

Swet Ganga Hydropower & Construction Limited

Ratings

Instruments / Facilities	Rating Amount (Rs. in Mn)	Rating ¹	Rating Action
Issuer Rating	NA	CARE-NP BB (Is) [Double B Issuer]	Assigned
Long-term Bank Facilities	4,192.88	CARE-NP BB [Double B]	Reaffirmed
Short-term Bank Facilities	120.00	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	4,312.88 (Four Billion Three Hundred Twelve Million and Eight Hundred Eighty Thousand only)		

*The issuer rating is subjected to the company maintaining overall gearing not exceeding 3.0x at the end of FY22.

**Details of instruments / facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned Issuer rating of 'CARE-NP BB (IS)' to Swet Ganga Hydropower & Construction Limited (SGHCL). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations in Nepal.

Also, CRNL has reaffirmed the rating of 'CARE-NP BB' for the long-term bank facilities and 'CARE-NP A4' for the short-term bank facilities of SGHCL.

Detailed Rationale & Key Rating Drivers

The ratings assigned to SGHCL continue to be constrained by residual project implementation and stabilization risk associated with greenfield hydropower project, hydrology risk associated with run-of-the-river power generation, exposure to volatile interest rate and regulatory risk. The ratings also took cognizance of increase in project cost coupled with delay in its commencement of commercial operations.

The ratings, however, 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 ratings also factor in current demand & supply gap 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

Residual project implementation and stabilization risk

SGHCL is setting up a new hydro project and the proposed capacity is 28.1 MW. The total cost of the project was envisaged at Rs 5,590.50 Mn. The cost of project was increased by Rs. 781.50 Mn to Rs. 6,372 Mn to be funded in debt equity ratio of 75:25 (i.e. Rs. 4,779 Mn term loan and Rs. 1,593 Mn equity). The increase in cost of project was on account of increase in cost of civil construction due to change in alignment of waterways, increased in cost for headrace tunnel construction and other changes in technical requirements in the project. The new cost is also proposed to be

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

funded in the debt-equity ratio of ~75:25. SGHCL has obtained in principle approval for additional debt amount of Rs. 586.12 Mn. The entire promoters' contribution amounting to Rs. 1,115.10 has already been infused and the remaining equity is expected by initial public offering. SGHCL has given request to authority for extension of RCOD to June 2022.

Out of the total revised capex planned, as on July 15, 2021, SGHCL has incurred a total expenditure of Rs. Rs. 4,317.91 Mn (including Rs. 3,135.33 Mn loans and advances). As per the progress report of July 2021, the overall physical progress of the project is ~74%. This exposes the company towards residual project execution in terms of completion of the project with-in the envisaged time and cost. During initial phases of operations, the capital structure of the company is expected to remain leveraged. Furthermore, stabilization and streamlining of revenue shall remain a concern.

Power evacuation risk

The power generated from the project is proposed to be evacuated through 23 Km long 132KV transmission line to the New Khimti Substation, which is under construction. Construction of transmission line from powerhouse to New Khimti substation is within the scope of SGHCL and for which the separate contract has been awarded by the company. Timely completion of the transmission lines and substations by SGHCL will be crucial for revenue generation perspective.

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.

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 river flows are high (Mid-April to Mid-December) and less during the winter season (Mid-Dec to Mid-April) and which is included in energy table of PPA. SGHCL is proposed to utilize discharge from Likhu Khola having catchment area of 755 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 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 will be change by change in liquidity position which lead to 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. However, till mid-April 2024, SGHCL has entered into an agreement with financials institution to have fixed rate of interest which mitigates the risk to certain extent.

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Key Rating Strengths

Experienced management team in hydropower sector

SGHCL is currently managed by Dr. Manik Lal Shrestha (Chairman), who has ~30 years of experience including 20 years of working experience in International Monetary Fund (IMF). Dr. Subarna Das Shrestha, Executive Director, has an overall experience of around two and half decades in power generation sector especially hydro projects through his association with various companies. He was past President of Independent Power Producers Association of Nepal (IPPAN). The company management team is led by Bhoj Raj Poudel, General Manager of the company and has more than ~29 years of experience. He has been supported by other experienced management team members.

Strong institutional promoter group

SGHCL is part of Sanima Hydro Group which is promoted by group of Non-Resident Nepalese who are related to Sanima Group of Companies, having business interest in Hydropower, Banking and Insurance sector. The group has been developing hydropower projects by setting up Special Purpose Vehicle (SPV) companies in Nepal. Dolma Impact Fund (DIF) which has invested Rs. 385.10 Mn equity (holds 34.54% as on July 19, 2021) in SGHCL is an institutional investor and is the first commercial impact fund setup in Nepal for providing growth capital to Small and Medium Enterprises (SMEs) with strong entrepreneurial and management capacities.

Power purchase agreement with sufficient period coverage

SGHCL had entered into a long term PPA with NEA as on December 29, 2016 for sale of 28.10 MW power to be generated from the project. The contracted Plant Load Factor (PLF) for total 28.10 MW is 69.40% with total contracted energy of 170.84 MU. The period of PPA is 30 years from the date of COD or till validity of generation license. 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.

Current demand & Supply gap however possible oversupply in future along with moderate counter party risk

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., requiring demand side management.

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

Favourable Government policies towards 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) has to allocate minimum share of their total advances to energy sector which argues well for the sector.

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About the Company

Swet Ganga Hydropower & Construction Limited (SGHCL) is a Public Limited company, incorporated as on February 28, 2005 as Swet Ganga Hydropower & Construction Private Limited and later changed to Public limited on October 03, 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 Investment companies for setting up of a 28.1 MW run-of-river, Lower Likhu Hydropower Project (LLHP) located in Ramechhap district of Nepal. The project is constructed under BOOT (Build, own, Operate and Transfer) mechanism.

Annexure-1: Details of the Facilities Rated

Name of the Instrument / Bank Facilities	Type of the Facility	Rating Amount (Rs. In Million)	Ratings assigned
Long Term Bank Facilities	Term Loan	4,192.88	CARE-NP BB
Short Term Bank Facilities	Working Capital Loan	120.00	CARE-NP A4
Total		4,312.88	

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