

Habitat Power Company Limited

Rating

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	750.00	CARE-NP BB- [Double B Minus]	Assigned
Total Facilities	750.00 [Seven Hundred and Fifty Million Only]		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB-' to the long-term bank facilities of Habitat Power Company Limited (HPCL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of HPCL is constrained by project implementation risk associated with its under-construction hydropower project which is at nascent stages of construction. The rating also factors in the hydrology risk associated with run-of-the-river power generation, exposure to regulatory risk, volatile interest rates and risk of natural calamities.

The rating, however, derives strength from HPCL's experienced promoters and management team and presence of power purchase agreement (PPA) with sufficient period coverage. The rating also factors in financial closure for the entire debt funding estimated for the project, 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 risk

HPCL is setting up a 5.00 MW run-of-river Hewa A Small Hydropower Project (HSHP) in Panchthar district of Nepal. The total cost of the project is envisaged at Rs. 1,108 Mn (Rs. 222 Mn per MW) to be funded in debt-to-equity ratio of 68:32. The total debt of Rs. 750 Mn has already been fully tied up. The project execution is in nascent stages of construction and this exposes it towards project execution risk in terms of completion of the project within the envisaged time and cost.

The Required Commercial Operation Date (RCOD) of the company was June 16, 2023. The company has applied for extension of RCOD to Nepal Electricity Authority (NEA). It is imperative from analytical perspective that the RCOD extension is approved as envisaged. If the RCOD is not extended or if the project is not completed within the revised 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. Extension of RCOD and completion of project construction within extended RCOD and envisaged cost will be key monitorable aspect.

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

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). The power project is proposed to utilize available head and flow from Hewa Khola (river) having catchment area of 144.50 km² based on perennial river. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola. The project is also subjected to dry-energy short-supply penalty in case the project fails to supply a minimum of 30% of the annual energy generation in the dry months.

Exposure to regulatory risk

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.

Exposure to volatile interest rate

Nepalese banking sector has 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.

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. HPCL is also exposed to such risks of natural calamities that might cause infrastructural, operational and financial damages to the project.

Key Rating Strengths**Experienced promoter/directors and management team**

HPCL has five members in its Board of Directors, chaired by Mr. Batu Lamichhane, who has over two decades of experience in hydropower and construction sector. He is also the chairman of Singati Hydro Energy Limited [CARE-NP BB(Is)], Bailee International Private Limited, and executive chairperson of Baibhab Power Nepal Private Limited. Other directors of the company also have long experience across various sectors ranging from hydropower, construction, manufacturing, etc. Furthermore, the board is supported by an experienced team in the related field.

Power purchase agreement with sufficient period coverage

HPCL had entered into a long term PPA with NEA as on January 21, 2019 for sale of 5 MW power to be generated from the project on take or pay basis except for 10% of contracted energy for wet months, which is under reserve margin (take and

pay modality). The contracted Plant Load Factor (PLF) for total 5 MW is 76.32% with total contracted energy of 33.43 MU. 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 and the tariff rate for dry season is 8.4 per kWh with 3% annual escalation on base tariff for 8 years. The company is in the process of enhancing its installed capacity to 7.5 MW. PPA and generation license for the enhanced capacity has not been finalized yet.

Favorable Government policies towards power sector

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 2024. 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.

About the Company

Habitat Power Company Limited (HPCL) is a public limited company, incorporated on July 13, 2006 as a private limited company and later converted into a public limited company on July 01, 2023. The company is involved in setting up a run-of-river, Hewa A Small Hydropower Project (HSHP) in Sidin & Yanyappa of Yangnam VDC of Panchthar district. The project will be 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	750.00	CARE-NP BB-
Total Facilities		750.00	

Contact Us

Analyst Contact

Mr. Prachan Shrestha

Contact No.: + 977-01-4012628

Email: prachan.shrestha@careratingsnepal.com

Ms. Monika Rawal

Contact No.: +977-01-4012630

Email: monika.rawal@careratingsnepal.com

Mr. Santosh Pudasaini

Contact No.: + 977-01-4012629

Email: pudasaini.santosh@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani

Contact No.: +977 9818832909

Email: achin.nirwani@careratingsnepal.com

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