# Green Ventures Limited

**Ratings**

| Instrument / Facilities | Amount (Rs. In Million) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 7,620.00 | CARE-NP BB- [Double B Minus] | Reaffirmed |
| Total Short-Term Facilities | 150.00 | CARE-NP A4 [A Four] | Reaffirmed |
| **Total Facilities** | **7,770.00** | | |

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB-' to the long-term bank facilities and 'CARE-NP A4' to the short-term bank facilities of Green Ventures Limited (GVL).

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to Green Ventures Limited (GVL) continue to remain constrained by residual project implementation and stabilization risk associated with its debt-funded greenfield project, hydrology risk associated with run-of-the-river power generation and exposure to regulatory risk.

The ratings, however, derive strength from strong parentage and long-standing experience of promoter groups and management, 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 early stabilization of the power generation facilities and achieve the envisaged scale of business are the key rating sensitivities. Furthermore, the ability of the company to avoid further project time and cost overrun shall also remain key rating sensitivities.*

**Detailed description of the key rating drivers**

**Key Rating Weaknesses**

***Residual Project Implementation Risk***

The company is setting up hydro power project of 52.4 MW. The total cost of green-field project was estimated at Rs 10,163 Mn, which was being funded by term loan of Rs 7,620 Mn and remaining from the promoter's fund in form of equity. There has been delay in the project implementation due to change in design, structural changes led to increase in civil cost, restrictions imposed by Government of Nepal due pandemic (Covid-19). The same also attributed to increase in cost of project. The revised cost of project is Rs. 12,083 Mn and is proposed to be funded in the debt equity mix of 75:25. For the incremental cost, debt funding has already been tied up.

As on July 08, 2021, the plant is in the final stages of installation (physical process achieved around 98%) and is expected to commence production by October 2021. However, as on March 13, 2021, in terms of financial progress, the company had incurred an expenditure of Rs. 9,731 Mn towards the project. The expenditure incurred has been funded through loan amount of Rs. 6,493 Mn and balance from the promoters' contribution in the form of equity capital. The required contribution from the promoters has already been infused. Though there is major progress in the project, the company continues to remain exposed to the risks associated towards residual project execution in terms and completion of the project with-in the revised envisaged time and cost.

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

**Post-implementation and evacuation risk associated with its debt-funded greenfield project**

The power project was expected to commence operations from March 2021, however; the expected commercial operation has been revised to September 30, 2021 mainly due to reasons mentioned above. The power generated from the project is proposed to be evacuated through 19 Kms long 220 KV single circuit transmission line to the New Khimti Substation, which is under the last stage of construction. Power from New Khimti Sub Station will be further evacuated to Dhalkebar substation which is operational and is connected to national grid. Any further delay in the construction of the transmission line and substation would lead to increase in project cost and loss in revenue.

The plant is in the final stages of commissioning. The company has also commenced test run of the facilities, during which certain issues with the desilting wall has been witnessed and the remedial measures are currently being undertaken by the company.

***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). GVL is proposed to utilize discharge from Likhu Khola having catchment area of 655 sq kms based on snow fed river. The project has 26.70 $m^3/s$ design discharge at 40% exceedance flow and gross head of 221.27m. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/khola.

***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 (BFIs) remains volatile to change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 2-3 years. Therefore, funding from BFIs is subject to volatile interest rate.

***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. Polices 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 long-standing experience of promoter groups and management***

GVL business risk profile is benefitted from joint venture partners viz Triveni Group and Vishal Group of Nepal. The company is currently managed by 5 directors, chaired by Mr. Subhash Chandra Sanghai, who has more than 45 years of experience in different sectors. Mr. Govinda Lal Sanghai, director of GVL, has more than three decades of experience in various companies. Other directors of the company are involved in banking, insurance, manufacturing, trading and other businesses. The promoters are further assisted by a team of qualified professionals who have considerable experience in the industry.

***Power purchase agreement with sufficient period coverage and moderate counter party risk***

GVL has entered into a long term PPA with NEA as on February 2, 2011 for sale of 52.4MW power to be generated from the project and the PPA has been amended on July 13, 2016. PPA has been entered for the period of 30 years from the COD or till validity of generation license whichever is earlier. 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 every year on base tariff for 8 times after completion of 12 months from COD date. Required Commercial Operation date (RCOD) of the project was October 16, 2020. The company is in the process of extension of RCOD with NEA. Also, the ministry of Energy, water resources and irrigation has decided to extend the RCOD by one year for the COVID impacted hydropower projects. Any unfavourable decision by regulator towards further extension of RCOD till expected COD, the company is liable to pay penalties and thereby would impact the financial risk profile of the company. Furthermore, number of escalations in the tariff rate will also reduce in case the delay in RCOD is more than 6 months.

The company has signed PPA with NEA which is owned by Government of Nepal and hence counter party default risk is low; however, timely realization of critical for the company to maintain its liquidity position and also from analytical prospective.

***Current demand & supply gap however expected increase in supply 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***

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. As per various directives from NRB whereby all the banks (type A, B C, D) have to allocate minimum share of their total advances to energy sector which argues well for the sector.

**About the Company**

Green Ventures Ltd (GVL) is a public company, incorporated on December 7, 2004 as private limited company, later on February 25, 2019 it was converted to public limited company. The company is developing 52.4 MW run- of-river, Likhu-4 Hydropower Project (L4HP) in Okhaldhunga and Ramechhap district of Nepal. As per the Generation License, from Government of Nepal – Ministry of Energy, obtained on March 11, 2012 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.

**Annexure 1: Details of Instrument / Facilities**

| Name of the Instrument / Bank Facilities | Type of the Facility | Amount (Rs. in Million) | Rating assigned |
|---|---|---|---|
| Long Term Bank Facilities | Term Loan | 7,620.00 | CARE-NP BB- |
| Short Term Bank Facilities | Overdraft Loan | 150.00 | CARE-NP A4 |
| **Total** | | **7,770.00** | |

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