power generation sector. Ms. Gayatri Thapa, MBS, has more than ten years of experience in hydropower sector. She is also associated with Sanima Bank Limited in the capacity of director.

Low offtake risk and moderate counterparty risk

SJHL is developing a hydro power project with a total installed capacity of 56 MW. Power Purchase Agreement (PPA) has been signed for a slightly reduced capacity of 55.615 MW between Nepal Electricity Authority (NEA) and SJHL on a take or pay modality, with the exception of 10% of contracted energy during wet months, which is placed under reserve margin and

will be purchased under the instruction of the Load Dispatch Centre (LDC). The Contracted Plant Load Factor (PLF) is set at 66.66% of the total contracted energy, which amounts to 324.75 million units (MU). The duration of the PPA extends for 30 years from the Commercial Operation Date (COD) or until the expiration of the generation license, obtained on July 11, 2021, valid for 35 years, whichever occurs earlier. A provision for extension of the PPA period exists, subject to mutual consensus within the final six months of its validity.

Tariff rates as per the PPA stand at Rs 4.80 per kilowatt-hour (kWh) for the wet season and Rs 8.40 per kWh for the dry season, with a 3% annual escalation on the base tariff for a duration of 8 years. Additionally, the dry energy mix of the project amounts to 30%. High dry energy mix along with eight tariff escalations in the base tariff is expected to support the project's incremental revenue and return and coverage indicators, provided the project is commissioned within the RCOD. These contractual terms outline the framework governing the sale of power generated by the JKJA hydro power project, delineating the revenue structure and operational parameters for SJHL within the energy market. 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.

Low Power evacuation risk

Power generated from JKJA is proposed to be evacuated through a 37 km long 132kV double circuit transmission line to operational Garjyang substation of NEA at Ramechhap district. Stringing/Construction of transmission line from switchyard to substation falls under the scope of SJHL. Timely completion of transmission lines within RCOD for successful commissioning of operations and crucial for the company from revenue generation prospective.

Favorable policies towards power sector

The Government of Nepal (GoN) has prioritized hydropower generation as a crucial sector for economic development and aims to enhance private sector involvement by offering a range of incentives and facilities. In line with this objective, GoN has introduced a comprehensive tax incentive package, providing full tax exemption for the initial 10 years and a 50% tax exemption for the subsequent five years to individuals or entities engaged in the commercial operation, transmission, and distribution of electricity until mid-April 2027. These incentives are designed to encourage investment and promote growth in the hydropower sector. Additionally, directives from the Nepal Rastra Bank (NRB) mandate that all banks are to allocate a minimum share of their total advances to the energy sector. This strategic initiative is expected to contribute to the financial support and development of projects within the energy sector which augers well for the sector.

The industry outlook of Nepalese power sector is likely to remain stable over the long-term with increasing domestic demand for generation backed by growing national demand with an average growth rate of around 11% p.a. over the last five years (2018-2023). Additionally, increasing cross-border energy trades coupled with fresh bilateral treaty signed between Nepal and India for export of 10,000 MW electricity to India over a period of 10 years has further boosted the demand outlook for the power sector in Nepal.

About the Company

Sanima Jum Hydropower Limited (erstwhile Sanima Jum Hydropower Private Limited) is a public limited company initially incorporated as a private limited company on February 04, 2018 and later converted to a public limited company on January 20, 2021. It is promoted by institutional investors related to Sanima Hydro group having long experience in the hydropower and other sectors for setting up Hydroelectric Project (HEP) in Nepal. SJHL is involved in setting up of a 56.00 MW run-of-river, Jum Khola Jalvidhyut Aayojana (JKJA) in Dolakha district 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 (Proposed)	Term Loan	8,700.00	CARE-NP BB
Total Facilities		8,700.00	

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