

Rating Rationale
Mewa Developers Private Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	6,948.45	CARE-NP BB [Double B]	Assigned
Total Facilities	6,948.45		

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 Mewa Developers Pvt Ltd (MDPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MDPL is constrained by project implementation and stabilization risk including the power evacuation risk and exposure to volatile interest rates. The rating is also constrained by MDPL’s exposure to regulatory risk, hydrology risk associated with run of the river power generation, however minimized due to peaking reservoir. 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 presence of power purchase agreement (PPA) with sufficient period coverage. The ratings also factor in moderate counter party risk, achievement of financial closure for the 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 MDPL to timely complete the project without any time or cost overrun and timely completion of transmission infrastructure are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Project implementation and stabilisation risk

The RCOD of the project is September 23, 2023 and the project is at the initial stage of construction. Till May 24, 2020, ~8% of the total project cost has been incurred. Civil contractor for the project is selected and the contract agreement is in process. Contract for Hydro-mechanical Electro-mechanical is yet to be initiated. As per the progress report of February 2020, submitted by the company, the civil contractor has commenced mobilization works for executing main civil works and other site enabling works. As the project is in initial stage, 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 14km long 132KV Transmission Line to NEA's Dhungesangu Substation (Hangpang) at Taplejung district which is under construction. Power from Dhungesangu Substation will be further evacuated to under construction Basantapur Substation. As per the NEA's annual report for FY19, construction work is in progress with expected completion date as December 2020. Construction of transmission line from powerhouse to Hang pang substation is within the scope of MDPL. Bidding process is yet to be initiated for construction of Transmission line. Timely completion of the transmission lines and substation will be key rating sensitivity.

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, however minimized due to peaking reservoir

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 wet season when river flows are high (Mid-May to Mid –November) and less during the dry season (Mid –November to Mid- May). MMHP is proposed to utilize discharge from Mewa Khola having catchment area of 333 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. However, the risk is minimized to some extent in the project due to peaking reservoir of 6 hours for dry season which will be used during peak time of dry season giving higher revenue to the company.

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

MDPL has 3 Board of Directors, chaired by Mr. Bijay Bahadur Rajbhandary 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 companies in Nepal, and also the board member of Asian Hydropower Ltd. [CARE-NP BB]. Mr. Mohan Das Manandhar, 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 Asian Hydropower Ltd. 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

MDPL 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

MDPL had entered into a long term PPA with NEA as on August 20, 2018 for sale of 49 MW power to be generated from the project. The contracted Plant Load Factor (PLF) for total 49 MW is 67.74% with total contracted energy of 209.76 MU. PPA for the project is entered for peaking run of the river with high tariff rate for peak dry season with 6 months of dry season. Tariff rate as per PPA is Rs 4.80 per Kwh for wet season (Mid-May to Mid-November) and the tariff rate for peak dry season (Mid-November to Mid-May) is Rs 10.55 per Kwh while the non-peak rate for the dry season (Mid-November to Mid-July) 8.40 per Kwh, with 3% annual escalation on base tariff for 8 years. Required Commercial Operation (RCOD) of the project is September 23, 2023.

Moderate counter party risk

MDPL 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. Further, during FY19, NEA achieved gross cash accrual of Rs 11,915 Mn. 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 project cost

The total cost of the project is envisaged at Rs. 9,264.61 Mn to be funded in debt equity ratio of 75:25 (debt of Rs 6,948.45 Mn and equity of Rs. 2,316.15 Mn). MDPL has entered into consortium loan agreement on November 28, 2019 for Rs 6,948.45 Mn term loan. Till May 24, 2020, Rs. 595.34 Mn has been infused by shareholders. As on May 24, 2020, MDPL has incurred Rs.732.34 Mn project cost.

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.

Government support for the power sector

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 on 5 December 2019 has announced full tax exemption for first 10 years and 50% tax exemption for next 5 years to those who generate electricity within 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 power plant.

About the Company

Mewa Developers Pvt Ltd. (MDPL) is a Private Limited company, incorporated as on July 8, 2016. It is promoted by individual promoters from different background and institutional investors for setting up of a 49 MW peaking run-of-river, Middle Mewa Hydropower Project (MMHP) in Mikhuwa Khola Rural Municipality, Taplejung district of Nepal. The major shareholder of the company as on May 21, 2020 are CE Construction Private Limited (~17%), Mrs. Mangala Amatya (~8%) and Mr. Indra Bhakta Manandhar (~8%). As per the Generation License, from Government of Nepal – Ministry of Energy, dated January 26, 2020 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

S. N.	Name of Bank	Type of the Facility	Amount (Rs. in Mn)	Rating
1	Long Term Bank Facilities	Term Loan	6,948.45	CARE-NP BB
	Total		6,948.45	