

Rating Rationale

Swet Ganga Hydropower & Construction Limited

Rating

Particulars	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	4,192.88	CARE-NP BB [Double B]	Reaffirmed
Total Short Term Facilities	120.00	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	4,312.88		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of ‘CARE-NP BB’ assigned to the long-term bank facilities and ‘CARE-NP A4’ assigned to the short-term bank facilities of Swet Ganga Hydropower & Construction Limited (SGHCL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of Swet Ganga Hydropower Construction Limited (SGHCL) continue to be constrained by project implementation risk, hydrology risk associated with run-of-the-river power generation and exposure to regulatory risk.

The ratings, however, derives strength from 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 of the company to successfully execute the project without further cost and time overrun and early stabilization thereafter are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Residual project implementation and stabilisation risk

SGHCL is setting up a new hydro project and the proposed capacity is 28.1 MW. The total cost of the project was envisaged at Rs 5,590 Mn to be funded in debt equity ratio of 75:25 (i.e. Rs 4,193 Mn term loan and Rs 1,397 Mn equity). The cost of project was increased by Rs. 649 Mn to Rs. 6,239 Mn and the same was on account of higher amount incurred on civil construction as compared to initially budgeted cost. The incremental cost is proposed to be funded through promoter’s contribution. The total debt amount of Rs. 4,193 Mn has been fully tied up and RCOD date of December 2021.

Out of the total revised capex planned, as on February 12, 2021, SGHCL has incurred a total expenditure of Rs. 3,751.77 Mn (including Rs. 267.46 Mn loans and advances). As per the progress report dated February 2021, the overall physical progress of the project is 66%. This exposes the company towards

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

residual project execution in terms and completion of the project with-in the envisaged time and cost. During initial phases of operations, the capital structure of the company is expected to remain leveraged. Furthermore, stabilization and streamlining of revenue shall remain a concern.

The power generated from the project is proposed to be evacuated through 27Km long 132KV Transmission Line to the New Khimti Substation, which is in the last stage of completion. Construction of transmission line from powerhouse to New Khimti substation is within the scope of SGHCL. Timely completion of the transmission lines and substations by both SGHCL and NEA will be crucial for revenue generation perspective.

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). SGHCL is proposed to utilize discharge from Likhu Khola having catchment area of 755 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

Experienced management team in hydro power sector

SGHCL has 4 Board of Directors, chaired by Mr. Manik Lal Shrestha, who has ~30 years of experience including 20 years of working experience in International Monetary Fund (IMF). Dr. Subarna Das Shrestha, Executive Director, has ~27 years of experience with 25 years in Hydropower sector. He has served as CEO in a promoter company in the past; Sanima Mai Hydropower Ltd [CARE-NP BBB+/A3+] and is a Past President of Independent Power Producers Association of Nepal (IPPAN). Company management team is

led by Bhoj Raj Poudel, General Manager of the company and has more than ~29 years of experience. He has been supported by other experience management team members.

Strong institutional promoter group

SGHCL is part of Sanima Hydro Group which is promoted by group of Non-Resident Nepalese who are related to Sanima Group, having business interest 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. Dolma Impact Fund (DIF) which has invested Rs. 320.74 Mn equity (holds 31.41% as on April 04, 2021) in SGHCL is an institutional investor and is the first commercial impact fund setup in Nepal for providing growth capital to Small and Medium Enterprises (SMEs) with strong entrepreneurial and management capacities.

Power purchase agreement with sufficient period coverage

SGHCL had entered into a long term PPA with NEA as on December 29, 2016 for sale of 28.10 MW power to be generated from the project. The contracted Plant Load Factor (PLF) for total 28.10 MW is 69.40% with total contracted energy of 170.84 MU. The period of PPA is 30 years from the date of COD or till validity of generation license. 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 8 years. Required Commercial Operation Date (RCOD) of the project is December 1, 2021.

Moderate counter party risk

SGHCL 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

Swet Ganga Hydropower & Construction Limited (SGHCL) is a Public Limited company, incorporated as on February 18, 2005 as a Swet Ganga Hydropower & Construction Private Limited and changed to Public limited on September 28, 2016. It is promoted by individual promoters from different background, institutional investors majorly related to Sanima Hydro group and other institutes which includes Banks and Investment companies for setting up of a 28.1 MW run-of-river, Lower Likhu Hydropower Project (LLHP) in BOOT (Build, own, Operate and Transfer) mechanism and located at Ramechhap 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	4,192.88	CARE-NP BB [Double B]
Total Short Term Facilities	Working Capital Loan	120.00	CARE-NP A4 [A Four]
Total Facilities		4,312.88	