

Global Hydropower Associate Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	8,534.00 (Increased from Rs. 7,438 Mn)	CARE-NP BB+ [Double B Plus]	Revised from CARE-NP BB
Total Facilities	8,534.00 (Eight Thousand Five Hundred Thirty-Four Million Only)		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has revised the rating assigned to long-term bank facilities of Global Hydropower Associate Limited (GHAL) to 'CARE-NP BB+' from 'CARE-NP BB'.

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to GHAL factors in completion of construction of the 55 MW Likhu 2 Hydropower Project (L2HP) project with commercial operations expected from August 2023. The rating also takes cognizance of relatively better energy generation of another operational hydropower project within the group downstream the same river, which bodes well for GHAL's revenue generation prospect. The rating, however, remains constrained by stabilization risk associated with newly setup hydropower project, hydrology risk associated with run-of-the-river power generation, risk of natural calamities, exposure to volatile interest rate risk and regulatory risk.

The rating continues to derive strength from strong promotor and experienced management team and presence of power purchase agreement (PPA) with sufficient period coverage. The rating also factors in moderate counter party risk and government support for the power sector.

Going forward, swift stabilization of operations leading to generation of revenue as envisaged will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Stabilization risk associated with the newly setup hydropower project

GHAL is setting up a 55 MW Likhu 2 Hydropower Project in Solukhumbu and Ramechhap district of Nepal. The dry test and wet test of the project has been completed and the project is expected to commence commercial operations from August, 2023. The project cost was revised to Rs. 10,968 Mn (i.e., Rs. 199 Mn per MW) for 55 MW from earlier budgeted cost of Rs. 9,313 Mn, which is being funded in debt equity mix of 78:22 (i.e., Rs 8,534.00 Mn term loan and Rs 2,434 Mn equity). The increase in project cost is mainly attributable to increase in Interest During Construction (IDC) and management cost due to time overrun. The project is in the early stage of operations; thus, the stabilization and streamlining of production in coming years remains to be seen. However, MV Dugar Group has another operational Likhu A Hydropower Project (LAHP) located downstream L2HP and the energy generation as % of contracted energy of LAHP was steady at 98% during 5MFY22 and 9MFY23, which augurs well for the energy generation prospects of this hydropower plant. The company's ability to achieve operational PLF in line with 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 river flows are high (Mid-April to Mid-December) and less during the winter season (Mid-Dec to Mid-April). The project is proposed to utilize discharge from Likhu Khola including Marbu and Chari Khola having catchment area of 367 sq.

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

kms based on snow-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. GHAL 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

Strong promoters and experienced management team

GHAL is part of MV Dugar Group which has business across different sectors along with Banks, Insurance, Automobiles, Construction etc. Mr. Motilal Dugar, Chairman of GHAL and Executive Chairman of the group, is established businessman of Nepal and has more than 47 years of experience and is Chairman of Sunrise Bank Limited [CARE-NP BBB+]. Mogha Energy DMCC, having objective of investing in hydropower projects in Nepal has invested Rs. 336.00 Mn equity (out of Rs. 1,993.98 Mn total share capital including advances for share capital) in GHAL as on April 13, 2023. The company's management is supported by experienced team.

Power purchase agreement with sufficient period coverage

The installed capacity of the plant is 55 MW. GHAL had entered into a long term PPA with NEA as on March 3, 2015 for sale of 33.4 MW power to be generated from the project on take or pay basis and as on June 30, 2022 for additional capacity 19.065 MW on take and pay basis. The company has entered into PPA with NEA for capacity of 52.465 MW with total contracted energy of 242.36 MU with contracted PLF of 50.30%. PPA has been entered for the period of 30 years from the 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. Tariff rate 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. Required Commercial Operation Date (RCOD) of the project was extended to November 26, 2022. The company is in the process of taking necessary approvals for extension of RCOD with NEA. It is crucial for the company to take necessary extension of RCOD approvals 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

Global Hydropower Associate Limited (GHAL) is a public company, incorporated as on April 5, 2002. It is promoted by individual promoters majorly related to MV Dugar group which has investments in other institutes which includes Banks, Construction company and Automobiles trading for setting up of a 55 MW run-of-river, Likhu 2 Hydropower Project (L2HP) in Solukhumbu and Ramechhap district of Nepal. MV Dugar Group is developing three hydropower projects including L2HP in Likhu river adjacently out of which two are operational. Further the group is developing another peaking run of river (PROR) hydropower project of 160 MW in Lapchii Khola. The projects are 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	8,534.00	CARE-NP BB+
Total Facilities		8,534.00	

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