

Rating Rationale

Mathillo Mailun Khola Jalvidhyut Limited

Rating

Particulars	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	1,875.00	CARE-NP BB- [Double B Minus]	Reaffirmed
Total Short Term Facilities	90.00	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	1,965.00		

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 and ‘CARE-NP A4’ assigned to the short-term bank facilities of Mathillo Mailun Khola Jalvidhyut Limited.

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of Mathillo Mailun Khola Jalavidhyut Limited (MMKJL) continue to be constrained by project implementation and power evacuation risk, exposure to regulatory risk and hydrology risk associated with run-of-the-river power generation.

The ratings, however, continue to derive strength from Board members and management having experience in hydro power sector, 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.

Going forward, the ability the company to successful execute the project without cost and time overrun and early stabilization thereafter are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Project implementation risk

MMKJL is setting up a new hydro project of 14.3MW and expected COD of the project is in January 2022. The total cost of the project was envisaged at Rs 2,500 Mn which is proposed to be financed in debt equity ratio of 75:25 (Rs 1,875 Mn term loan and Rs 625 Mn equity). The debt for the same has been fully tied up. Out of the total capex planned, as on March 13, 2021, MMKJL has incurred Rs. 802.57 Mn of project cost funded through promoter’s contribution and term loan.

The company continues to remain exposed to the risks associated with project implementation in terms of its completion with-in the envisaged time and cost. Any delays in the implementation may impact the company’s financial risk profile adversely and is also crucial from credit prospective.

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

Power evacuation risk

The power generated from the project will be evacuated through 15Km long 132KV Transmission Line to the Trishuli 3B Hub Substation. Power from Trishuli 3B substation will be further evacuated to an operational Matatirtha Substation in Kathmandu valley by NEA through 220KV transmission line which has been already constructed by NEA. However, Trishuli 3B Hub is under construction. Construction of transmission line from powerhouse to Trishuli 3B substation is within the scope of MMKJL. Timely completion of the transmission lines and construction of substation by NEA will be crucial from revenue generation prospective.

Exposure to regulatory risk

Government of Nepal (GoN) has recently established Electricity Regulatory Commission (ERC) for regulating generation, transmission and distribution of electricity in Nepal. ERC will be the regulator under the GoN which will be responsible for regulating hydropower companies in Nepal. Policies and directives issued by ERC like approval process for IPO issuance, PPA approval through ERC poses a new challenge to hydropower companies. Hence, sector is prone to regulatory risk and changes in other policies by GoN.

Exposure to volatile interest rate

Nepalese banking sectors are fixing floating interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions will be change by change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 1-2 year. Therefore, funding from Bank and Financial Institutions are exposed to volatile interest rate.

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). MMKJP is proposed to utilize discharge from Mailung Khola which is a perennial river and having partly snow-fed and partly a rain fed catchment area of 72 sq kms. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river.

Key Rating Strengths

Board members and management having experience in hydro power sector

MMKJL has 3 Board of Directors, chaired by Mr. Rameshwor Rijal, who has more than ~37 years of experience in different organization. He has served as Department Chief for Public Works Department of Kathmandu Metropolitan City Office. Mr. Binaya Kumar Shrestha, Director, has more than 2 decades of experience. He is also a Chairman of Sanima Bank Ltd. Dr. Subarna Das Shrestha, Director, has ~27 years

of experience including ~25 years in Hydropower sector and was Past President of Independent Power Producers Association of Nepal (IPPAN). Company management team is led by Mr Kangada Prasai, General Manager of the company and has over one decade of experience in different capacities. He is supported by other experience management team.

Associated with large group having multiple hydropower projects

MMKJL is part of Sanima Hydro Group which is promoted by group of Non-Resident Nepalese who are related to Sanima Group having business in Hydropower, Banking and insurance sector. Sanima Hydro has been developing a number of hydropower projects by setting up Special Purpose Vehicle (SPV) companies in Nepal.

Power purchase agreement with sufficient period coverage

MMKJP had entered into a long term PPA with NEA on September 09, 2011 for sale of 14.3 MW power to be generated from the project. The contracted Plant Load Factor (PLF) for total 14.3 MW is 63.60%. PPA has been entered for the period of 30 years from the COD or till validity of generation license whichever is earlier. Tariff rate as per PPA 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. The Required Commercial Operation (RCOD) of the project was June 13, 2019 which was extended to May 31 2021. If COD does not fall within RCOD, MMKJL 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 years from 5 years.

Moderate counter party risk

MMKJL 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

Mathillo Mailun Khola Jalvidhyut Limited (MMKJL) is a Public Limited company, incorporated as on August 14, 2012. It is promoted by institutional investors majorly related to Sanima Hydro group and other institutes which include Banks and Insurance companies also for setting up of a 14.3 MW run-of-river, Mathillo Mailun Khola Jalvidhyut Project (MMKJP) in BOOT (Build, own, Operate and Transfer) mechanism and located at Rasuwa district of Nepal.

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Annexure 1: Details of the Facilities rated

Facility/ Instrument	Type of the Facility	Amount (Rs. In Million)	Rating
Long Term Bank Facilities	Term Loan	1,875.00	CARE-NP BB-
Short Term Bank Facilities	Working Capital Loan	90.00	CARE-NP A4
Total Facilities		1,965.00	