

Rating Rationale
Nyadi Hydropower Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating	Rating Action
Issuer Rating	NA	CARE-NP BB (Is) [Double B (Issuer)]	Assigned
Long Term Bank Facilities	4,400.00	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	200.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	4,600.00		

**The issuer rating is subject to the company maintaining overall gearing not exceeding 3.00x at the end of FY21.*

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 Nyadi Hydropower Limited (NHL).

CRNL has assigned ‘CARE-NP BB (Is)’ rating to NHL. Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations, in Nepal.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of NHL is constrained by project implementation risk and stabilisation risk associated with the project, relatively high project cost, hydrology risk associated with run of the river power generation and NHL’s exposure to regulatory risk. The rating, however, derives strength from experienced board members and management team, association with group having multiple hydropower projects, power purchase agreement (PPA) with sufficient period coverage and financial closure achieved for the project cost. The rating also factor in low power evacuation risk, moderate counter party risk, power demand & supply gap coupled with increasing demand of power in the country and government support for the power sector.

The ability of NHL to timely execute the projected within COD avoiding further time and cost overrun is the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weakness

Project implementation risk and stabilisation risk associated with the project and relatively high project cost

On the basis of cost incurred till June 14, 2020, the company has achieved financial progress of 62.66% of the project. Project is being developed at relatively high cost with Rs. 204 Mn per MW. Initial cost of the project was Rs. 5867 Mn which over the period increased to Rs. 6,118 Mn (Rs. 203.93 Mn per MW). As per the progress report of August 2020, majority of the work related to Headrace Tunnel, Surge Shaft and Penstock are completed. The construction of powerhouse is in final stage and turbine and generator are placed for final installation. Similarly, transmission line works are in-progress with foundation work

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

for 50% of towers completed. Though, there is major progress, the project is still exposed to the residual risks associated with project implementation and satisfactory operations thereafter. Timely completion of the project without further time and cost overrun and satisfactory operations thereafter are the key rating sensitivities.

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 river flows are high (Mid-April to Mid-December) and less during the winter season (Mid-Dec to Mid-April). NHL is proposed to utilize discharge from Nyadi River having catchment area of 154.7 sq kms. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river.

Exposure to regulatory risk

Government of Nepal has established Electricity Regulatory Commission (ERC) for regulating generation, transmission and distribution of electricity in Nepal. ERC is the regulator under the GoN which is 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.

Key Rating Strengths

Experienced Board Members and management team

NHL has total 4 directors chaired by Mr. Om Prakash Shrestha, along with other directors having experience in hydropower sector and involvement in other businesses including hydropower as a chairperson and director. Mr. Uttam Amatya, CEO of the company, has more than 31 years of experience in Nepal Electricity Authority (NEA) and is supported by other experience management team members.

Associated with a group having multiple hydropower projects

NHL's major stake is owned by Butwal Power Company Limited (BPCL) which owns and operates multiple hydropower projects in Nepal. BPCL owns and operates 9.40 MW Andhikhola project and 12 MW Jhimruk Project apart from stakes in other hydropower projects in different stages.

Power purchase agreement with sufficient period coverage

NHL had entered into a long term PPA with NEA as on May 26, 2015 for sale of 30 MW 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 (received on February 14, 2013 for 35 years), whichever is earlier. 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 times on annual basis.

However, if there is a delay in COD as compared to RCOD by more than 6 months, number of escalations in tariff rate would be reduced.

The annual contracted PLF is 64.14%. Required Commercial Operation (RCOD) of the project was April 18, 2020 however the project has been delayed due to impact of COVID-19 on the construction activities. Company expects to complete the project by Mid-March 2021 and has applied for RCOD extension citing force majeure due to COVID-19 and NEA has allowed extension till the impact of COVID-19 is over. If RCOD is not extended till COD, NHL will be liable to pay late COD penalty and will lose tariff escalations.

Financial closure achieved for the full project cost

The total cost of the project revised to Rs. 6,118 Mn which is proposed to be financed in debt equity ratio of Rs. 71.93:28.07 with Rs. 4,400 Mn term loan, Rs. 1,500 Mn equity and balance Rs. 218 Mn as supplier's retention which will be paid through operating cashflows. NHL has entered into consortium loan agreement for Rs. 4,400 Mn term loan as on February 03, 2016. Out of total equity of 1,500 Mn, promoters have infused Rs. 1,095 Mn till June 14, 2020 whereas balance Rs. 405 Mn is proposed to be infused through IPO.

Low power evacuation risk

NHL has low power evacuation risk with NEA's evacuation structure in place. Power generated from the project was proposed to be evacuated to NEA's proposed Tarikuna Substation. However, due to non-completion of NEA's Tarikuna Substation, power is proposed to be evacuated through 9.4km 132kv transmission line through a loop in loop out method to one of the towers of an operational hydropower project which is connected to Middle Marsyangdi Substation. Contract for construction of transmission line in scope of NHL has been awarded and foundation work has been completed for 13 towers out of 25 towers whereas erection of towers is yet to be started.

Moderate counter party risk

NHL is exposed to counter party payment risk pertaining to Nepal Electricity Authority (NEA), which has been making consecutive losses in past till FY16. However, as per the annual report published by NEA, during FY20 (provisional), NEA earned profit of Rs 11,056 Mn (Rs. 9,812 Mn during FY19) resulting the accumulated profit in its book. Further, during FY20, NEA achieved gross cash accrual of Rs 16,056 Mn (Rs 14,664 Mn in FY19). 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 FY20, the current peak electricity demand is 1,408MW. The total domestic installed capacity stands at 1,328 MW which includes 632 MW owned by NEA and 696 MW by private sector IPPs. Overall, during FY20, total energy demand was 7,894 GWh which was met by import

of 1,720 GWh (~22% of total demand) 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 electric induction, increase in access of population using electricity (86% in FY20) 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

Nyadi Hydropower Limited is a public company, incorporated on March 1, 2007. It is promoted by Butwal Power Company Limited (BPCL) and Lamjung Electricity Development Company Ltd. (LEDCO) for setting up a 30 MW run-of-river, Nyadi Hydropower Project (NHP) in Marshyangdi Municipality, Lamjung district of Nepal. The power project is proposed to utilize available head and flow from Nyadi River. 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 on February 14, 2013, 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

Facility/ Instrument	Type of the Facility	Amount (Rs. In Million)	Rating
Long Term Bank Facilities	Term Loan	4,400.00	CARE-NP BB
Short Term Bank Facilities	Working Capital Loan (Proposed)	200.00	CARE-NP A4
Total Facilities		4,600.00	