

Seti Khola Hydropower Private Limited

Rating

Facilities/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	3,800.00	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	150.00	CARE-NP A4 [A Four]	Assigned
Total	3,950.00 (Three billion Nine hundred fifty million only)		

**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 Seti Khola Hydropower Private Limited (SKHPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SKHPL are constrained by project implementation risk, hydrology risk associated with 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, favourable government policies towards power sector 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 considering the initial stage of construction

SKHPL is setting up a 22 MW, run-of-river, Seti Khola Hydropower Project (SKHP) in Pokhara, Kaski district of Nepal. The total cost of the green-field project is estimated at Rs. 5,052.34 Mn (Rs. 229.65 per MW), which is proposed to be funded in the debt equity ratio of ~75:25 (i.e. bank debt of Rs. 3,789.00 Mn and equity of Rs. 1,263.34 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 in July 2023. Out of the total capex planned, PEL has incurred total expenditure of Rs. 409.55 Mn (~8% of total project) till mid-December 2021 which has been funded solely through equity.

Till mid-January 2022, the preliminary and preparatory works has been completed; land has been acquired, access road to project and site structures are also completed. The contract for civil and electromechanical works have been awarded. Currently, the excavation of the headrace tunnel, having total length of 2,940 m, is in process. 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.

Relatively high development cost per MW

The total cost of the green-field project is estimated at Rs. 5,052.34 Mn i.e. Rs. 229.65 per MW, which is relatively higher as compared to other hydropower projects having similar installed capacity. The higher project cost is mainly attributable to the long headrace tunnel required to be constructed in the project having total length of 2,940m whereas the project has very less HM section considering headrace pipe having length of 175m and penstock pipe having length of 780m. The civil

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

works alone constitutes around ~59% of total budgeted cost. Furthermore, the project is also relatively high debt funded and debt coverage indicators is expected to remain modest in the initial years and would also depend on its ability to generate the targeted revenues. Due to the high cost of the project the payback period of the company is expected to remain higher.

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 wet season when river flows are high (June to November) and less during the dry season (December to May). Seti river is one of the major tributaries of Trishuli river, one of the biggest rivers in Nepal. SKHPL is proposed to utilize discharge from Seti Khola having catchment area of 876.92 sq. kms based on Perennial River. Hence, the project 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 (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 ~1.5 Km to Tower no 53 of 220KV Lekhnath-Damauli T/L line under double circuit loop-in loop-out connection. The company has made this arrangement to lower its transmission cost. Under the present arrangement, the total length of transmission line stands ~1.5 Km having 5-7 transmission poles. Considering the short transmission distance, the transmission loss is expected to be lower which argues well for the company. The timely completion of the new 220KV Lekhnath-Damauli transmission line by NEA, remains critical from revenue generation prospective.

Key Rating Strengths

Experienced promoters and management team in hydropower sector

IEPL has three 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. Anup Acharya who has more than 25 years of work experience in construction business. He is also the chairman in Sanvi Energy Limited [CARE-NP BB+/A4+], having one operational hydropower project and another in project stage and M.A. Construction Private Limited [CARE-NP BB/A4], which is a Class-A construction company having long experience in civil works related to the development of hydropower projects in Nepal. The other directors have also more than 12 years of experience in various domain and supported by an experienced team to manage the day-to-day operations in the company.

Power Purchase agreement with sufficient period of coverage

IEPL had entered into a long term PPA with Nepal Electricity Authority (NEA) as on February 23, 2018 for sale of 22 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 PPA is under the take or pay modality, which eliminates the risk related to tariff and offtake of the energy to be generated by the project.

The contracted energy for the project is 133.43 million units (MU) (i.e. 42.88 MU for dry season and 90.55 MU for wet season), at contracted PLF of 78.79%. Required Commercial Operation (RCOD) of the project is July 31, 2022, which is in process of being extended by one year citing Covid-19 induced delays in the project executions.

Government favourable policies for the power sector coupled with moderate counter party risk

Considering the significance and potential of hydropower sector in Nepal, GoN has placed the hydropower generation in the priority sector and intends to maximize involvement of private sector by offering different exemptions and facilities. Also, NEA is the sole counter party for the selling and distribution of electricity in Nepal. The counter party payment risk is moderated by the fact that, NEA is fully owned by government of Nepal, net loss is declining over the period and generating positive gross cash accruals. Furthermore, NEA has been making timely payment to independent power producers (IPPs) in past.

About the Company

Seti Khola Hydropower Private Limited (SKHPL) is a private limited company, incorporated on July 4, 2016 by a group of individual promoters for setting up of a 22 MW, run-of-river, Seti Khola Hydropower Project in Pokhara, Kaski 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. in Million)	Rating
Long Term Bank Facilities	Term Loan	3,789.00	CARE-NP BB
Long Term Bank Facilities (Proposed)	Term Loan	11.00	CARE-NP BB
Short Term Bank Facilities	Working Capital Loan	150.00	CARE-NP A4
Total		3,950.00	

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