

Rating Rationale
Himalayan Power Partner Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	3,170.00	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	99.00	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	3,269.00		

Details of Facilities in Annexure 1

CARE Ratings Nepal Ltd. (CRNL) has reaffirmed Rating of ‘CARE-NP BB’ to the long term bank facilities and ‘CARE-NP A4’ to the short term bank facilities of Himalayan Power Partner Limited (HPPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of **Himalayan Power Partner Limited** (HPPL) are constrained by residual project implementation and funding risk associated with under construction hydro power project. Further, the ratings are also constrained by stabilization and hydrology risk associated with run of the river power generation, geological risk, and exposure to volatile interest rates. The ratings also took cognizance of delay in implementation and cost overrun in the project and part of the project cost not tied up for the increase cost.

The ratings, however, derive strengths from strong promoters with experienced board members and management team, power purchase agreement (PPA) with sufficient period coverage, and moderate counter party risk. The ratings also factor in low estimated project cost and equity portion being injected fully, shortage of power at present coupled with increasing demand of power in the country and government support for the power sector.

Timely execution of the project within the required commercial operation date (RCOD) avoiding any time or cost overrun along with generation of expected revenue and timely receipt of the payments from Nepal Electricity Authority (NEA) will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Residual project implementation and funding risk coupled with significant time and cost overrun

The company is undertaking a project for setting up a new hydro project in Lamjung District. The total cost of the green-field project was estimated at Rs. 4,235 Mn., which was being funded by term loan of Rs. 3,170 Mn., and remaining from the promoter’s fund in form of equity of Rs. 1,065 Mn. The project was expected to commence operations from Mid-April, 2020, however; the expected commercial operation has been proposed to be revised mainly due to impact of Covid-19 on construction activities which has also led to increase in project cost. The revised cost of project is Rs.4,707 Mn. and is proposed to be funded in the

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

debt: equity mix of 77:23 where the incremental cost of Rs. 472 Mn will be fully funded by debt which is yet to be tied up.

As on February 12, 2021, out of the total revised capex planned, the company has incurred a total expenditure of Rs. 4,047 Mn. funded out of term debt of Rs. 2,928 Mn. and remaining from promoter's contribution. The required contribution from the promoters has already been infused; however, the debt funding for the incremental cost has not been tied up yet. This exposes the company towards residual project execution risk in terms of completion of the project within the envisaged time and cost. During initial phases of operations, the capital structure of the company is expected to remain leveraged due to the debt funded project.

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 (Mid-April to Mid- December) and less during the winter season (Mid-Dec to Mid-April). HPPL is proposed to utilize discharge from Dordi Khola, Perennial River which is major tributary of Marsyangadi River, having catchment area of 277 sq. at 40% exceedance flow. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/khola.

Geological risk

The project area is supposed to possess significant geological risks as the access road is prone to landslides during monsoon and also other projects in the Dordi corridor were affected by flood in July 2019. Though the impact of the flood was not significant for the DKHP, the project continues to remain exposed to geological risk.

Stabilization and Power evacuation risk

The hydro power plant is in the final stages of installation as 86% cost has already been incurred and is expected to commence production by Mid-July, 2021. Being a new unit, the stabilization and streamlining of revenue remains to be seen. Power generated from the project was proposed to be evacuated through 3 Km long transmission line to NEA's proposed Udipur Substation at Lamjung. However, due to delay in construction of proposed Udipur Substation by NEA, HPPL is planning to construct 3 Km long 132KV transmission line which will connect Kritipur to Middle Marsyangdi. The erection work is in progress with erection of 7 towers completed out of total 9 towers. Further, it is expected that the transmission line work within the scope of NEA will be completed by June 2021. Timely completion of transmission line and bay at Middle Marshyangdi Hydropower Project's switchyard is critical for the revenue generation of company.

Key Rating Strengths

Strong promoters with reputed board members and experienced management team

NRN Infrastructure and Development Ltd. (NRNIL), is major promoter shareholders of the company with 35.70% stake. NRNIL is promoted by a group of Non-Resident Nepali (NRN) and entities associated with the promoters. Presently, NRNIL has invested in four companies including HPPL, in the form of share capital, to develop four hydropower projects with total capacity of 142.4 MW which are under construction and development phase.

HPPL has 7 board of directors and is chaired by Mr. Jiba Nath Lamichhane, who has more than two and half decades of experience in national and international business. He was awarded by Prawal Janasewshree in 2013 for his outstanding contribution to Nepal and Nepali Diaspora. Mr. Chandra Prasad Dhakal, director, is having more than 2 decades of experience in banking, hydropower etc and is also Chairperson of IME Group of companies. Mr. Guru Prasad Dhakal, Executive Director, who looks after the day to day work of the company, has more than three decades of experience in Infrastructure/ Transportation Engineering Department of Roads of Government of Nepal.

Power purchase agreement with sufficient period coverage

HPPL has entered into PPA with NEA on June 15, 2012 for sale of 27 MW power to be generated from the project. The period of the PPA is 30 years from COD or till validity of Generation License (obtained on July 7, 2011 for 35 years), whichever is earlier. PPA period may be extended with mutual consensus during the last six month of validity. 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 8 times on yearly basis.

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, during FY20 (based on provisional results published by NEA), NEA earned profit of Rs 11,056 Mn (Rs. 9,812 Mn during FY19). Further, NEA achieved gross cash accrual of Rs 16,056 Mn in FY20 (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 Report, the current peak electricity demand is 1,408MW in FY20. 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.

About the Company

HPPL is a public limited company, incorporated on July 7, 2013. The company is developing 27 MW run-of-river, Dordi Khola Hydropower Project (DKHP) in Lamjung district of Nepal. The project is constructed under BOOT (Build, own, Operate and Transfer) mechanism. It is promoted by institutional as well as individual promoters. The company is listed on Nepal Stock Exchange. Ratio between promoter and public shareholders stands at 70:30 as on Mid-July, 2020.

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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	3,170.00	CARE-NP BB
Short Term Bank Facilities	Working Capital Loan	99.00	CARE-NP A4
Total Bank Facilities		3,269.00	