

## Pure Energy Limited

### Ratings

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	1,528.00	CARE-NP BB [Double B]	Assigned
Total Facilities	1,528.00 (One Thousand Five Hundred And Twenty Eight Million Only)		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB' to the long-term bank facilities of Pure Energy Limited (PEL).

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of PEL is constrained by project implementation risk and its stabilization risk associated with its under-construction solar power projects. The rating is also constrained by exposure to regulatory risk, volatile interest rates and climatic condition and technological risk.

The rating, however, derives strength from strong promoters and experienced management team and presence of power purchase agreement (PPA) with sufficient period coverage. The rating also factors in low power evacuation risk, moderate counter party risk and positive outlook of renewable power industry.

*Going forward, the ability of the company to successfully execute the project within envisaged cost and time and early stabilization thereafter will be the key rating sensitivities.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### Project implementation and stabilization risk

PEL is setting up a 20 MW solar power project in 2 phases (Block-1 and Block-2) having installed capacity of 10 MW under each phase in Banke district of Nepal. The total cost of the project is envisaged at Rs. 2,248.60 Mn (Rs. 112.43 Mn per MW) to be funded in debt to equity ratio of 67:33. The total debt amounting to Rs. 1,484.98 Mn has been tied up. The project has achieved financial progress of around 26% of total project cost till July 31, 2022. Required Commercial Operation Date (RCOD) of both "Block -1" and "Block-2" grid connected solar PV project is May 25, 2023. Consequently, PEL has achieved physical progress of 50% till July 18, 2022 for "Block-2" solar power project and its expected that it would commence operating in November 2022. The 10 MW project under Block -1 is at initial stages of its implementation. If the project is not completed within RCOD, there are penalties clauses for delay of commencement of operations and the ability of the company to complete these projects with-in the envisaged time and cost, execute them and generate revenue without any bottlenecks would be critical from a credit standpoint.

#### 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

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

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) as a regulatory body to regulate generation, transmission and distribution of electricity in Nepal among others. The right granted to ERC for PPA approval, prior approval of IPO issuance, approval of mergers, prescribe condition for maintaining standards of electricity placed outside transmission line and examine the standard, prescribe maintenance of proper internal control system, account systems and auditing method along with perform surprise check, inspect and investigate the licensed persons and imposing fine for non-compliance of applicable act, regulations and directives poses a new challenge to power sector companies. Hence, sector is prone to regulatory risk and changes in other policies by GoN.

### **Operations exposed to climatic conditions and technological risks**

The solar module panels which are being ordered / installed by the company have mono-crystalline bi-facial technology and expected to have relatively lower degradation and are more efficient energy generation which likely to benefit the company in having desired plant load factor (PLF) levels. However, achievement of desired Capacity Utilization Factor (CUF) going forward may be subject to amount of degradation of modules as well as technological risks. Furthermore, the company may book lesser revenues in the event of non-generation of power due to variation in weather conditions. This in turn might affect its cash flows and debt servicing ability of the company.

### **Key Rating Strengths**

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

PEL is promoted by individual promoters of Golyan group and REnergy Developers Pvt Ltd. Golyan Group has business across different sectors along with manufacturing, international trade & services, banking, insurance, real estate, plastic, textile, hospitality, energy etc. The group is also setting up hydropower projects with total installed capacity of 212.7 MW which is at different stages of surveys and constructions, thus providing it ability to deal with risk factors and long term commitment in power sectors.

REnergy Developer Pvt Ltd. is a renewal energy project developer based on India, having capabilities to execute the entire process of setting up solar energy plant. Mr. Akshay Golyan, Chairman of the company, has more than a decade of experience in manufacturing, real estate, hotel industry and other sectors and holds 50.82% shares of PEL.

The day to day management of the company is managed by Mr. Parwin Aryal, CEO, who has more than 23 years' experience in several industries including hydropower and energy sector. The operations of the company are well supported by the technical team for smooth functioning of business operations.

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

The total installed capacity of the grid connected solar PV plant is 20 MW divided into "Block-1" and "Block-2", each with installed capacity of 10 MW. PEL has entered into long term power purchase agreement (PPA) with Nepal Electricity Authority (NEA) on November 28, 2021 for sale of 20 MW power to be generated from the project on take or pay basis. PPA has been entered for the period of 25 years from the COD or till validity of generation license whichever is earlier. PPA for solar PV plant is entered at tariff rate of Rs. 7.30 per kWh

#### **Lower Power Evacuation Risk**

The power generated from the project is proposed to be evacuated through 33KV single circuit Transmission line to operational NEA Kohalpur Substation at Butwol district and it connects further to the national grid. PEL is responsible for construction of transmission line up to Kohalpur Substation. The company has already awarded the contract for the construction of

transmission line. Timely completion of the transmission lines will be crucial for the company for revenue generation prospective.

### Positive Outlook of renewable power industry

Government of Nepal (GoN) considers power generation as priority sector and intends to maximize private sector participation in generation of electricity by offering different exemptions and facilities on solar power through Alternative Energy Promotion Centre. 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. Hence, The major drivers for the growth in solar capacity addition including government initiation on encouragement of solar power for both residential and commercial purpose, feed-in tariff rates, technological advancement, shorter implementation schedules and lower fuel availability risks as compared to conventional sources of energy, shows positive outlook on long- term demand for the renewable power sector.

### About the company

Pure Energy Ltd (PEL) is a public limited company, incorporated on June 19, 2018. It is promoted by individual promoters related to Golyan group and REnergy Developers Pvt Ltd. for setting up a 20 MW grid connected solar photovoltaic (PV) project in Raniyapur Village Development Committee, Banke district of Nepal.

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

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	1,528.00	CARE-NP BB
<b>Total Facilities</b>		<b>1,528.00</b>	

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#### About CARE Ratings Nepal Limited:

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