

Super Hewa Power Company Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	673.40 (Six Hundred Seventy Three Million and Four hundred Thousand Only)	CARE-NP BB- [Double B Minus]	Reaffirmed

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of 'CARE-NP BB-' assigned to the long-term bank facilities of Super Hewa Power Company Private Limited (SHPCPL).

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the bank facilities of SHPCPL continues to be constrained by high project implementation risk, limited experience of the management in hydro power sector, interest rate fluctuation risk, and hydrology risk associated with run-of-the-river power generation.

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 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 implementation risk

The total cost of the project is estimated at Rs. 962 Mn (around Rs. 192 Mn/MW) which is being funded through a debt equity mix of 70:30. Financial closure for the total loan requirement of Rs. 673 Mn has been achieved for the project. On the basis of the cost incurred till end March 2022, the company has incurred around 41% of the total estimated cost of project. The expected commercial operation date (COD) of the project is February 2023. On the basis of the physical progress report as on end March 2022, around 30% of the project work is completed. The Required Commercial Operation Date (RCOD) of the project is July 16, 2022. If commercial operation doesn't start before RCOD, the company is bound to pay penalty to NEA as per the PPA. Furthermore, number of escalations in tariff rate will be reduced if there is delay in COD of the project than RCOD by more than 6 months. Hence, the company continues to remain exposed to the risks associated with project implementation within stipulated timelines.

The plant's location in the Himalayan region where the uncertain geology and adverse climatic conditions plays a major role in timely completion of the planned activities adds to the implementation risk. Completion of the project within the estimated cost and the envisaged timelines are critical from credit perspective.

Limited experience of management in hydro power 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. SHPCPL has four members in its board of directors chaired by Mr. Harka Bahadur Tamang, who has more than two decades of experience in civil construction and real estate sectors. Mr. Nima Wangel Lama, Managing Director with more than a decade of experience in real estate sector, manages day to day operations. The promoters have ventured into hydro power generation due to the positive industry prospects

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

and favourable government policies to support the same. The management is supported by an experienced team having an experience of around a decade in hydropower projects.

Power evacuation risk

The power generated from the project will be evacuated through 12 Km long 33kV transmission line to Baneshwor Substation and connected to national grid via Baneshwor-Basantapur-Dhankuta-Lahan transmission line under Koshi corridor. Though the construction works of Baneshwor substation has already been completed, the transmission line under Koshi corridor is still under construction. Timely completion of the transmission line within the scope of company as well as Nepal Electricity Authority (NEA) is also critical for the company from revenue generation perspective.

Interest rate risk

The company's interest expense is based on floating rates which reset every quarter. The base rate of the banks and financial institutions in Nepal remains quite volatile as they are impacted by change in liquidity position which leads to change in interest rates. Therefore, funding taken by the company from banks remains exposed to volatile interest rate.

Key Rating Strengths

Power purchase agreement with sufficient period coverage

SHPCPL had entered into a long term PPA with NEA as on April 10, 2018 for sale of 5MW power to be generated from the project. The period of the PPA is 30 years from the Commercial Operation Date (COD) or till validity of Generation License (received on April 09, 2019 for 35 years), whichever is earlier. PPA period may be extended with mutual consensus during the last six month 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 29.32 million units (MU) (i.e. 8.93 MU for dry season and 20.39 MU for wet season).

Favourable government policies for the power sector coupled with moderate counter party risk

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 Nepal Rastra Bank 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

Super Hewa Power Company Private Ltd. (SHPCPL) was incorporated on November 23, 2010. It is promoted by an institutional promoter and several individual promoters with different industry backgrounds. SHPCPL is setting up of a 5 MW run-of-river Super Hewa Small Hydropower Project (SHSHP) in "BOOT" (Build, Own, Operate and transfer) model located at Sankhuwasabha district of Nepal.

Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Long Term Bank Facilities	Term Loan	673.40	CARE-NP BB- [Double B Minus]

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