

Sanima Middle Tamor Hydropower Limited

Ratings

Instrument / Facilities	Amount (Rs. In Million)	Rating ^[1]	Rating Action
Long Term Bank Facilities)	9,509.50	CARE-NP BB [Double B]	Reaffirmed
Total Facilities	9,509.50		

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 Sanima Middle Tamor Hydropower Limited (SMTHL).

Detailed Rationale & Key Rating Drivers

The rating assigned to Sanima Middle Tamor Hydropower Limited (SMTHL) continues to remain constrained by project implementation and power evacuation risk, hydrology risk associated with run-of-the-river power generation and exposure to regulatory risk.

The rating, however, continues to derive 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 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

SMTHL is undertaking a green field project to build a hydro power project of 73 MW capacity in Taplejung district. The expected COD of the project is December 2022. The total cost of the project was envisaged at Rs. 12,680 Mn which was to be funded in debt: equity ratio of 75:25. However, the project cost is expected to increase by Rs.650 Mn on account of design modification and additional protection works. The total revised project cost is envisaged at Rs.13,330 Mn which will be funded by term loan of Rs. 9,997.50 Mn and remaining through equity. Out of the total capex planned, as on May 27, 2021, the company has incurred a total expenditure of Rs. 4,255 Mn (financial progress of ~31.92% of project) funded out of term debt of Rs. 1,886 Mn and remaining from the promoter's contribution. The debt amount of Rs. 488 Mn is yet to be tied up. This exposes the company towards project execution in terms of partial yet to be tied-up debt along with completion of the project within the envisaged time and cost.

Power evacuation risk

The power generated from the project will be evacuated through 11Km long 220 KV transmission line to Dhungesangu (Hangpang) Substation and the same is under construction. Installation of sub-station is within the scope of NEA and the construction is in-progress. Construction of transmission line from powerhouse to Dhungesangu substation is within the scope of SMTHL and the contracts for construction of transmission line has been awarded by the company. Timely completion of the transmission lines and substations is crucial for the company for revenue generation prospective.

Exposure to volatile interest rate

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

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.

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). The project is proposed to utilize discharge from Tamor Khola having catchment area of 2002 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.

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.

Key Rating Strength

Strong parentage and experienced management team

SMTHL has 4 Board of Directors, chaired by Mr. Binaya Kumar Shrestha who has more than 2 decades of management experience. Dr. Subarna Das Shrestha, Director, has ~27 years of experience with 25 years in Hydropower sector. He has served as CEO in a promoter company; 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 Dr. Jugal Bhurtel, CEO of the company and has more than ~30 years of working experience. He has been supported by other experience management team members.

Power purchase agreement with sufficient period coverage

SMTHL had entered into a long term PPA with NEA as on January 10, 2017 for sale of 52.10 MW power and entered into another PPA with NEA on Nov 30, 2018 for additional sale of 20.90 MW power to be generated from the project. The contracted plant load factor (PLF) for total 73 MW is 67.15% with total contracted energy of 429 MU. PPA has been entered for the period of 30 years from the COD or till validity of generation license (obtained on December 10, 2018 for 35 years) whichever is earlier.

Tariff rate as per PPA for 52.10 MW 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. In case of additional 20.90 MW definition of wet season is (June to November) and dry season is (December to May) with same tariff rate. The Required Commercial Operation Date (RCOD) of the project is September 13, 2021 for 52.1 MW and July 17, 2022 for 20.90 MW. However, the expected COD of the project is December 2022.

Moderate counter party risk

SMTHL 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

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

Sanima Middle Tamor Hydro Power Ltd (SMTHL) is a Public Limited company, incorporated as on May 05, 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 Insurance companies for setting up of a 73 MW run-of-river, Middle Tamor Hydropower Project (MTHP) in Taplejung district of Nepal. The major shareholder of the company is Sanima Mai Hydropower Ltd [CARE-NP BBB+/A3+] (22.86% as on April 22, 2021). The project is constructed under BOOT (Build, own, Operate and Transfer) mechanism.

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	9,509.50	CARE-NP BB
Total		9,509.50	

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