

Super Khudi Hydropower Private Limited

Rating

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	2,930.00	CARE-NP BB [Double B]	Assigned
Total Facilities	2,930.00 (Two Thousand Nine Hundred and Thirty 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 Super Khudi Hydropower Private Limited (SKHPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to SKHPL is constrained by project implementation risk and 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, power evacuation risk, and the company's exposure to regulatory risk and volatile interest rate risk.

The rating, however, derives strengths from the company's experienced promoters and management team, presence of power purchase agreement (PPA) with sufficient period coverage with high dry energy mix, moderate counter party risk and government's 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

SKHPL is setting up a 21.21 MW run-of-river Upper Khudi Hydropower Project (UKHP) in Lamjung district of Nepal. The total cost of the project is envisaged at Rs. 4,191 Mn (Rs. 198 Mn per MW) to be funded in debt-to-equity ratio of 70:30. The total debt amounting to Rs. 2,930 Mn has been fully tied up. The financial progress of the project as on October 17, 2022 was 15.37% of the total project cost. With the ongoing construction of access road and the company in process of entering into contracts for hydro mechanical equipment, the project is still in initial stages of construction and is exposed towards project execution risk.

Required Commercial Operation Date (RCOD) of the project is January 23, 2024 and the company has applied for the extension of RCOD by one year on account of the pandemic, which has been approved by Nepal Electricity Authority (NEA). Furthermore, approval for additional one year of extension is under progress. If the project is not completed within the RCOD, the company will be liable 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, therefore, critical for the company to complete the project within the timeline to avail the accelerated clauses of tariff. Any delay in the same would impact the project's expected returns and debt servicing capabilities which is critical from credit perspective.

¹Complete definition of the ratings assigned are available at 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 discharge from Khudi Khola (river) having catchment area of 72.3 sq. km based on snow fed Perennial River. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola.

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, the sector is prone to regulatory risk and changes in other policies by GoN.

Key Rating Strengths**Experienced promoters and management team**

SKHPL has two members in its Board of Directors, chaired by Er. Gyanendra Lal Pradhan, who has been associated with the power generation companies for more than 2 decades. Mr. Pradhan is also the Executive Chairman of Hydro Solutions Private Limited and Chairman of Nepal Hydra Developer Limited. He has also been a Member of the Rt. Hon. Prime Minister's Economic Advisory Council and High-Level Taskforce and Hydropower Development Project Taskforce. Mr. Ganesh Karki, Director, is also having experience of more than a decade and associated with multiple hydro power companies in different capacities. The board is aptly supported by an experienced management team across functions.

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

SKHPL had entered into a long term PPA with NEA as on April 24, 2019 for sale of 21.21 MW power to be generated from the project on take or pay basis. The contracted Plant Load Factor (PLF) is 69.64% of total generation capacity. The PPA has been entered for the period of 30 years from COD or the till the validity of generation license, 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, with the dry energy mix at 33.39% of the total contracted energy. Tariff rate as per PPA is Rs. 4.80 per Kwh for wet season and 8.4 per Kwh for dry season with 3% annual escalation on base tariff for eight years. High dry energy mix along with eight tariff escalations in the base tariff is expected to support the project's incremental revenue and return and coverage indicators, provided the project is commissioned within the RCOD.

Favorable government policies towards power sector

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 next 5 years for such person/entity who starts commercial operation, transmission and distribution of electricity up to mid-April 2026. 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

Super Khudi Hydropower Private Limited (SKHPL) is a private limited company incorporated on December 17, 2008 for setting up a 21.21 MW run-of-river Upper Khudi Hydropower Project (UKHP) in Marshyangdi Rural Municipality of Lamjung District. The project is constructed under BOOT model (Build, Own, Operate and Transfer).

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	2,930.00	CARE-NP BB [Double B]
Total Facilities		2,930.00	

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