

## Omega Energy Developer Private Limited

### Ratings

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	1,547.00	CARE-NP BB [Double B]	<b>Assigned</b>
<b>Total Facilities</b>	<b>1,547.00</b> <b>[One Thousand Five Hundred and Forty Seven Million Only]</b>		

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 Omega Energy Developer Private Limited (OEDPL).

### Detailed Rationale & Key Rating Drivers

The rating assigned to OEDPL is constrained by project implementation risk and operation stabilization risk associated with its under-construction hydropower project. The rating also factors in the hydrology risk associated with run-of-the-river power generation, exposure to regulatory risk and volatile interest rates.

The rating, however, derives strength from OEDPL's experienced promoters and management team and presence of power purchase agreement (PPA) with sufficient period coverage with high dry energy mix. The rating also factors in low power evacuation risk, moderate counter party risk and government support for the power sector.

*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

OEDPL is setting up an 11.05 MW run-of-river Suni Gad Hydropower Project (KSHP) in Bajhang district of Nepal. The total cost of the project is envisaged at Rs. 2,447 Mn (Rs. 221 Mn per MW) to be funded in debt to equity ratio of 1.75:1. The total debt amounting to Rs. 1,547 Mn has been fully tied up. The financial progress of the project till September, 2022 was around 23% of the total project cost. The access roads have been completed. The orders for hydro mechanical equipment has already been placed and dispatched by the manufacturer. As the project is still in initial stages of construction, this exposes the company towards project execution risk in terms of completion of the project within the envisaged cost. Hence, the company expects the pace of the construction to speed up in coming months to complete the project in timely manner

Required Commercial Operation Date (RCOD) of the project is May 19, 2024 and the company has applied for the extension of RCOD for further six months on account of the pandemic. The company expects the commercial operation of the project to be by July 15, 2024. If the project is not completed within the mentioned RCOD, then the company is required to pay delay penalty. Furthermore, if COD is delayed by 6 months to 18 months from RCOD, there are restriction clauses in escalation of tariff rate. It is crucial of the company to complete the project within the timelines to have the accelerated clauses of tariff. Any delay in the same would lead to impact on project returns and debt servicing capabilities which is critical from analytical perspective.

<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 wet season when river flows are high (June to November) and less during the dry season (December to May). The power project is proposed to utilize available head and flow from Suni Gad Khola (river). The project utilizes discharge from Suni Gad Khola (river) having catchment area of 165 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.

Since there is no minimum commitment on revenue in PPA in case of adverse river flows scenario, the company is exposed to hydrology risk of the power project for the generation of revenue. The project is also subjected to dry-energy short-supply penalty in case the project fails to supply a minimum of 30% of the annual energy generation in the dry months.

**Exposure to volatile interest rate**

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, with substantial upward pressure on interest rates in the last few quarters. A contractionary monetary policy for FY23 coupled with increasing inflation has only added to the upward pressure on interest rates, resulting in the rate hikes taken by BFIs in the first quarter of FY23. Any further 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 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 promoters and management team**

OEDPL has seven board members, chaired by Mr. Sushil Kumar Shrestha, who is executive director of Kumar Shrestha Nirman Sewa Private Limited (KSNS), "A Class Contractor", and has almost two decades of experience in civil construction field. KSNS, incorporated in 1977, is mainly involved in construction of hydropower (civil), buildings, roads, bridges, irrigation & river training works, canals structures etc. across Nepal. Mr. Lokendra Singh Baral, managing director, has more than a decade of experience in various projects like UNDP, AEPC Nepal, World Bank Project (PAF-Nepal), Privet Sector Engineering Consultancy. He is also director of Ghatal Nirman Sewa Private Limited and Ghatal Investment Company Private Limited. The board is well supported by other experienced management team.

**Power purchase agreement with sufficient period coverage with high dry energy mix**

The total installed capacity of the plant is 11.05 MW. OEDPL had entered into a long term PPA with NEA as on March 14, 2018 for sale of 11.05 MW power to be generated from the project on take or pay basis. The contracted Plant Load Factor (PLF) for total 32 MW is 84.83% with total contracted energy of 82.11 MU. PPA has been entered for the period of 30 years from the COD or till validity of generation license (obtained on September 23, 2020 for 35 years) whichever is earlier. PPA period may be extended with mutual consensus during the last six months of validity.

The project's PPA has been executed under the six-month dry season (December to May) and six-month wet season (June to November) modality. Tariff rate as per PPA is Rs 4.80 per Kwh for wet season and the tariff rate for dry season is 8.4 per Kwh with 3% annual escalation on base tariff for 8 years. High dry-energy mix at 43.65% of the total contracted energy coupled with eight tariff escalations, is expected to support the revenue generation of the project in case the project is commissioned in timely manner within RCOD (May 19, 2024) with availability of sufficient hydrology.

### Low Power Evacuation Risk

The Power generated from the project is proposed to be evacuated through 10 km long 33KV Transmission Line to operational NEA Chainpur Substation at Jaya Prithivi Municipality, Bajhang district. OEDPL is responsible for construction of transmission line up to Chainpur Substation. Bidding process is yet to be initiated for construction of Transmission line. Timely completion of the transmission lines will be key monitorable aspect.

### 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

Omega Energy Developer Private Limited (OEDPL) is a private limited company, incorporated on March 22, 2017 involved in setting up of a 11.05 MW run-of-river, Suni Gad Hydropower Project (SGHP) in Surma Rural Municipality, Telkot Rural Municipality and Jaya Prithivi Municipality in Bajhang district of Nepal. The power project is proposed to utilize available head and flow from Suni Gad (river), a tributary of the Seti River (snow-fed river from the High Mountain starting from Surmasarowar Area). The project intake is in Surma rural municipality and powerhouse is in Telkot rural municipality. The project has 165 km<sup>2</sup> catchment area and 3.95 m<sup>3</sup>/s design discharge at 40% exceedance flow.

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

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	1,547.00	CARE-NP BB
<b>Total Facilities</b>		<b>1,547.00</b>	

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