

## Isuwa Energy Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	3,044.00	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	6.00	CARE-NP A4 [A Four]	Assigned
<b>Total Facilities</b>	<b>3,050.00</b> <b>(Three billion and fifty million only)</b>		

*\*Details of instruments/ facilities in Annexure-I*

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of Isuwa Energy Private Limited (IEPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of IEPL are constrained by project implementation risk, moderate hydrology risk associated with peaking run of the river power generation, power evacuation risk and exposure to volatile interest rate.

The ratings, however, derive strength from experienced promoters and management team in hydropower sector, power purchase agreement with sufficient period coverage, relatively low cost of project and moderate counter party risk.

*Going forward, the ability the company to successful execute the project within its estimated 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

IEPL is setting up a 37.70 MW Isuwa khola Cascade Hydropower project (IKHP) in Sankhuwasabha district of Nepal. The total cost of the green-field project is estimated at Rs. 3,806.20 Mn (Rs. 100.96 per MW), which is proposed to be funded in the debt equity ratio of ~80:20 (i.e. bank debt of Rs. 3,044 Mn and equity of Rs. 762.20 Mn). The debt of the project has been fully tied up. The project is at initial stage of construction and the project is expected to commence operations in April 2024. Out of the total capex planned, IEPL has incurred total expenditure of Rs. 449.79 Mn till mid-December 2021 and the preliminary & preparatory works are on-going at project site. The contract for the civil, hydro mechanical and electro-mechanical works are yet to be awarded. Since the project is at very initial stages of its implementation, the company is exposed towards project execution risk, in terms of completion of the project with-in the envisaged time and cost. Also, the solvency position of the company is projected to remain weak with high overall gearing due to high debt equity of 4:1.

#### Moderate Hydrology risk associated with peaking 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 wet season when river flows are high (June to November) and less during the dry season (December to May). IKHP is proposed to utilize discharge from Isuwa river having catchment area of 152 km<sup>2</sup> with 12.6 m<sup>3</sup>/sec

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and in other CRNL publications.

design discharge at 50.15% exceedance flow. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river. However, the risk is minimized 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.

#### **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.

#### **Power Evacuation Risk**

The Power generated from the project will be evacuated by ~16 Km long 220 KV transmission line to NEA's Sitalpati Substation located at Sankhuwasabha district, Nepal. At present, NEA's Sitalpati substation is under construction stage and expected to be completed before commencement of the project. Furthermore, IEPL is responsible for construction of ~16 Km long transmission line from the project's powerhouse up to Sitalpati Substation. The timely completion of the transmission line and the substation in timely manner is critical from revenue generation prospective.

#### **Key Rating Strengths**

##### **Experienced promoters and management team in hydropower sector**

IEPL has two board of directors having long experience in various sector including both operational and under construction hydropower projects in Nepal. The board is chaired by Mr. Bikram Bista who has more than 20 years of work experience in various business domains including hydropower sector, which is operational since July 2020. He is also an executive committee member of Independent Power Producers' Association of Nepal, which is an umbrella organization of independent power producers in Nepal.

Mr. Birendra Neupane is the managing director of the company, having vast experiences of around 4 decades including 15 years of experience in hydropower sector. He has been associated with various operational and under construction hydropower projects. The directors are also supported by the experienced management team to run the day-to-day activities.

##### **Power Purchase agreement having sufficient period of coverage with moderate counter party risk**

IEPL had entered into a long term PPA with Nepal Electricity Authority (NEA) as on January 11, 2021 for sale of 37.70 MW power to be generated from the project. The period of the PPA is 30 years from the date of COD or till validity of Generation License, whichever is earlier. PPA period may be extended with mutual consensus during the last six months of validity. 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% p.a. escalation on base tariff for continuous 8 years. The contracted energy for the project is 260.22 million units at PLF of 78.79%. The required commercial operation (RCOD) of the project is April 12, 2024.

The company has signed PPA on 'take or pay' basis 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.

##### **Relatively low cost of project**

The cost per MW at present estimation is Rs. 100.96 Mn per MW, which is comparatively lower than any other hydropower plants in Nepal. The project is a cascade project of 97.20 MW Isuwa khola HEP developed by KBNR Isuwa Power Limited (KBNR). Being a cascade project, civil construction works has been reduced which are mainly related to headwork structure and surge tank etc. The low project cost reduces the pay-back period of investors and normally

supports in achieving the breakeven at lower revenue. However, it is very critical from analytical prospective to complete the within the envisaged cost.

#### **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**

Isuwa Energy Private Limited (IEPL) is a private limited company, incorporated on January 22, 2018 by a group of individual promoters for setting up of a 37.70 MW, peaking run-of-river, Isuwa Khola Cascade Hydroelectric Project in Sankhuwasabha district of Nepal. The project is constructed under BOOT (Build, Own, Operate and Transfer) mechanism.

#### **Annexure 1: Details of the Facilities rated**

<b>Nature of the Facilities</b>	<b>Type of facilities</b>	<b>Amount (Rs. in Mn)</b>	<b>/Rating</b>
Long Term Bank Facilities	Term Loan	3,044.00	<b>CARE-NP BB</b>
Short Term Bank Facilities	Working Capital Loan	6.00	<b>CARE-NP A4</b>
<b>Total Facilities</b>		<b>3,050.00</b>	

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