

Nyadi Hydropower Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Issuer Rating	NA	CARE-NP BB (Is) [Double B (Issuer)]	Reaffirmed
Long Term Bank Facilities	4,400.00	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	200.00	CARE-NP A4 [A four]	Reaffirmed
Total Facilities	4,600.00 (Four Thousand Six Hundred Million Only)		

**The issuer rating is subject to overall gearing of the company not exceeding 3.00x at the end of FY23.*

Details of Facilities in Annexure 1

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

CRNL has also reaffirmed the rating of 'CARE-NP BB' assigned to the long-term bank facilities and 'CARE-NP A4' assigned to the short-term bank facilities of NHL.

Detailed Rationale & Key Rating Drivers

The ratings assigned to NHL remain constrained by project stabilization risk and power evacuation risk associated with its green-field hydropower project. The ratings also factor in the relatively high project cost leading to high payback period, hydrology risk associated with run-of-the-river power generation and exposure to regulatory risk.

The ratings, however, continue to derive strength from NHL's experienced board members and the company being a part of group having multiple hydropower projects, power purchase agreement (PPA) with sufficient period coverage, and favorable government policies towards power sector. The rating also takes cognizance of successful commencement of commercial operations of the project. However, as power is currently being evacuated under contingency plan, power generation from the project is likely to remain on the lower side as it is dependent on the dispatch instructions from Nepal Electricity Authority (NEA).

Going forward, the ability of the company to swiftly stabilize the operations of the newly commenced hydro power project leading to reduced gap between operational Plant Load Factor (PLF) and contracted PLF, availability of sufficient hydrology to generate sufficient energy as contracted will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Project stabilization risk and relatively high project cost

The 30MW Nyadi Hydropower Project (NHP) at Lamjung district of Nepal commenced its commercial operation from May 10, 2022. The initial Required Commercial Operation (RCOD) of the project was April 18, 2020, which was revised to May 10, 2022 citing force majeure and non-completion of NEA's Tarikuna Substation (through which power was proposed to be evacuated from the project). The cost of the project underwent several revisions following a significant time overrun, majorly on account of changes in design of transmission line due to non-completion of the proposed substation. As per the latest cost verification report as of mid-April 2022, the cost incurred in the project was Rs. 6,016 Mn (final audit pending), funded

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

through Rs. 1,500 Mn in equity, Rs. 4,034 Mn in debt and rest through payables. The expected final cost of the project as per the latest revision is Rs. 6,600 (at Rs. 220 Mn per MW). During the initial years of operations, the capital structure of the company is expected to remain leveraged characterized by a relatively higher overall gearing.

Currently, the project has been evacuating power through the contingency plan owing to delay in construction of the Tarikuna Substation (under the purview of NEA) through which the power was originally proposed to be evacuated. As the project currently falls under 'Projects Under Contingency Evacuation Plan' as per NEA, its power generation is dependent on the dispatch instructions from NEA. Projects under the contingency evacuation plan generally get lower priority in power evacuation from NEA, particularly during the high supply wet seasons, leading to low Plant Load Factor (PLF) levels. During the first four months of its operations (mid-May 2022 to mid-September 2022), the project's PLF was low at 61.50% of the contracted capacity. Thus, until a firm resolution of proper power evacuation is reached, the company will remain exposed to operations stabilization risk and this will remain a key monitorable aspect.

High power evacuation risk

The power generated from the project is proposed to be evacuated through 5.5 km 132 kV transmission line to NEA's Tarikuna Substation which is currently under construction. Power generated from the project is currently being evacuated through 9.4 km long 132 kv transmission line through a loop in loop out method to one of the towers of a privately owned and operational Upper Marsyangdi Hydropower Project which is further connected to Middle Marsyangdi Substation, which makes the project fall under the 'Projects Under Contingency Evacuation Plan' list of NEA. Once the Tarikuna Substation is operational, NHL will shift its power connection to the Tarikuna Substation and until such time the company will remain exposed to high power evacuation risk.

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 wet season when river flows are high (Mid-April to Mid-December) and less during the dry season (Mid-December to Mid-April). The project utilizes discharge from Nyadi River having catchment area of 154.7 sq km. Hence, any variation in discharge of water might impact the energy generation, which is of key importance for the company from the revenue generation perspective.

Exposure to regulatory risk

Government of Nepal (GoN) has recently established Electricity Regulatory Commission (ERC) for regulating generation, transmission and distribution of electricity in Nepal. ERC will be the regulator under the GoN which will be responsible for regulating hydropower companies in Nepal. Policies and directives issued by ERC like approval process for IPO issuance, 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

Experienced Board Members and management team and part of renowned group

NHL's major stake is owned by Butwal Power Company Limited (BPCL) which owns and operates multiple hydropower projects in Nepal. This provides comfort to the company in terms of construction, operations and technical assistance. NHL has six members in its board of directors chaired by Mr. Om Prakash Shrestha, along with other directors having experience and business interests in hydropower as well as other sectors. The board is aptly supported by an experienced management team across various functions, led by Mr. Uttam Amatya, CEO, who has more than three decades of experience in Nepal Electricity Authority (NEA).

Power purchase agreement with sufficient period coverage

NHL had entered into a long term PPA with NEA as on May 26, 2015 for sale of 30 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 project has differential tariff rate for wet season and dry season i.e., is Rs 4.80 and Rs 8.40 per kWh respectively with 3% escalation on base tariff for 8 times on annual basis.

Favourable 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 augurs well for the sector.

About the Company

Nyadi Hydropower Limited is a public company, incorporated on March 1, 2007. It is promoted by Butwal Power Company Limited (BPCL) and Lamjung Electricity Development Company Ltd. (LEDCO) for setting up a 30 MW run-of-river, Nyadi Hydropower Project (NHP) in Lamjung district of Nepal. The project is 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	Term Loan	4,400.00	CARE-NP BB
Short Term Bank Facilities	Working Capital Loan	200.00	CARE-NP A4
Total		4,600.00	

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