

**Rating Rationale**  
**Ankhu Hydropower Private Limited**

**Rating**

Facility	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	4,500.00	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	130.00	CARE-NP A4 [A Four]	Assigned
<b>Total Facilities</b>	<b>4,630.00</b>		

*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 Ankhu Hydropower Private Limited (AHPL).

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of AHPL are constrained by project implementation risk and stabilization risk associated with the project, given its initial stage of construction, and power evacuation risk related to the transmission of power. The rating is also constrained by exposure to volatile interest rates, exposure to regulatory risks and hydrology risk associated with run-of-the-river power generation. The ratings, however, derive strength from experienced board members and management team along with association with group having multiple hydropower projects. The ratings also factor in power purchase agreement (PPA) with sufficient period coverage, moderate counter party risk, financial closure achieved for major portion of debt component, shortage of power in the country and government support for the power sector.

Ability of the company to timely execute the project without any time or cost overrun, timely completion of transmission infrastructure, availability of sufficient hydrology and timely receipt of the payments from Nepal Electricity Authority (NEA) are the key rating sensitivities.

**Detailed Description of the Key Rating Drivers**

**Key Rating Weaknesses**

***Project implementation risk and stabilization risk, given its initial stage of construction***

The project is at an initial stage of construction and is exposed to execution risk associated with development of hydropower project. Till July 16, 2019, 2.69% of the total project cost has been incurred by the company with ongoing pre-construction activities such as construction of access road, construction power etc. As major part of the project work is yet to be completed, it 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.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com)

***Power evacuation risk***

The power generated from the project is proposed to be evacuated through 30 km long 132 kV single circuit transmission line to the NEA's Upper Trishuli 3B hub located at Nuwakot District. Construction of transmission line from powerhouse to proposed NEA substation is within the scope of AHPL. AHPL, along with other projects in Ankhu Corridor, is exploring an alternative plan for evacuation of power via 12km long 132 kV single circuit transmission line from NEA's proposed substation at Ratmate located at Nuwakot District as it will result in reduction of project cost. Post approval of change in connection point from NEA, the company plans to apply for extension of Required Commercial Operation Date (RCOD). Timely completion of the transmission lines and substations by both AHPL and NEA will be key rating sensitivity.

***Exposure to volatile interest rate***

Nepalese banking sectors are fixing lending interest rate based on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, funding from Bank and Financial Institutions is 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 Ankhu Khola having catchment area of 427.55 km<sup>2</sup> based on snow fed perennial river. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river.

**Key Rating Strengths*****Experienced board members and management team in hydropower sector***

AHPL has two members in its board of directors (BOD). Mr. Gyanendra Lal Pradhan, executive chairman, is a reputed business person who has more than 25 years of extensive experience in hydro power sector in Nepal where he has received several awards and recognition for his contributions to the field of hydropower and clean energy. Further, Mr. Chetan Pradhan, director, is successfully practicing as a hydropower developer where he has experience in many hydropower projects. BOD are further supported by experienced team members across various functions/ departments.

***Associated with group having multiple hydropower projects***

Mr. Gyanendra Lal Pradhan is the major promoter of the company holding ~91% of total share capital. He is also an executive chairman of Hydro Solutions Private Limited (HSPL). HSPL provides technical expertise in

consulting services to AHPL for hydropower development. HSPL has a pool of professional engineers experienced in development of hydropower sector and provides engineering consulting services.

***Power purchase agreement with sufficient period coverage***

AHPL had entered into a long term PPA with NEA as on May 12, 2016 for sale of 34MW power to be generated from the project. The period of the PPA is 30 years from Commercial Operation Date (COD) or till validity of Generation License, whichever is earlier. The contracted energy for the project is 198.76 million units (MU) (i.e. 29.81MU for dry season and 168.95MU for wet season), at Plant Load Factor (PLF) of 67.66%. The tariff for wet season (Mid-April to Mid-December) is Rs 4.80 per kWh and for dry season (Mid-December to Mid-April) is Rs 8.40 per kWh with 3% escalation on base tariff for 8 years. RCOD of the project is April 12, 2020. As per the PPA, the company will be charged penalty in case there is delay in the commercial operation of the project within RCOD.

***Moderate counter party risk***

AHPL is exposed to counter party payment risk pertaining to NEA, which has been making consecutive losses in past till FY16 and carry huge accumulated loss in its book. However, as per the annual report published by NEA, during FY19 (provisional), NEA earned profit of Rs 7,204 Mn (Rs 2,897 Mn during FY18). 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 producers (IPPs) in past.

***Financial closure achieved for major portion of debt component***

Total cost of the project is envisaged at Rs. 6,310 Mn which is proposed to be funded in debt equity ratio of 74.5:25.5 (i.e. Rs 4,700 Mn term loan and Rs 1,610 Mn equity). The company achieved the financial closure for significant portion of debt component i.e. Rs. 4,500 Mn on April 19, 2019 which is yet to be disbursed. Untied portion of debt component amounting Rs. 200 Mn shall be replenished by equity participation of the promoters or through other banks/ financial institutions. On the basis of cost incurred till July 16, 2019, the company has achieved financial progress of ~Rs. 170 Mn (2.69% of total project cost) which has been funded by equity infusion.

***Shortage of power in the country***

As per NEA's Annual Report for FY19, the current peak electricity demand is 1,320 MW. The total domestic installed capacity stands 1,178 MW which includes 617 MW owned by NEA and 561 MW by private sector IPPs. During FY19, overall energy demand was 7,584 GWh which was met by import of 2,813 GWh from India whereas balance was met by domestic generation. The gap of demand and supply is expected to be increased substantially in coming days.

**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 a corporate 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**

Ankhu Hydropower Private Limited (AHPL) was incorporated on June 28, 2001 as a private limited company. It is promoted by institutional as well as individual promoters for setting up of 34 MW run-of-the-river Ankhu Hydropower Project in Dhading district of Nepal. Currently, share capital of the company is held by promoter shareholders where Mr. Gyanendra Lal Pradhan (holds 90.99%), Mr. Kersingh Tamang (holds 3%) and Mr. Gait Tamang (holds 3%) are major three promoter shareholders of the company. 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 February 10, 2017, the project shall be handed, on whatever conditions the project is, to the Government of Nepal after expiry of Generation License.

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**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	4,500.00	CARE-NP BB-
Short Term Bank Facilities	Overdraft Loan	130.00	CARE-NP A4
<b>Total</b>		<b>4,630.00</b>	