

Rating Rationale

Sabha Pokhari Hydropower Private Limited

Rating

Particulars	Amount (Rs. in Million)	Rating ¹	Rating Action
Long Term Bank Facilities-Term Loan	617.00	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities-(Proposed)	3.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	620.00		

Details of Facilities Rated in Annexure 1

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CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BB’ to the long term bank facilities and ‘CARE-NP A4’ to the proposed short term bank facilities of Sabha Pokhari Hydropower Private Limited (SPHPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to SPHPL are constrained by the early stage of construction of the project leading to high project implementation and stabilization risk associated with the project. The rating is also constrained by hydrology risk associated with run-of-the-river power generation, power evacuation risk and exposure to volatile interest rates. The ratings, however, derive strength from the experienced Board members and management team however limited exposure in hydropower development, presence of power purchase agreement (PPA) with sufficient period coverage, moderate counter party risk, financial closure achieved for full project cost and also relatively low cost of hydropower project. The ratings also factor in current demand and supply gap of power generation in the country and government support for the power sector. The ability of company to timely complete the project within the targeted Commercial Operation Date (COD) avoiding further time or cost overrun, timely completion of proposed substation by Nepal Electricity Authority (NEA) and the sufficient hydrology and timely receipt of the payment from the NEA are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Project implementation and stabilization risk

The project has 2968 m long headrace pipe, 650m long steel penstock pipe, two horizontal francis turbines, two generators and one transformer. The contract for civil construction and electro-mechanical works have been assigned. The project is at the preliminary stage of construction. Till January 30, 2021, ~13.11% of the total project cost (i.e. Rs. 116.67 Mn) has been incurred which is being funded solely

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

through promoter's equity contribution. As per the progress report of January 2021, the access road up to Power house and intake site is completed and the access road from power house to intake site is under construction. The Electromechanical equipment has been ordered and the construction of camp house has been completed. As the major part of the project 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 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, 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). SPHPL is proposed to utilize discharge from Lankhuwa Khola/river and Orang Khola/river, the tributaries of Sabha Khola/river in the Koshi Basin having catchment area of 57.80 sq kms. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river.

Power Evacuation Risk

SPHPL has entered into an agreement with the 4 MW Dibyashwari Hydropower Limited (DHL) to use its transmission line to connect to the Baneshwor substation. Currently, the DHL is evacuating its power through Tirtire substation. However, due to the tripping problem, DHL is planning to change its substation to Baneshwor substation by constructing its transmission line. SPHPL has to construct 4.5 km 33kV transmission line from its powerhouse to the DHL's power house which will be then connected in loop-in loop-out arrangement. The Baneshwor substation is under construction by NEA. Timely completion of the transmission line and the proposed substation will be key rating sensitivity.

Key Rating Strengths:

Experienced Board Members and management team however limited exposure in hydropower development

SPHPL has total 6 directors chaired by Dr. Laxmi Prasad Devkota, PhD in Water Resource Engineering, who more than 20 years of experience in the field of water resources engineering and management as well as country level planning and development. He was former member of National Planning Commission, has worked as an executive director in different leading research and development institutes of Nepal and was former Chairman of 1,200 MW Budhigandaki Hydropower Project. Mr. Shree Ram Devkota, Msc. in Renewable Energy Engineer is the managing director of SPHPL who has started his career from Micro hydro projects and has completed more than 40 isolated mode micro hydro projects and 9 grid connected micro hydro projects.

Power purchase agreement with sufficient period coverage

SPHPL had entered into a long term PPA with NEA as on June 04, 2017 for sale of 5 MW power to be generated from the project. The period of the PPA is 30 years from COD or till validity of Generation License, whichever is earlier. The tariff for wet season (June to November) is Rs 4.80 per kWh and for dry season (December to May) is Rs 8.40 per kWh with 3% escalation on base tariff for 8 times on annual basis. The Required Commercial Operation (RCOD) of the project was December 29, 2020. SPHPL expects to complete the project by mid-April 2022 and has applied for RCOD extension citing force majeure due to COVID-19 and delay in completion of substation by the NEA. If PPA is not extended till COD, SPHPL will be liable to pay late COD penalty and will lose tariff escalations if there is delay in COD of the project than RCOD by more than 6 months.

Financial closure achieved for the full project cost

The total cost of the project was Rs. 890.00 Mn which was proposed to be financed in debt equity ratio of 69:31 (i.e. Rs. 617 Mn debt and Rs. 273 Mn equity). SPHPL has entered into loan agreement for Rs. 617 Mn term loan as on October 01, 2020. Out of total equity of 273 Mn, promoters have infused Rs. 1,095 Mn till June 14, 2020.

Moderate counter party risk

SPHPL 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 in accumulated profit in its books. 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 coupled with increasing demand for 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.

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 by NEA are on take or pay basis.

Comparatively low project development cost

The entire project cost for SPHPL is estimated at around Rs 890 Mn (including IDC) generating 5 MW electricity. Therefore, per MW cost is at around Rs. 178 Mn, which is comparatively lower than other hydropower plants having installed capacity less than 10 MW in Nepal.

About the Company

Sabha Pokhari Hydropower Private Limited (SPHPL) is a private limited company, incorporated on May 23, 2007. It is promoted by individual promoters to develop Hydropower in Nepal under “BOOT” (Build, Own, Operate and Transfer) model. SPHPL is setting up Lankhuwa Khola Hydroelectric Project (LKHP) in Sabhapokhari Rural Municipality, Sankhuwasabha District of Nepal having installed capacity of 5MW, run-of-river project. The project is proposed to utilize available head and flow from Lankhuwa Khola (River), which is a tributary of Sabhapokhari Khola and is designed to take water from Lankhuwa khola to generate 29.17 GWh of energy.

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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	617.00	CARE-NP BB
2	Short Term Bank Facilities (Proposed)	Working Capital Loan	3.00	CARE-NP A4
Total			620.00	