

Madame Khola Hydropower Private Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	3,325.00	CARE-NP BB [Double B]	Assigned
Total Facilities	3,325.00 (Three Thousand Three Hundred and twenty-five Million Only)		

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB' to the long-term bank facilities of Madame Khola Hydropower Private Limited (MKHPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the long-term bank facilities of MKHPL is constrained by high project implementation risk, hydrology risk associated with run-of-the-river power generation and exposure to volatile interest rate 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, timely execution of the project within cost and time estimates along with generation of expected revenue thereafter will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

High Project stabilization risk

The estimated cost of the 24 MW hydro power project is Rs 4,477.69 Mn (i.e., Rs 186.57 Mn per MW) which is proposed to be financed in debt equity ratio of 74:26 (i.e., Rs 3,325 Mn term loan and Rs 1,153 Mn equity). The total debt of Rs. 3,325 Mn has already been tied up. The Required Commercial Operation Date (RCOD) of the project is April 12, 2024. The project is at very initial stage of construction. Till March 28, 2022, ~9% of financial progress was achieved. The contract for civil works has been awarded. As per the progress report submitted by the company as on March 2022 the overall physical progress of the project is ~14%. The major project work is yet to be initiated, the company continues to remain exposed to the risks associated with project implementation and satisfactory operations thereafter. Furthermore, the power generated from the project is proposed to be evacuated to the switch yard of Super Madi Hydropower Project and further to NEA's operational Lekhnath Substation. Construction of transmission line from powerhouse to the switchyard of Super Madi Hydropower Project is within the scope of MKHPL. Before commencement of operations, timely completion of the transmission lines by MKHPL would remain crucial for the company for smooth generation of revenue.

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 (December to May). The project is proposed to utilize discharge from Madame Khola having catchment area of 48.7 sq kms, based on perennial river. 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)

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

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

MKHPL has 7 Board of Directors, chaired by Mrs. Susan Karmacharya who has more than 26 years of experience in various sectors. Currently, she is chairperson in Money Plant Investment Company Pvt. Ltd and a vice chairperson at Laligurans Batika School and Namuna Hospital. Mr. Dhan Bahadur Shrestha, Managing Director, has ~36 years of experience in different sectors and has been associated with various ministries at administrative level positions.

Power purchase agreement with sufficient period coverage

MKHPL had entered into a long term PPA with Nepal Electricity Authority (NEA) as on July 31, 2018 for sale of 24 MW power to be generated from the project. The period of the PPA is 30 years from the date of COD or till validity of Generation License whichever is earlier. PPA period may be extended with mutual consensus during the last six months of validity. 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 years. The contracted energy of the project is 142.19 million units (MU). The Plant Load Factor (PLF) of the project is 67.63%. The RCOD of the project is April 12, 2024. Timely completion of project within the RCOD is crucial for the company to avail the benefits of all the escalations.

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

Madame Khola Hydropower Private Limited (MKHPL) is incorporated as on August 04, 2015. It is promoted by an institutional as well as individual promoters from different backgrounds. MKHPL is setting up of a 24 MW run-of-river Madame Khola Hydroelectric Project (MKHP). The project is constructed under BOOT (Build, Own, Operate and Transfer) model located at Kaski district of Nepal.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	3,325.00	CARE-NP BB
Total Facilities		3,325.00	

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