

## Asian Hydropower Limited

### Ratings

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
Issuer Rating	NA	CARE-NP BB (Is) [Double B (Issuer)]	Reaffirmed
Long term Bank Facilities	983.60 (Increased from 870.34)	CARE-NP BB [Double B]	Reaffirmed
<b>Total Facilities</b>	<b>983.60</b>		

\* The issuer rating is subject to overall gearing ratio of the company not exceeding 2.75x at the end of FY22.  
Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating of 'CARE-NP BB (Is)' assigned to Asian Hydropower Limited (AHL). Issuers with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations in Nepal.

Also, CRNL has reaffirmed the rating of 'CARE-NP BB' assigned to the long term facilities of AHL.

### Detailed Rationale & Key Rating Drivers

The ratings assigned to Asian Hydropower Limited (AHL) continue to remain constrained by the project stabilization risk associated with its 6.2 MW Lower Jogmai Hydropower Project (LJHP) having started commercial operation on November 01, 2021, albeit with modest operational Plant Load Factor (PLF) of 79% of the total contracted energy till mid-April 2022. The ratings also continue to factor in hydrology risk associated with run-of-the-river power generation, exposure to regulatory risk and volatile interest rate risk. The rating, however, derives strength from strong parentage and experienced management team, presence of power purchase agreement (PPA) with sufficient period coverage and low power evacuation risk, moderate counter party risk and government support for the power sector.

*Going forward, the ability the company to successfully reduce the gap between operational PLF and contracted PLF and availability of sufficient hydrology with timely receipt of payments from Nepal Electricity Authority (NEA) will be the key rating sensitivities. Furthermore, any substantial increase in exposure to group associates/other projects or any other substantial capital commitment that could lead to deterioration in the adjusted capital structure of the company from current levels will also be critical from analytical perspective.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### Project stabilization risk

AHL started commercial operation of the run-of the river 6.2 MW Lower Jogmai Hydropower Project (LJHP) in Illam district of Nepal since November 1, 2021. The project was setup with project cost of Rs 1,310 Mn which was funded through the term loan of Rs 841 Mn and Rs. 222 Mn through equity share capital and remaining through other liabilities including director's loan etc. The project has been operational since November 2021 and operational PLF has been modest at around 79% of contracted energy till mid-April 2022. The relatively lower power generation by the project was on account of scheduled outage as a result of plant being shut for 15 days in Mid-November to Mid-December 2021 coupled with lower hydrology during Mid-February to Mid-April 2022. The project is in the early stage of operations; thus, the stabilization and streamlining of production in coming years remains to be seen. The company's ability to continue to reduce the gap between operational PLF and contracted PLF, on a sustained basis, will remain a key monitorable aspect.

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

**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 (Mid-April to Mid-December) and less during the winter season (Mid-Dec to Mid-April). AHL is proposed to utilize discharge from Jogmai Khola having catchment area of 132.2 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.

**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. Furthermore, increased bank rates announced in the Monetary Policy for FY23 is likely to add to the upward pressure on interest rates going forward. Any 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 Strengths****Strong parentage and experienced management team**

AHL is part of Urja Developers group which is having multiple hydropower projects under its portfolio through Special Purpose Vehicles (SPV) companies. The flagship company of the group is Urja developers, promoted by CE Construction Pvt. Ltd. (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. The group chairman is Mr. Bijay Bahadur Rajbhandary who is having experience of more than 3 decades.

AHL has 7 Board of Directors and company management team is led by Mr. Bhanu Bhakta Pokharel, Managing Director of the company He possess more than ~30 years of management experience. He is supported by other experienced management team members.

**Power purchase agreement with sufficient period coverage**

AHL had entered into a long term PPA with NEA as on March, 2018 for sale of 6.20 MW power to be generated from the project. The contracted Plant Load Factor (PLF) for total 6.2 MW is 66.14% with total contracted energy of 35.92 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 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 8 years. AHL came into commercial operation on November 01, 2021 as against the Required Commercial Operation Date (RCOD) of January 15, 2022, hence the company is eligible for escalation for entire 8 years.

### Low Power Evacuation Risk

The power evacuation risk is low as power generated from the project is being evacuated through the existing transmission line of the operational project of Sanvi Energy Private Limited to the Godak Substation. The company has not faced any issues regarding power evacuation in the early stages of operations. Continued smooth evacuation of the power without transmission challenges will remain critical from revenue generation perspective.

### 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

Asian Hydropower Ltd. (AHL) is incorporated as private limited company on May 05, 2016 and later on July 10, 2019 converted into public limited company. It is promoted by individual promoters from different background and institutional investors for setting up of a 6.2 MW run-of-river, Lower Jogmai Hydropower Project (LJHP) in "BOOT" (Build, Own, Operate and transfer) model and is located at Illam district of Nepal. The project started commercial operations in November 01, 2021. The power project utilizes available head and flow from Jogmai Khola (river). The project has 132.2 km<sup>2</sup> catchment area and 5.70m<sup>3</sup>/s design discharge at 40% exceedance flow.

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

(Rs. in million)

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	983.60	CARE-NP BB
<b>Total Facilities</b>		<b>983.60</b>	

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#### About CARE Ratings Nepal Limited:

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