

Rating Rationale
Asian Hydropower Private Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	870.34	CARE-NP BB [Double B]	Assigned
Total Facilities	870.34		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BB’ to the long-term bank facilities of Asian Hydropower Private Limited (AHPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of AHPL is constrained by project implementation risk and stabilization risk thereafter given its initial stage of construction including the power evacuation risk and AHPL’s exposure to regulatory risk. The rating is also constrained by AHPL’s exposure to volatile interest rates, and hydrology risk associated with run of the river power generation. The rating, however, derives strength from board members and management having experience in hydro power sector, strong promoter group having experience in construction business and moderate counter party risk. The ratings also factors in achievement of financial closure for estimated project cost, presence of power purchase agreement (PPA) with sufficient period coverage, shortage of power in the country and government support for the power sector. The ability of AHPL to timely complete the project within the projected Required Commercial Operation Date (RCOD) without any time or cost overrun and availability of sufficient hydrology are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Project implementation risk and stabilisation risk; given its initial stage of construction

The RCOD of the project is July 16, 2021 and the project is at the initial stage of construction. Till June 15, 2019, ~ 7% of the total project cost has been incurred. Civil contractor for the project is selected and the contract agreement has been entered. The Contract agreement for Hydro Mechanical is under negotiation whereas Electro Mechanical works is under bidding process. As the project is in its initial stage and major part of the project work has to be completed, the company continues to remain exposed to the risks associated with project implementation and satisfactory operations thereafter. Timely completion of the project within the estimated cost and time and satisfactory operations thereafter are the key rating sensitivities.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

Power evacuation risk

The power generated from the project is proposed to be evacuated through 4Km long 33KV Transmission Line to the Godak Substation which is an operational substation of NEA. The bidding process is yet to be initiated for construction of Transmission line within the scope of AHPL. Timely completion of the transmission will be key rating sensitivity.

Exposure to volatile interest rate

Nepalese banking sectors are fixing interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions will be changed by change in liquidity position which leads to change in interest rate. Interest rate has been changing frequently in Nepal market since last 1-2 year. Therefore, funding from Bank and Financial Institutions are exposed to volatile interest rate.

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 summer season when seasonal river flows are high (Mid-April to Mid-December) and less during the winter season (Mid-Dec to Mid-April). AHPL is proposed to utilize discharge from Jogmai Khola having catchment area of 132.2 sq. kms based on perennial river. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola.

Exposure to regulatory risk

Government of Nepal (GON) has recently established Nepal Electricity Regulatory Commission (NERC) for regulating generation, transmission and distribution of electricity in Nepal. NERC has issued a directive to take approval before public issuance of share capital. It poses a new challenge to hydropower companies which has to go through an additional approval process before it can issue shares to public. Hence, the hydropower companies planning for public issuance of share capital is exposed to risk associated with delay in approval process which may delay project funding and eventually delay the project.

Key Rating Strengths***Board members and management having experience in hydro power sector***

AHPL has 2 Board of Directors, chaired by Mr. Bijay Bahadur Rajbhandary, who has more than 25 years of management experience and is Chairman of promoter company CE Construction Pvt. Ltd. which is one of the leading construction company in Nepal. Company management team is led by Mr. Bhanu Bhakta Pokharel, MD of the company and has more than 30 years of management experience. He has been supported by other experienced management team members.

Financial closure achieved for the full project cost

The total cost of the project is envisaged at Rs.1160.45 Mn to be funded in debt equity ratio of 75:25 (debt of Rs 870.34 Mn and equity of Rs. 290.11 Mn). AHPL achieved financial closure for the project on May 30, 2019. Till June 14, 2019, Rs. 163 Mn has been infused by shareholders. Out of the total project cost; AHPL has expensed Rs. 86.35 Mn till June 15, 2019 which is funded through equity.

Power purchase agreement with sufficient period coverage

AHPL had entered into a long term PPA with NEA as on March 21, 2018 for sale of 6.20 MW power to be generated from the project. The period of PPA is 30 years from the date of COD or till validity of Generation license. The contracted Plant Load Factor (PLF) for total 6.2 MW is 66.14% with total contracted energy of 35.92 MU. Tariff rate as per PPA is Rs 4.80 per kWh for wet season (Mid-April to Mid-December) and Rs 8.40 per kWh for dry season (Mid-December to Mid-April) with 3% annual escalation on base tariff for 8 years. As per the PPA, the company will be charged penalty in case there is delay in the commercial operation of the project.

Moderate counter party risk

AHPL is exposed to counter party payment risk pertaining to Nepal Electricity Authority (NEA), which has been making consecutive losses in past till FY 2016 and carry huge accumulated loss in its book. However, as per the annual report published by NEA, during FY18 (provisional), NEA earned profit of Rs 1,010.21 Mn (Rs 1,502.28 Mn during FY17). The counter party payment risk is moderated by the fact that, NEA is fully owned by government of Nepal, net loss is declining over the period and NEA is generating positive gross cash accruals. Further, NEA has been making timely payment to independent power producer (IPPs) in past.

Shortage of power in the country

As per the statistics presented in report published by Ministry of Energy Nepal on May 2018, the current peak electricity demand is about 1300 MW. The total domestic installed capacity stands 1073 MW which includes 562 MW generated by NEA and 511 MW generated and supplied by private sector IPPs. To meet the current demand, NEA is importing up to 450 MW power from India beside domestic generation.

Government support for the power sector

GoN considers hydropower generation as priority sector and tries to involve private sector participation in power generation by offering different incentives. The sector is exempted from income tax for first 10 years and 50 percent for additional 5 years to those which generate electricity within Mid-April 2024. Income tax will be levied only 20% despite that normal tax rate for entity in Nepal is 25%. Furthermore, GoN has declared to provide grant of amount equivalent to Rs. 5 Mn per MW installed capacity after the formal COD of the power plant.

About the Company

Asian Hydropower Private Limited (AHPL) is a Private Limited company, incorporated as on May 05, 2016. It is promoted by individual promoters from different background and institutional investors for setting up of a 6.2 MW (2x3.64 MW) run-of-river, Lower Jogmai Khola Hydropower Project (LJKHP) in Illam district of Nepal. The major shareholder of the company as on June 14, 2019 are Mrs. Mangala Amatya (~25%), CE Construction Private Limited (~18%) and Urja Developers Private Limited (~15%). The project is constructed under BOOT (Build, own, Operate and Transfer) mechanism. As per the Generation License, from Government of Nepal – Ministry of Energy, obtained as on June 27, 2019 the project shall be handed, on whatever conditions the project is, to the Government of Nepal after expiry of Generation License, which is 35 years.

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Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	870.34	CARE-NP BB
Total		870.34	