

Upper Myagdi Hydropower Limited

Rating

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	8,400.00	CARE-NP BB- [Double B Minus]	Assigned
Total Facilities	8,400.00 (Eight Billion and Four 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 Upper Myagdi Hydropower Limited (UMHL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of UMHL is constrained by project implementation risk associated with its under-construction hydropower project which is in early stages of construction. The rating also factors in moderate funding risk amid in principle approval from consortium lead bank for required debt component, high power evacuation risk, hydrology risk associated with run-of-the-river power generation, and risk of natural calamities. The rating, however, derives strength from UMHL's experienced promoters with established presence in hydropower sector, low offtake risk and moderate counterparty risk and government support for the power sector. UMHL's relatively higher contracted PLF levels and dry energy mix also enhance its revenue profile.

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

UMHL is setting up of a run-of-river hydro power project with a capacity of 53.5 MW in Myagdi district of Nepal. The total estimated cost of the project is Rs. 11,233 Mn, equivalent to Rs. 209 Mn per MW. The financing structure for the project involves a debt equity ratio of 75:25, with Rs. 8,425 Mn designated as a term loan and Rs. 2,808 Mn as equity. As of mid-January 2024, ~23% of the equity, amounting to Rs. 639 Mn (including advance against share capital of Rs. 474 Mn), has been infused. The project is still in the early stages of construction. Furthermore, the debt component of the funding has been approved, in principle, by the consortium lead bank. Additionally, project has adequate headroom to execute the project by Required Commercial Operation Date (RCOD) of March 05, 2027. If the project is not completed within RCOD, the company will be liable to pay delay penalty (5% of revenue that could be generated in the period between RCOD and COD). Furthermore, if COD is delayed by more than six months from RCOD, there are restriction clauses in escalation of tariff rate, thereby limiting its income prospects.

High Power evacuation risk

The power generated from the project is proposed to be evacuated through a 1.5 km long 132 KV double circuit transmission line to under construction 33/132 KV Dadakhet substation of NEA. Construction of transmission line from powerhouse to UMHL switchyard is within the scope of UMHL. Timely completion of the transmission lines and construction of substation by NEA will be key rating sensitivity.

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

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 Myagdi Khola, covering a catchment area of 665 sq. kms, characterized as a perennial snow-fed river. UMHL tends to produce higher electricity output during the wet season, from June to November, when river flows are abundant. Conversely, during the dry season, from December to May, power generation may be reduced due to lower river flows. Consequently, 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.

Risk of Natural Calamities

In Nepal, hydropower projects are commonly situated in topographically challenging terrains, making them susceptible to the vagaries of nature. The rugged landscapes often expose these projects to the risks of floods and landslides, which can pose significant threats by damaging infrastructure and disrupting operations. UMHL's power project is inherently exposed to these natural calamities that have the potential to cause infrastructural, operational, and financial damages to the project.

Key Rating Strengths**Experienced promoters and management team**

UMHL is part of Urja Developers Group which has multiple hydropower projects under its portfolio through Special Purpose Vehicles (SPV) companies. The flagship company of the group is Urja Developers Private Limited, promoted by CE Construction Private Limited (CECPL) which started business operations in early 1990's. The group has presence in construction, consultancy, manufacturing, education, finance, hospitality and power generation etc.

UMHL is managed under the overall guidance of the company's Board of Directors (BoD), who possesses wide experience in the power sector. UMHL has four directors in its Board of Directors, chaired by Mr. Bhanu Bhakta Pokharel, having more than 30 years of experience. Mr. Mohan Das Manandhar, Director, has more than 30 years of experience in various fields across different sectors in Nepal, South Asia and South East Asia. The BOD is further supported by other experienced management team members.

Low offtake risk and moderate counter party risk

UMHL had entered into PPA with NEA on June 26, 2023 for sale of power generated from project of capacity 53.5 MW. The contracted Plant Load Factor (PLF) is 67.22% with total contracted energy of 315.01 MU. PPA has been entered for the period of 30 years from the COD or till validity of generation license (obtained on February 04, 2020, and valid 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 8.40 per kWh with 3% annual escalation on base tariff for 8 years. Dry energy mix of the project is ~31%. Relatively higher contracted PLF levels and dry energy bodes well for the income prospect of UMHL. However, stringent short-supply penalty clause requiring minimum dry energy mix of 30% annually could adversely impact the revenue generation capacity of the company. Additionally, the counterparty payment risk associated with NEA is deemed moderate, given its full ownership by the Government of Nepal.

Favorable government policies towards power sector

The Government of Nepal (GoN) has featured the significance of power generation as a priority sector and encouraging private sector involvement by providing various exemptions within the power generation sector. GoN has also announced a comprehensive tax incentive package, offering full tax exemption for the initial 10 years and a 50% tax exemption for the subsequent 5 years to individuals or entities engaged in the commercial operation, transmission, and distribution of electricity until mid-April 2027. This approach is aimed at promoting investment and growth in the energy sector. Furthermore, directives

from the Nepal Rastra Bank (NRB) mandate financial institutions regulated by NRB 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 augurs 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 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

Upper Myagdi Hydropower Limited (UMHL) incorporated as a private limited company on December 13, 2017 and later converted to public limited company on July 09, 2023 is involved in developing a 53.5 MW run-of-river Upper Myagdi-1 Hydropower Project (UM1HPP) in Myagdi district of Nepal. The project is constructed under BOOT (Build, Own, Operate and Transfer) mechanism.

Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Term Loan	8,400.00	CARE-NP BB-
Total		8,400.00	

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About CARE Ratings Nepal Limited:

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