Mewa Developers Limited

Ratings

Instrument / Facilities	Amount (Rs. In Million)	Rating[1]	Rating Action
Long Term Bank Facilities	6,948.45	CARE-NP BB [Double B]	Reaffirmed
Total Facilities	**6,948.45 [Six Billion Nine Hundred Forty-Eight Million Four Hundred and Fifty Thousand Only]**		

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 of Mewa Developers Limited (MDL).

Detailed Rationale & Key Rating Drivers

The rating assigned to Mewa Developers Limited (MDL) is constrained by project implementation risk, hydrology risk associated with power generation and exposure to regulatory risk.

The rating, however, derives strength from strong parentage and experienced management team, 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 complete the project within envisaged cost and time and early stabilization thereafter are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Project implementation risk

MDL is setting up a new hydro project of 49MW capacity and the total cost of the project is envisaged at Rs. 9,264.61 Mn which is to be funded in debt equity ratio of 75:25 (debt of Rs 6,948.45 Mn and equity of Rs. 2,316.15 Mn). The total debt has already been tied up. The project is at the initial stage of construction. Till December 31, 2020, ~20.89% of the total project cost has been incurred. The civil contractor has commenced mobilization resources for executing civil works. As the major part of the project work is yet to be completed, the company continues to remain exposed to the risks associated with project implementation risk related to its completion within the estimated cost and time.

Hydrology risk associated with 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). The project is proposed to utilize discharge from Mewa Khola having catchment area of 333 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. However, the risk is mitigated 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.

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

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 experienced management team

MDL 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 Board of the company is chaired by Mr. Bijay Bahadur Rajbhandary, who has more than 30 years of experience in the diversified industry. He is supported by Mr. Bhanu Bhakta Pokharel, Managing Director of the company. He possesses more than ~30 years of management experience. He is further supported by other experienced management team members.

Power purchase agreement with sufficient period coverage

MDL had entered into a long term PPA with NEA on August 20, 2018 for sale of power to be generated from the 49 MW hydro power project. The contracted Plant Load Factor (PLF) for total 49 MW is 67.74% with total contracted energy of 290.76 million Units (MU). PPA has been entered for the period of 30 years from the COD or till validity of generation license (obtained on January 26, 2020 for 35 years) 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 to November) and the tariff rate for peak dry season (December to May) is Rs 10.55 per Kwh while the non-peak rate for the dry season (Mid-November to Mid-July) 8.40 per Kwh, with 3% annual escalation on base tariff for 8 years. Required Commercial Operation (RCOD) of the project is September 23, 2023.

Moderate counter party risk

MDL 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).

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.

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

Mewa Developers Ltd. (MDL) is a public limited company, incorporated as on July 8, 2016. the company is setting up of a 49 MW peaking run-of-river, Middle Mewa Hydropower Project (MMHP) in Mikhwa Khola Rural Municipality and Meringden Rural Municipality, Taplejung district of Nepal. The project is constructed under BOOT (Build, own, Operate and Transfer) mechanism. As per the Generation License, from Government of Nepal – Ministry of Energy, obtained as on January 26, 2020 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 the Facilities Rated

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	6,948.45	CARE-NP BB
Total		**6,948.45**	

Contact Us

Analyst
Ms. Elisha Lamichhane
Contact No.: 977-01-4012628
Email: elisha.lamichhane@careratingsnepal.com

Senior Analyst
Ms. Shalini Sanghai
Contact No.: +977-01-4012629
Email: shalini.sanghai@careratingsnepal.com

Relationship Contact
Name: Achin Nirwani
Contact No.: +977 9818832909
Email: achin.nirwani@careratingsnepal.com

About CARE Ratings Nepal Limited:
CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.