

**Rating Rationale**  
**Green Ventures Limited**

**Rating**

Facility/ Instrument	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	7,620.00	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	150.00	CARE-NP A4 [A Four]	Reaffirmed
<b>Total Facilities</b>	<b>7,770.00</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of ‘CARE-NP BB’ to the long-term bank facilities and ‘CARE-NP A4’ to the short-term bank facilities of Green Venture Limited (GVL).

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of GVL 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 GVL's high estimated project cost and exposure to regulatory risk, hydrology risk associated with run of the river power generation and impact of COVID-19 on the project implementation. The rating, however, derives strength from industrial experience of directors and promoters, 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 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 GVL 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***

On the basis of cost incurred till May 31, 2020, GVL has achieved financial progress of 65.21%. Till June 2020, Headrace Tunnel (HRT) excavation work has been completed and concrete lining of HRT is in progress (2270 m completed out of 3833m); concreting of undersluice, head regulator, feeder channel has been completed. Similarly, roofing of powerhouse is completed whereas powerhouse control room concreting is in progress. Though there is major progress in the project and with expected delay due to COVID-19 (expected COD revised to March 2021), the company continues to remain exposed to the risks associated with project implementation and satisfactory operations thereafter. Timely completion of the projected 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)

***High estimated project cost and exposure to volatile interest rate***

The estimated cost of project is ~Rs 194 Mn per MW which is relatively higher due to high cost estimates for contingencies (i.e. Rs 1057 Mn) and IDC (i.e. Rs 1,348) to cushion any cost overrun in future. Further, company expects the cost overrun due to the introduction of extra items of works on account of design modification/revision in the designs and increase in quantities in Bill of Quantity (BOQ). However, company has not finalized total increase in the cost and is in process of ascertaining actual amount of cost overrun. 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). GVL is proposed to utilize discharge from Likhu Khola having catchment area of 655 sq kms based on snow fed river. The project has 26.70m<sup>3</sup>/s design discharge at 40% exceedance flow and gross head of 221.27m. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/khola.

***Power evacuation risk***

The power generated from the project will be evacuated through 19Km long 220KV single circuit Transmission Line to the proposed New Khimti Substation. Power from New Khimti Sub Station will be further evacuated to Dhalkebar substation which is operational and is connected to national grid. Construction of transmission line from powerhouse to New Khimti substation is within the scope of GVL. As per the progress report submitted by the company, construction and tower erection work is in progress with 39 tower foundation completed and 5 towers erected out of 57 towers. Timely completion of the transmission lines and substations by both GVL and NEA 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.

#### ***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 unavailability of construction material due to partial operations of manufacturing units across Nepal. GVL was also impacted due to COVID-19 with expected time overrun in the project as the construction progress has been impacted and progress has been slow leading to delay in the project completion.

#### **Key Rating Strengths**

##### ***Industrial experience of directors and promoters***

GVL has 5 board of directors chaired by Mr. Subhash Chandra Sanghai, who is executive committee member of Nepal Chamber of Commerce and involved in manufacturing, trading and other businesses. Other directors of the company are involved in banking, insurance, manufacturing, trading and other businesses.

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

GVL had entered into a long term PPA with NEA as on February 02, 2011 (amended on July 13, 2016) for sale of 52.4 MW power to be generated from the project. The period of the PPA is 30 years from the date of commercial operation date (COD) or till validity of Generation License whichever is earlier. PPA period may be extended with mutual consensus during the last six months of validity. 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. The contracted energy for the project is 296 million units (MU) (i.e. ~52MU for dry season and ~243MU for wet season), at PLF of 64.45%. Required Commercial Operation date (RCOD) of the project is October 16, 2020.

The company is in the process of extension of RCOD with NEA with expected COD of the project as per the company is March 2021. If RCOD is not extended till expected COD, the company is bound to pay penalty to NEA as per the PPA. Also, number of escalations in the tariff rate will reduce if the delay in RCOD is more than 6 months.

##### ***Moderate counter party risk***

GVL 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 the past.

***Financial closure achieved for the full project cost***

The total cost of the project is envisaged at Rs. 10,163 Mn to be funded in debt: equity ratio of 75:25 (i.e. Rs 7,620 Mn term loan and Rs 2,543 Mn equity) and the company achieved the financial closure on December 15, 2017. Till May 31, 2020 Rs 2,426 Mn capital injected by promoter shareholders.

***Power Demand and 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 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**

Green Ventures Ltd (GVL) is a public company, incorporated on December 7, 2004 as private limited company, later on February 25, 2019 it was converted to public limited company. The company is developing 52.4 MW run-of-river, Likhu-4 Hydropower Project (L4HP) in Okhaldhunga and Ramechhap district of Nepal. As per the Generation License, from Government of Nepal – Ministry of Energy, obtained on March 11, 2012 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. As on May 31, 2020, major shareholder of the company are Mr. Govinda Lal Sanghai (~11%), Mr. Birendra Kumar Sanghai (~10%), Mr. Nitesh Agrawal (~10%) Mr. Ramchandra Sanghai (~8%), and Mr. Aditya Sanghai (~7%).

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**Annexure 1: Details of the Facilities rated**

S. N.	Name of Bank	Type of the Facility	Amount (Rs. in Million)	Rating
1	Long Term Bank Facilities	Term Loan	7,620.00	<b>CARE-NP BB</b>
2	Short Term Bank Facilities	Overdraft Loan	150.00	<b>CARE-NP A4</b>
	<b>Total</b>		<b>7,770.00</b>	