

Taksar Pikhuwa Khola Hydropower Limited

Ratings

Facilities	Amount (Rs. in Million)	Rating ¹	Rating Action
Long Term Bank Facilities	1,258.88 (Decreased from 1,277.50)	CARE-NP BB+ [Double B Plus]	Reaffirmed
Short Term Bank Facilities	90.00 (Increased from 40.50)	CARE-NP A4+ [A Four Plus]	Reaffirmed
Total Facilities	1,348.88 (One Billion Three Hundred Forty-Eight Million and Eight Hundred Eighty Thousand Only)		
Issuer Rating	NA	CARE-NP BB+(Is) [Double B Plus (Issuer Rating)]	Assigned

* The issuer rating is subject to overall gearing ratio of the company not exceeding 3x at the end of FY23.

CARE Ratings Nepal Limited (CRNL) has assigned issuer rating of 'CARE-NP BB+ (Is)' to Taksar Pikhuwa Khola Hydropower Limited (TPKH). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations, in Nepal.

Also, CRNL has reaffirmed the rating of 'CARE-NP BB+' assigned to the long term bank facilities and 'CARE-NP A4+' assigned to the short term bank facilities of TPKH.

Detailed Rationale & Key Rating Drivers

The ratings assigned to TPKH continue to remain constrained by the project stabilization risk associated with its 8 MW Taksar Pikhuwa Khola Hydropower Project (TPKHP) having started commercial operation on April 14, 2021, albeit with modest operational Plant Load Factor (PLF) since it came into operations. The ratings also continue to factor in leveraged capital structure owing to relatively high cost of project leading to high payback period and increased financial burden in the initial years of operations amid high interest outgo, hydrology risk associated with run-of-the-river power generation, exposure to regulatory risk and volatile interest rate risk.

The ratings, however, derive strength from experienced board members and management team, presence of power purchase agreement (PPA) with sufficient period coverage and, moderate counter party risk and government support for the power sector. The rating also takes cognizance of the slight improvement in operational performance of the project during 8MFY23 (Unaudited, refers to the eight-month period ended mid-March 2023, FY refers to the twelve-month period ending mid-July). The ratings also take cognizance of financial support from promoters through additional equity infusion during 8MFY23, which has provided liquidity relief to the company.

Going forward, the ability of the company to successfully reduce the gap between operational PLF and contracted PLF along with timely receipt of payments from Nepal Electricity Authority (NEA) are the key rating sensitivities. Any substantial capital commitment or significant increase in debt levels leading to material deterioration in the capital structure would also be key monitorable.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications.

Detailed description of the key rating drivers

Key Rating Weaknesses

High cost of project leading to increased interest burden in initial years of operations

TPKH started commercial operation of the 8 MW (run-of-river) TPKHP in Bhojpur district of Nepal since April 14, 2021. The project was setup with project cost of Rs. 1,830.33 Mn (i.e., Rs. 228.79 MW) which was financed through the bank loan of Rs. 1,280 Mn and share equity of Rs. 550 Mn. Due to the relatively high cost of the project as compared to other similar sized projects, the interest outgo of the company in the initial years of operations remain on the higher side. Consequently, the company has relied on financial support from promoters to meet its debt obligations when operational cash generation has been insufficient.

Project stabilization risk with modest operating performance of the power plant

During FY22, the Plant Load Factor (PLF) of the company was ~48% of contracted energy FY22. This was mainly on the account of the technical issues faced by the project during the initial stages of operations. The generators were damaged hampering the operations intermittently during FY22. PLF improved to 71% during 8MFY23; however, remained relatively lower owing mainly to high transmission loss. Power generated from the project was being evacuated through 33KV transmission line connected to the operational Bhojpur Substation, which then was connected to the National grid of NEA via 33KV Dhankuta-Hile-Leguwa-Bhojpur, which resulted in a lengthy evacuation route of 128 km. Consequently, TPKH was subjected to high transmission loss of around 17%. However, on August 06, 2022, NEA connected the Bhojpur substation with 220KV Koshi corridor transmission line via 132 KV Leguwa-Tumlingtar transmission line, which reduced the power evacuation route to 48 km. As a result, transmission line loss for TPKH is now expected to reduce from ~17% to ~9%, pending final approval from NEA. The company's ability to continue to reduce the gap between operational PLF and contracted PLF, on a sustained basis, will remain a key monitorable aspect.

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). TPKH is proposed to utilize discharge from Pikhuwa Khola having catchment area of 253 sq kms based on rain fed 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 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. These natural calamities can adversely affect the smooth flow of power generation and distribution, which can impact financial returns of the projects. AHL is also exposed to such risks of natural calamities that might cause infrastructural, operational and financial damages to the project.

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

TPKH has 3 members in its Board of Directors chaired by Mr. Ajay Ballav Panth. He is working as Chairman at Dev Saving and Credit Co-operative Ltd. since ~2 years. He is also a Managing Director of Dev Urja Construction Private Limited and Chairperson of Dev Leasing Company Private Limited. Mr. Pancha Bir Singh Tuladhar, Director, has been actively involved in different businesses from a very young age and has ~6 decades of experience in various sectors including trading, power etc. Currently, he is a major shareholder in United Modi Hydro Power Ltd., (UMHPL) having 10MW operational hydropower project and in Singati Hydro Energy Ltd (SHEL) having 25 MW operational hydropower project. BODs are further supported by experienced teams across various functions/ departments.

Power purchase agreement with sufficient period coverage and moderate counter-party risk

TPKH had entered into a long term PPA with NEA as on December 16, 2016 for sale of 8MW power to be generated from the project. The contracted energy for the project is 45.51 million units (MU) (i.e., 8.11MU for dry season and 37.40MU for wet season), at PLF of 64.94%. The period of the PPA is 30 years from the date of COD or till validity of Generation License (received on June 17, 2016 for 35 years), whichever is earlier. Tariff rate as per PPA 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. The project has come into operation since April 14, 2021 against the amended RCOD of April 14, 2021; thus, the company is immune from the late RCOD penalty and is eligible for escalation for entire 8 years. Furthermore, NEA is owned by Government of Nepal and hence counter party default risk is moderate; however, timely realization of receivables is critical for the company and remains a key monitorable.

Government support for the 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

Taksar Pikhuwa Khola Hydro Power Limited (TPKH) is a public company, incorporated on April 23, 2014 as private company, which was converted into public limited company on September 29, 2021. It is promoted by individual promoters from different background for setting up of an 8 MW run- of-river, Taksar Pikhuwa Khola Hydropower Project (TPKHP) in Bhojpur district of Nepal. The project is constructed under BOOT (Build, own, Operate and Transfer) mechanism.

Brief financial performance of TPKH during FY22 is given below:

Financial Performance

(Rs. in Mn)

Particulars	FY22 Audited
Income from Operations	118
PBILD Margin (%)	73.59
Overall Gearing (times)	2.81
Interest coverage (times)	0.66
Total Debt/Gross Cash Accruals (times)	(48.67)

Annexure 1: Details of Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Term Loan	1,258.88	CARE-NP BB+
Short Term Bank Facilities	Fund Based Limit	90.00	CARE-NP A4+
Total		1,348.88	

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