

## Him Parbat Hydropower Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	3,255.00	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 Him Parbat Hydropower Limited (HPhL).

#### Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the bank facilities of HPhL continues to be constrained by high project implementation risk associated with its under-construction 20 MW Sagu Khola Hydropower Project (SKHP) and 5.5 MW Sagu Khola-1 Hydropower Project (SK1HP) considering the projects' nascent stage, hydrology risk associated with run of the river power generation, power evacuation risk and exposure to volatile interest rate risk and regulatory risk.

The ratings, however, derive strength from HPhL's experienced promoters and management team, financial closure achieved for the full project cost, power purchase agreement (PPA) with sufficient period coverage, moderate counter party risk and government support for the 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

HPhL is setting up a 20 MW run-of-river, Sagu Khola Hydropower Project (SKHP) with an estimated cost of Rs. 3,600 Mn (Rs. 180 Mn per MW) which is proposed to be funded through debt to equity ratio of 70:30 (Rs. 2,520 Mn in debt and Rs. 1,050 Mn in equity). The company is also setting up a 5.5 MW run of river Sagu Khola-1 Hydropower Project (SK1HP) with an estimated cost of Rs. 1,050 Mn (Rs. 191 Mn per MW) which is proposed to be funded through debt to equity ratio of 70:30 (Rs. 735 Mn in debt and Rs. 315 Mn in equity). The debt component required for the projects has been fully tied up. Out of total equity of Rs. 1,365 Mn, promoters have infused around Rs. 477 Mn till May 24, 2022.

The project is in the nascent stage of construction with combined financial progress of around 10% as on May 31, 2022. The Required Commercial Operation Date (RCOD) of the projects is on April 15, 2023. The company has applied for extension of RCOD to NEA. 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. As most of the machineries for the projects is likely to be imported, the project cost is likely to be impacted by the appreciating USD.

##### 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

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

season (December to May). SKHP is proposed to utilize discharge from Sagu Khola and Pegu Khola having catchment area of 37.04 sq km based on Perennial River. Similarly, SK1HP is proposed to utilize discharge from Sagu Khola and Syakhu Khola having catchment area of 60.08 sq kms for Sagu Intake and 14.90 sq kms for Syakhu Intake based on Perennial River. The project has 4.68 m<sup>3</sup> /s design discharge at 40% 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 projects is proposed to be evacuated through 6 km 132 KV Transmission Line to for SKHP and 33KV for SK1HP Transmission Line to NEA's Singati substation. Transmission line from powerhouse to substation, which is within the scope of the company, is under construction. Timely completion of the transmission lines will be crucial for the company from revenue generation prospective.

### **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 (FY refers to the twelve-month period ending mid-July) 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**

HPHL has four members in its Board of Directors, chaired by Mr. Himel Gurung, who has more than a decade of working experience in hydropower and construction sector. He is associated with different hydropower companies with the total capacity 51.4 MW. The board is aptly supported by an experienced management team.

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

HPHL had entered into a PPA with NEA on July 26, 2018 for sale of 25.5 MW power to be generated from the project. 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 on the base tariff for 8 times. The contracted energy for SKHP is 117.02 million units (MU) (i.e. 35.17 MU for dry season and 81.85 MU for wet season), at PLF of 66.79%. The contacted energy for SK1HP is 31.87 million units (MU) (i.e. 9.60 MU for dry season and 22.26 MU for wet season), at PLF of 66.15%.

### Favourable 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

Him Parbat Hydropower Private Limited was incorporated on June 11, 2014 as a private limited company which was later converted into public limited company as Him Parbat Hydropower Limited (HPL) on June 13, 2021. It is promoted by individual promoters and institutional investors for setting up of a 20 MW run-of-river, Sagu Khola Hydropower Project (SKHP) and 5.5 MW run of river Sagu Khola1 Hydropower Project (SK1HP) in "BOOT" (Build, Own, Operate and transfer) model and is located at Bigu Rural Municipality, Dolakha 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	3,255.00	CARE-NP BB- [Double B Minus]

### Contact Us

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