

## Taksar Pikhua Khola Hydropower Private Limited

### Rating

Facilities/Instrument*	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long-Term Bank Facilities	1,277.50 (Increased from Rs. 1,200.00)	CARE-NP BB+ [Double B Plus]	Revised from CARE-NP BB [Double B]
Short-Term Bank Facilities	40.50	CARE-NP A4+ [A Four Plus]	Assigned
<b>Total Facilities</b>	<b>1,318.00</b>		

\* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has revised the rating assigned to the long-term bank facilities of Taksar Pikhua Khola Hydropower Private Limited (TPKH) to CARE-NP BB+ from CARE-NP BB. CRNL has also assigned rating of CARE-NP A4+ to the short-term bank facilities of TPKH.

### Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of TPKH factors in successful commencement of commercial operations of the 8 MW Taksar Pikhua Khola Hydropower Project (TPKHP). 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 continue to derive strength from experienced board members and management, 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 TPKH to successfully stabilize its operations of newly commenced hydro power project reducing the gap between generated Plant Load Factor (PLF) and contracted PLF, and availability of sufficient hydrology are the key rating sensitivities.*

### Detailed Description of Key Rating Drivers

#### Key Rating Weaknesses

#### Moderate cost of project leading to relatively high payback period

The initial estimated cost of project was Rs 1,720 Mn (around Rs. 215 Mn per MW). There were several revisions in the cost of the project and the final cost at completion was Rs.1,830 Mn (around Rs. 229 Mn per MW) which was financed in the debt equity mix of 70:30. During the initial phases of operations, the capital structure of the company is expected to remain moderately leveraged characterized by gearing of over two times due to capex term loans. The incurred project cost of Rs. 229 Mn per MW remain relatively higher compared to other similar projects. Consequently, debt coverage indicators are expected to remain modest and would also depend on the company's ability to generate the targeted revenues. Due to the relatively high cost of the project the payback period of the company is expected to remain higher.

#### Stabilization risk associated with the newly commenced project

The project successfully commenced commercial operation on April 14, 2021. During the first 10 months of its operations, power generated and sold as a percentage of the contracted power as per the PPA was low at 47%. The main reason for

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

low PLF is intermittent power loss by the project due to tripping in transmission line, leading to power loss of around 17% during the period. Furthermore, the project also faced some technical issues during the initial stages of operations, since resolved, which had led to the relatively lower power generation during the period which stood at around 56% of contracted energy. Swift resolution of any such technical issues and power tripping issues would remain key to the company's prospects of achieving contracted energy, thus impacting its financial performance going forward and would remain a key monitorable.

### **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.

### **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). TPKH is proposed to utilize discharge from Pikuwa Khola having catchment area of 253 sq kms based on rain fed river. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/khola.

### **Key Rating Strengths**

#### **Experienced board members and management team in hydropower sector**

TPKH has 3 Board of Directors chaired by Mr. Pancha Bir Singh Tuladhar, who has around 6 decades of experience in various sectors including hydropower. Currently, he is a major shareholder in United Modi Hydro Power Ltd. (UMHL), which has a 10 MW operational hydropower project and in Singati Hydro Energy Ltd (SHEL), which is a 25 MW hydropower project. Mr. Narendra Ballav Pant is a Managing Director of the company, has more than a decade of working experience and is the chairman of UMHL and also a director of SHEL.

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

TPKH's 8 MW hydropower project successfully started commercial operation since April 14, 2021 against the revised RCOD of April 14, 2021. The contracted energy for the project is 45.51 million units (MU) at PLF of 64.94%. During 7MFY22 (refers to the seven-month period ended mid-February 2022), the total power generation was around 64% of the contracted energy. The project is in its initial stage of operations; thus, the stabilization and streamlining of operations in coming years remains a key monitorable. Ability of the company to reduce the gap between contracted PLF and generated PLF will also be critical from analytical prospective.

#### **Power purchase agreement with sufficient period coverage and low counter-party risk**

TPKH had entered into a long term PPA with Nepal Electricity Authority (NEA) as on December 16, 2016 for sale of 8MW power to be generated from the project. The period of the PPA is 30 years from the commercial operational date. PPA period may be extended with mutual consensus during the last six month of validity. The tariff for wet season (Mid-April to Mid-December) is Rs 4.80 per kWh and for dry season (Mid-December to Mid-April) is Rs 8.40 per kWh with 3% escalation on base tariff for 5 years. Furthermore, NEA is owned by Government of Nepal and hence counter party default risk is low; however, timely realization of receivables is critical for the company and remains a key monitorable.

### Government support for the 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.

### About the Company

Taksar Pikhua Khola Hydro Power Pvt. Ltd (TPKH) is a private company, incorporated on April 23, 2014. It is promoted by individual promoters from different background for setting up of an 8 MW run- of-river, Taksar Pikhua Khola Hydropower Project (TPKHP) in Bhojpur district of Nepal. The project is constructed under BOOT (Build, own, Operate and Transfer) mechanism. As per the Generation License, from Government of Nepal – Ministry of Energy, obtained as on June 17, 2016, the project shall be handed, on whatever conditions the project is, to the Government of Nepal after expiry of Generation License, which is for 35 years.

### 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	1,277.50	CARE-NP BB+ [Double B Plus]
Short-Term Bank Facilities	Fund Based Limit	40.50	CARE-NP A4+ [A Four Plus]
<b>Total</b>		<b>1318.00</b>	

### Contact us

#### Analyst

Mr. Prashiddha Sharma Gaire  
 Contact No.: 977-9802335865  
 Email: prashiddhas@careratingsnepal.com

#### Senior Analyst

Ms. Shalini Sanghai  
 Contact No.: +977-01-4012629  
 Email: shalini.sanghai@careratingsnepal.com

#### Relationship Contact

Mr. Achin Nirwani  
 Contact No.: +977 9818832909  
 Email: achin.nirwani@careratingsnepal.com

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