Greenlife Hydropower Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings[1]	Rating Action
Issuer Rating	**NA**	**CARE-NP B- (Is) [Single B Minus (Issuer)]**	**Rating revised from CARE-NP B+**

**The issuer rating is subject to the company maintaining overall gearing not exceeding 3.50x at the end of FY22.*

Care Ratings Nepal Limited (CRNL) has revised Issuer rating to 'CARE-NP B- (Is) [Single B Minus (Issuer Rating)]' from 'CARE-NP B+ (Is) [Single B Plus (Issuer Rating)]'. Issuers with this rating is considered to have high risk of default regarding timely servicing of financial obligations, in Nepal.

Detailed Rationale & Key Rating Drivers

The revision in the issuer rating of GLH takes into account significant cost overrun in the project leading to relatively high project cost with substantial debt on the books coupled with financial closure yet to be achieved for the full revised project cost. The ratings continue to be constrained by promoter group having limited experience in hydropower sector, time overrun leading to decreased project life, low tariff rate for major part of contracted energy leading to low return from the project and project implementation & stabilization risk associated with the hydropower projects. The rating is also constrained by exposure to fluctuation in foreign currency exchange rate, exposure to volatile interest rate, hydrology risk associated with run of the river power generation and power evacuation risk.

The ratings, however, derive strength from power purchase agreement (PPA) with sufficient period coverage, moderate counter party risk and government support for the power sector.

Going forward, timely execution of the project avoiding any further cost overrun and swift stabilisation of operations thereafter will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Significant time and cost overrun leading to high cost of project

The initial estimated cost of the project was Rs. 4,795 Mn (Rs. 3,338 Mn for 25MW and Rs. 1,457 Mn for 15MW). There have been several revisions to this and the latest estimated cost of the project has been further revised to Rs. 8,249 Mn (Rs. 6,792 Mn for 25MW and Rs. 1,457 Mn for 15MW). The estimated cost per MW is high at Rs. 272 Mn for 25 MW and Rs. 97 Mn for 15 MW, with overall cost of Rs. 206 Mn per MW. Estimated cost has increased multiple times on back of delay in completion of the project, increase in cost of electro mechanical works due to increase in foreign exchange rate and substantial interest during construction due to delay in project completion. Furthermore, the project has been impacted by COVID-19 with non-availability of materials and labour resources adding to the delay in project completion. As the cost of project per MW is substantially high for the first phase of 25MW, timely completion of the second phase of 15MW without any further cost overrun will be critical for the project as it will likely reduce the overall cost per MW of the project to a more manageable level.

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

Project implementation and stabilization risk

On the basis of cost incurred till mid-January 2022, around 81% of total project work has been completed. The expected COD of the first phase (25 MW) is by mid-July 2022. Any further time overrun will lead to cost overrun and consequently impact the financial risk profile of the company. Furthermore, any delay in completion of the 25MW phase of the project will also lead to delay in completion of the 15MW phase, timely completion of which is critical from overall cost perspective. Hence, the company continues to remain exposed to the risks associated with project implementation and satisfactory operations thereafter as the plant is located in the Himalayan region where the uncertain geology and adverse climatic conditions plays a major role in timely completion of the planned activities. Completion of the project within the revised cost is critical from credit perspective.

Furthermore, out of total revised estimated project cost of Rs 8,249 Mn, Rs 6,187 Mn is proposed to be funded by debt and Rs 1,800 Mn by equity. Balance Rs. 262 Mn is proposed to be funded through director's loans. Out of Rs 6,187 Mn to be funded from debt, financial closure for Rs 5,017 Mn debt has been achieved till mid-January 2022. Financial closure for balance Rs. 1,170 Mn debt is yet to be achieved. This exposes the company towards project execution risk in terms of partial yet to be tied-up debt completion of the project with-in the revised envisaged timelines.

Decrease in project life and low tariff rate for major part of contracted energy leading to low return from the project

Due to multiple delays in execution of the project, life of the project has been reduced. If the project (first phase) comes into operation by mid-July 2022, as expected by management, generation license which was obtained on May 11, 2011, would be valid for next ~24 years only, resulting in six year loss of revenue from project. Further, tariff rate for 25MW contracted capacity is low (i.e. Rs 4/7 per kWh for wet/dry season) in comparison to tariff rate for additional 15MW contracted capacity (i.e. Rs 4.8/8.4 per kWh for wet/dry season), due to which overall return from the project life is expected to be on a lower side.

Promoter group having limited experience in hydropower sector

The promoter group of the company has limited prior experience of executing power projects and the project under consideration is the first power project being developed by the group. GLH has 7 members in board of directors chaired by Mrs. Yanchen Doma Lama, major promoter shareholder of GLH. Mrs. Keshang Dikee Lama, Managing Director, manages day to day operation.

Power evacuation risk

The Power generated from the project will be evacuated through 18km long 132KV transmission line to NEA's Singati substation and then connected to national grid through Singati-Lamosangu Transmission line via Lamosangu substation. Construction of transmission line from powerhouse to Singati substation as well as Singati-Lamosangu Transmission line are still under construction. If Singati-Lamosangu transmission line is not completed till the completion of project, GLH will not be able to evacuate full power generated from the project. Timely completion of transmission line by both NEA and GLH will also be crucial for the company from revenue generation perspective.

Key Rating Strengths

Power purchase agreement with sufficient period coverage

GLH had entered into a long term PPA with NEA as on October 10, 2010 for sale of 25MW power which was amended to 40MW on June 4, 2017. The period of the PPA is 30 years from the Commercial Operation Date (COD) or till validity of

Generation License (received on May 11, 2011 for 35 years), whichever is earlier. PPA period may be extended with mutual consensus during the last six month of validity. For the 25MW project, the tariff for wet season (Mid-April to Mid-December) is Rs 4 per kWh and for dry season (Mid-December to Mid-April) is Rs 7 per kWh with 3% escalation on base tariff for 9 times. For additional 15MW project, the tariff for wet season is Rs 4.80 per kWh and for dry season is Rs 8.40 per kWh with 3% escalation on base tariff for 8 times.

About the Company

GLH was incorporated on September 20, 2009 as Greenlife Energy Pvt. Ltd. and later converted to public limited company on June 23, 2017. It is promoted by institutional promoters and individual promoters from different background for setting up of 40 MW run-of-river Khani Khola 1 Hydropower Project (KK1HPP) in Dolakha district of Nepal. The power project is proposed to be constructed in two phases. In the first phase, the generation capacity will be 25 MW by utilizing discharge from Khani Khola which will be upgraded to 40 MW in the second phase by adding discharge from Hanapu Khola and Napke Khola.

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