Him River Power Limited

Rating

Facilities	Amount (Rs. Million)	Rating[1]	Rating Action
Issuer Rating	**NA**	**CARE-NP BB (Is) [Double B] (Issuer Rating)**	**Reaffirmed**
Long Term Bank Facilities	**2,200.00**	**CARE-NP BB [Double B]**	**Reaffirmed**
Total Facilities	**2,200.00 (Two Thousand Two Hundred Million Only)**		

**The issuer rating is subject to overall gearing ratio of the company not exceeding 3.00x at the end of FY24.*

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB (Is)' assigned to Him River Power Limited (HRPL). Issuers with this rating are considered to offer moderate risk of default regarding the timely servicing of financial obligations, in Nepal.

Also, CRNL has reaffirmed the rating of 'CARE-NP BB' assigned to the long-term bank facilities of HRPL.

Detailed Rationale & Key Rating Drivers

The ratings assigned to HRPL continue to be constrained by project implementation and stabilization risk associated with its under-construction hydropower project. The ratings also factor in hydrology risk associated with run-of-the-river power project, risk of natural calamities, power evacuation risk, and the company's exposure to volatile interest rate risk.

The ratings, however, derive strength from the company's experienced promoters and management team, presence of power purchase agreement (PPA) with sufficient period coverage, moderate counter party risk and government's 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 and stabilization risk

HRPL is setting up a 16.26 MW run-of-river Liping Khola Hydropower Project (LKHP) in Sindhupalchowk district of Nepal. The total cost of the project is envisaged at Rs. 3,145.94 Mn (Rs. 193.48 Mn per MW) to be funded in debt-to-equity mix of 70:30. Total debt amounting to Rs. 2,200 Mn has been fully tied up. The financial progress of the project as on December 31, 2023 was ~88% of the total project cost. With the physical progress of ~85%, the project is still in latter stages of construction and is exposed to moderate project execution risk. Required Commercial Operation Date (RCOD) of the project has been extended to May 27, 2023 and the company has applied for further extension of RCOD by one more year citing delays in construction amid delay in procurement of explosives. If the project is not completed within the extended RCOD, the company will be liable 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. It is, therefore, critical for the company to complete the project within the timeline to avail the accelerated clauses of tariff. Any delay in the same would impact the project's expected returns and debt servicing capabilities which is critical from credit perspective.

[1]Complete 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

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). The power project is proposed to utilize discharge from Liping Khola (river) having catchment area of 32.58 sq. km based on snow fed Perennial River. 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 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. HRPL's power project is inherently exposed to these natural calamities that have the potential to cause infrastructural, operational, and financial damages to the project.

Power evacuation risk

The power generated by LKHP is proposed to be evacuated through 132 kV single circuit transmission line connecting to under construction Hub-substation at Upper Chaku 'A' Hydropower Plant's (UCHP) switchyard to operational NEA Lamosangu substation which further connects to national grid. The length of the proposed 132 kV transmission line from the switchyard of LKHP to the Hub-switchyard at UCHP's switchyard is approximately 15 km. Construction of transmission line from Hub-substation to Lamosangu (22 km) has been undertaken by the developer of UCHP on combined sharing basis for the two projects, UCHP and LKHP. This sharing is governed by a mutual lease contract signed between the two IPPs (Independent Power Producers). Timely completion of the transmission lines will be key rating sensitivity.

Exposure to volatile interest rate

HRPL'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 remains quite volatile as they are impacted by available liquidity in the system, which leads to changes in interest rates. Being high debt funded project, higher interest rates than envisaged could result in squeezed margins of the company, impacting its liquidity profile.

Key Rating Strengths

Experienced promoters and management team

HRPL has seven board members chaired by Mr. Sudip Kumar Chaudhary. Sujit Kumar Yadav is the Chief Executive Officer of the company. Mr. Bam Bahadur Thapa is the Project Director, whereas, Mr. Pradeep Kumar Paudyal, Ganesh Bahadur Khatri and Mr. Kiran Kumar Shrestha are other directors of the company. The directors have around a decade of experience in the relevant field. Furthermore, the board is supported by experienced team across various functions (departments).

Low offtake risk and moderate counterparty risk

HRPL had entered into a long term PPA with NEA as on June 10, 2016 for sale of 16.26 MW power to be generated from the project on take or pay basis. The contracted Plant Load Factor (PLF) is 66.75% of total generation capacity. The PPA has been entered for the period of 30 years from COD or the till the validity of generation license, whichever is earlier. PPA period may be extended with mutual consensus during the last six months of validity.

The project's PPA has been executed under the four-month dry season (Mid-December to Mid-April) and eight-month wet season (Mid-April to Mid-December) modality. Tariff rate as per PPA is Rs. 4.80 per Kwh for wet season and Rs. 8.4 per Kwh for dry season with 3% annual escalation on base tariff for five years. The five tariff escalations in the base tariff are expected to support the project's incremental revenue and return and coverage indicators, provided the project is commissioned within the RCOD.

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

Him River Power Limited (HRPL) is a public limited company incorporated on December 15, 2010 which was converted from Private Limited to a Public Limited Company on July 15, 2002 for setting up a 16.26 MW run-of-river Liping Khola Hydropower Project (LKHP) in Sindhupalchowk district of Nepal. The project is constructed under BOOT model (Build, Own, Operate and Transfer).

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	2,200.00	CARE-NP BB [Double B]
Total Facilities		**2,200.00**	

Contact us

Analyst Contact
Ms. Alish Rai
Contact No.: +977-01-4012630
Email: alish.rai@careratingsnepal.com

Mr. Santosh Pudasaini
Contact No.: +977-9802312855
Email: pudasaini.santosh@careratingsnepal.com

Relationship Contact
Mr. Achin Nirwani
Contact No.: +977-9818832909
Email: achin.nirwani@careratingsnepal.com

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