

Rating Rationale
Nasa Hydropower Private Limited

Rating

Particulars	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	19,382.50	CARE-NP BB [Double B]	Reaffirmed
Total Short Term Facilities	117.50	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	19,500.00		

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 Nasa Hydropower Private Limited (NHPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to **Nasa Hydropower Private Limited** (NHPL) are constrained by project implementation risk, power evacuation and partial offtake risk, hydrology risk associated with run-of-the-river power generation, however mitigated due to peaking reservoir and exposure to regulatory risk.

The ratings, however, derive strength from strong promoters and experienced management team, 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

Project implementation risk

The company is setting up hydro power project of 160 MW and the total cost of the project is envisaged at Rs. 26,205 Mn which is to be funded in debt equity ratio of 74:26 (debt of Rs 19,382.5 Mn and equity of Rs. 6,822.50 Mn). The debt has been fully tied up and Required Commercial Date (RCOD) of the project is July 2022. The project is at initial stages of implementation and till April 30, 2021, only 1.63% of the total project cost has been incurred. This exposes the company towards project execution in terms and completion of the project with-in the envisaged time and cost. Though RCOD of the project is July 2022, the company expects to complete the project by July 2023. Execution of the project is being impacted due to recurring lockdowns being imposed because of Covid-19, which has disrupted the

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

availability of work force and required materials at the site. The company is yet to apply for extension of RCOD and in case on non-receipt of approvals in this regard, the company is required to pay penalty. Furthermore, if COD is delayed by 6 months to 18 months from RCOD, there is restriction clauses in escalation of tariff rate.

Power evacuation risk

The Power generated from the project is proposed to be evacuated through 132KV double circuit Transmission Line to NEA Bahrabise Substation at Sindhupalchok district which is under construction and is expected to be completed by FY22 which connects further to the national grid. NHPL is responsible for construction of transmission line up to Bahrabise Substation. Bidding process is yet to be initiated for construction of Transmission line. Timely completion of the transmission lines will be *crucial for the company for revenue generation prospective.*

Hydrology risk associated with run-of-the-river power generation, however minimized due to peaking reservoir

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 wet season when river flows are high (June to November) and less during the dry season (December to May). NHPL is proposed to utilize discharge from Lapche Khola having catchment area of 590 sq. kms based on Perennial River. However, the risk is minimized to some extent in the project due to peaking reservoir of 6 hours for dry season which will be used during peak time of dry season giving higher revenue to the company.

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 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 in the last 2 years. Therefore, funding from Bank and Financial Institutions are exposed to volatile interest rate.

Key Rating Strengths***Strong promoters and experienced management team***

NHPL is part of MV Dugar Group which has business across different sectors along with banking, insurance, automobiles, and construction etc. Mr. Motilal Dugar, Chairman of NHPL and Executive Chairman of the group, has more than 47 years of experience and is also Chairman of Sunrise Bank Ltd [CARE-NP A-]. Mr. Vivek Dugar, Director, has more than 22 years of experience and is also Chairman and promoter shareholder of Gurans Life Insurance Co. Ltd. He is engaged in business of trading of automobiles, construction business etc. Company's management team is led by Mr. Vipin Arora, CEO 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 though offtake risk pertains for partial capacity

The total installed capacity of the plant is 160 MW. NHPL has entered into a long term PPA with NEA as on November 15, 2017 for sale of 99.4 MW power to be generated from the project on take or pay basis and additional capacity of 60.6 MW on take and pay basis. PPA has been entered for the period of 30 years from the COD or till validity of generation license whichever is earlier. PPA for the project is entered for peaking run of the river with high tariff rate for peak dry season with 6 months of dry season. Tariff rate as per PPA is Rs 4.80 per Kwh for wet season (June - November) and the tariff rate for peak dry season (December- May) is Rs 10.55 per Kwh while the non-peak rate for the dry season (December-May) 8.4 per Kwh with 3% annual escalation on base tariff for 8 years. Further, additional energy is expected to be sold at non-peak rate.

Moderate counter party risk

NHPL 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

Nasa Hydropower Private Ltd (NHPL) is a private limited company, incorporated on October, 11 2007. It is promoted by individual promoters majorly related to MV Dugar group for setting up of a 160 MW peaking run-of-river, Lapche Khola Hydropower Project (LKHP) in Bigu Rural Municipality, Dolakha district of Nepal. The power project is proposed to utilize available head and flow from Lapche Khola (river). As per the Generation License, from Government of Nepal – Ministry of Energy, obtained as on December 28, 2017 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.

<p>Analyst Contact Ms. Elisha Lamichhane elisha.lamichhane@careratingsnepal.com Tel No.: +977-01-4012628</p>	<p>Group Head Mr. Shalini Sanghai shalini.sanghai@careratingsnepal.com Tel No.: +977-01-4012629</p>	<p>Relationship Contact Mr. Achin Nirwani achin.nirwani@careratingsnepal.com Tel No.: 9818832909/+977-01-4012628/29/30</p>
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Annexure 1: Details of the Facilities Rated

S. N.	Name of Bank	Type of the Facility	Amount (Rs. in Mn)	Rating
1	Long Term Bank Facilities	Term Loan	19,382.50	CARE-NP BB
2	Short Term Bank Facilities	Working Capital Loan (Proposed)	117.50	CARE-NP A4
	Total		19,500.00	