

Rating Rationale
Numbur Himalaya Hydropower Private Limited

Rating

Particulars	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	4,796.00 (enhanced from 3,334.00)	CARE-NP BB [Double B]	Reaffirmed
Total Facilities	4,796.00		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of ‘CARE-NP BB’ to the long-term bank facilities of Numbur Himalaya Hydropower Private Limited (NHHPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of NHHPL continues to be constrained by project implementation and stabilization risk, offtake risk for additional energy and power evacuation risk. The rating is also constrained by hydrology risk associated with run of the river power generation and NHHPL’s exposure to regulatory risk. Also, it is further constrained by relatively high cost of the project and cost and time overrun due to Covid 19. The rating, however, derives strength from strong promoters and experienced management team, presence of power purchase agreement (PPA) with sufficient period coverage even though PPA for the additional capacity of 4.84 MW is yet to be signed with NEA. The ratings also factor in achievement of financial closure for full project cost, moderate counterparty risk, current demand & supply gap however possible oversupply in future and government support for the power sector. The ability of NHHPL to timely complete the project without any time or cost overrun and timely completion of transmission infrastructure are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Project implementation and stabilisation risk

On the basis of cost incurred till January 13, 2021, the company has achieved financial progress of ~83.22%. There was time and cost overrun in the project due to the COVID-19. As per the progress report of December 2020 submitted by the company, ~99% work in weir ~100% work in intake is completed. Excavation works of headrace tunnel and other underground excavation is completed. Powerhouse works is in progress with ~70% completion and ~95% of hydro mechanical works are completed. Tower erection works is in progress with ~48% completion of transmission line works. Though, there is major progress, the project is still exposed to the residual risks associated with project

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

implementation and satisfactory operations thereafter. Timely completion of the project without cost overrun and satisfactory operations thereafter are the key rating sensitivities.

Offtake risk for additional energy

NHHPL has entered into agreement with NEA on take or pay basis only for the energy to be generated from 24.20 MW at contracted PLF of 64%. For energy to be generated from additional 4.84 MW, the company is proposed to enter into take and pay contract with NEA. Hence, NHHPL has offtake risk for additional energy if NEA doesn't purchase additional energy generated from the project. However, the risk is moderated due to expected sales of energy to India through cross border transmission line between India and Nepal and other planned transmission line between two countries which is expected to aid in sale of excess energy to India in future.

Power evacuation risk

The power generated from the project is proposed to be evacuated through 30Km long 132KV transmission line to the under construction NEA's New Khimti Substation. Power from New Khimti Sub Station will be further evacuated to Dhalkebar substation. As per the management, New Khimti Substation is expected to be completed by Mid-June 2021. Construction of transmission line from powerhouse to New Khimti substation is within the scope of NHHPL. As on Mid-March 2021, foundation work of 44 towers and erection of 18 towers has been completed from Likhu A to New Khimti substation. Timely completion of the transmission lines and substations by both NHHPL and NEA 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 river flows are high (Mid-April to Mid-December) and less during the winter season (Mid-Dec to Mid-April). NHHPL is proposed to utilize discharge from Likhu Khola having catchment area of 421 sq. kms based on snow-fed river. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola.

Key Rating Strengths

Strong promoters and experienced management team

NHHPL is part of MV Dugar Group which has business across different sectors along with Banks, Insurance, Automobiles, Construction etc. Mr. Motilal Dugar, Chairman of NHHPL and Executive Chairman of the group, is established businessman of Nepal and has more than 47 years of experience and is Chairman of Sunrise Bank Limited [CARE-NP A-]. Company's management team is led by Mr. Vipin Arora, Chief Executive Officer of the company and has more than 42 years of experience in various

organizations related to hydropower and energy sector. He is supported by other experienced management team.

Power purchase agreement with sufficient period coverage

NHHPL had entered into a long term PPA with Nepal Electricity Authority (NEA) as on March 6, 2015 for sale of 24.2 MW power to be generated from the project on take or pay basis with the contracted Plant Load Factor (PLF) of 64%. Tariff rate as per 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. Required Commercial Operation Date (RCOD) of the project was July 16, 2020. However, the same has been extended to November 27, 2020. Project is expected to commercial start operation by July 16, 2021. The ministry of Energy, water resources and irrigation has decided to extend the RCOD by one year for the COVID impacted hydropower projects. If RCOD doesn't fall within COD, the company is required to pay late COD penalty. Further, if COD is delayed by 6 months to 18 months from RCOD, then the number of escalations in tariff rate will decrease to 4 times from 5 times. Further, NHHPL is in process of amending PPA with NEA to increase the capacity of the project to 29.04 MW. The company has estimated the additional energy of 14.31 MU from the enhanced capacity of 4.84 MW on take and pay basis with the PLF of 33.75% and additional energy is expected to be generated only during the wet seasons and the tariff rate is estimated to be Rs. 4.80 per kWh during wet season.

Financial closure achieved for total project cost

The estimated cost of the 29.04 MW project is Rs. 5,996.13 Mn (i.e. 206.48 Mn per MW). Earlier the estimated cost was Rs 4,445.35 Mn (i.e. Rs. 183.69 Mn per MW) for 24.20 MW to be financed in the debt equity ratio of 75:25. There was cost overrun in the project and the project cost was increased mainly on account of increase in civil cost on account of design modification. The initial estimated project cost of Rs. 4,445.35 Mn for 24.20 MW increased to Rs. 5,588.14 Mn due to time and cost overrun and with addition in generation capacity of 4.8 MW the total project cost increased to Rs. 5,996.13 Mn which is proposed to be funded in Debt equity ratio of 80:20 (i.e. Rs 4,796.00 Mn term loan and Rs 1,200.13 Mn equity). NHHPL has achieved the financial closure for the total loan amount of Rs. 4,796 Mn. Even though the project cost has increased substantially, the same is moderated by increase in the repayment period. Out of Rs 1,200.13 Mn of equity, till January 13, 2021 Rs. 924.82 Mn has been infused by shareholders.

Moderate counter party risk

NHHPL 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

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. Further, no income source will be asked for investment made within mid-April 2020 in hydro-electricity project. 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

Numbur Himalaya Hydropower Private Limited (NHHPL) is a private company, incorporated as on August 21, 2007. It is promoted by individual promoters majorly related to MV Dugar group which has investments in other institutes which includes Banks, Construction company and Automobiles trading for setting up of a 29.04 MW run-of-river, Likhu A Hydropower Project (LAHP) in Solukhumbu and Ramechhap district of Nepal. NHHPL is in process of amending PPA with NEA to increase the capacity of the project to 29.04 MW The estimated cost of the 29.04 MW project is Rs. 206.48 Mn per MW which is proposed to be financed in debt equity ratio of 80:20. MV Dugar Group is developing three hydropower projects including LAHP in Likhu river adjacently. 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 November 2, 2015 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 Ms. Elisha Lamichhane elisha.lamichhane@careratingsnepal.com Tel No.: +977-01-4012628	Group Head Mr. Shisir Pokharel shisir.pokharel@careratingsnepal.com Tel No.: +977-01-4012629	Relationship Contact Mr. Sajan Goyal sajan.goyal@careratingsnepal.com Tel No.: 9818832909/+977-01-4012628/29/30
---	--	---

Disclaimer

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

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	4,796.00 (enhanced from 3,334.00)	CARE-NP BB
Total		4,796.00	