

Rating Rationale
Asian Hydropower Limited

Rating

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

Details of Facilities in Annexure 1

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

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of AHPL is constrained by project implementation and stabilization risk and exposure to volatile interest rates. The rating is also constrained by AHPL’s exposure to regulatory risk, hydrology risk associated with run of the river power generation and impact of the COVID-19 on the project implementation. The rating, however, derives strength from board members and management having experience in hydro power sector, strong promoter group having experience in construction business, presence of power purchase agreement (PPA) with sufficient period coverage and low power evacuation risk. The ratings also factor in moderate counter party risk, achievement of financial closure for full project cost, power demand supply gap in Nepal coupled with increasing demand of power in the country and government support for the power sector. The ability of AHPL to timely complete the project without any time or cost overrun is the key rating sensitivity.

Impact of Corona Virus on the Project Implementation

The outbreak of Coronavirus disease 2019 (COVID-19) which was recognized as Pandemic by World Health Organization has affected Nepal as well. Government of Nepal (GoN) imposed travel restrictions and countrywide lockdown since March 24, 2020 closing most of the organizations which resulted in slowing down of the economic activities. GoN allowed construction works to continue around Nepal during lockdown period also with proper safety measures. Due to the pandemic there are several impacts in under-construction projects like unavailability of contract labor and construction material due to partial operations of manufacturing units across Nepal. AHPL had initially issues in the manpower mobilization. Despite the disruption in supply chains and manpower constraints, construction activities were continued by hiring local manpower and maintaining inventory of construction materials such that the supply chain disruption shall have minimal effect on the progress. In addition, supervision teams from both the developer and Contractor, including the Project Managers were stationed at site to resume construction activities.

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

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Project implementation and stabilisation risk

The RCOD of the project is July 16, 2021. Till June 15, 2020, ~ 32% of the total project cost has been incurred. Contract for Civil and Hydro mechanical work for the project is awarded to the promoter company CE Construction Ltd., Nepal. As per the progress report provided by the company till June 2020, ~37 % of the civil works, ~11% of the electromechanical works, ~7% of the hydro mechanical works and ~5% of the transmission line works have been completed. The overall physical progress of the work is ~34% as on June 2020. As the major part of the project work is yet 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.

Exposure to regulatory risk

Government of Nepal (GoN) has recently established Electricity Regulatory Commission (ERC) for regulating generation, transmission and distribution of electricity in Nepal. ERC will be the regulator under the GoN which will be responsible for regulating hydropower companies in Nepal. Policies and the directives issued by ERC like approval process for IPO issuance, PPA approval through ERC poses a new challenge to hydropower companies. Hence, sector is prone to regulatory risk and changes in other policies by GoN.

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 change by change in liquidity position which lead 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 is subject 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.

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

AHPL has 7 Board of Directors, chaired by Mr. Bijay Bahadur Rajbhandary, Masters in Construction Management, who has more than ~30 years of experience. He is also Chairman and Managing Director of CE Construction Pvt. Ltd. which is one of the leading construction company in Nepal and is board member of Mewa Developers Pvt Ltd. Mr. Mohan Das Manandhar, MBA, Director, has more than ~30 years of experience in various fields across different sectors in Nepal, South Asia and South East Asia. He has served as board member of Alternative Energy Promotion Development Board and is also the board member of Mewa Developers Pvt Ltd. Company management team is led by Mr. Bhanu Bhakta Pokharel, Managing Director of the company and has more than ~30 years of management experience. He is supported by other experienced management team members.

Strong Promoter Group having experience in construction business

AHPL is part of Urja Developers group which is having multiple hydropower projects under its portfolio through Special Purpose Vehicles (SPV) companies. Urja developers is promoted by CE Construction Pvt. Ltd. (CECPL) which is one of the prominent names in construction business in Nepal. CECPL was founded in 1992 as a construction company which later expanded its businesses into construction, consultancy, construction management, manufacturing, education, finance, health, hospitality and hydropower. CECPL was awarded “Construction Company of the Year 2017” by Frost & Sullivan.

Power purchase agreement with sufficient period coverage

AHPL had entered into a long term PPA with NEA as on March, 2018 for sale of 6.20 MW power to be generated from the project. 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. Required Commercial Operation (RCOD) of the project is July 16, 2021.

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 FY19 (provisional), NEA earned profit of Rs 7,205 Mn (Rs. 2,897 Mn during FY18). Further, during FY19, NEA achieved gross cash accrual of Rs 11,915 Mn (Rs 7,107 Mn in 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 generating positive gross cash accruals. Further, NEA has been making timely payment to independent power producers (IPPs) in past.

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 Mn and equity of Rs. 290 Mn). AHPL achieved financial closure on May 30, 2019. Till June 24, 2020, Rs. 208 Mn has been infused by the promoters. Out of the total project cost AHPL has incurred Rs. 369 Mn as on June 15, 2020.

Power demand & supply gap coupled with increasing demand of power in the country

As per the NEA's Annual Report for FY19, the current peak electricity demand is 1,320 MW. The total domestic installed capacity stands at 1,178 MW which includes 617 MW owned by NEA and 561 MW by private sector IPPs. Overall, during FY19, total energy demand was 7,584 GWh which was met by import of 2,813 GWh from India whereas balance was met by domestic generation. As per NEA, electricity demand is in increasing trend and is expected to increase in future with increase in electricity consumption through the promotion of electric vehicles by building charging station and replacing cooking gas with electricity, increase in access of population using electricity (78% in FY19) etc.

Low Power evacuation risk

The power evacuation risk is low as power generated from the project will be evacuated to an existing Godak Substation which is an operational substation of NEA. Power from project's switchyard will be connected to existing transmission line through a Loop-In-Loop-Out mechanism of another operational project which is already connected to Godak Substation.

Government support for the power sector

Government of Nepal (GoN) considers hydropower generation as priority sector and intends to maximize private sector participation in generation of hydroelectricity by offering different exemptions and facilities. GoN has announced full tax exemption for first 10 years and 50% tax exemption for next 5 years for such person/entity who get permission for commercial operation, transmission and distribution of electricity up to mid-April 2024. Also, GoN has declared to provide grant of amount equivalent to Rs. 5 Mn per MW installed capacity after receiving evidence of formal COD of complete power plant

About the Company

Asian Hydropower Pvt. Ltd. (AHPL) is incorporated as private limited company on May 05, 2016 and later on July 10, 2019 converted into public limited company. It is promoted by individual promoters from different background and institutional investors for setting up of a 6.2 MW run-of-river, Lower Jogmai Hydropower Project (LJHP) in Illam district of Nepal. The major shareholder of the company as on June 24, 2020 are Mrs. Mangala Amatya (~25%), CE Construction Private Limited (~20%) and Urja Developers Private Limited (~12%). 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.

| | | |
|---|--|--|
| Analyst Contact Ms. Elisha Lamichhane elisha.lamichhane@careratingsnepal.com Tel No.: +977-01-4445473 | Group Head Mr. Bidhan Ojha bidhan.ojha@careratingsnepal.com Tel No.: +977-01-4445474 | Relationship Contact Mr. Sajan Goyal sajan.goyal@careratingsnepal.com Tel No.: 9818832909/+977-01-445472/3/4 |
|---|--|--|

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

| S. N. | Name of Bank | Type of the Facility | Amount | Rating |
|-------|---------------------------|----------------------|---------------|-------------------|
| 1 | Long Term Bank Facilities | Term Loan | 870.34 | CARE-NP BB |
| | Total | | 870.34 | |