

Peoples Energy Limited

Rating

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	6,484.00	CARE-NP BB [Double B]	Reaffirmed and put on Notice of Withdrawal
Total Bank Facilities	6,484.00 (Six billion Four hundred and Eighty Four million only)		

* Details of Facilities in Annexure-1.

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB' assigned to the long-term bank facilities of Peoples Energy Limited (PEL). CRNL has also subsequently put the rating on 'Notice of Withdrawal' upon the company's request to withdraw the rating along with 'No Objection Certificate' received from the company's lenders (consortium leader on behalf of all the consortium member banks).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of PEL remains constrained by project implementation risk, hydrology risk associated with run of the river power generation and exposure to volatile interest rate. The rating, however, continues to derive strength from experienced board members and the company being a part of RM Group, power purchase agreement with sufficient period coverage, favorable government policies towards power sector and moderate counter party risk.

Going forward, the ability of the company to successfully execute the project within its estimated cost and time and early stabilization thereafter are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Project Implementation Risk

PEL is setting up a 48.80 MW Khimti-II Hydropower project in Dolakha district of Nepal. The total cost of the green-field project is estimated at Rs. 8,647 Mn (Rs. 177.18 per MW), which is proposed to be funded in the debt equity ratio of ~75:25 (bank debt of Rs. 6,484 Mn and equity contribution of Rs. 2,162.61 Mn). The debt of the project has been fully tied up. The required commercial date of operations (RCOD) of the project is July 16, 2023, and the company has applied for the extension of RCOD by one more year. With total expenditure of Rs. 2,467 Mn (28.53% of the total cost) incurred till mid-January 2023 and around 50% physical progress achieved till mid-April 2023, the expected COD of the project is mid-July 2024. Therefore, the project is still exposed to the risks associated with project implementation and satisfactory operations thereafter.

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). UCPL is proposed to utilize discharge from Khare Khola having catchment area of 180 sq kms based on Perennial River. The project has 10.10 m³/s design discharge at 40% exceedance flow and gross head of 136.70m. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river; however, 60

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

MW Khimti-I Hydropower project operate by Himal Power Limited has been generating adequate power and same can be expected from Khimti-II HEP being developed by PEL.

Exposure to volatile interest rate

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. Therefore, funding taken by the firm from BFIs is subject to volatile interest rate.

Key Rating Strengths

Experienced board members and a part of RM Group

RM Group is predominantly involved in hydropower sector. The group has three hydropower companies namely 15.4 MW Bindhyabasini Hydropower Development Company Ltd. (BHDCL) [CARE-NP BB+(Is)], 20 MW Multi Energy Development Pvt. Ltd. and PEL. BHDCL is an operational hydropower company and is also a major promoter in PEL.

PEL is managed under the overall guidance of the company's board of directors, who possesses wide experience in the various sectors including hydropower. The board consists of nine members chaired by Mr. Krishna Acharya who is involved in multiple business ventures. He is also the chairman of RM Group and is supported by other experienced management team members.

Power Purchase agreement with sufficient period of coverage

PEL had entered into a long term PPA with Nepal Electricity Authority (NEA) as on October 1, 2015 for sale of 48.80 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 (mid-April to mid-December) is Rs 4.80 per kWh and for dry season (mid-December to mid-April) is Rs 8.40 per kWh with 3% p.a. escalation on base tariff for continuous 8 years.

The contracted energy for the project is 260.31 million units at PLF of 60.89%. The required commercial operation (RCOD) of the project is July 16, 2023. The company is in process of extension of RCOD by one year. If COD doesn't fall within RCOD, the company is bound to pay penalty to NEA as per PPA. Further, number of escalation in tariff rate will be reduced if there is delay in COD of the project than RCOD by more than 6 months.

Lower Power evacuation risk with moderate counter party risk

The power generated from the project is proposed to be evacuated through ~12 km 132 kV single circuit transmission line from Khimti-II Powerhouse to the NEA's New Khimti substation located in Khimti bazar, Dolakha district which is in operation. Therefore, there is no major power evacuation risk except the construction of transmission line from the powerhouse to the NEA substation which is under the scope of the company. In addition, the company has signed PPA with NEA is owned by Government of Nepal and hence counter party default risk is low; however, timely realization of critical for the company in terms of revenue generation perspective.

About the Company

Peoples Energy Limited (PEL) was incorporated on July 5, 2016 as Public Limited company by a group of individual promoters as well as institutional promoters for setting up of a 48.80 MW, run-of-river, Khimti-II hydroelectric project (KHEP) in Dolakha district of Nepal. The project is constructed under BOOT (Build, Own, Operate and Transfer) mechanism.

Annexure 1: Details of the Facilities rated

Nature of the Facilities	Type of facilities	Amount (Rs. in Mn)	Rating
Long Term Bank Facilities	Term Loan	6,484.00	CARE-NP BB
Total		6,484.00	

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