

Nasa Hydropower Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	19,382.50	CARE-NP BB [Double B]	Reaffirmed
Total Short Term Facilities	117.50	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	19,500.00 [Nineteen Billion and Five Hundred Million Only]		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (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 Nasa Hydropower Limited (NHL).

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to NHL continues to be constrained by the project implementation risk and operation stabilization risk associated with its under-construction hydropower project and power evacuation risk. The rating also factors in partial offtake risk, risk of natural calamities, exposure to regulatory risk and volatile interest rates.

The rating, however, derives strength from strong promoters and experienced management team and presence of power purchase agreement (PPA) with sufficient period coverage. The rating also factors in reduced hydrology risk owing to peaking reservoir, moderate counter party risk and government 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 and stabilization risk

NHL is setting up a 160 MW peaking run-of-river Lapche Khola Hydropower Project (LKHP) in Dolakha district of Nepal. The total cost of the project is envisaged at Rs. 26,205 Mn (Rs. 164 Mn per MW) to be funded in debt to equity ratio of 74:26. The total debt amounting to Rs. 19,382.5 Mn has been tied up. The project is at initial stages of implementation and financial progress till March 14, 2023 was only 9.64% of the total project cost. Execution of the project was impacted in FY20 and FY21 due to recurring lockdowns being imposed because of Covid-19, which had disrupted the availability of work force and required materials at the site. Also, geological challenges faced by the company for the construction of access roads at site has delayed the project execution timeline. 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 has been extended till July 27, 2024 (earlier July 30, 2023). 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 and thereafter timely completion of project within the RCOD to avail the benefits of all tariff escalations. Any delay in the same would led to impact on project returns and debt servicing capabilities which is critical from analytical perspective.

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

Power Evacuation Risk

The Power generated from the project is proposed to be evacuated through 132KV double circuit Transmission Line to NEA Bahrabise Substation at Sindhupalchok district which is under construction and it connects further to the national grid. NHL is responsible for construction of transmission line up to Bahrabise Substation. Bidding process is yet to be initiated for construction of Transmission line. Timely completion of the transmission lines will be crucial for the company for revenue generation prospective.

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. NHL 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 Strength**Strong promoters and experienced management team**

NHL is part of MV Dugar Group which has business across different sectors along with Banks, Insurance, Automobiles, and Construction etc. MV Dugar group has four hydro projects, Lapche Khola Hydropower Project (160 MW), Likhu 1 Hydropower Project (77 MW), Likhu 2 Hydropower Projects (55 MW) whose dry and wet tests are completed and operational Likhu A Hydropower Project (29.04 MW). Mr. Motilal Dugar, Chairman of NHL and Executive Chairman of the group, is established businessman of Nepal and has more than 47 years of experience and is also Chairman of Sunrise Bank Ltd [CARE-NP BBB+]. Mr. Vivek Dugar, Director, has more than 22 years of experience and is also Chairman and promoter shareholder of Gurans Life Insurance Co. Ltd. He is engaged in business of trading of Automobiles, Construction business etc. The board is supported by experienced management team.

Power purchase agreement with sufficient period coverage though off take risk pertains for partial capacity

The total installed capacity of the plant is 160 MW. NHL has entered into a long term PPA with NEA as on November 15, 2017 for sale of 99.4 MW power to be generated from the project on take or pay basis and additional capacity of 60.6 MW on take and pay basis. PPA has been entered for the period of 30 years from the COD or till validity of generation license whichever is

earlier. PPA for the project is entered for peaking run of the river with high tariff rate for peak dry season with 6 months of dry season. Tariff rate as per PPA is Rs 4.80 per Kwh for wet season (June - November) and the tariff rate for peak dry season (December- May) is Rs 10.55 per Kwh while the non-peak rate for the dry season (December-May) 8.4 per Kwh with 3% annual escalation on base tariff for 8 years. Further, additional energy is expected to be sold at non-peak rate.

Reduced hydrology risk owing to peaking reservoir

Peaking Run of the River (PRoR) projects have an additional reservoir to generate electricity continuously during peak hour, thus minimizing dependency on hydrology alone for power generation, common in run-of-the-river projects. Lower hydrology risk in NHL's peaking run of the river project bodes well for its power generation prospects, particularly during the dry season. Furthermore, PPA entered by NHL with NEA has June-November (6 months) defined as wet season and December- May (6 months) defined as dry season. The tariff rate for peak dry season (5PM to 10PM) is high at Rs. 10.55 per Kwh compared to non-peak dry tariff (Rs. 8.40 per Kwh) and wet season tariff (Rs. 4.80 per Kwh). Hence, higher power generation prospect during the dry season, owing to the presence of the reservoir, is likely to benefit the company's revenue generation scope.

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

Nasa Hydropower Ltd (NPL) is a public limited company, incorporated on October, 11 2007. It is promoted by individual promoters majorly related to MV Dugar group for setting up of a 160 MW peaking run-of-river, Lapche Khola Hydropower Project (LKHP) in Bigu Rural Municipality, Dolakha district of Nepal. The power project is proposed to utilize available head and flow from Lapche Khola (river). As per the Generation License, from Government of Nepal – Ministry of Energy, obtained as on December 28, 2017 the project shall be handed, on whatever conditions the project is, to the Government of Nepal after expiry of Generation License, which is 35 years.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	19,382.50	CARE-NP BB
Short Term Bank Facilities	Working Capital Loan	117.50	CARE-NP A4
Total Facilities		19,500.00	

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