

Green Ventures Limited (Revised)

Ratings

| Facilities | Amount (Rs. Million) | Rating ¹ | Rating Action |
|----------------------------|---|--------------------------|-----------------------------|
| Long Term Bank Facilities | 7,620.00 | CARE-NP BB [Double B] | Revised from CARE-NP BB- |
| Short Term Bank Facilities | 150.00 | CARE-NP A4 [A Four] | Reaffirmed |
| Total Facilities | 7,770.00 (Seven Thousand Seven Hundred and Seventy Million Only) | | |
| Issuer Rating | NA | CARE-NP BB [Double B] | Revised from CARE-NP BB- |

**The issuer rating is subject to overall gearing ratio of the company not exceeding 3.00x at the end of FY22.*

Details of instruments/facilities in Annexure-1

CRNL has revised the rating to 'CARE-NP BB' to the long-term bank facilities and reaffirmed the rating of 'CARE-NP A4' to the short-term bank facilities of Green Ventures Limited (GVL).

Detailed Rationale & Key Rating Drivers

The revision in the long-term rating assigned to the long-term bank facilities of Green Venture Limited (GVL) takes into an account commencement of commercial operation of the hydro power plant. However, the ratings are constrained by project stabilization risk with its debt-funded greenfield project, hydrology risk associated with run-of-the-river power generation and exposure to regulatory risk.

The ratings, however, derive strength from strong parentage and long-standing experience of promoter groups and management, presence of power purchase agreement (PPA) with sufficient period coverage and moderate counter party risk. The ratings also factor in current demand & supply gap and favorable government policies for the power sector.

Going forward, the ability of the company to early stabilization of the project and achieve the envisaged scale of business are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Project stabilization risk

GVL had incurred an expenditure of Rs.11,500 Mn towards the setting up 52.4 MW hydro power project at Okhaldhunga & Ramechhap district. The expenditure incurred has been funded through long term loan of Rs 8,715 Mn, promoters' equity of Rs. 2,500 Mn and balance from other liabilities. The total cost of the project was initial envisaged at Rs. 10,163 Mn and the increase in project cost was primarily due to increase in civil works on account of change in design of head works. The project started commercial operations in November 2021. Though, the project has come into operations, post project implementation risk in the form of stabilization and achieve the envisaged scale of business remain critical for the company.

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 (Mid-April to Mid- December) and less during the winter season (Mid-Dec to Mid-April). GVL is proposed to utilize discharge from Likhu Khola having catchment area of 655 sq kms based on snow fed river. The project has 26.7m³/s design discharge at 40% exceedance flow and gross head of 221.27m. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/khola.

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

Exposure to volatile interest rate

Nepalese banking sectors are fixing floating interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions (BFIs) remains volatile to change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 2-3 years. Therefore, funding 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 Strength**Strong parentage and long-standing experience of promoter groups and management**

GVL business risk profile is benefitted from joint venture partners viz Triveni Group and Vishal Group of Nepal. The company is currently managed by 5 directors, chaired by Mr. Subhash Chandra Sanghai, who has more than 45 years of experience in different sectors. Mr. Govinda Lal Sanghai, director of GVL, has more than three decades of experience in various companies. Other directors of the company are involved in banking, insurance, manufacturing, trading and other businesses. The promoters are further assisted by a team of qualified professionals who have considerable experience in the industry.

Power purchase agreement with sufficient period coverage

GVL had initially entered into a long term PPA with NEA as on February 2, 2011 for sale of power to be generated from 52.4MW hydro project and the PPA has been amended thereafter. The period of the PPA is 30 years from the date of commercial operation date (COD) or till validity of Generation License (obtained on March 11, 2012 for 35 years), whichever is earlier. PPA period may be extended with mutual consensus during the last six months of validity. The tariff for project ranges from Rs 4.80 per kWh to Rs 8.40 per kWh with 3% escalation on base tariff for every year 8 times after completion of 12 months from COD date. Required Commercial Operation date (RCOD) of the project was September 30, 2021. However, the project came into an operation in November 07, 2021.

Current demand & Supply gap however possible oversupply in future along with moderate counter party risk

As per the NEA's Annual Report for FY21, the current peak electricity demand is 1,482MW. The total domestic installed capacity stands at 1,447 MW which includes 632 MW owned by NEA and 815 MW by private sector IPPs. Overall, during FY21, total energy demand was 8,960 GWh which was met by import of 2,806 GWh from India whereas balance was met by domestic generation. However, considering under construction projects which are expected to generate electricity in next 2-3 years and electricity demand which has not increased substantially in past few years could create a situation of oversupply in near future in wet season, requiring demand side management.

The company has signed PPA with NEA which is owned by Government of Nepal and hence counter party default risk is low; however, timely realization is critical for the company and from analytical perspective also.

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

Green Ventures Ltd (GVL) is a public company, incorporated in 2004 as private limited company, later in February 2019 was converted to public limited company. The company developed 52.4 MW run- of-river, Likhu4 Hydropower Project (L4HP) in Okhaldhunga and Ramechhap 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 | 7,620.00 | CARE-NP BB |
| Short Term Bank Facilities | Overdraft | 150.00 | CARE-NP A4 |
| Total Facilities | | 7,770.00 | |

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