

## Champawati Hydropower Private Ltd

### Ratings

| Facilities                       | Amount<br>(Rs. Million)   | Rating <sup>1</sup>                     | Rating Action     |
|----------------------------------|---|---|-------------------|
| <b>Long Term Bank Facilities</b> | <b>924.00</b>   | <b>CARE-NP BB-<br/>[Double B Minus]</b> | <b>Reaffirmed</b> |
| <b>Total Facilities</b>          | <b>924.00<br/>(Nine Hundred and Twenty-Four<br/>Million Only)</b> |   |                   |

Details of instruments/facilities in Annexure-1

CRNL has reaffirmed the rating of 'CARE-NP BB-' assigned to the long-term bank facilities of Champawati Hydropower Private Limited (CHPL).

### Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the long-term bank facilities of Champawati Hydropower Pvt Ltd (CHPL) continues to be constrained by project stabilization risk with its debt-funded greenfield project, hydrology risk associated with run-of-the-river power generation and power evacuation risk.

The ratings, however, derive strength from experienced promoters, directors and management team, presence of power purchase agreement (PPA) with sufficient period coverage and favorable government policies for the power sector.

Going forward, the ability of the company to timely execute the project within the Required Commercial Operation Date (RCOD) avoiding time or cost overrun is the key rating sensitivity.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### Project implementation risk

The estimated cost of the project is Rs 1,326 Mn (i.e., Rs. 189 Mn per MW) which is proposed to be funded by Rs 924 Mn debt and Rs 396 Mn equity in the debt equity ratio of 70:30. The total debt amount of Rs. 924 Mn has already been tied up. The project is at initial stage of construction. On the basis of cost incurred till Mid-January 2022, CHPL has achieved financial progress of 32.31% (i.e., Rs 428.60 Mn cost incurred, out of Rs. 1,326 Mn). The company has already entered into contracts for the Civil, Hydro mechanical, and Electro-mechanical works. As project work is yet to be completed, the company continues to remain exposed to the risks associated with project implementation and satisfactory operations thereafter. Timely completion of the project and satisfactory operations thereafter are the key rating monitorable.

##### Power evacuation risk

The Power generated from the project will be evacuated by 12Km long 33KV Transmission Line to NEA at Palungtar Substation. At present 33 KV line at Palungtar substation is operational and further the power is evacuated to national grid. CHPL is responsible for construction of transmission line up to Palungtar Substation. Also, at the distance of 5 Km from power house there is an under-construction NEA Chiplete substation. The company expects the completion of Chiplete substation before the completion of the project. If Chiplete substation is completed on time NEA plans to evacuate the power to Chiplete substation as a result transmission line loss is lowered. Timely completion of the transmission lines will be key rating sensitivity.

##### 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 (June to November) and less during the winter season (Dec to May). CHPL is

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

proposed to utilize discharge from Chepe Khola having catchment area of 212 sq kms based on semi snow fed Perennial River. The project has 10 m<sup>3</sup>/s design discharge at 40.61% exceedance flow and gross head of 89m. 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 will be change by change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 1-2 year. Therefore, funding from Bank and Financial Institutions are exposed to volatile interest rate.

#### **Key Rating Strength**

##### **Experienced promoters, directors and management**

CHPL has nine board of directors having long experience in various sectors including hydropower projects. The board is chaired by Mr. Hari Ram Parajuli, who has ~ 22 years of work experience in professional practice, academic, research works and was also former Board Member at Rudi Khola Hydropower Project (RKHP) (15.4 MW). Mr. Tuk Prasad Neupane, Managing Director has ~22 years of work experience in various sectors and is also a former Board member of RKHP. He is supported by other experienced management team.

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

CHPL had entered into a PPA with NEA as on February 19, 2019 for sale of 7 MW power to be generated from the project. The period of the PPA is 30 years from commercial operation date (COD) or till validity of Generation License whichever is earlier. 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% escalation on base tariff for 8 times in every year after completion of 12 months from COD date.

Required Commercial Operation (RCOD) of the project is July 20, 2022. The company has applied for the extension of RCOD. Also, Ministry of Energy, water resources and irrigation has decided to extend the RCOD by 1 year for COVID impacted projects. If COD doesn't fall within RCOD, the company is bound to pay penalty to NEA as per the PPA. Further, number of escalations in tariff rate will be reduced if there is delay in COD of the project than RCOD by more than 6 months

##### **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**

Champawati Hydropower Private Ltd. (CHPL) is a private company, incorporated on June 10, 2010. It is promoted by institutional promoters and business persons having long experience in various sectors including hydropower for setting up Hydroelectric Project (HEP) in Nepal. It is developing 7 MW run-of river, Chepe A Hydropower Project (CAHP) in "BOOT" (Build, Own, Operate and transfer) model and is located at Gorkha and Lamjung district of Nepal.

#### **Annexure-1: Details of Instruments/Facilities**

| <b>Name of the Instrument</b>    | <b>Type of the Facility</b> | <b>Amount (Rs. Million)</b> | <b>Rating</b>      |
|----------------------------------|-----------------------------|-----------------------------|--------------------|
| <b>Long Term Bank Facilities</b> | <b>Term Loan</b>            | <b>924.00</b>               | <b>CARE-NP BB-</b> |
| <b>Total Facilities</b>          |                             | <b>924.00</b>               |                    |

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