

## Sanima Middle Tamor Hydropower Limited

### Ratings

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	<b>9,509.50</b>	<b>CARE-NP BB [Double B]</b>	<b>Reaffirmed</b>
<b>Total Facilities</b>	9,509.50 (Nine Thousand Five Hundred Nine Million and Five Hundred Thousand Only)		
<b>Issuer Rating</b>	<b>NA</b>	<b>CARE-NP BB (Is) [Double B (Issuer)]</b>	Reaffirmed

\* The issuer rating is subject to overall gearing ratio of the company not exceeding 3.25x at the end of FY23.

Details of instruments/facilities in Annexure-1

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

Further, CRNL has reaffirmed the rating of 'CARE-NP BB' assigned to the long-term bank facilities of SMTHL.

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and issuer rating of SMTHL continue to be constrained by project implementation risk and power evacuation risk. The ratings also factor in hydrology risk associated with run-of-the-river power generation, exposure to volatile interest rate risk and regulatory risk.

The ratings, however derive strength from experienced board members and management team, presence of power purchase agreement (PPA) with sufficient period coverage, moderate counter party risk and government support for the power sector. The ratings also factor in the reduced funding risk for its under-construction hydropower project after full financial closure of debt and successful collection of the earlier envisaged Initial Public Offer (IPO) proceeds.

*Going forward, the ability of the company to successfully execute the project without further cost and time overrun and early stabilization thereafter are the key rating sensitivities.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### Project implementation risk

The total cost of the project was envisaged at Rs. 12,680 Mn to be funded in debt: equity ratio of 75:25 (debt of Rs 9,509.50 Mn and equity of Rs. 3,170.50 Mn). However, the same has been revised to Rs. 13,332.54 Mn which shall be financed through the debt amount of Rs. 9,997.50 Mn and remaining through equity. The project cost increased on account of design modification due to geological challenges. The total debt amount has already been tied up. The expected COD of the project is September 30, 2023. Till January 14, 2023, the company has achieved financial progress of ~63% of project (as per financial verification report, expenditure of Rs. 8,392.15 Mn has been incurred out of total project cost of Rs. 13,332.54 Mn). The overall progress of the project is around 80% as on Mid-March, 2023. As the project is under-construction, this exposes the company to project execution risk in terms of completion of the project within the envisaged time and cost. Furthermore, the company also remains exposed to the risks associated with post project implementation and satisfactory operations thereafter to achieve the envisaged revenue.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and other CARE publications

**Power evacuation risk**

The power generated from the project will be evacuated through ~9Km long 220KV Transmission Line to the under construction Dhungesangu (Hangpang) Substation. Power from Dhungesangu Substation will be further evacuated to currently operational Basantapur Substation. Construction of transmission line from Dhungesangu Substation to Basantapur Substation is under the scope of NEA and is currently under construction. Construction of transmission line from the powerhouse to Dhungesangu substation is within the scope of SMTHL. Out of 24 towers, 23 towers have already been erected by the company as on Mid-March, 2023. Timely completion of the transmission lines and substations by both NEA and SMTHL will be critical from revenue generation perspective.

**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-December to Mid-April). The project is proposed to utilize discharge from Tamor Khola having a catchment area of 2002 sq. kms based on the snow-fed 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 less river flow than expected, the company is exposed to hydrology risk and would also have an impact on project returns.

**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 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 in hydropower sector**

SMTHL has five directors in its Board, chaired by Mr. Binaya Kumar Shrestha who has more than two decades of management experience. Mr. Apar Neupane, Director, has over a decade of experience in the hydropower sector. Mrs. Usha Khatiwada, Director, has more than two decades of experience in various organizations. She is also Chief Executive Officer (CEO) of NRN Infrastructure and Development Limited. The company's management team is led by Dr. Jugal Bhurtel, CEO of the company who has more than three decades of working experience. He has been supported by other experienced management team members.

**Power purchase agreement with sufficient period coverage**

SMTHL had entered into PPAs for the power generated from 73 MW Middle Tamor Hydropower Project (MTHP) with NEA in 2017 for 52.10 MW and 2018 for 20.90 MW. The PPA is for total contracted energy of 429.41 Million Units (MU) annually and the contracted Plant Load Factor (PLF) for total 73 MW is 67.15%. PPA has been entered for a period of 30 years from the COD or till validity of generation license whichever is earlier.

Tariff rate as per PPA for 52.10 MW is Rs 4.80 per kWh for wet season (Mid-April to Mid-December) and Rs 8.40 per kWh for dry season (Mid-December to Mid-April) with 3% annual escalation on base tariff for 8 years. In case of additional 20.90 MW, wet season is (June to November) and dry season is (December to May) with same tariff rate. The Required Commercial Operation Date (RCOD) of the project has been extended till September 11, 2023 on account of delay in construction due to pandemic.

### Favorable Government policies towards power sector

Government of Nepal (GoN) considers power generation as priority sector and intends to maximize private sector participation in generation of electricity by offering different exemptions and facilities on power sector. 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 towards 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 whose capacity is higher than 40 MW, completing financial closure within mid-April 2029. As per various directives from NRB, 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. Also, increasing trend of cross-border energy trade and its prospect in upcoming days with bilateral agreements with the neighboring nations shows positive outlook on long- term demand for the power sector.

### About the Company

Sanima Middle Tamor Hydro Power Ltd (SMTHL) is a Public Limited company, incorporated as on May 05, 2016. It is promoted by individual promoters from different backgrounds, institutional investors majorly related to Sanima Hydro group and other institutes which includes banks and insurance companies for setting up a 73 MW run-of-river, Middle Tamor Hydropower Project (MTHP) in Taplejung district of Nepal. The project is constructed under BOOT (Build, Own, Operate and Transfer) mechanism

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

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	9,509.50	CARE-NP BB
<b>Total Facilities</b>		<b>9,509.50</b>	

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