

Lower Mid Rawakhola Hydropower Project Private Limited

Rating

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	575.00	CARE-NP B+ [Single B Plus]	Assigned
Total Facilities	575.00 (Five Hundred Seventy-Five Million Only)		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP B+' to the long-term bank facilities of Lower Mid Rawakhola Hydropower Project Private Limited (LRPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to LRPL is constrained by funding and project implementation risk associated with its under-construction hydropower project. Furthermore, the promoters have limited prior experience in development of hydropower projects. With project being in nascent stages of construction, major contracts are yet to be awarded and debt has not been tied up. The rating also factors in the hydrology risk associated with run-of-the-river power generation, risk of natural calamities, power evacuation risk, and the company's exposure to regulatory risk and volatile interest rate risk. The rating, however, derives strength from presence of power purchase agreement (PPA) with sufficient period coverage, relatively high dry energy mix, 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 Weaknesses

Project implementation risk, debt yet to be tied-up

LRPL is setting up a 4 MW, run-of-river, Lower Mid Rawa Khola Hydroelectric Project (LRP) in Khotang District of Nepal. The total cost of the project is estimated at Rs. 833.54 Mn (Rs. 208 Mn/MW). The proposed funding mix for the estimated cost is debt and equity in the ratio of 70:30 (i.e., debt of Rs. 583.48 Mn and equity of Rs. 250.06 Mn). The debt of the project has not been tied up and only ~24% equity has been infused till June 30, 2023. Out of the total capex planned, as on June 30, 2023, the company has incurred a total expenditure of Rs. 30 Mn funded fully out of promoter's contribution. The contracts for civil works, hydro-mechanical works and electro- mechanical works are yet to be awarded. As the project is in nascent stages of construction, this exposes the company towards project execution risk in terms of completion of the project within the envisaged time and cost. Required Commercial Operation Date (RCOD) of the project is June 01, 2026. If the project is not completed within the RCOD, the company will be liable to pay delay penalty. Furthermore, if COD is delayed by more than 6 months from RCOD, there are restriction clauses in escalation of tariff rate. It is, therefore, critical for the company to complete the project within the timeline to avail the accelerated clauses of tariff.

Limited experience of management in hydro power sector

The promoter group of the company has limited prior experience of executing power projects and the project under consideration is the first power project being developed by the group. LRPL has five members in its board of directors chaired by Mr. Shambhu Prasad Ghimire, who has more than three decades of experience in government sector and has worked with various government

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

bodies at different capacities. Mr. Bhanu Bhakta Kharel, Director, has around two decades of experience in Information Technology (IT) sector and has worked with various companies in abroad as well. The promoters have ventured into hydro power generation due to the positive industry prospects and favorable government policies to support the same. The management is supported by an experienced team having an experience in hydropower projects.

Hydrology risk associated with run-of-the-river power generation and Power evacuation risk

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 wet season when river flows are high (June to November) and less during the dry season (December to May). Since there is no minimum commitment on revenue in PPA in case of adverse river flows scenario, the company is exposed to hydrology risk of the power project for the generation of revenue.

The power generated by LRPL is proposed to be evacuated to NEA's under-construction Baghshila Substation located in Khotang District of Nepal. The company is required to construct approximately 7 km long 33 kV transmission line from the project's switchyard to NEA's substation. Timely completion of transmission line and substation will be key sensitive from the credit perspective.

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. LRPL 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, the sector is prone to regulatory risk and changes in other policies by GoN.

Key Rating Strengths

Power purchase agreement with sufficient period coverage

LRPL has entered into PPA with Nepal Electricity Authority (NEA) as on May 11, 2023 for sale of 4 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 is Rs 4.80 per kWh and for dry season is Rs 8.40 per kWh with 3% escalation on base tariff for 8 years. Timely completion of project within the RCOD is crucial for the company to avail the benefits of all the escalations.

Following six-month wet and six-month dry season, the total contracted energy of the project is 24.28 Million Units (MU) with relatively higher dry energy mix of ~32% of the total contracted energy, which augurs well for the company's income profile.

Favorable government policies towards 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 2027. Also, with government focus more toward 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 completing financial closure within mid-April 2029 with a capacity higher than 40 MW. 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.

About the company

Lower Mid Rawakhola Hydropower Project Private Limited (LRPL) is a private limited company incorporated on June 17, 2019 for setting up a 4 MW run-of-river Lower Mid Rawa Khola Hydroelectric Project (LRP) in Khotang 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 Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Term Loan	575.00	CARE-NP B+
Total		575.00	

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