

Rating Rationale
Swet Ganga Hydropower & Construction Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	4192.88	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	120.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	4312.88		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BB’ to the long-term bank facilities and ‘CARE-NP A4’ to the short-term bank facilities of Swet Ganga Hydropower & Construction Limited (SGHCL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SGHCL is constrained by project implementation risk and stabilization risk thereafter given its initial stage of construction including the power evacuation risk and SGHCL’s exposure to regulatory risk. The rating is also constrained by SGHCL’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, presence of power purchase agreement (PPA) with sufficient period coverage and moderate counter party risk. The ratings also factors in achievement of financial closure for estimated project cost, strong institutional promoter group, shortage of power in the country and government support for the power sector. The ability of SGHCL to timely complete the project without any time or cost overrun and availability of sufficient hydrology and timely completion of transmission infrastructure 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 December 1, 2021 and the project is at the initial stage of construction. Till May 14, 2019, ~17% of the total project cost has been incurred. Civil and Hydromechanical contractor for the project is selected and the contract agreement has been entered. Contract for Electro Mechanical (EM) and Transmission line is under negotiation. 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

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

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.

Power evacuation risk

The power generated from the project will be evacuated through 27Km long 132KV Transmission Line to the proposed New Khimti Substation. SGHCL along with other projects in Likhu corridor is exploring an alternative plan for power evacuation by constructing a pooling hub in Likhu corridor. Power from multiple hydropower projects in the corridor shall be connected to the proposed pooling hub and evacuated to New Khimti Substation. The construction works for Transmission line are yet to be started. Timely completion of the transmission lines and construction of substation 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 river flows are high (Mid-April to Mid-December) and less during the winter season (Mid-Dec to Mid-April). SGHCL is proposed to utilize discharge from Likhu Khola having catchment area of 755 sq. kms based on snow-fed 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***

SGHCL has 4 Board of Directors, chaired by Mr. Manik Lal Shrestha who has ~30 years of management experience including ~20 years of experience in International Monetary Fund (IMF). Company management team is led by Mr. Bhoj Raj Poudel, General Manager of the company and has more than 29 years of experience. He has been supported by other experience management team members.

Strong institutional promoter group

SGHCL is part of Sanima Hydro Group which is promoted by group of Non-Resident Nepalese who are related to Sanima Group having business interests in Hydropower, Banking and Insurance sector. Sanima Hydro group has been developing a number of hydropower projects by setting up Special Purpose Vehicles (SPV) companies. Sanima Hydro Group has installed capacity of ~32 MW and ~480 MW projects through multiple companies in initial stages of construction and surveys.

Financial closure achieved for the project cost

The total cost of the project was envisaged at Rs 5590 Mn to be funded in debt equity ratio of 75:25 (i.e. Rs 4193 Mn term loan and Rs 1397 Mn equity) which has further increased by Rs. 649 Mn to Rs. 6239 Mn. Increased cost is currently proposed to be funded through equity, however company has requested the consortium bank to fund the same. Report is based on the assumption that additional amount will be funded through equity. SGHCL achieved financial closure for the project on February 22, 2018. Till May 14, 2019, Rs. 1015 Mn has been infused by shareholders. Out of the total project cost; SGHCL has incurred cost amounting to Rs. 1045 Mn till May 14, 2019 which is funded through equity and bridge gap loan.

Power purchase agreement with sufficient period coverage

SGHCL had entered into a long term PPA with NEA as on December 29, 2016 for sale of 28.10 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 28.10 MW is 69.40% with total contracted energy of 170.84 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

SGHCL 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

Swet Ganga Hydropower & Construction Limited (SGHCL) is a Public Limited company, incorporated as on February 18, 2005 as a Swet Ganga Hydropower & Construction Private Limited and changed to public limited on September 28, 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 Investment companies also for setting up of a 28.1 MW (2x14.05 MW) run-of-river, Lower Likhu Hydropower Project (LLHP) in Ramechhap district of Nepal. The major shareholder of the company as on July 8, 2019 are Sanima Mai Hydropower Ltd. (44.33%) and Dolma Impact Fund-I (31.60%). 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 April 10, 2016, 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.

Analyst Contact

Mr. Bidhan Ojha
bidhan.ojha@careratingsnepal.com
Tel No.: +977-01-4445473

Relationship Contact

Mr. Sajan Goyal
sajan.goyal@careratingsnepal.com
Tel No.: 9818832909/+977-01-4445472/3/4

Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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	4192.88	CARE-NP BB
Short Term Bank Facilities	Working Capital Loan	120.00	CARE-NP A4
Total		4312.88	