

Him River Power Limited

Rating

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	2,200.00	CARE-NP BB [Double B]	Assigned
Total Facilities	2,200.00 (Two Thousand Two Hundred 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 Him River Power Limited (HRPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to HRPL 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, risk of natural calamities, power evacuation risk, and the company's exposure to regulatory risk and volatile interest rate risk.

The rating, however, derives strength from the company's experienced promoters and management team, presence of power purchase agreement (PPA) with sufficient period coverage, 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

HRPL is setting up a 16.26 MW run-of-river Liping Khola Hydropower Project (LKHP) in Sindhupalchowk district of Nepal. The total cost of the project is envisaged at Rs. 3,145.94Mn (Rs. 193.48 Mn per MW) to be funded in debt-to-equity ratio of 70:30. The total debt amounting to Rs. 2,200 Mn has been fully tied up. The financial progress of the project as on September 16, 2022 was 25.54% (Rs. 803.38 Mn of Rs. 3,145.94 Mn) of the total project cost which has partially been funded by Equity of Rs 747.21 Mn while the balance remains payable. With the ongoing construction of access road and the company being in process of entering into contracts for hydro mechanical equipment, the project is still in initial stages of construction and is exposed to project execution risk.

Required Commercial Operation Date (RCOD) of the project has been extended to May 27, 2023 and the company is eligible to avail the extension of RCOD by one more year on account of the pandemic. 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 (Mid-April to Mid-December) and less during the dry season (Mid-December to Mid-April). The power project is proposed to utilize discharge from Liping Khola (river) having catchment area of 32.58 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.

Risk of Natural Calamities

In Nepal, hydropower projects are usually located in terrains that are topographically challenging making their construction and operations vulnerable to adversities of nature. Floods and landslides that tend to occur in these areas pose threat to these power projects damaging their infrastructures as well as impacting their timely completion. Moreover, disruption in their construction in turn could lead to time and/or cost overrun, negatively impacting the project's financial aspects. Moving forward also, these natural calamities can adversely affect the smooth flow of power generation and distribution, which can further impact financial returns of the projects. HRPL is also exposed to such risks of natural calamities that might cause infrastructural, operational and financial damages to the project.

Power evacuation risk

The power generated by LKHP is proposed to be evacuated through 132 kV single circuit transmission line connecting Hub-substation at Upper Chaku 'A' Hydropower Plant's (UHP) switchyard to NEA's Lamosangu substation which further connects to national grid. The length of the proposed 132 kV transmission line from the switchyard of LKHP to the Hub-switchyard at UHP's switchyard is approximately 15 km. Construction of transmission line from Hub-substation to Lamosangu (22 km) has been undertaken by the developer of UHP on combined sharing basis for the two projects, UHP and LKHP. This sharing is governed by a mutual lease contract signed between the two IPPs (Independent Power Producers). Timely completion of the transmission lines is crucial for the company from revenue generation perspective. Any delay in the same would have an impact on the project cashflows.

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. 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

HRPL has seven board members chaired by Saral Sahayatri Poudel. Mr. Buddhi Bahadur Thapa is the Managing Director and Mr. Sudip Kumar Chaudhary is the Executive Director of the company. Mr. Bam Bahadur Thapa is the Project Director, whereas, Mr. Pradeep Kumar Paudyal, Ganesh Bahadur Khatri and Mr. Kiran Kumar Shrestha are other directors of the company. The directors have around a decade of experience in the relevant field.

Power purchase agreement with sufficient period coverage

HRPL had entered into a long term PPA with NEA as on June 10, 2016 for sale of 16.26 MW power to be generated from the project on take or pay basis. The contracted Plant Load Factor (PLF) is 66.75% of total generation capacity. The PPA has been entered for a period of 30 years from COD or 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 four-month dry season (Mid-December to Mid-April) and eight-month wet season (Mid-April to Mid-December) modality. Tariff rate as per PPA is Rs. 4.80 per Kwh for wet season and Rs. 8.4 per Kwh for dry season with 3% annual escalation on base tariff for five years. The five tariff escalations in the base tariff are 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

Government of Nepal (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 2027. Also, with government focus more toward reservoir-based hydropower projects; Monetary Policy FY23 has provided full tax exemption for first 15 years and 50% tax exemption for next 6 years to reservoir and semi- reservoir projects completing financial closure within mid-April 2029 with a capacity higher than 40 MW. 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

Him River Power Limited (HRPL) is a public limited company incorporated on December 15, 2010 which was converted from Private Limited to a Public Limited Company on July 15, 2002 for setting up a 16.26 MW run-of-river Liping Khola Hydropower Project (LKHP) in Sindhupalchowk district of Nepal. 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	2,200.00	CARE-NP BB [Double B]
Total Facilities		2,200.00	

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