

Rating Rationale

Taksar Pikhuwa Khola Hydropower Private Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	1,200.00	CARE-NP BB [Double B]	Reaffirmed
Total Facilities	1,200.00		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of ‘CARE-NP BB’ assigned to the long-term bank facilities of Taksar Pikhuwa Khola Hydropower Private Limited (TPKH).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of TPKH continues to be constrained by project implementation and associated stabilization risk, high estimated project cost coupled with time and cost overrun in the project, exposure to volatile interest rates and hydrology risk associated with run of the river power generation. The rating, however, derives strength from experienced board members and management, moderate counter party risk and government support for the power sector. The ratings also factor in achievement of financial closure for full project cost, presence of power purchase agreement (PPA) with sufficient period coverage and low power evacuation risk. The ability of TPKH to timely complete the project without any further time or cost overrun and generation of power at the contracted Plant Load Factor (PLF) are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

High estimated project cost coupled with time overrun and cost overrun

The budgeted project cost has been revised to Rs. 1,985.62 Mn from Rs. 1,720 Mn (i.e., 248.20 Mn per MW as per revised cost), due to time overrun in completion of the project leading to increase in Interest during construction (IDC) and additional civil works cost. The cost of the project increased substantially and is relatively high in comparison to other power projects being constructed in Nepal, however, the cost overrun is majorly proposed to be funded majorly through equity. Also, the repayment schedule increased to 14 years instead of earlier 12 years leading to minimal impact on the Debt Service Coverage Ratio (DSCR) of the company. The project work was disturbed due to COVID-19 lockdown and currently, with the given physical process, the project is near to completion.

Project implementation and stabilisation risk

The project has achieved ~83.40% financial progress on the basis of cost incurred (including advances) till December 2, 2020. Regarding Physical Progress till December 14, 2020, headrace (HR) pipe of total

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

length of 5750m, erection of 5580m is completed, 80m penstock pipe installation remaining out of 316m. In Electro-mechanical works, most of the work has been completed. The installation of generator work is in final stage. The overall physical progress achieved till Dec 14, 2020 is about 95%. Timely completion of the project within the estimated cost and time 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 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). TPKH is proposed to utilize discharge from Pikhuwa Khola having catchment area of 253 sq kms based on rain fed river. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/khola.

Key Rating Strengths

Board members and management having experience in hydro power sector

TPKH has 3 Board of Directors chaired by Mr. Pancha Bir Singh Tuladhar, who has ~6 decades of experience in various sector. Currently, he is a major shareholder in United Modi Hydro Power Ltd., (UMHPL) having 10MW operational hydropower project and in Singati Hydro Energy Ltd (SHEL). Mr. Narendra Ballav Pant is a Managing Director of the company, has more than decade of working experience and is chairman of UMHPL and also a director of SHEL.

Financial closure completed for the project cost

The estimated cost of the project is Rs. 1,985.62 Mn (i.e. Rs. 248.20 Mn per MW) which is proposed to be funded in Debt equity ratio of approx. 64:36 (i.e. Rs. 1,280 Mn term loan and Rs. 705.62 Mn equity). TPKHPL has entered into consortium loan agreement with the banks for Rs 1,200 Mn term loan as on January 21, 2018. Due to increase in the project cost, the company has availed the additional term loan of Rs. 80 Mn with the same consortium Banks as decided in consortium meeting held on December 14, 2020.

Power purchase agreement with sufficient period coverage

TPKH had entered into a long term PPA with NEA as on December 16, 2016 for sale of 8MW power to be generated from the project. The period of the PPA is 30 years from the date of COD or till validity of Generation License, 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 5 years. The contracted energy for the project is 45.51 million units (MU) at PLF of 64.94%. The expected COD of the company is Mid-Feb, 2021 as against the Required Commercial

Operation Date (RCOD) of April 30, 2020. The project was delayed due to Covid-19 impact so company has sought an extension of the RCOD. The achievement of the revised RCOD would remain critical in determining the number of tariff escalations that the project would avail as well as implications of any late COD penalty.

Moderate counter party risk

TPKH 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 resulting the accumulated profit in its book. Further, during FY20, NEA achieved gross cash accrual of Rs 16,056 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 past.

Low power evacuation risk

The Power generated from the project will be evacuated through ~7.5Km long 33KV Dhankuta-Hile-Leguwa-Bhojpur Transmission Line to the operational Bhojpur Substation, which then gets connected to the National grid of NEA. Preparation of ~7.5Km long 33KV transmission line from powerhouse to Bhojpur substation is within the scope of TPKH. Till Dec 14, 2020, Pole Erection and Stringing is 99% completed.

Shortage of power at present; 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 1,720 GWh (~22% of total demand) 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. This could put pressure in 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.

About the Company

Taksar Pikhua Khola Hydro Power Pvt. Ltd (TPKH) is a Private company, incorporated as on April 23, 2014. It is promoted by individual promoters from different background for setting up of an 8 MW run-of-river, Taksar Pikhua Khola Hydropower Project (TPKHP) in Bhojpur district of Nepal. 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 as on June 17, 2016, 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.

Analyst Contact Mr. Rujan Bajracharya rujan.b@careratingsnepal.com Tel No.: +977-01-4012629	Group Head Mr. Shisir Pokharel shisir.pokharel@careratingsnepal.com Tel No.: +977-01-4012628	Relationship Contact Mr. Sajan Goyal sajan.goyal@careratingsnepal.com Tel No.: 9818832909/+977-01-4012628/29/30
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Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	1,200.00	CARE-NP BB
Total		1,200.00	