

## Appolo Hydropower Limited

### Rating

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	730.00	CARE-NP BB- [Double B Minus]	Assigned
Total Facilities	730.00 (Seven Hundred Thirty Million Only)		
Issuer Rating	NA	CARE-NP BB-(Is) [Double B Minus (Issuer Rating)]	Assigned

\* The issuer rating is subject to overall gearing ratio of the company not exceeding 3.00x at the end of FY24.  
Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned issuer rating of `CARE-NP BB- (Is)` to Appolo Hydropower Limited (AHL). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations, in Nepal. Also, CRNL has assigned the rating of `CARE-NP BB-` to the long-term bank facilities of Appolo Hydropower Limited (AHL).

### Detailed Rationale & Key Rating Drivers

The rating assigned to AHL is constrained by project implementation risk associated with its under-construction hydropower project. The rating also factors in limited prior experience of AHL's promoters in development of hydropower projects, hydrology risk associated with run-of-the-river power generation, risk of natural calamities, relatively low dry energy mix impacting income prospects of the company 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, lower power evacuation risk, moderate counter party risk and government's support for the power sector. Also, major contracts have been awarded and debt is fully tied up.

*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 and stabilization risk thereafter

AHL is setting up a 6 MW, run-of-river, Buku Khola Hydropower Project (BKHP) in Okhaldhunga District of Nepal. The total cost of the project is estimated at Rs. 1,124.26 Mn (Rs. 187 Mn/MW). The proposed funding mix for the estimated cost is debt and equity in the ratio of 65:35 (i.e., debt of Rs. 730.77 Mn and equity of Rs. 393.49 Mn). The debt component of the project has been fully tied up. As on mid-August 2023, the company has incurred an estimated expenditure of Rs. 310 Mn, pending financial verification, funded out of promoter's contribution of Rs. 291 Mn and rest through loans. The contracts for hydro-mechanical works and electro-mechanical works have also already been awarded.

As the project is in initial stages of construction, this exposes the company towards project execution risk in terms of completion of the project within the envisaged time and cost, particularly given that the project is already running well behind schedule as per its Required Commercial Operation Date (RCOD) of April 30, 2023. The company has applied for extension of RCOD by additional two years. The extension, if approved, is expected to provide some cushion to complete the project in revised timelines, barring any major setback. However, this also exposes the company to the possibility of cost overrun vis-a-vis the initial budgeted cost of the project. If COD doesn't fall within RCOD, the company is bound to pay late COD penalty to Nepal Electricity Authority (NEA). Furthermore, if COD is delayed by 6 months to 18 months from RCOD, then the number of escalations in tariff rate will

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and other CARE publications

decrease to 4 times from 5 times. It is crucial for the company to complete the project within the timelines to have the accelerated clauses of tariff. Any material delay in the same could impact project returns and debt servicing capabilities.

### **Limited experience of promoters in hydro power sector**

The promoter group of the company has limited prior experience of executing hydropower projects and the project under consideration is the first power project being developed by the group. AHL has seven members in its Board of Directors chaired by Mr. Ang Tenzi Sherpa, who has prior experience in manufacturing of pashmina, trekking & travelling and real estate business in Nepal. 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 experience in hydropower projects.

### **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 (mid-April to mid-December) and less during the dry season (mid-December to mid-April). AHL is proposed to utilize discharge from Buku Khola having catchment area of 67 sq. kms based on rain-fed river. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola. 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.

### **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. AHL 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**

AHL has entered into PPA with Nepal Electricity Authority (NEA) as on May 16, 2013 for sale of 6 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 5 years. Timely completion of project within the RCOD is crucial for the company to avail the benefits of all the escalations.

Following eight-month wet and four-month dry season, the total contracted energy of the project is 34.02 Million Units (MU) with relatively lower dry energy mix of 16.56% of the total contracted energy, which remains a constraint for company's income profile.

### Low power evacuation risk

The power generated from the project is proposed to be evacuated through 7 Km long 33 KV transmission line to NEA's operational Garjyang Substation. The construction of transmission line from the powerhouse to the substation is within the scope of AHL. Timely completion of the transmission lines will be crucial from analytical 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; full tax exemption is provided 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 augurs 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

Apolo Hydropower Limited (AHL) incorporated as a private limited company, later converted to public limited company on September 22, 2022. The company is involved in setting up of a 6 MW run-of-the-river in Okhaldhunga District, 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	730.00	CARE-NP BB-
<b>Total</b>		<b>730.00</b>	

### Contact us

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