

Pan Himalaya Energy Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	12,483.00 (Increased from Rs. 10,312.41 Mn)	CARE-NP BB [Double B]	Reaffirmed
Total Facilities	12,483.00 (Twelve Thousand Four Hundred Eighty-Three 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 of Pan Himalaya Energy Limited (PHEL).

Detailed Rationale & Key Rating Drivers

The reaffirmation in rating assigned to the PHEL continues to be constrained by residual project implementation and funding risk related to under construction hydropower project and hydrology risk associated with run-of-the-river power generation. The rating also factors in exposure to volatile interest rate risk, regulatory risk and risk of natural calamities.

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

Going forward, timely execution of the project within cost and time estimates along with generation of expected revenue thereafter will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Residual Project implementation and Funding risk

The estimated cost for 77 MW hydro power project was Rs. 12,855 Mn which was proposed to be funded in Debt equity ratio of 80:20. The budgeted cost has been further revised to Rs. 15,604 Mn (Rs. 203 Mn per MW) proposed to be funded in debt equity mix of 80:20 (Rs. 12,481 Mn term loan and Rs. 3,123 Mn equity). The project cost increased mainly on account of escalation in previously budgeted cost related to hydromechanical equipment's, increase in interest during construction (IDC) and management cost due to time overrun. The debt amount of Rs. 2,198 Mn is yet to be tied up; discussions with consortium banks is ongoing for funding the same. Till February 11, 2023, ~79% of financial progress has been achieved i.e., Rs. 12,351 Mn cost incurred out of total budgeted cost of Rs. 15,604 Mn. As the project is still under construction, this exposes the company towards project execution in terms of partial yet to be tied-up debt and completion of the project with-in the envisaged time and cost. Furthermore, the company also remains exposed to the risks associated with post project implementation and satisfactory operations thereafter to achieve the envisaged revenue.

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 having catchment area of 253 sq. 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.

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

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. PHEL 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**

PHEL is part of MV Dugar Group which has business across different sectors along with Banks, Insurance, Automobiles, Construction etc. Mr. Motilal Dugar, Chairman of PHEL 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. 400.00 Mn equity (out of Rs. 2,366.20 Mn total share capital including advances for share capital) in PHEL as on April 13, 2023. The company's management is supported by experienced team.

Power purchase agreement with sufficient period coverage

The total installed capacity of the plant is 77 MW. PHEL had entered into a long term PPA with NEA as on March 3, 2015 for sale of 51.4 MW power to be generated from the project on take or pay basis and as on June 30, 2022 for sale of additional 25.60 MW power to be generated from the project on take and pay basis. The contracted energy for total 77 MW is 355.52 Million Units (MU) annually at Plant Load Factor (PLF) of 52.71%. PPA has been entered for the period of 30 years from the COD or till validity of generation license 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. 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 and thereafter timely completion of project within the RCOD to avail the benefits of all the escalations.

Low Power Evacuation Risk

The power generated from the project is proposed to be evacuated through 7Km long 132 kv transmission line to Likhu-2 hydropower project [Global Hydropower Associates Limited], whose dry and wet tests are completed which would be connected to operational Likhu-A hydropower project [Numbur Himalaya Hydropower Limited] both of which is being developed by MV Dugar Group. The same is further evacuated from Likhu-A to operational New Khimti Substation. Timely completion of the transmission lines by PHEL and smooth evacuation of power remains crucial from revenue generation perspective.

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

Pan Himalaya Energy Limited (PHEL) is a Public Limited company, incorporated as on December 27, 2005. 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 77 MW run-of-river, Likhu 1 Hydropower Project (LIHP) in Solukhumbu and Ramechhap district of Nepal. MV Dugar Group is developing three hydropower projects in the same river out of which one is already operational and dry and wet tests for another one is completed. Further the group is developing another peaking run of river (PROR) hydropower project of 160 MW in Lapchii Khola. The project is 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	12,483.00	CARE-NP BB
Total Facilities		12,483.00	

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