

## Global Hydropower Associate Limited

### Ratings

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	7,438.00	CARE-NP BB [Double B]	Reaffirmed
Total Facilities	<b>7,438.00 (Seven Thousand Four Hundred Thirty-Eight Million Only)</b>		

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 Global Hydropower Associate Limited (GHAL).

### Detailed Rationale & Key Rating Drivers

*The reaffirmation in ratings assigned to the GHAL factors in residual project implementation risk, offtake risk for energy generated from additional capacity of 21.60 MW, hydrology risk associated with run-of-the-river power generation and exposure to volatile interest rate risk and regulatory risk.*

*The ratings derive strength from strong promotor and experienced 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 early stabilization of the project will be the key rating sensitivities*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### Residual Project implementation and Funding risk

The estimated cost of 55 MW hydro power project is increased significantly by 55% to Rs. 9,312.59 Mn which is proposed to be funded in Debt equity ratio of 80:20 (i.e., Rs. 7,434.00 Mn term loan and Rs 1,879 Mn equity). The project cost increased mainly due to design modification of the project. The total debt of Rs. 7,434 Mn has already been tied up. Till March 14, 2022, the company has achieved financial progress of ~90% of project (Rs. 8,410 Mn cost incurred out of total project cost of Rs. 9,313 Mn). Though the major project works has been completed, the company continues to remain exposed to the risks associated with residual project implementation and satisfactory operations thereafter. Timely completion of the project without further cost and time overrun along with the satisfactory operations thereafter are the key monitorable.

##### Offtake risk for additional energy

Total installed capacity of the plant is 55 MW however GHAL has entered into agreement with NEA on take or pay basis only for 33.4 MW at contracted PLF of 62.41%. The remaining 21.60 MW, which would be on take and pay basis (power purchase agreement is yet to be signed), is exposed to offtake risk. However, expected sale of energy to India, through existing cross border transmission line between India and Nepal argues well for the company, mitigates the offtake risk to an extent for energy generated from the additional capacity (capacity having unsigned PPA).

##### 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).

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

The project is proposed to utilize discharge from Likhu Khola including Marbu and Chari Khola having catchment area of 367 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 the 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**

#### **Strong promoters and experienced management team**

GHAL is part of MV Dugar Group which has business across different sectors along with Banks, Insurance, Automobiles, Construction etc. Mr. Motilal Dugar, Chairman of GHAL and Executive Chairman of the group, is established businessman of Nepal and has more than 47 years of experience and is Chairman of Sunrise Bank Limited [CARE-NP A-]. Company's management team is led by Mr. Vipin Arora, Chief Executive Officer of the company and has more than 42 years of experience in various organizations related to hydropower and energy sector. He is supported by other experienced management team.

#### **Power purchase agreement with sufficient period coverage**

GHAL had entered into a long term PPA with NEA as on March 3, 2015 for sale of 33.4 MW power to be generated from the project on take or pay basis. The contracted Plant Load Factor (PLF) for total 33.4 MW is 62.41% with total annual contracted energy of 182.60 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 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. Required Commercial Operation Date (RCOD) of the project was extended to November 27, 2021. The company is in the process of taking necessary approvals for extension of RCOD with NEA. It is crucial for the company to take necessary extension of RCOD approvals and thereafter timely completion of project within the RCOD to avail the benefits of all the escalations.

Further, GHAL is in process of amending PPA to increase the capacity of the project to 55 MW which has been approved by NEA however, pending to be approved by Electricity Regulatory Commission (ERC). The company has estimated the additional energy of 59.72 MU from the enhanced capacity of 21.6MW on take and pay basis. The PLF for the additional energy of 59.72 MU is 31.56% and additional energy is expected to be generated only during the wet seasons and the tariff rate is estimated to be Rs. 4.80 per kWh during wet seasons with 3% annual escalation on base tariff for 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**

Global Hydropower Associate Limited (GHAL) is a public company, incorporated as on April 5, 2002. The company is setting up of a 55 MW run-of-river, Likhu 2 Hydropower Project (L2HP) in Solukhumbu and Ramechhap district of Nepal. The company has received FDI investment from Mogha Energy DMCC, UAE for the construction of project. MV Dugar Group is developing three hydropower projects including L2HP in Likhu river adjacently out of which one has already come into an operation. Further the

group is developing another peaking run of river (PROR) hydropower project of 160 MW in Lapchii Khola. The projects are 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
Long Term Bank Facilities	Term Loan	7,438.00	CARE-NP BB
<b>Total Facilities</b>		<b>7,438.00</b>	

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