

## Mathillo Mailun Khola Jalvidhyut Limited

### Ratings

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	1,875.00	CARE-NP BB- [Double B Minus]	Reaffirmed
Short Term Bank Facilities	90.00	CARE-NP A4 [A Four]	Reaffirmed
<b>Total Facilities</b>	<b>1,965.00</b> <b>(One Thousand Nine Hundred and Sixty-Five Million Only)</b>		

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of 'CARE-NP BB-' assigned to the long-term bank facilities and 'CARE-NP A4' assigned to the short-term bank facilities of Mathillo Mailun Khola Jalvidhyut Limited (MMKJL).

### Detailed Rationale & Key Rating Drivers

*The reaffirmation of the rating assigned to the bank facilities of MMKJL continues to be constrained by project implementation risk, hydrology risk associated with run-of-the-river power generation, power evacuation risk and exposure to volatile interest rate risk along with 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, 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

##### Project implementation risk

The total cost of the 14.3 MW hydro power project is envisaged at Rs. 2,500 Mn to be funded in debt equity ratio of 75:25 (debt of Rs 1,875 Mn and equity of Rs. 625 Mn). The total debt of Rs. 1,875 Mn has already been tied up. The expected COD of the project is July 16, 2022. Till March 14, 2022, ~63% of the total project cost has been incurred. As per progress report of February 2022, submitted by the company, the tunnel excavation work and underground tunnel support works are in advanced stages of completion (total length of tunnel is 1,735.53 meter and approx. 97% has been excavated). Installation of bifurcation including its downstream pipe shells has been completed and its upstream pipe is on progress. As the project is in the middle stages of its implementation, this still exposes the company towards project implementation in terms of completion of the project with-in the envisaged timelines 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.

##### 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 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 Mailung Khola which is a perennial river and having partly snow-fed and partly a rain fed catchment area of 72 sq kms. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ khola.

<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 15Km long 132KV Transmission Line to the Trishuli 3B Hub Substation. Power from Trishuli 3B substation will be further evacuated to an operational Matatirtha Substation in Kathmandu valley by NEA through 220KV transmission line which has been already constructed by NEA. However, Trishuli 3B Hub is under construction. Construction of transmission line from powerhouse to Trishuli 3B substation is within the scope of MMKJL. Before commencement of commercial operations, it is critical for the company to construct of the transmission lines and completion of construction of substation by NEA for revenue generation prospective.

**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.

**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****Associated with large group having multiple hydropower projects and experienced board members and management team**

MMKJL is part of Sanima Hydro Group which is promoted by group of Non-Resident Nepalese. In addition to the hydropower projects, the promoters of Sanima Group have made their investments in different other sectors.

MMKJL has 3 Board of Directors, chaired by Mr. Rameshwor Rijal, who has more than 37 years of experience in different organization. He has served as Department Chief for Public Works Department of Kathmandu Metropolitan City Office. Mr. Binaya Kumar Shrestha, Director, has more than 2 decades of experience. He is also a Chairman of Sanima Bank Ltd. Dr. Subarna Das Shrestha, Director, has ~27 years of experience including ~25 years in Hydropower sector.

Company management team is led by Mr Kangada Prasai. He is associated with the company in the capacity of General Manager and has over one decade of experience in different capacities. He has served as Engineering Geologist in multiple Hydropower Companies in the past.

**Power purchase agreement with sufficient period coverage**

PPA for MMKJP was signed between NEA and Molnia Power Limited on September 09, 2011 for sale of 14.3 MW power to be generated from the project and the PPA was later transferred in the name of MMKJL on April 26, 2018. The contracted energy for 14.3MW is 79.67 Million Units (MU) annually. The contracted Plant Load Factor (PLF) for total 14.3 MW is 63.60%. 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 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 5 years. The Required Commercial Operation (RCOD) of the project was June 13, 2019 which was extended to May 31 2021. The company has applied for the further extension of RCOD with NEA on account of non-completion of NEA's Trishuli 3B Hub Substation. If COD does not fall within RCOD, MMKJL is required to pay late COD penalty. Further, if COD is delayed by 6 months to 18 months from RCOD, then the number of escalations in tariff rate will decrease to 4 years from 5 years.

### 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

Mathillo Mailun Khola Jalvidhyut Limited (MMKJL) is a Public Limited company, incorporated as on August 14, 2012. It is promoted by institutional investors majorly related to Sanima Hydro group and other institutes which include Banks and Insurance companies also for setting up of a 14.3 MW run-of-river, Mathillo Mailun Khola Jalvidhyut Project (MMKJP) in BOOT (Build, own, Operate and Transfer) mechanism and located at Rasuwa 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	1,875.00	CARE-NP BB-
Short Term Bank Facilities	Working Capital Loan	90.00	CARE-NP A4
<b>Total Facilities</b>		<b>1,965.00</b>	

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