

Nyadi Hydropower Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Issuer Rating	NA	CARE-NP BB (Is) [Double B (Issuer)]	Reaffirmed
Long Term Bank Facilities	4,400.00	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	200.00	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	4,600.00 [Four Thousand Six Hundred Million only]		

**The issuer rating is subject to overall gearing of the company not exceeding 3.00x at the end of FY22.*

CARE Ratings Nepal Limited (CRNL) has reaffirmed Issuer rating of 'CARE-NP BB+ (Is) [Double B Plus (Issuer Rating)]' to Nyadi Hydropower Limited (NHL). Issuers with this rating is considered to have moderate degree of safety 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 Nyadi Hydropower Limited (NHL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to NHL continues to be constrained by project stabilization risk associated with relatively high project cost, power evacuation risk, hydrology risk associated with run-of-the-river power generation and exposure to regulatory risk.

The ratings, however, derives strength from experienced board members and part of Butwal Power Company Limited, 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

Project stabilization risk associated with the project and relatively high project cost

The total cost of the project was Rs. 5,867 Mn which was proposed to be financed in debt equity ratio of 75:25 (i.e., Rs. 4,400 Mn debt and Rs. 1,467 Mn equity). However, the same was revised to Rs. 6,118 Mn which is proposed to be financed through the debt amount of 4,400 Mn debt and Rs. 1,500 Mn equity and balance as suppliers' retention which will be paid through cash accruals). The total debt amount of Rs. 4,400 Mn has already been tied up. Project is being developed at relatively high cost with Rs. 204 Mn per MW due to changes in design of transmission line and increase in cost of supervision and management expenses due to delay in the project. On the basis of cost incurred till November 30, 2021, the company has achieved financial progress of around 89% and overall physical progress of around 99%. Even though, the plant is in the final stages of completion, the commencement of commercial production in timely manner is crucial for the company. Furthermore, stabilization and streamlining of production remains to be seen.

¹ Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications

Power evacuation risk

Power generated from the project was proposed to be evacuated to NEA's Tarikuna Substation. However, due to non-completion of NEA's Tarikuna Substation, power is proposed to be evacuated through a loop in loop out method to one of the towers of a privately owned and operational project under the contingencies plan of NEA. Power is further evacuated to Middle Marsyangdi Substation. However, due to the change in design of transmission line; it is likely that there would be delay in commencement of commercial operation of the project. Furthermore, timely construction of transmission line and smooth evacuation of the power is critical from revenue generation prospective.

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). NHL is proposed to utilize discharge from Nyadi River having catchment area of 154.7 sq kms. Hence, any variation in discharge of water might impact the energy generation of projects which is of key importance for the company from the 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.

Key Rating Strengths**Experienced Board Members and management team and part of renowned Group**

NHL's major stake is owned by Butwal Power Company Limited (BPCL) which owns and operates multiple hydropower projects in Nepal. This provides comfort to the company in terms of construction, operations and technical assistance. NHL has total 6 directors chaired by Mr. Om Prakash Shrestha, along with other directors having experience in hydropower sector and involvement in other businesses including hydropower as a chairperson and director. Mr. Uttam Amatya, CEO of the company, has more than 3 decades of experience in Nepal Electricity Authority (NEA) and is supported by other experience management team members.

Power purchase agreement with sufficient period coverage

NHL had entered into a long term PPA with NEA as on May 26, 2015 for sale of 30 MW power to be generated from the project. The period of the PPA is 30 years from Commercial Operation Date (COD) or till validity of Generation License whichever is earlier. The project has differential tariff rate for wet season and dry season i.e., is Rs 4.80 and Rs 8.40 per kWh respectively with 3% escalation on base tariff for 8 times on annual basis. Required Commercial Operation (RCOD) of the project was in April 2020; however, the project has been delayed due to impact of COVID-19 on construction activities. The company has applied for RCOD extension citing force majeure due to COVID-19. If PPA is not extended till COD, NHL will be liable to pay late COD penalty and will lose tariff escalations.

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

As per the NEA's Annual Report for FY21, the current peak electricity demand is 1,482MW. The total domestic installed capacity stands at 1,447 MW which includes 632 MW owned by NEA and 815 MW by private sector IPPs. Overall, during FY21, total energy demand was 8,960 GWh which was met by import of 2,806 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) have to allocate minimum share of their total advances to energy sector which argues well for the sector.

About the Company

Nyadi Hydropower Limited is a public company, incorporated on March 1, 2007. It is promoted by Butwal Power Company Limited (BPCL) and Lamjung Electricity Development Company Ltd. (LEDCO) for setting up a 30 MW run-of-river, Nyadi Hydropower Project (NHP) in Lamjung district of Nepal. The project is constructed under BOOT (Build, own, Operate and Transfer) mechanism.

Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	4,400.00	CARE-NP BB
Short Term Bank Facilities	Working Capital Loan	200.00	CARE-NP A4
Total Bank Facilities		4,600.00	

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