

Sanima Middle Tamor Hydropower Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	9,509.50	CARE-NP BB [Double B]	Reaffirmed
Long Term Bank Facilities	1,130.00	CARE-NP BB [Double B]	Assigned
Total Facilities	10,639.50 (Ten Billion Six Hundred Thirty-Nine Million and Five Hundred Thousand Only)		
Issuer Rating	NA	CARE-NP BB (Is) [Double B (Issuer)]	Reaffirmed

* The issuer rating is subject to overall gearing ratio of the company not exceeding 3.25x at the end of FY24.

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating of 'CARE-NP BB (Is)' assigned to Sanima Middle Tamor Hydropower Limited (TAMOR). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations, in Nepal.

Further, CRNL has also reaffirmed the rating of 'CARE-NP BB' assigned to the long-term bank facilities of TAMOR.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and issuer rating of TAMOR continue to be constrained by residual project implementation risk and operations stabilization risk thereafter associated with its under-construction hydropower project. The ratings also factor in power evacuation risk, hydrology risk associated with run-of-the-river power generation, risk of natural calamities and exposure to volatile interest rate risk.

The ratings, however, continue to derive strength from experienced institutional promoters, board members and management team, low offtake risk and moderate counterparty risk. The ratings also factor in favorable government policies towards the power sector.

Going forward, timely commencement of commercial operations of the project as envisaged with swift stabilization of operations thereafter leading to generation of expected revenue will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Residual project implementation risk and operations stabilization risk thereafter

Sanima Middle Tamor Hydropower Limited (SJHL) is developing Middle Tamor Hydropower Project (MTHP), a run-of-river hydropower project with a total capacity of 73 MW in the Taplejung district of Nepal. MTHP is in final stages of implementation and its commissioning has been delayed by the ongoing construction works at Dhungesangu sub-station, which is under the scope of Nepal Electricity Authority (NEA). The total estimated cost for this project has been revised to Rs. 13,971 Mn majorly on account of increase in Interest During Construction (IDC) owing to time overrun. The total estimated cost translates to Rs. 191 million per MW and is being funded in a debt to equity mix of 76:24 (including additional debt funding for cost overrun of Rs. 641 million which is yet to be fully tied up). Incurred cost on the project was Rs. 11,891 Mn as on January 14, 2024, funded by debt of Rs. 8,322 Mn and equity of Rs. 3,333 Mn.

Required Commercial Date of Operation (RCOD) of the project has expired on February 27, 2024. However, the company has applied for further extension till April 12, 2024 on the grounds of ongoing transmission line stringing by NEA under contingency plan. MTHP is expected to commence its operations from mid-April, 2024 under contingency power evacuation plan. As the project

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

is in final stages of implementation, TAMOR remains exposed to the risks associated with project implementation in terms of commissioning of project within the envisaged timelines and satisfactory operations thereafter to achieve the envisaged revenue.

Power evacuation risk

Power generated from MTHP was proposed to be evacuated to NEA's Dhungesanghu sub-station via a 9km, 220kV transmission line. Dhungesanghu sub-station, being built as 132 kV system needs be upgraded to a 220 kV system to be compatible with the power evacuation from MTHP. As upgradation of the sub-station is yet to start by NEA, power generated from MTHP will be evacuated under a contingency arrangement. The contingency plan involves setting up a second circuit from the Dhungesanghu substation to the Basantapur substation, along with an interconnection bay at Basantapur sub-station, both operating at 220 kV. This dedicated circuit will exclusively handle the evacuation of power from MTHP to the 220 kV Bay at Basantapur sub-station. The construction of this alternative circuit and interconnection bay is ongoing and expected to be completed by March end 2024. Timely construction and upgradation of Dhungesanghu sub-station by NEA will be key monitorable aspect from revenue generation perspective, as offtake risk is high during the contingency period where the project will operate under take and pay model.

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 Tamor Khola, covering a catchment area of 2,002 sq. kms characterized as a perennial river. MTHP 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. 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.

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

Exposure to volatile interest rate

TAMOR'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 a 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. Higher interest rates than envisaged could result in squeezed margins of the company, impacting its liquidity profile. Hence, funding sourced from BFIs exposes BHL to interest rate volatility.

Key Rating Strengths

Experienced institutional promoters, board members and management team in hydropower sector

TAMOR is promoted by institutional as well as individual promoters. Institutional promoters, namely, Sanima Hydropower Limited (SHL) [rated CARE-NP BB+(Is)], and Sanima Mai Hydropower Limited (SHPC) [rated CARE-NP A-/A2] are 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 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).

TAMOR has seven Board of Directors, chaired by Mr. Binaya Kumar Shrestha, Master of Science (M.Sc.), who has more than 2 decades of experience. Mr. Apar Neupane, Director, has an overall experience of 17 years in different industries including hydropower sector. Mr. Shiv Kumar Basnet, Director, had served in the Department of Water Resources and Irrigation, Government of Nepal; in the capacity of Deputy Director General. The company management team is led by Dr. Jugal Bhurtel, Chief Executive Officer (CEO), and has more than three decades of working experience. He has been supported by other experience management team members

Low offtake risk and moderate counterparty risk

TAMOR is developing a hydropower project with a total installed capacity of 73 MW. PPA had been signed between NEA and TAMOR as on January 10, 2017, for sale of 52.10 MW power. Further, another PPA, for additional sale of 20.90 MW power was signed on Nov 30, 2018. The contracted energy for 52.10 MW is 309.56 million units (MU) annually and for additional capacity (i.e. 20.90MW) is 119.85 MU annually. The Contracted Plant Load Factor (PLF) is set at 67.15% of the total contracted energy, which amounts to 429 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 December 10, 2018, 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. These contractual terms outline the framework governing the sale of power generated by the Middle Tamor Hydroower Project, delineating the revenue structure and operational parameters for TAMOR 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 going forward.

Favorable Government 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 Middle Tamor Hydro Power Ltd (TAMOR) is a Public Limited company, incorporated as on May 05, 2016. It is promoted by individual promoters from different background, institutional investors majorly related to Sanima Hydro group and other

institutes which includes Banks and Insurance companies for setting up of a 73 MW run-of-river, Middle Tamor Hydropower Project (MTHP) in Taplejung district of Nepal. The project is 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	10,639.50	CARE-NP BB [Double B]
Total Facilities		10,639.50	

Contact us

Analyst Contact

Mr. Prachan Shrestha

977-01-4012628

prachan.shrestha@careratingsnepal.com

Mr. Santosh Pudasaini

+977 9802312855

pudasaini.santosh@careratingsnepal.com

Relationship Contact

Achin Nirwani

+977 9818832909

achin.nirwani@careratingsnepal.com

About CARE Ratings:

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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).

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