

Super Hewa Power Company Limited

Rating

Facility/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	813.40 (Increased from 673.40)	CARE-NP BB- [Double B Minus]	Reaffirmed
Total Facilities	813.40 (Eight Hundred Thirteen Million and Four Hundred Thousand 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 Super Hewa Power Company Limited (SHPCL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of SHPCL continues to remain constrained by project implementation risk associated with its under-construction hydropower project. The rating also factors in risk of natural calamities, power evacuation risk, limited experience of the management in hydro power sector, hydrology risk associated with run-of-the-river power generation and exposure to regulatory risk. The rating, however, continues to derive strength from power purchase agreement (PPA) with sufficient period coverage 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 risk

SHPCL is setting up a 6 MW run-of-river Super Hewa Small Hydropower Project (SHSHP) in Sankhuwasabha district of Nepal. The estimated cost of the project is Rs. 1,300 Mn for total installed capacity of 6 MW (Rs. 217 Mn per MW) which is being funded through a debt equity mix of 63:37. The total debt component of Rs. 813 Mn has been tied up. Till May 31, 2023, the promoters have infused Rs 387 Mn (including Rs. 250 Mn advance share capital) as against the projected promoters contribution of Rs. 487 Mn towards project. As on May 31, 2023, the company has achieved financial progress of ~75%. As the project is under construction, the company is exposed to project execution risk in terms of completion of project within the envisaged cost and time.

The Required Commercial Operation Date (RCOD) of the project was July 16, 2023. The company has applied for extension of the RCOD for additional six months. If approved, the extension is likely to provide some cushion to complete the project in revised timeframe. If the project is not completed within the approved RCOD, then the company will be required to pay delay penalty. Furthermore, if Commercial Operation Date (COD) is delayed by 6 months to 18 months from RCOD, there are restriction clauses in escalation of tariff rate. It is crucial for the company to complete the project within the timelines to avail the accelerated clauses of tariff. Any delay in the same would impact the project's expected returns and debt servicing capabilities which is critical from credit perspective.

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. SHPCL has four members in its board of directors chaired by Mr. Harka Bahadur Tamang, who has more than two decades of experience in civil construction and real estate sectors. Mr. Nima Wangel Lama, Managing Director with more than a decade of experience in real estate sector, manages

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

day to day operations. The promoters have ventured into hydro power generation due to the positive industry prospects and favourable government policies to support the same. The management is supported by an experienced team having an experience of around a decade in hydropower projects.

Risk of natural calamities and power evacuation risk

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. Furthermore, SHPCL's operations are currently impacted by the recent flood on Hewa Khola. Assessment of the damages is in progress. Nonetheless, in case of a prolonged plant downtime, the company's returns are likely to be supported, to some extent, by the insurance coverage taken by the company.

The power generated from the project will be evacuated through 13.5 Km long 33kV transmission line to Baneshwor Substation and connected to national grid via Baneshwor-Basantapur-Dhankuta-Lahan transmission line under Koshi corridor. Baneshwor substation and national grid line i.e. Koshi corridor are operational. The transmission line from powerhouse to Baneshwor substation which is within the scope of SHPCL is under construction. Timely completion of the said transmission line is crucial for the company from revenue generation prospective. Any delay in the same would have an impact on the project cashflows.

Exposure to regulatory risk and 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 wet season when river flows are high (June to November) and less during the dry season (December to May). SHPCL is proposed to utilize discharge from Hewa Khola having catchment area of 33.25 sq kms, based on perennial river. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ khola.

Government of Nepal (GoN) has recently 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, sector is prone to regulatory risk and changes in other policies by GoN.

Key Rating Strengths

Power purchase agreement with sufficient period coverage

SHPCL had entered into a long term PPA with Nepal Electricity Authority (NEA) as on April 10, 2018 for sale of 5MW and as on August 15, 2022 for additional 1MW power to be generated from the project. The period of the PPA is 30 years from the COD or till validity of Generation License (received on April 09, 2019 for 35 years), whichever is earlier. PPA period may be extended with mutual consensus during the last six month of validity. The tariff for wet season (June to November) is Rs 4.80 per kWh and for dry season (December to May) is Rs 8.40 per kWh with 3% escalation on base tariff for 8 years.

Favourable government policies towards power sector

Government of Nepal (GoN) considers hydropower generation as a 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 whereby 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

Super Hewa Power Company Limited (SHPCL) is a public limited company, incorporated on November 23, 2010 as private limited company and converted into public limited company on July 14, 2022. It is promoted by an institutional promoter and several individual promoters with different industry backgrounds. SHPCL is setting up Super Hewa Small Hydropower Project (SHSHP) having installed capacity of 6 MW run-of-river in "BOOT" (Build, Own, Operate and transfer) model located at Sankhuwasabha district of Nepal.

Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Rating
Long Term Bank Facilities	Term Loan	813.40	CARE-NP BB- [Double B Minus]

Contact Us

Analyst Contact

Ms. Anusha Thapa

+977-01-4012630

anusha.thapa@careratingsnepal.com

Mr. Santosh Pudasaini

+977-01-4012628

pudasaini.santosh@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani

+977-9818832909

achin.nirwani@careratingsnepal.com

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