

## Singati Hydro Energy Limited

### Ratings

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	4,493.41 (Increased from Rs. 3,745.69 Mn)	CARE-NP BB [Double B]	Rating Revised from CARE-NP BB- to CARE-NP BB
Short Term Bank Facilities	250.00 (Increased from Rs. 85.00 Mn)	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	4,743.41 (Four Thousand Seven Hundred Forty-Three Million and Forty-One Thousand Only)		
Issuer Rating	NA	CARE-NP BB(Is) (Double B [Issuer Rating])	Rating Revised from CARE-NP BB- (Is) to CARE-NP BB (Is)

*\*The issuer rating is subject to overall gearing ratio of the company not exceeding 3.10x at the end of FY22.*

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has revised the rating to 'CARE-NP BB' to the long-term bank facilities and reaffirmed 'CARE-NP A4' to the short-term bank facilities of Singati Hydro Energy Limited (SHEL).

Also, CRNL has revised the Issuer rating to 'CARE-NP BB (Is) [Double B Plus (Issuer Rating)]' from CARE-NP BB- (Is). Issuers with this rating is considered to have moderate risk of default regarding timely servicing of financial obligations, in Nepal.

### Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the SHEL factors in successful commencement of commercial operations of 25 MW Singati Khola Hydropower Project (SKHP). However, the rating continues to be constrained by high debt equity, relatively high cost of project leading to high payback period, hydrology risk associated with run-of-the-river power generation and exposure to volatile interest rate risk.

The ratings derive strength from experienced board members and management team, presence of power purchase agreement (PPA) with sufficient period coverage and moderate counter party risk. The ratings also factor in current demand & supply gap; however, possible oversupply in future and government support for the power sector.

Going forward, the ability of the company to successful stabilization of the operations of newly commenced hydro power project, having availability of sufficient hydrology to generate energy equivalent to contracted are the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### High debt equity and cost of project leading to high payback period

The initial estimated cost of project was Rs 4,752 Mn (i.e., Rs 190 Mn per MW) which was proposed to be financed in debt equity ratio of 70:30 (i.e., Rs 3,326 Mn debt and Rs 1,426 Mn equity). There were several revisions in the cost of the project resulting in final cost of Rs. 6,131 Mn (i.e., Rs. 245Mn per MW) which was financed in the debt equity mix of 76.35:23.65. The project cost increased multiple times due to delay in execution of project leading to increase in interest during construction (IDC) and other management expenses on account of delay in completion of NEA Singati Substation and Singati- Lamosangu transmission line. During the initial phases of operations, the capital structure of the company is expected to remain leveraged characterized by high overall gearing of over three times due to capex term loans.

Initial RCOD for 16 MW capacity of the project was September 17, 2017 which was extended to December 31, 2019 and for additional 9 MW capacity RCOD was July 16, 2020 due to capacity enhancement. Further the same was amended to December

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

31, 2020 on account of delay in completion of NEA Singati Substation and Singati- Lamosangu transmission line. The company has applied for the extension of RCOD with NEA.

The incurred project cost is ~NPR 245 Mn per MW remain relatively higher compared to most other similar projects. Furthermore, the same is also relatively high debt funded and debt coverage indicators is expected to remain modest 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 summer season when seasonal river flows are high (Mid-April to Mid-December) and less during the winter season (Mid-Dec to Mid-April). SHEL is proposed to utilize discharge from Singati Khola which is a perennial river having catchment area of 195 sq kms with the design discharge of 10.88 M<sup>3</sup>/S at Q40 exceedance flow and available gross head of 268m. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river

#### **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 management team in hydropower sector**

SHEL has 7 members on its board and the board is chaired by Mr. Batu Lamichhane, who is involved in hydropower sector and construction business for more than 20 years. Mr. Ganesh Karki, executive chairperson, is involved in hydropower sector for more than 20 years and is director in multiple under construction and operational hydropower projects. They are supported by other experienced management team.

##### **Successful commencement of commercial operations**

SHEL had incurred an expenditure of Rs 6,131 Mn towards 25 MW hydro power project which has been funded through term loan of Rs 4,681 Mn and balance from the promoters' contribution in the form of equity capital. The plant has started commercial production in July 31, 2021. During 6MFY22 ending on Mid-January 2022, the plant was operated at 78.84% of its generation capacity and the total energy generated during the said period was 79.00 GWh against the contracted energy of 75.06 GWh. The project is in the nascent stage of operations; thus, the stabilization and streamlining of operations in coming years remains to be seen.

##### **Power purchase agreement with sufficient period coverage**

Initially, SHEL had signed PPA with NEA on November 13, 2013 for sale of power generated from 16MW capacity. Later, the project capacity was increased to 25MW and PPA has been amended on December 14, 2017 for additional capacity. The contracted Plant Load Factor (PLF) for 25 MW is 60.55% with the contracted energy of 132.61 Million Units (MU) annually. PPA has been entered for the period of 30 years from the COD or till validity of generation license whichever is earlier.

The differential tariff rate ranges from Rs 4.80 per to Rs 8.40 per kWh with 3% annual escalation on base tariff for 5 years in case of 16MW and 8 years in additional 9MW. Required commercial operational date (RCOD) of the project was December 31, 2020. The project came into an operation in July 2021. The company has applied for the extension of RCOD with Nepal Electricity Authority (NEA).

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

SHEL was initially incorporated as a private limited company on May 19, 2010. Later on, it got converted to a public limited company on June 20, 2018. It is promoted by various institutional and individual promoters from different background for setting up of a 25 MW run-of-river, Singati Khola Hydropower Project (SKHP) in Dolakha district of Nepal. The project is one of the 'super six' hydro power projects of Nepal. This 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	4,493.41	CARE-NP BB
Short Term Bank Facilities	Overdraft	250.00	CARE-NP A4
<b>Total Facilities</b>		<b>4,743.41</b>	

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