

Rating Rationale
Champawati Hydropower Private Limited

Rating

Particulars	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities (Proposed)	924.00	CARE-NP BB- [Double B Minus]	Assigned
Total Facilities	924.00		

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 Champawati Hydropower Private Limited (CHPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to CHPL is constrained by financial closure yet to be achieved for estimated project cost, the early stage of construction of the project leading to project implementation risk and stabilization risk. The rating is also constrained by power evacuation risk and hydrology risk associated with run-of-the-river power generation. The rating, however, derives strength from experienced promoters, directors and management, 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 yet to be achieved for the project cost

The total estimated cost of Chepe A Hydropower Project (CAHP) is envisaged at Rs. 1,320 Mn to be funded in debt: equity ratio of 70:30 (i.e. Rs 924 Mn term loan and Rs 396 Mn equity). The financial closure for the total loan requirement of Rs. 924 Mn is yet to be achieved for the project though the banks have committed the total amount. Out of Rs 396 Mn equity share capital required for project, till February 10, 2021, Rs 177.51 Mn equity capital has been injected by promoter shareholders.

Project implementation risk and stabilization risk

The project is at initial stage of construction. Till February 10, 2021, CHPL has achieved financial progress of 9.45%. CHPL has 80.19 m net rated head and 4,200 m long headrace pipe. Two turbines, two generators and one transformer will be used in the CHPL. As per the progress report submitted by the

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

company, till December 2020, pre-construction and infrastructure works are going on. The contract for the Civil, Hydro mechanical, Electro mechanical and transmission line works is yet to be awarded.

As project 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 will be evacuated by 12Km long 33KV Transmission Line to NEA at Palungtar Substation. At present 33 KV line at Palungtar substation is operational and further the power is evacuated to national grid. CHPL is responsible for construction of transmission line up to Palungtar Substation. Also, at the distance of 5 Km from power house there is an under construction NEA Chiplete substation. The company expects the completion of Chiplete substation before the completion of the project. If Chiplete substation is completed on time, NEA plans to evacuate the power to Chiplete substation. Timely completion of the transmission lines will be 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 (June to November) and less during the winter season (Dec to May). CHPL is proposed to utilize discharge from Chepe Khola having catchment area of 212 sq kms based on semi snow fed Perennial River. The project has 10 m³/s design discharge at 40.61% exceedance flow and gross head of 89m. 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 management

CHPL has nine board of directors having long experience in various sectors including hydropower projects. The board is chaired by Mr. Hari Ram Parajuli, who has ~ 22 years of work experience in professional practice, academic, research works and was also former Board Member at Rudi Khola Hydropower Project (RKHP) (15.4 MW). Mr. Tuk Prasad Neupane, Managing Director has ~22 years of work experience in various sectors and is also a former Board member of RKHP. He is supported by other experienced management team.

Power purchase agreement with sufficient period coverage

CHPL had entered into a PPA with NEA as on February 19, 2019 for sale of 7 MW power to be generated from the project. The period of the PPA is 30 years from commercial operation date (COD) or till validity of Generation License (obtained on May 28, 2020 for 35 years), 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 contracted energy for the project is 39.31 million units (MU) at PLF of 64.10%. Required Commercial Operation (RCOD) of the project is July 20, 2022. If COD doesn't fall within RCOD, the company is bound to pay penalty to NEA as per the PPA. Further, number of escalations in tariff rate will be reduced if there is delay in COD of the project than RCOD by more than 6 months.

Moderate counter party risk

CHPL 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.

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

Champawati Hydropower Private Ltd. (CHPL) is a Private company, incorporated on June 10, 2010. It is promoted by institutional promoters and business persons having long experience in various sectors

including hydropower for setting up Hydroelectric Project (HEP) in Nepal. It is developing 7 MW run-of-river, Chepe A Hydropower Project (CAHP) in “BOOT” (Build, Own, Operate and transfer) model and is located at Gorkha and Lamjung 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	924.00	CARE-NP BB-
	Total		924.00	