

United Mewa Khola Hydropower Private Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	6,750.00	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	250.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	7,000.00 (Seven Thousand Million Only)		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB [Double B]' to the long-term bank facilities and assigned the rating of CARE-NP A4 [A Four] to the short-term bank facilities of United Mewa Khola Hydropower Private Limited (UMHPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of United Mewa Khola Hydropower Private Limited continues to remain constrained by project implementation risk, power evacuation risk, hydrology risk associated with run-of-the-river power generation and exposure to volatile interest rate risk.

The rating, however, continues to derive strength from experienced promoters and management in diversified sector, presence of power purchase agreement (PPA) with sufficient period coverage and moderate counter party risk. The rating also factors 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 implementation risk

The company is setting up a 50 MW Mewa Khola Hydroelectric Project (MKHP). The estimated cost of the green-field project is Rs 9,000 Mn (Rs. 180 Mn per MW) which is proposed to be funded in the debt equity ratio of 75:25 (debt of Rs 6,750 Mn and equity of Rs 2,250 Mn). The debt has been tied up. The project is at very initial stage of construction and the expected COD of the project is April 2024.

Out of the total capex planned, UMHPL has incurred total expenditure of Rs 539 Mn out of Rs. 9,000 Mn. Pre-construction and initial infrastructure development works are in process and the contracts for the civil, hydro mechanical, electro mechanical and transmission line works are yet to be awarded. This exposes the company towards project execution with-in the envisaged time and cost.

Power evacuation risk

The power generated from the project is proposed to be evacuated through 12km long 132KV Transmission Line to NEA's Hangpang Substation at Taplejung district which is under construction. Power from Hang pang/ Dhungesangu substation is further evacuated to under construction Basantapur Substation. Construction of transmission line from powerhouse to Hang pang substation is within the scope of UMHPL. Bidding process is yet to be initiated for construction of transmission line. Timely completion of the transmission lines will be crucial for the company for 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

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

summer season when seasonal river flows are high (June to November) and less during the winter season (Dec to May). The project is proposed to utilize discharge from Mewa Khola having catchment area of 527 sq kms based on Perennial River. The project has 33 m³/s design discharge at 40% exceedance flow. Hence, the expected power generation 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.

Key Rating Strength

Experienced promoters and management in diversified sector

UMHPL has 3 board of directors having long experience in diversified sector. The board is chaired by Mr. Maheshwor Prakash Shrestha, who has more than 2 decades of work experience in diversified sectors including hydropower projects such as Mandu Hydropower Ltd. (22 MW-operational), Nilgiri Khola Hydropower Company Ltd. (Nilgiri Khola-38 MW and Nilgiri Khola II-62 MW-under construction) and Tundi Power Pvt. Ltd. (Rahughat Mangale-35.50 MW and Upper Rahughat-48.50 MW- under construction). Other directors of the company also have also experience of more than 20 years in various sector including hydropower projects. Apart from that, the day-to-day activities are run by the experience management team.

Power purchase agreement with sufficient period coverage

UMHPL had entered into PPA with NEA as on June 04, 2017 for sale of 50 MW power to be generated from the project. The period of PPA is 30 years from commercial operation date (COD) or till validity of Generation License whichever is earlier. The tariff for wet season (June to November) is Rs 4.80 per kWh and for dry season (December to May) is Rs 8.40 per kWh with 3% escalation every year after completion of 12 months from COD date on base tariff for 8 times.

The contracted energy for the project is 303.01 million units at PLF of 69.18%. Required Commercial Operation (RCOD) of the project was July 16, 2021. The company is in the process of extension of RCOD. If COD doesn't fall within RCOD, the company is bound to pay penalty to NEA as per the PPA. Further, number of escalations in tariff rate will be reduced if there is delay in COD of the project than RCOD by more than 6 months.

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.

Favorable 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

United Mewa Khola Hydropower Private Limited (UMHPL) is a private company, incorporated on June 01, 2010. The company has been promoted by institutional promoters and individual businessmen of Nepal. The company is setting up 50 MW run-of-river, Mewa Khola Hydroelectric Project (MKHP) in Taplejung district. The project is constructed under BOOT (Build, own, Operate and Transfer) mechanism.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	6,750.00	CARE-NP BB
Short Term Bank Facilities	Working Capital Loan	250.00	CARE-NP A4
Total Facilities		7,000.00	

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