

Thulo Khola Hydropower Private Limited

Rating

Facility/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	1,875.00	CARE-NP BB [Double B]	Assigned
Total Facilities	1,875.00		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB' to the long term bank facilities of Thulo Khola Hydropower Private Limited (TKHPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of TKHPL is constrained by high project implementation risk associated with the under-construction 15 MW Mathillo Thulo Khola-A Hydropower Project (MTKAHPP) considering the project's nascent stage, hydrology risk associated with run of the river power generation, power evacuation risk, and THHPL's exposure to volatile interest rate risk and regulatory risk.

The rating, however, derives strength from TKHPL's experienced promoters and management team, financial closure achieved for the full project cost, power purchase agreement (PPA) with sufficient period coverage, and favorable government policies toward power sector.

Going forward, the ability of the company to successfully execute the project without cost and time overrun and early stabilization thereafter are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

High project implementation risk considering its nascent stage

TKHPL is setting up a 15 MW Mathillo Thulo Khola-A Hydropower Project with an estimated cost of Rs. 2,500 Mn (Rs. 167 Mn per MW) which is proposed to be funded through debt to equity ratio of 75:25 (Rs. 1,875 Mn in debt and Rs. 625 Mn in equity). The debt component required for the project has been fully tied up. Out of total equity of Rs. 625 Mn, promoters have infused around Rs. 216 Mn till July 15, 2022.

The project is in the nascent stage of construction with financial progress of around 8.71% as on July 14, 2022. Currently, initial infrastructure development works are in process, whereas the contracts for civil, hydro-mechanical and transmission line works are yet to be finalized. The Required Commercial Operation Date (RCOD) of the project is on October 15, 2024. If COD doesn't fall within RCOD, the company is bound to pay penalty to NEA as per the PPA. The number of escalations in tariff rate will also be reduced if COD of the project is delayed by more than six months. Being at initial stages of construction, the company is exposed to the project implementation risk within the envisaged time and cost.

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 (June to November) and less during the winter season (December to May). The project is proposed to utilize discharge from Thulo Khola having catchment area of 76.63 sq km

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

based on Perennial River. The project has 5.07 m³/s design discharge at 45% exceedance flow. Hence, the expected power generation is exposed to risk associated with variation in discharge of water from the aforesaid river/khola.

Power evacuation risk

The power generated from the project will be evacuated by ~17 Km long 33 Double Circuit KV Transmission Line to NEA's currently operational 132 KV Dana Substation in Myagdi District. The power from the substation will further be evacuated to Dana-Khurkot transmission line under the Kaligandaki Corridor. The construction of transmission line from powerhouse to NEA substation is within the scope of TKHPL, under which the company has finalized design while construction is yet commence. Timely completion of the same is critical for the company from revenue generation prospects.

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 (Refers to the twelve months period ending mid-July 2023) 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 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, the sector is prone to regulatory risk and changes in other policies by GoN.

Key Rating Strengths

Experienced promoters and management team

TKHPL has three members in its Board of Directors, chaired by Mr. Narendra Ballav Panth, who has more than twelve years of working experience in hydropower sector. He is also associated with other operational and under construction hydro power projects in different capacities. Mr. Panth is also an Executive Member of Independent Power Producers' Association Nepal (IPPAN) and Nepal Chamber of Commerce (NCC). Other directors of the company also have experience in various sectors including hydropower projects. The board is aptly supported by an experienced management team.

Power purchase agreement (PPA) with sufficient period coverage

TKHPL had entered into a PPA with NEA on August 9, 2018 for sale of 15 MW power to be generated from the project, and received Generation License from Department of Electricity Development on May 30, 2022. The period of the PPA is 30 years from commercial operation date (COD) or till validity of Generation License, whichever is earlier. 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 every year after completion of 12 months from COD date on base tariff for 8 times. The contracted energy for the project is 87.24 million units (MU) (i.e. 27.77 MU for dry season and 59.47 MU for wet season), at PLF of 66.39%.

Favorable government policies towards power sector

Government of Nepal (GoN) considers hydropower generation as a 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 the 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 augurs well for the sector.

About the Company

Thulo Khola Hydropower Private Limited (TKHPL) is a private limited company incorporated on April 23, 2017. The company is developing a 15 MW run-of-river, Mathillo Thulo Khola-A Hydropower Project in Myagdi district of Nepal by utilizing available head and flow from Mathillo Thulo Khola River. The project is being constructed under BOOT (Build, Own, Operate and Transfer) mechanism.

Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Fixed Term Loan	1,875.00	CARE-NP BB
Total		1,875.00	

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