

**Rating Rationale**  
**Asian Hydropower Limited**

**Rating**

Facility/ Instrument	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Issuer Rating	NA	CARE-NP BB (Is)[Double B(Issuer)]	Assigned
Long Term Bank Facilities	870.34	CARE-NP BB [Double B]	Reaffirmed
<b>Total Facilities</b>	<b>870.34</b>		

*\*The issuer rating is subject to the company maintaining overall gearing not exceeding 2.75x at the end of FY22*

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned ‘CARE-NP BB (Is)’ rating to Asian Hydropower Limited (AHL) and has reaffirmed rating of ‘CARE-NP BB’ assigned to the long-term bank facilities of AHL.

**Detailed Rationale & Key Rating Drivers**

The rating assigned to Asian Hydropower Limited (AHL) is constrained by project implementation and funding risk, hydrology risk associated with run-of-the-river power generation and exposure to regulatory risk.

The rating, however, derives strength from presence of power purchase agreement (PPA) with sufficient period coverage and moderate counter party risk. The rating also factors 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**

***Project implementation and funding risk***

AHL is setting up a new hydro project of 6.2MW capacity and the total cost of the project was envisaged at Rs. 1,160.45 Mn which is to be funded in debt equity ratio of 75:25 (debt of Rs 870 Mn and equity of Rs. 290 Mn). The cost of the project is increased by Rs. 151 Mn to Rs. 1,312 Mn and the increased cost is proposed to be funded through the debt amount of Rs. 983.60 Mn and equity amount of Rs. 327.93 Mn.. The revised in cost of project was on account of increase in civil works, hydro mechanical works and project supervision cost. Civil cost was increased due to design modification and hydro mechanical cost was increased due to change in supplier. The progress of the project was also affected by the COVID-19 pandemic which also resulted in increase in cost. The financial closure for the additional loan requirement

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com)

of Rs. 113.26 Mn is yet to be tied up. Out of the total capex planned, as on January 26, 2021, AHL has incurred a total expenditure of Rs.872.58Mn (including Rs. 405.38 Mn advances) met through promoters' contribution and term loan.

As per the progress report dated February 2021, the overall physical progress of the project is 69%. This exposes the company towards project execution in terms of partial yet to be tied-up debt, completion of the project with-in the envisaged time and cost.

#### ***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 due to which 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 leads to fluctuation 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 seasonal river flows are high (Mid-April to Mid-December) and less during the winter season (Mid-Dec to Mid-April). AHL is proposed to utilize discharge from Jogmai Khola having catchment area of 132.2 sq kms based on perennial river. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/khola.

#### ***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 the 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.

### **Key Rating Strengths**

#### ***Strong parentage and experienced management team***

AHPL is part of Urja Developers group which is having multiple hydropower projects under its portfolio through Special Purpose Vehicles (SPV) companies. The flagship company of the group is Urja developers, promoted by CE Construction Pvt. Ltd. (CECPL) which started business operations in early 1990's. The group has presence in construction, consultancy, manufacturing, education, finance, hospitality and power generation etc. CECPL was awarded "Construction Company of the Year 2017" by Frost & Sullivan. The group chairman is Mr. Bijay Bahadur Rajbhandary who is having experience of more than 3 decades.

AHPL has 7 Board of Directors and company management team is led by Mr. Bhanu Bhakta Pokharel, Managing Director of the company He possess more than ~30 years of management experience. He is supported by other experienced management team members.

***Power purchase agreement with sufficient period coverage***

AHPL had entered into a long term PPA with NEA as on March, 2018 for sale of 6.20 MW power to be generated from the project. The contracted Plant Load Factor (PLF) for total 6.2 MW is 66.14% with total contracted energy of 35.92 MU. 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 8 years. Required Commercial Operation (RCOD) of the project is July 16, 2021.

***Moderate counter party risk***

AHL 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.

**Low Power evacuation risk**

The power evacuation risk is low as power generated from the project will be evacuated to an existing Godak Substation which is an operational substation of NEA. Power from project’s switchyard will be connected to existing transmission line through a Loop-In-Loop-Out mechanism of another operational project which is already connected to Godak Substation.

**About the Company**

Asian Hydropower Pvt. Ltd. (AHPL) is incorporated as private limited company on May 05, 2016 and later on July 10, 2019 converted into public limited company. It is promoted by individual promoters from different background and institutional investors for setting up of a 6.2 MW run-of-river, Lower Jogmai Hydropower Project (LJHP) in “BOOT” (Build, Own, Operate and transfer) model and is located at Illam district of Nepal.

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**Annexure 1: Details of the Facilities Rated**

*(Rs in Million)*

S. N.	Name of Bank	Type of the Facility	Amount	Rating
1	Long Term Bank Facilities	Term Loan	870.34	<b>CARE-NP BB</b>
	<b>Total</b>		<b>870.34</b>	