

## Mewa Developers Limited

### Ratings

| Facilities                | Amount<br>(Rs. Million)   | Rating <sup>1</sup>       | Rating Action |
|---------------------------|---|---------------------------|---------------|
| Long Term Bank Facilities | 6,948.45  | CARE-NP BB<br>[Double B ] | Reaffirmed    |
| <b>Total Facilities</b>   | <b>6,948.45</b><br><b>[Six Billion Nine Hundred Forty-Eight Million<br/>Four Hundred and Fifty Thousand Only]</b> |                           |               |

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 Mewa Developers Limited (MDL).

### Detailed Rationale & Key Rating Drivers

*The reaffirmation in rating assigned to MDL factors in the residual project implementation risk and operation stabilization risk associated with its under-construction hydropower project. The rating is also constrained by hydrology risk associated with run-of-the river power generation, exposure to regulatory risk and volatile interest rates. The rating, however, derives strength from MDL's experienced promoters and management team, presence of power purchase agreement (PPA) with sufficient period coverage, and power evacuation risk, moderate counter party risk 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 will be the key rating sensitivities.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### Residual Project implementation and stabilization risk

MDL is setting up a 49 MW peaking run-of-river Middle Mewa Hydropower Project (MMHP) in Taplejung district of Nepal. The total cost of the project is envisaged at Rs. 9,264.61 Mn (Rs. 189 Mn per MW) to be funded in debt to equity ratio of 75:25. The total debt component of Rs. 6,948.45 Mn has already been tied up. As on April 2022, the company had achieved physical progress of 27%. As the major part of the project work is yet to be completed, the company continues to remain exposed to the risks associated with project implementation and satisfactory operations thereafter. Timely completion of the project within the estimated cost and time would be critical from credit perspective.

#### Power Evacuation Risk

The Power generated from the project is proposed to be evacuated through 11km long 132KV double circuit Transmission Line to NEA's under construction Dhungesangu Substation at Taplejung district. Construction of transmission line from powerhouse to Dhungesangu Substation is within the scope of MDL. Bidding process is yet to be finalized for construction of Transmission line. Timely completion of the transmission lines and substation is crucial for the company from revenue generation prospective.

#### Hydrology risk associated with run-of-the-river power generation, however minimized due to peaking reservoir

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 wet season when river flows are high (June to November) and less during the dry season (December to May). The project is proposed to utilize discharge from Mewa Khola having catchment area of 333 sq. kms based on Perennial River. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola. However,

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

the risk is mitigated to some extent in the project due to peaking reservoir of 6 hours for dry season which will be used during peak time of dry season giving higher revenue to the company.

#### **Exposure to volatile interest rate risk**

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy, with substantial upward pressure on interest rates in the last 2-3 quarters. Any further significant rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company 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 hydropower companies in Nepal. ERC will regulate generation, transmission and distribution of electricity in Nepal among others. Policies and directives issued by ERC such as approval process for IPO issuance and 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 parentage and experienced management team**

MDL is part of Urja Developers Group which has multiple hydropower projects under its portfolio through Special Purpose Vehicles (SPV) companies. The flagship company of the group is Urja developers Private Limited, promoted by CE Construction Private Limited (CECPL) which started business operations in early 1990's. The group has presence in construction, consultancy, manufacturing, education, finance, hospitality and power generation etc. CECPL was awarded "Construction Company of the Year 2017" by Frost & Sullivan.

MDL has five board of directors chaired by Mr. Bijay Bahadur Rajbhandary who has more than 30 years of experience in the diversified industry. Mr. Mohan Das Manandhar, Director, has more than 30 years of experience in various fields across different sectors in Nepal, South Asia and South East Asia. Mr. Bhanu Bhakta Pokharel, Managing Director of the company possesses more than 30 years of experience. The BOD is further supported by other experienced management team members.

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

MDL had entered into a long term PPA with NEA as on August 20, 2018 for sale of 49 MW power to be generated from the project. The contracted Plant Load Factor (PLF) for total 49 MW is 67.74% with total contracted energy of 209.76 MU. PPA has been entered for the period of 30 years from the COD or till validity of generation license (obtained on February 02, 2020 for 35 years) whichever is earlier. PPA period may be extended with mutual consensus during the last six months of validity.

PPA for the project is entered for peaking run of the river with high tariff rate for peak dry season with 6 months of dry season. Tariff rate as per PPA is Rs 4.80 per Kwh for wet season (Mid-May to Mid- November) and the tariff rate for peak dry season (Mid-November to Mid-May) is Rs 10.55 per Kwh while the non-peak rate for the dry season (Mid-November to Mid-July) is Rs. 8.40 per Kwh, with 3% annual escalation on base tariff for 8 years. Required Commercial Operation (RCOD) of the project was September 23, 2023, which is extended till March 19, 2024 on account of COVID-19. If the project is not completed within the mentioned RCOD, then the delay penalty will be levied to the company which is 5% of total contracted energy for the delay periods at the applicable tariff rate as on COD. As per PPA, NEA will recover the penalty amount from monthly billing.

### 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

Mewa Developers Ltd. (MDL) is a Public Limited company, incorporated as on July 8, 2016. It is promoted by individual promoters from different background and institutional investors. MDL is setting up of a 49 MW peaking run-of-river, Middle Mewa Hydropower Project (MMHP) in Mikhuwa Khola Rural Municipality, Taplejung district of Nepal. The discharge of water from the tailrace of Siwa khola hydropower project (9.3 MW) to peaking reservoir of Mewa Khola led to increase in installed capacity of project from 49 MW to 73.5 MW for which MDL has obtained principal agreement from Department of Electricity Development (DOED). MDL is in process of amending PPA with NEA for additional capacity of 24.5 MW leading to total capacity of 73.5 MW. The project is being constructed under "BOOT" (Build, Own, Operate and transfer) mechanism. The expected COD of the project is December 31<sup>st</sup>, 2023.

### Annexure-1: Details of Instruments/Facilities

| Name of the Instrument    | Type of the Facility | Amount (Rs. Million) | Rating     |
|---------------------------|----------------------|----------------------|------------|
| Long Term Bank Facilities | Term Loan            | 6,948.45             | CARE-NP BB |
| Total Facilities          |                      | 6,948.45             |            |

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