

## Rating Rationale

### Him Parbat Hydropower Private Limited

#### Rating

Particulars	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities (Proposed)	3,255.00	CARE-NP BB- [Double B Plus]	Assigned
<b>Total Facilities</b>	<b>3,255.00</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BB-’ to the long term bank facilities of Him Parbat Hydropower Private Limited (HHPL).

#### Detailed Rationale & Key Rating Drivers

The ratings assigned to HHPL is constrained by financial closure is yet to be achieved for estimated project cost, the early stage of construction of the project leading to high project implementation risk and stabilization risk, and power evacuation risk. The rating is also constrained by hydrology risk associated with run-of-the-river power generation, exposure to volatile interest rate and exposure to regulatory risk. The rating, however, derives strength from experienced directors and promoters in industry, presence of power purchase agreement (PPA) with sufficient period coverage and moderate counter party risk. The ratings also factor in current demand & supply gap however possible oversupply in future and government support for the power sector. Timely execution of the project within the Required Commercial Operation Date (RCOD) avoiding time or cost overrun and sufficient hydrology and timely receipt of the payments from Nepal Electricity Authority (NEA) are the key rating sensitivities.

#### Detailed Description of the Key Rating Drivers

##### Key Rating Weaknesses

##### *Financial closure is yet to be achieved for estimated project cost*

The total estimated cost of the Sagu Khola Hydropower Project (SKHP) is envisaged at Rs. 3,600 Mn, which is proposed to be funded in debt: equity ratio of 70:30 (i.e. Rs 2,520 Mn term loan and Rs 1,080 Mn equity) and the for Sagu Khola 1 Hydropower Project (S1KHP) the total estimated cost of the project is Rs. 1,050 which is also proposed to be funded in the debt: equity ratio of 70:30 (i.e. Rs 735 Mn term loan and Rs 315 Mn equity). The financial closure for the total loan requirement of Rs. 3,255 is yet to be achieved. Out of the total loan requirement, bank has committed for Rs. 1,000 Mn and for remaining amount of Rs. 2,255 Mn, financing is yet to be finalised. Out of Rs. 1,395 Mn equity, till February 04, 2021, Rs 239.40 Mn has been infused by shareholders.

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

***High project implementation risk and stabilization risk***

Both the projects are at very initial stage of construction. HHPL has achieved financial progress of 4.94% as on February 04, 2021. Till January 2021, in both projects Pre-construction and Infrastructure works are going on. The contract for the Civil, Hydro mechanical, Electro mechanical and transmission line works are yet to be awarded. As major part of the projects work is yet to be initiated, the company continues to remain exposed to the risks associated with project implementation and satisfactory operations thereafter. Timely completion of the project and satisfactory operations thereafter are the key rating sensitivities.

***Power evacuation risk***

The power generated from the project is proposed to be evacuated through 6 km long 132 KV for SKHP and 33KV for SK1HP Transmission Line to NEA under construction Singati Substation. Further, power is proposed to be evacuated through under construction 132KV/33KV Transmission line from Singati to Lamosangu. Construction of transmission line from power house to Singati substation is within the scope of HHPL. There are many hydropower projects within the corridor (nearing completion) which are dependent upon timely completion and operation of NEA substation. Construction of Singati-Lamosangu Transmission Line, is ongoing and is expected to be completed by July 2021. Since, the other projects are in the same corridor which are at the stage of near completion, they are putting pressure on NEA to complete the transmission line. Timely completion of the transmission lines is the key rating sensitivity.

***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 (May to November) and less during the winter season (December to April). SKHP is proposed to utilize discharge from Sagu Khola and Pegu Khola having catchment area of 37.04 sq kms for Pegu Khola based on Perennial River. Similarly, S1KHP is proposed to utilize discharge from Sagu Khola and Syakhu Khola having catchment area of 60.08 sq kms for Sagu Intake and 14.90 sq kms for Syakhu Intake based on Perennial River. The design discharge of the projects is 4.68m<sup>3</sup>/s at exceedance flow of 40%. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/khola.

**Key Rating Strengths*****Experienced directors and promoters in industry***

HHPL has 2 Board of Directors, chaired by Mr. Himel Gurung, who has more than 16 years of experience in hydropower and construction sector. He is associated with different hydropower companies with the total capacity 51.4 MW. Mr. Saroj Khanal, Project Manager, has more than 13 years of experience in different hydropower companies and is supported by other experienced management team.

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

HPPL had entered into a long term PPA with NEA as on July 26, 2018 for sale of 25.5 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 (May to November) is Rs 4.80 per kWh and for dry season (December to April) is Rs 8.40 per kWh with 3% escalation on base tariff for 8 years. Required Commercial Operation date (RCOD) of the project is April 13, 2023. If the project is not completed within the mentioned RCOD, then delay RCOD penalty will be levied to company by 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***

HPPL 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, 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 possible oversupply 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. Also, Unified Directive of 2020/21, has directed "Class-A" to allocate minimum 10% of credit to energy sector and "Class-B" and "Class-C" banks to allocate minimum 20% and 15% of total credit respectively to agriculture, energy, SMEs and tourism sector within mid-July 2024.

**About the Company**

Himparbat Hydropower Private Limited (HHPL) is a Private company, incorporated on June 11, 2014. It is promoted by individual promoters from different background and institutional investors for setting up of a 20 MW run-of-river, Sagu Khola Hydropower Project (SKHP) and 5.5 MW run of river Sagu Khola-1 Hydropower Project (SK1HP) in “BOOT” (Build, Own, Operate and transfer) model and is located at Bigu Rural Municipality, Dolakha district of Nepal.

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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 (Proposed)	Term Loan	3,255.00	<b>CARE-NP BB-</b>
	<b>Total</b>		<b>3,255.00</b>	