

## Peoples Energy Limited

### Rating

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	6,484.00	<b>CARE-NP BB [Double B]</b>	Assigned
Total Bank Facilities	<b>6,484.00 (Six billion Four hundred and Eighty-four million only)</b>		

\* Details of Facilities in Annexure-1.

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB' to the long term bank facilities of Peoples Energy Limited (PEL).

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of PEL are constrained by project implementation risk, hydrology risk associated with run of the river power generation and exposure to volatile interest rate.

The rating, however, derive strength from experienced board members and part of RM Group, power purchase agreement with sufficient period coverage, favorable government policies towards power sector and moderate counter party risk.

*Going forward, the ability of 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

PEL is setting up a 48.80 MW Khimti-II Hydropower project in Dolakha district of Nepal. The total cost of the green-field project is estimated at Rs. 8,646.61 Mn (Rs. 177.18 per MW), which is proposed to be funded in the debt equity ratio of ~75:25 (i.e. bank debt of Rs. 6,484 Mn and equity of Rs. 2,162.61 Mn). The debt of the project has been fully tied up. The project is at initial stage of construction and the expected COD of the project is mid-July 2023. Out of the total capex planned, PEL has incurred total expenditure of Rs. 807.06 Mn out of Rs. 8,646.61 Mn.

Till mid-October 2021, the company has achieved physical progress of ~20% and the major work i.e. tunnel excavation is on-going along with other site works. This exposes the company towards project execution with-in the envisaged time and cost.

#### 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). UCPL is proposed to utilize discharge from Khare Khola having catchment area of 180 sq kms based on Perennial River. The project has 10.10 m<sup>3</sup>/s design discharge at 40% exceedance flow and gross head of 136.70m. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river; however, 60 MW Khimti-I Hydropower project operate by Himel Power Limited has been generating adequate power and same can be expected from Khimti-II HEP being developed by PEL.

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

**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.

**Key Rating Strength****Experienced board members and a part of RM Group**

RM Group is predominantly involved in hydropower sector. The group has three hydropower companies namely 15.4 MW Bindhyabasini Hydropower Development Company Ltd. (BHDCL), 20 MW Multi Energy Development Pvt. Ltd. and PEL. BHDCL is an operational hydropower company and is also a major promoter in PEL.

PEL is managed under the overall guidance of the company's board of directors, who possesses wide experience in the various sectors including hydropower. The board consists of nine members chaired by Mr. Krishna Acharya who is involved in multiple business ventures. He is also the chairman of RM Group and is supported by other experienced management team members.

**Power Purchase agreement with sufficient period of coverage**

PEL had entered into a long term PPA with Nepal Electricity Authority (NEA) as on October 1, 2015 for sale of 48.80 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 (mid-April to mid-December) is Rs 4.80 per kWh and for dry season (mid-December to mid-April) 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 260.31 million units at PLF of 60.89%. The required commercial operation (RCOD) of the project is mid-July 2022. 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 PPA. Further, number of escalation in tariff rate will be reduced if there is delay in COD of the project than RCOD by more than 6 months.

**Lower Power evacuation risk with moderate counter party risk**

The power generated from the project is proposed to be evacuated through ~12 km 132 kV single circuit transmission line from Khimti-II Powerhouse to the NEA's New Khimti substation located in Khimti bazar, Dolakha district which is in operation. Therefore, there is no major power evacuation risk except the construction of transmission line from the powerhouse to the NEA substation which is under the scope of the company.

Also, 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**

Peoples Energy Limited (PEL) was incorporated on July 5, 2016 as Public Limited company by a group of individual promoters as well as institutional promoters for setting up of a 48.80 MW, run-of-river, Khimti-II hydroelectric project (KHEP) in Dolakha 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 Facilities	Type of facilities	Amount (Rs. in Mn)	Rating
Long Term Bank Facilities	Term Loan	6,484.00	<b>CARE-NP BB</b>
<b>Total</b>		<b>6,484.00</b>	

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**About CARE Ratings:**

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