

## Sanima Middle Tamor Hydropower Limited

### Ratings

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	9,509.50	CARE-NP BB [Double B]	Reaffirmed
Total Facilities	9,509.50 (Nine Thousand Five Hundred Nine Million and Fifty Thousand Only)		
Issuer Rating	NA	CARE-NP BB (Is) [Double B (Issuer)]	Assigned

\* The issuer rating is subject to overall gearing ratio of the company not exceeding 3.25x at the end of FY22.

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB' assigned to the long-term bank facilities of Sanima Middle Tamor Hydropower Limited (SMTHL).

Further, CRNL has assigned the issuer rating assigned of 'CARE-NP BB (Is)' to SMTHL. Issuers with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations in Nepal.

### Detailed Rationale & Key Rating Drivers

*The ratings assigned to SMTHL continues to be constrained by project implementation risk, power evacuation risk, hydrology risk associated with run-of-the-river power generation, exposure to volatile interest rate risk and regulatory risk.*

*The ratings, however, 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 successfully execute the project without further cost and time overrun and early stabilization thereafter are the key rating sensitivities.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### Project implementation risk

The total cost of the project was envisaged at Rs. 12,680 Mn to be funded in debt: equity ratio of 75:25 (debt of Rs 9,509.50 Mn and equity of Rs. 3,170.50 Mn). However, the total project cost has been revised to Rs. 13,330 Mn which is proposed to be financed through the debt amount of Rs. 9,997.50 Mn and remaining through equity. The project cost increased on account of design modification/revision in the design as per the site conditions of the Project. The total debt amount of Rs.488 Mn is yet to be tied up; however, in-principal sanction of the untied portion of loan amount has been received from the banks. The expected COD of the project is Mid-July 2023.

On the basis of cost incurred till March 24, 2022, the company has achieved financial progress of ~48% of project i.e., Rs. 6,420.78 Mn out of Rs. 13,330.00 Mn. As per the progress report of February 2022 submitted by the company, the overall progress of the project is around 63%. As the project is the middle stages of its implementation, this exposes the company towards project execution in terms of partial yet to be tied-up debt, completion of the project with-in the envisaged time and cost. Furthermore, the company also remains exposed to the risks associated with post project implementation and satisfactory operations thereafter to achieve the envisaged revenue.

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

**Power evacuation risk**

The Power generated from the project will be evacuated through ~9Km long 220KV Transmission Line to the under construction Dhungesangu (Hangpang) Substation. Power from Dhungesangu Sub Station will be further evacuated to Basantapur Substation which is operational. Contracts for transmission line and sub-station is within the scope of NEA and contracts for the same has been awarded and construction is in-progress. Construction of transmission line from powerhouse to Dhungesangu substation is within the scope of SMTHL. The company has entered into agreements for construction of transmission line. Timely completion of the transmission lines and substations by both SMTHL and NEA will be critical from revenue generation perspective.

**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). The project is proposed to utilize discharge from Tamor Khola having catchment area of 2002 sq. kms based on snow-fed river. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola.

**Exposure to regulatory risk**

Government of Nepal (GoN) has recently established Electricity Regulatory Commission (ERC) for regulating generation, transmission and distribution of electricity in Nepal. ERC will be the regulator under the GoN which will be responsible for regulating hydropower companies in Nepal. Policies and directives issued by ERC like approval process for IPO issuance, PPA approval through ERC poses a new challenge to hydropower companies. Hence, sector is prone to regulatory risk and changes in other policies by GoN.

**Key Rating Strength****Experienced board members and management team in hydropower sector**

SMTHL has 5 Board of Directors, chaired by Mr. Binaya Kumar Shrestha who has more than 2 decades of management experience. Dr. Subarna Das Shrestha, Director, has ~27 years of experience with 25 years in Hydropower sector. He has served as CEO in a promoter company; Sanima Mai Hydropower Ltd [CARE-NP BBB+/A3+] and was also associated with Independent Power Producers Association of Nepal (IPPAN) in the capacity of president. The company management team is led by Dr. Jugal Bhurtel, CEO of the company and has more than ~30 years of working experience. He has been supported by other experience management team members

**Power purchase agreement with sufficient period coverage**

SMTHL had entered into a long term PPA with NEA as on January 10, 2017 for sale of 52.10 MW power and entered into another PPA with NEA on Nov 30, 2018 for additional sale of 20.90 MW power to be generated from the project. The contracted energy for 52.10 MW is 309.56 Million Units (MU) annually and for additional capacity (i.e. 20.90MW) is 119.85 MU annually. The contracted Plant Load Factor (PLF) for total 73 MW is 67.15% with total contracted energy of 429 MU. PPA has been entered for the period of 30 years from the COD or till validity of generation license whichever is earlier.

Tariff rate as per PPA for 52.10 MW is Rs 4.80 per kWh for wet season (Mid-April to Mid-December) and Rs 8.40 per kWh for dry season (Mid-December to Mid-April) with 3% annual escalation on base tariff for 8 years. The Required Commercial Operation Date (RCOD) of the project is September 12, 2022 for 52.1 MW and July 16, 2023 for 20.90 MW.

**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

Sanima Middle Tamor Hydro Power Ltd (SMTHL) is a Public Limited company, incorporated as on May 05, 2016. It is promoted by individual promoters from different background, institutional investors majorly related to Sanima Hydro group and other institutes which includes Banks and Insurance companies for setting up of a 73 MW run-of-river, Middle Tamor Hydropower Project (MTHP) in Taplejung district of Nepal. The 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
<b>Long Term Bank Facilities</b>	<b>Term Loan</b>	<b>9,509.50</b>	<b>CARE-NP BB</b>
<b>Total Facilities</b>		<b>9,509.50</b>	

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