Rating Rationale

Green Ventures Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating[1]	Rating Action
Issuer Rating	NA	CARE-NP BB- (Is) [Double B Minus (Issuer)]	Assigned
Long Term Bank Facilities	7,620.00	CARE-NP BB- [Double B Minus]	Revised from CARE-NP BB [Double B]
Short Term Bank Facilities	150.00	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	**7,770.00**		

**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 Issuer rating of 'CARE-NP BB- (Is)' to Green Ventures Limited (GVL). Issuers with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations, in Nepal.

Also, CRNL has revised the rating to 'CARE-NP BB-' for the long-term bank facilities and reaffirmed the rating of 'CARE-NP A4' assigned to the short-term bank facilities of Green Ventures Limited (GVL).

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of GVL takes into account cost overrun in the project leading to relatively high project cost and financial closure yet to be achieved for additional project cost. The rating continues to be constrained by project implementation and stabilization risk, hydrology risk associated with run of the river power generation, power evacuation risk and exposure to regulatory risk. The rating, however, derives strength from the industrial experience of directors and promoters, presence of power purchase agreement (PPA) with sufficient period coverage and moderate counter party risk. The ratings also factor in current demand and supply gap however expected increase in supply in future and government support for the power sector. Timely execution of the project within the RCOD avoiding time or cost overrun and sufficient hydrology and timely receipt of the payments from NEA are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Cost overrun leading to high project cost

Initial estimated cost of the project was Rs 10,163 Mn which increased to Rs. 12,083 Mn. Estimated cost increased primarily due to increase in civil works on account of increase in quantities for item of works due to change in design of headworks. Introduction of new adit tunnel and change in the shape of the

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

tunnel for the construction of headrace tunnel and increase in materials required for powerhouse led to increase in civil cost. Similarly, hydro mechanical cost increased due to construction of additional gates not provisioned earlier whereas transmission line cost increased on account of construction of GIS (Gas Insulated Switchgear) bay and increase in supply and the service portion of the total contract cost which was not accounted earlier. Increase in cost led to relatively higher project cost per MW of Rs. 231 Mn per MW from initial Rs. 194 Mn per MW which is comparatively higher. However, presence of contingencies which is not yet utilized and Interest during Construction (IDC) of Rs 1,201 Mn which is utilized to the extent of ~38% till August 2020 provides some comfort.

Project implementation risk and stabilization risk

On the basis of cost incurred till August 31, 2020, GVL has achieved financial progress of 67.12%. Till October 2020, all the excavation related work has been completed and concrete lining of Headrace Tunnel (HRT) is in progress (3803 m completed out of 3833m). The erection and installation of turbine and generators and installation of hydro-mechanical gates is pending. Though there is major progress in the project, 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.

Financial closure yet to be achieved for additional project cost

The total cost of the project was 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). However, the total project cost is revised to Rs.12,083 Mn to be funded through the debt amount of Rs. 9,067 Mn and remaining through equity in the same debt equity ratio. The company achieved the financial closure on December 15, 2017 for Rs 7,620 Mn term loan. However, the financial closure for the additional Rs. 1,447 Mn loan amount is yet to be achieved. Out of Rs 3,125 Mn equity share capital required for project, till November 20, 2020 Rs 2,584 Mn capital injected by promoter shareholders and Rs 625 Mn is proposed to be infused through proposed Initial Public Offering (IPO).

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 26.70 m^3/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

Power generated from the project will be evacuated through 19Km long 220KV single circuit Transmission Line to the under construction 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. Contract for construction of transmission line is awarded. As per the progress report submitted by the company as on October 2020, construction and tower erection work is in progress with 50 tower foundation completed and 35 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.

Key Rating Strengths

Industrial experience of directors and promoters

GVL has 5 board of directors chaired by Mr. Subhash Chandra Sanghai, who is 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 2, 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 (obtained on March 11, 2012 for 35 years), 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 295.83 million units (MU) (i.e. 52.43MU for dry season and 243.40MU for wet season), at PLF of 64.45%.

Required Commercial Operation date (RCOD) of the project was October 16, 2020. The company is in the process of extension of RCOD with NEA and expected COD of the project is May 31, 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. 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). 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 profit is increasing over the period and generating positive gross cash accruals. Further, NEA has been making timely payment to independent power producers (IPPs) in past.

Current demand & supply gap however expected increase in supply in future

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 1,721 GWh from India whereas balance was met by domestic generation.

However, considering under construction projects which are expected to generate electricity in next 2-3 years and electricity demand which has not increased substantially in past few years could create a situation of oversupply in near future in wet season. This could put pressure on NEA's payment capabilities which is sole counter party with majority of PPA signed on take or pay basis.

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

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 November 20, 2020, major shareholder of the company are Mr. Govinda Lal Sanghai (holds 11.45%), Mr. Birendra Kumar Sanghai (holds 10.44%), Mr. Nitesh Agrawal (holds 9.18%) Mr. Ramchandra Sanghai (holds 7.21%), and Mr. Subash Chandra Sanghai (holds 7.21%).

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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	**CARE-NP BB-**
2	Short Term Bank Facilities	Overdraft Loan	150.00	**CARE-NPA4**
	Total		**7,770.00**	