

Peoples Hydropower Company 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	6,160.00	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	150.00	CARE-NP A4 [A Four]	Reaffirmed
Total Bank Facilities	6,310.00 (Six billion Three hundred and Ten million only)		

* The issuer rating is subjected to the company maintaining the overall gearing not exceeding 2.30x at the end of FY22.

** Details of facilities in Annexure-1.

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB' assigned to the long term bank facilities and 'CARE-NP A4' assigned to the short term bank facilities of Peoples Hydropower Company Limited (PHCL). Also, CRNL has reaffirmed the issuer rating of 'CARE-NP BB (Is)' assigned to PHCL. The Issuers with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations in Nepal.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of PHCL continue to remain constrained by the project implementation risk and stabilization, hydrology risk associated with run-of-the-river power generation and exposure to regulatory risk. The rating also took cognizance of the major time and cost overrun in the project.

The ratings, however, continue to derive strength from the experienced board members and management team, power purchase agreement with sufficient period of coverage, favorable government policies towards power sector and moderate counter party risk.

Going forward, the ability of the company to timely complete the project at the envisaged project cost without any further time or cost overrun along with timely and fully subscription of Initial public offering (IPO) to fund its project cost would remain as the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Project Implementation Risk

The company is setting up a 54 MW Super Dordi Hydropower Project Kha (SDHPK). The estimated cost of the green-field project is Rs 10,390 Mn (Rs. 192.41 Mn per MW) which is proposed to be funded in the debt equity ratio of 70:30 (debt of Rs. 7,273 Mn and equity of Rs 3,117 Mn). The substantial debt has been tied up. The project is at final stage of construction and the expected COD of the project is April 27, 2022.

Out of the total capex planned, PHCL has incurred total expenditure of Rs. 7,216.30 Mn out of Rs. 10,390 Mn. The Electro-mechanical (EM) contractor has been mobilized at the site for the installation of EM equipment and switchyard panel along with the erection of transmission poles and remaining works. This exposes the company towards project execution in terms of partial yet to be tied-up debt, completion of project with-in the envisaged time and cost.

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

Significant time overrun along with cost overrun in the project execution

The total cost of Super Dordi Hydropower Project Kha was envisaged at Rs. 8,800 Mn to be funded in debt equity ratio of 70:30 (debt of Rs 6,160 Mn and equity of Rs. 2,640 Mn). However, the same has been now revised to Rs. 10,390 Mn which is proposed to be financed in the debt equity ratio of 70:30 with the debt amount of Rs. 7,273 Mn and remaining amount through equity. The increased debt portion is yet to be tied up whereas the increased equity portion will be utilized from the IPO proceeds. Any delay in the debt tied up and IPO issuance will put the project finance in strenuous position.

The revised Required Commercial operation date (RCOD) of the project stands on April 27, 2022 which has been extended multiple times due to delay in construction of Kritipur Substation by Nepal Electricity Authority (NEA), recurring flash floods in the project site coupled with Covid-19 restrictions imposed by the Government of Nepal from time to time, have contributed in the impediment in completion of the project.

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). PHCL is proposed to utilize discharge from Dordi Khola having catchment area of 142.45 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.

Exposure to regulatory risk coupled with volatile interest rate

Electricity Regulatory Commission (ERC) under the Government of Nepal (GoN) is responsible for regulating hydropower companies in Nepal. Policies and the 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.

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 management team**

PHCL has 7 Board of Directors, chaired by Mr. Udaya Nepali Shrestha, Masters, who has more than 40 years of experience including ~30 years of experience in different capacities in Government of Nepal. He has also served as Chairman of Nepal SBI Bank Ltd. and Nepal Investment Bank Ltd. in the past. Mr. Keshav Bahadur Rayamajhi, Managing Director, has more than 10 years of experience in hydropower sector apart from other management experience. He is also associated with Global IME Bank Ltd in the capacity of director. Management Team of PHCL is led by Mr. Rayamaji and he is supported by other experienced team members.

Power Purchase agreement with sufficient period of coverage

PHCL had entered into a long term PPA with NEA as on February 25, 2015 for sale of 49.6 MW power to be generated from the project which was later amended on February 27, 2019 for additional 4.4 MW with total 54 MW power to be generated from the project. The contracted Plant Load Factor (PLF) for total 54 MW is 66.59%. Tariff rate as per PPA for 49.6 MW 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. In case of additional 4.4 MW, the definition of wet season is (June to November) and dry season is (December to May) with same tariff rate.

Lower Power evacuation risk with moderate counter party risk

The power generated from the project is proposed to be evacuated through 5.2 Km long 132KV transmission line to Kirtipur Substation in Lamjung. The kirtipur substation has been already constructed by the NEA and currently connected to the national power grid line via Udipur Hub. The construction of transmission line from powerhouse to Kirtipur substation is within the scope of PHCL. Timely completion of the transmission line and charging of substation by the respective parties is critical from revenue perspective. Delay in the same might result to loss in revenue.

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 Hydropower Company Limited (PHCL) is a Public Limited company, incorporated as on October 9, 2007 as a Peoples Hydropower Company Private Limited and changed to public limited on February 27, 2019. The company currently constructing a 54 MW run-of-river, Super Dordi Hydropower Project Kha (SDHPK) in Lamjung district of Nepal. The project has been 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	CARE-NP BB
Short Term Bank Facilities	Working Capital Loan	150.00	CARE-NP A4
Total		6,310.00	

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