

Madame Khola Hydropower Private Limited

Ratings

Facilities	Amount (Rs. Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	3,325.00	CARE-NP BB [Double B]	Reaffirmed
Total Facilities	3,325.00 (Three Thousand Three Hundred and twenty-five Million Only)		

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB' assigned to the long term bank facilities of Madame Khola Hydropower Private Limited (MKHPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the long term bank facilities of MKHPL continues to be constrained by project implementation risk associated with its under-construction hydropower project. The rating also factors in risk of natural calamities, hydrology risk associated with run-of-the-river power generation, and exposure to volatile interest rate risk. The rating, however derives strength from experienced promoters and management team with demonstrated track record in operating hydropower projects, 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 Weakness

Project implementation risk

MKHPL is setting up a 24 MW, run-of-river, Madame Khola Hydroelectric Project (MKHP) in Kaski district of Nepal. The estimated cost of the hydropower project is Rs 4,477.69 Mn (i.e., Rs 186.57 Mn per MW) which is proposed to be financed in debt equity ratio of 74:26 (i.e., Rs 3,325 Mn term loan and Rs 1,153 Mn equity). The total debt of Rs. 3,325 Mn has already been tied up. As on March 29, 2023, Rs. 534 Mn equity had been infused of the total commitment of Rs. 1,153 Mn. The project is still at initial stage of construction. As per the progress report submitted by the company, as on March 2023, the overall physical progress of the project was ~25%. Financial progress was ~22% as on March 29, 2023. Hence, the company continues to remain exposed to the risks associated with project implementation within envisaged cost and timelines.

Furthermore, the power generated from the project is proposed to be evacuated to the switch yard of Super Madi Hydropower Project and further to NEA's operational Lekhnath Substation. Construction of transmission line from powerhouse to the switchyard of Super Madi Hydropower Project is within the scope of MKHPL. Timely completion of the transmission lines by MKHPL would remain crucial 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 (June to November) and less during the winter season (December to May). The project is proposed to utilize discharge from Madame Khola having catchment area of 48.7 sq kms, based on perennial river. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river.

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

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. MKHPL is also exposed to such risks of natural calamities that might cause infrastructural, operational and financial damages to the project.

Exposure to volatile interest rate risk

The company's interest rates are based on 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. Higher interest rates than envisaged could result in squeezed margins of the company. Hence, funding taken by the company is exposed to volatile interest rate.

Exposure to regulatory risk

Government of Nepal (GoN) has recently established Electricity Regulatory Commission (ERC) for regulating hydropower companies in Nepal. ERC will regulate generation, transmission and distribution of electricity in Nepal among others. Policies and directives issued by ERC such as approval process for IPO issuance and PPA approval through ERC poses a new challenge to hydropower companies. Hence, the hydropower sector is prone to regulatory risk and changes in other policies by GoN.

Key Rating Strengths**Experienced promoters and management team in hydropower sector**

MKHPL has 7 Board of Directors, chaired by Mrs. Susan Karmacharya, who has more than 26 years of experience in various sectors including hydropower. Currently, she is chairperson in Money Plant Investment Company Pvt. Ltd and a vice chairperson at Laligurans Batika School and Namuna Hospital. Mr. Dhan Bahadur Shrestha, Managing Director, has ~36 years of experience in different sectors and has been associated with various ministries at administrative level positions. Moreover, the promoters have also worked in development of other hydropower projects such as Yambaling Hydropower Limited's Yambaling Khola Hydropower Project (7.27 MW) which is under construction and Eastern Hydropower Limited's Pikhuwa Khola Small Hydropower Project (5MW) which is operational.

Power purchase agreement with sufficient period coverage

MKHPL had entered into a long term PPA with Nepal Electricity Authority (NEA) as on July 31, 2018 for sale of 24 MW power to be generated from the project. The period of the PPA is 30 years from the date of COD or till validity of Generation License whichever is earlier. PPA period may be extended with mutual consensus during the last six months of validity. The tariff for wet season (June to November) is Rs 4.80 per kWh and for dry season (December to May) is Rs 8.40 per kWh with 3% escalation on base tariff for 8 years. The contracted energy of the project is 142.19 million units (MU). The Plant Load Factor (PLF) of the project is 67.63%. The RCOD of the project is April 12, 2024. The company has applied for one year extension of the RCOD. Timely completion of project within the approved RCOD is crucial for the company to avail the benefits of all the escalations.

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

Madame Khola Hydropower Private Limited (MKHPL) is incorporated as on August 04, 2015. It is promoted by an institutional as well as individual promoters from different backgrounds. MKHPL is setting up of a 24 MW run-of-river Madame Khola Hydroelectric Project (MKHP). The project is constructed under BOOT (Build, Own, Operate and Transfer) model located at Kaski district of Nepal.

Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Term Loan	3,325.00	CARE-NP BB
Total		3,325.00	

Contact us

Analyst Contact

Ms. Monika Rawal

Contact No.: +977-01-4012630

Email: monika.rawal@careratingsnepal.com

Mr. Santosh Pudasaini

Contact No.: +977-01-4012628

Email: pudasaini.santosh@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani

Contact No.: +977 9818832909

Email: achin.nirwani@careratingsnepal.com

About CARE Ratings Nepal Limited:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.