

Rating Rationale
Nasa Hydropower Private Limited

Rating

| Facility/ Instrument | Amount (Rs. In Million) | Rating ¹ | Rating Action |
|----------------------------|----------------------------|-----------------------|---------------|
| Long Term Bank Facilities | 19,382.50 | CARE-NP BB [Double B] | Assigned |
| Short Term Bank Facilities | 117.50 | CARE-NP A4 [A Four] | Assigned |
| Total Facilities | 19,500.00 | | |

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 facilities of Nasa Hydropower Private Limited (NHPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of NHPL is constrained by project implementation and stabilization risk related to large sized hydropower project including the power evacuation risk and exposure to volatile interest rates. The rating is also constrained by NHPL’s exposure to regulatory risk, hydrology risk associated with run of the river power generation, however minimized due to peaking reservoir, offtake risk for additional energy and pending financial closure for the partial project cost. The rating, however, derives strength from strong promoters and experienced management team and presence of power purchase agreement (PPA) with sufficient period coverage. The ratings also factor in moderate counter party risk, 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 NHPL 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 July 30, 2022 and till June 10, 2020, ~1% of the total project cost has been incurred. The contractors for the project are yet to be finalized. As per the progress details provided by the company, no major progress has been achieved till mid May 2020, which is also impacted due to Covid-19 Pandemic. Route alignments of the Transmission line, Geophysical investigation, Geological mapping have been completed. Though partial financial closure of the project was completed in December 2019, construction was not initiated due to travel restrictions of COVID-19 from March to June 2020. As project work is yet to be initiated and is in the initial stage of construction, the company continues to remain exposed to the risks associated with project implementation and satisfactory operations thereafter. Though RCOD of the project is July 2022, the company expects to complete the project by July 2023.

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

The company is yet to apply for extension of RCOD and if RCOD is not extended by NEA till COD, the company is required to pay late COD penalty. 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 is proposed to be evacuated through 132KV double circuit Transmission Line to NEA's Bahrabise Substation at Sindhupalchok district which is under construction. NHPL is responsible for construction of transmission line up to Bahrabise Substation. Bidding process is yet to be initiated for construction of Transmission line. Timely completion of the transmission lines will be key rating sensitivity.

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.

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 (June to November) and less during the dry season (December to May). NHPL is proposed to utilize discharge from Lapche Khola having catchment area of 590 sq. kms based on Perennial River. 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.

Offtake risk for additional energy

Total installed capacity of the plant is 160 MW however NHPL has entered into agreement with NEA on take or pay basis only for the energy to be generated from 99.4 MW. For energy to be generated from balance 60.6MW, the company has take and pay contract with NEA. Hence, NHPL has offtake risk for additional energy if NEA doesn't purchase additional energy generated from the project. However, the risk is moderated due to expected sales of energy to India through existing cross boarder transmission line between India and Nepal and other planned transmission line between two countries which will aid in sale of excess energy to India in future. Further, discussions with Bangladesh and India is in progress for export of energy to Bangladesh through India which will provide additional market to Nepal's hydropower energy in future.

Financial closure yet to be achieved for partial project cost

The total cost of the project is envisaged at Rs. 26,205 Mn to be funded in debt equity ratio of 74:26 (debt of Rs 19,382.50 Mn and equity of Rs. 6,822.50 Mn). NHPL has entered into consortium loan agreement on December 17, 2019 for full amount of Rs. 19382.50 Mn, however Banks and Financial Institution (BFI) has committed for only Rs 13,500 Mn term loan. For shortfall amount of Rs. 5,882.50 Mn, agreement states induction of other BFIs. Till July 05, 2020, Rs. 340.65 Mn has been infused by shareholders. Timely completion of financial closure will be critical for the project execution.

Key Rating Strengths***Strong promoters and experienced management team***

NHPL is part of MV Dugar Group which has business across different sectors along with Banks, Insurance, Automobiles, and Construction etc. Mr. Motilal Dugar, Chairman of NHPL and Executive Chairman of the group, is established businessman of Nepal and has more than 47 years of experience and is also Chairman of Sunrise Bank Ltd [CARE-NP A-]. Mr. Vivek Dugar, Director, has more than 22 years of experience and is also Chairman and promoter shareholder of Gurans Life Insurance Company Limited. He is engaged in business of trading of Automobiles, Construction business etc. Company's management team is led by Mr. Vipin Arora, CEO of the company and has more than 42 years of experience in various organizations related to hydropower and energy sector. He is supported by other experienced management team.

Power purchase agreement with sufficient period coverage

The total installed capacity of the plant is 160 MW. NHPL has entered into a long term PPA with NEA as on November 15, 2017 for sale of 99.4 MW power to be generated from the project on take or pay basis and additional capacity of 60.6 MW on take and pay basis. The contracted Plant Load Factor (PLF) for total 99.4 MW is 65.28% with total contracted energy of 568 MU. PPA has been entered for the period of 30 years from the COD or till validity of generation license whichever is earlier. 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 (June - November) and the tariff rate for peak dry season (December- May) is Rs 10.55 per Kwh while the non-peak rate for the dry season (December-May) 8.4 per Kwh with 3% annual escalation on base tariff for 8 years. Further, additional energy is expected to be sold at non-peak rate. Though RCOD of the project is July 2022, the company expects to complete the project by July 2023. The company is yet to apply for extension of RCOD and if RCOD is not extended by NEA till COD, the company is required to pay late COD penalty. Further, if COD is delayed by 6 months to 18 months from RCOD, then the number of escalation in tariff rate will decrease to 7 times from 8 times.

Moderate counter party risk

NHPL is exposed to counter party payment risk pertaining to Nepal Electricity Authority (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 7,205 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.

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

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 starts commercial operation, transmission and distribution of electricity up to mid-April 2024. Furthermore, 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

Nasa Hydropower Private Ltd (NHPL) is a private limited company, incorporated on October, 11 2007. It is promoted by individual promoters majorly related to MV Dugar group for setting up of a 160 MW

peaking run-of-river, Lapche Khola Hydropower Project (LKHP) in Bigu Rural Municipality, Dolakha district of Nepal. The power project is proposed to utilize available head and flow from Lapche Khola (river). NHPL has 11 shareholders who have contributed Rs 340 Mn equity share capital as on July 05, 2020. The major shareholder of the company as on July 05, 2020 are Mr. Motilal Dugar (~55%) and Mr. Vivek Dugar (~30%). As per the Generation License, from Government of Nepal – Ministry of Energy, obtained as on December 28, 2017 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 | 19,382.50 | CARE-NP BB |
| 2 | Short Term Bank Facilities | Working Capital Loan (Proposed) | 117.50 | CARE-NP A4 |
| | Total | | 19,500.00 | |