

**Rating Rationale**  
**Singati Hydro Energy Limited**

**Rating**

Facility/ Instrument	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Issuer Rating	NA	CARE-NP BB- (Is) [Double B Minus (Issuer)]	Assigned
Long Term Bank Facilities	3,745.69	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	85.00	CARE-NP A4 [A Four]	Assigned
<b>Total Facilities</b>	<b>3,830.69</b>		

*\*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 Singati Hydro Energy Limited (SHEL). CRNL has assigned ‘CARE-NP BB- (Is)’ rating to SHEL. 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 SHEL is constrained by significant time and cost overrun leading to high cost of project, power evacuation risk, hydrology risk associated with run of the river power generation and SHEL’s exposure to regulatory risk. The rating, however, derives strength from experienced board members and management team in hydropower sector, low project implementation risk, financial closure achieved for the majority of project cost and power purchase agreement (PPA) with sufficient period coverage. The rating also factor in moderate counter party risk, power demand & supply gap coupled with increasing demand of power in the country and government support for the power sector. Timely completion of Singati to Lamosangu transmission line to evacuate power generated from the project and sufficient hydrology will be the key rating sensitivities.

**Detailed Description of the Key Rating Drivers**

**Key Rating Weakness**

***Significant time and cost overrun leading to high cost of project***

The initial estimated cost of the project was Rs 4,752 Mn, which is now increased to Rs. 5,504 Mn and Per MW cost of project increased from Rs. ~190 Mn to Rs. ~220 Mn majorly due to delay in project execution leading to increase in Interest during Constriction (IDC). Initial RCOD for 16 MW capacity of the project was September 17, 2017 which was extended to December 31, 2019 and for additional 9 MW capacity RCOD was July 16, 2020. The reasons for delay in completion of the project were mainly due to

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com)

capacity enhancement and delay in completion of Nepal Electricity Authority's (NEA) Singati Substation and Singati- Lamosangu transmission line. Project is in final stage of construction and company expects the project to be operational from Mid-November 2020. However, completion of NEA's Singati – Lamosangu transmission line is in final stages and delay in completion of the transmission line cannot be ruled out which may further delay commercial operation of the project.

***Power evacuation risk***

The power generated from the project will be evacuated via 250 m long 132 KV transmission line to NEA's Singati substation. Power from Singati substation is proposed to be evacuated to NEA's Lamosangu substation. SHEL is responsible for construction and maintenance of transmission line up to Singati Substation whereas construction of Singati Substation and Singati-Lamosangu transmission line is within scope of NEA. SHEL has completed the transmission line work within the scope of company whereas Singati Substation and Singati- Lamosangu transmission line work within the scope of NEA is ongoing and is in final stages. These risks are mitigated to some extent by the presence of high-penalty provisions on part of NEA and the developer towards timely completion of respective transmission line. Being a super six project, the company is entitled to charge penalty from NEA @45% of lost revenue in comparison to the standard 5% penalty clause in other PPAs. Further, as many projects are under-construction in the same corridor, there is an timeline pressures on NEA to complete the transmission line.

***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). SHEL is proposed to utilize discharge from Singati Khola which is a perennial river having catchment area of 195 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***

(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*****Experienced board members and management team in hydropower sector***

SHEL has 7 members in its board. The board is chaired by Mr. Batu Lamichhane, who is involved in hydropower sector and construction business for more than 20 years. Mr. Ganesh Karki, executive chairperson, is involved in hydropower sector for more than 20 years and is director in multiple under construction and operational hydropower projects. They are supported by other experienced management team.

***Low project implementation risk***

Till Mid July 2020, the company has achieved financial progress of ~96% on the basis of cost incurred. As per the progress report of Mid July 2020, all works related to civil works, hydro mechanical works, electromechanical works and transmission line within scope of the company has been completed. As major part of the project work has been completed, the project implementation risk is reduced significantly. However, the project is still exposed to the residual risks associated with project implementation and satisfactory operations.

***Financial closure achieved for majority of project cost***

The total estimated cost of project was Rs 4,752 Mn which was proposed to be financed in debt equity ratio of 70:30. The company achieved financial closure for total proposed debt on July 15, 2018. However, project cost increased multiple times due to delay in execution of project leading to increase in Interest during Constriction (IDC). Cost of the project increased to Rs. 5,504 Mn which is proposed to be financed through Rs. 3,746 Mn debt, Rs. 1,450 Mn Equity and balance through director's loan.

SHEL had entered into consortium loan agreement for initial loan amount of Rs. 3,326 Mn on July 15, 2018. Further, consortium loan agreement was revised later to increase total debt amount to Rs. 3,631 Mn. SHEL is yet to enter into agreement for balance amount of Rs. 115 Mn however consortium members has agreed to finance the balance amount. Out of total equity requirement of Rs. 1,450 Mn, promoters have infused Rs. 1,015 Mn whereas balance Rs. 435 Mn is proposed to be infused through Initial Public Offer. For supporting the project expenses till IPO is issued, SHEL has also availed additional loan of Rs. 426 Mn which will be paid after IPO proceeds is received by the company.

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

Initially, SHEL had signed PPA with NEA on November 13, 2013 for sale of power generated from 16MW capacity. Later, the project capacity was increased to 25MW and PPA has been amended on December 14, 2017 for additional capacity. The contracted Plant Load Factor (PLF) for total 25 MW is 60.55%. PPA has been entered for the period of 30 years from the COD or till validity of generation license (obtained on January 14, 2016 for 35 years) whichever is earlier. Tariff rate as per PPA for initial 16 MW is Rs 4.80 per kWh for wet season (Mid-April to Mid-December) and Rs 8.40 per kWh for dry

season (Mid-December to Mid-April) with 3% annual escalation on base tariff for 5 years and for additional 9 MW same tariff with annual escalation on base tariff for 8 years.

Required commercial operational date (RCOD) of the project was December 31, 2019 for 16MW and July 16, 2020 for additional 9MW. Company has applied for RCOD extension and if RCOD is not extended, it may result in late commercial operation date (COD) penalty and decrease in number of escalations in tariff rate. However, as per PPA, penalty will not be levied for delay in COD upto 6 months from RCOD. The expected COD date for the project is Mid November, 2020.

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

SHEL 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***

SHEL was initially incorporated as a private limited company named Singati Hydro Energy Private Limited on May 19, 2010. Later on, it converted to a public limited company named Singati Hydro

Energy Limited on June 20, 2018. It is promoted by various institutional and individual promoters from different background for setting up of a 25 MW run-of-river, Singati Khola Hydropower Project (SKHP) in Dolakha district of Nepal. The project is one of the ‘super six’ hydro power projects of Nepal. This project is constructed under BOOT (Build, own, Operate and Transfer) mechanism. RC Hydro Investment Private Limited (8.44%), Mr. Batu Lamichhane (8.24%), Mr. Ganesh Karki (6.27%) are the major shareholder of the company. Promoters and public holding is expected to be in the ratio of 70:30 after issue of proposed IPO.

<b>Analyst Contact</b> Mr. Bidhan Ojha <a href="mailto:bidhan.ojha@careratingsnepal.com">bidhan.ojha@careratingsnepal.com</a> Tel No.: +977-01-4012629	<b>Relationship Contact</b> Mr. Sajan Goyal <a href="mailto:sajan.goyal@careratingsnepal.com">sajan.goyal@careratingsnepal.com</a> Tel No.: 9818832909/+977-01-4012628/29/30
---	---

<b>Disclaimer</b>
CRNL’s ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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

Facility/ Instrument	Type of the Facility	Amount (Rs. In Million)	Rating
Long Term Bank Facilities	Term Loan	3,630.62	CARE-NP BB-
Long Term Bank Facilities	Term Loan (Proposed)	115.07	CARE-NP BB-
Short Term Bank Facilities	Working Capital Loan	85.00	CARE-NP A4
<b>Total Facilities</b>		<b>3830.69</b>	