

Omega Energy Developer Private Limited

Rating

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	1,547.00	CARE-NP BB [Double B]	Reaffirmed
Total Facilities	1,547.00 [One Thousand Five Hundred and Forty-Seven 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 Omega Energy Developer Private Limited (OEDPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the long-term bank facilities of OEDPL continues to be constrained by project implementation risk associated with its under-construction hydropower project. The rating also factors in the hydrology risk associated with run-of-the-river power generation, exposure to volatile interest rates and risk of natural calamities. The rating, however, derives strength from OEDPL's experienced promoters and management team and presence of Power Purchase Agreement (PPA) with sufficient period coverage and high dry energy mix. The rating also factors in low power evacuation risk, 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

OEDPL is setting up an 11.05 MW run-of-river Suni Gad Hydropower Project (KSHP) in Bajhang district of Nepal. The total cost of the project is envisaged at Rs. 2,447 Mn (Rs. 221 Mn per MW) to be funded in debt-to-equity ratio of 63.25:36.75. The total debt amounting to Rs. 1,547 Mn has been fully tied up. The financial progress of the project till July 02, 2023 was around 30% of the total project cost. Construction of the access road to the project site has been completed. Hydromechanical contractor has been mobilized to the site and electromechanical site team are being mobilized as required. As the project is still in early stages of construction, 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 is May 18, 2025. If the project is not completed within the mentioned RCOD, then the company is required to pay delay penalty. Furthermore, if COD is delayed by 6 months to 18 months from RCOD, there are restriction clauses in escalation of tariff rate. It is crucial of the company to complete the project within the timelines to have the accelerated clauses of tariff. Any delay in the same would lead to impact project returns and debt servicing capabilities which is critical from analytical perspective.

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

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

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 Suni Gad Khola (river). The project utilizes discharge from Suni Gad Khola (river) having catchment area of 165 sq. km 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 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. OEDPL is also exposed to such risks of natural calamities that might cause infrastructural, operational and financial damages to the project

Key Rating Strength

Experienced promoters and management team

OEDPL has seven board members, chaired by Mr. Sushil Kumar Shrestha, who is executive director of Kumar Shrestha Nirman Sewa Private Limited (KSNS), "A Class Contractor", and has almost two decades of experience in civil construction field. KSNS, incorporated in 1977, is mainly involved in construction of hydropower (civil), buildings, roads, bridges, irrigation & river training works, canals structures etc. across Nepal. Mr. Lokendra Singh Badal, managing director, has more than a decade of experience in various projects like UNDP, AEPC Nepal, World Bank Project (PAF-Nepal), Privet Sector Engineering Consultancy. He is also director of Ghatal Nirman Sewa Private Limited and Ghatal Investment Company Private Limited. The board is well supported by other experienced management team.

Power purchase agreement with sufficient period coverage, and high dry energy mix

The total installed capacity of the plant is 11.05 MW. OEDPL had entered into a long term PPA with NEA as on March 14, 2018 for sale of 11.05 MW power to be generated from the project on take or pay basis. The contracted Plant Load Factor (PLF) for total 11.05 MW is 84.83% with total contracted energy of 82.11 MU. PPA has been entered for the period of 30 years from the COD or till validity of generation license (obtained on September 23, 2020 for 35 years) whichever is earlier. PPA period may be extended with mutual consensus during the last six months of validity.

The project's PPA has been executed under the six-month dry season (December to May) and six-month wet season (June to November) modality where the dry energy mix of the project is 43.65% of the total contracted energy. 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. Although, design discharge is taken at 40% of probability of exceedance, it is met for just over 6 months making the effective probability of exceedance as 53%. High dry-energy mix coupled with eight tariff escalations and high probability of

exceedance, is expected to support the revenue generation of the project in case the project is commissioned in timely manner within RCOD (May 18, 2025) with availability of sufficient hydrology.

Low Power Evacuation Risk

The Power generated from the project is proposed to be evacuated through 10 km long 33kV Transmission Line to operational NEA Chainpur Substation at Jaya Prithivi Municipality, Bajhang district. OEDPL is responsible for construction of transmission line up to Chainpur Substation. Timely completion of the transmission lines will be key monitorable aspect.

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

Omega Energy Developer Private Limited (OEDPL) is a private limited company, incorporated on March 22, 2017 involved in setting up of a 11.05 MW run-of-river, Suni Gad Hydropower Project (SGHP) in Surma Rural Municipality, Telkot Rural Municipality and Jaya Prithivi Municipality in Bajhang district of Nepal. The power project is proposed to utilize available head and flow from Suni Gad (river), a tributary of the Seti River (snow-fed river from the High Mountain starting from Surmasarowar Area). The project intake is in Surma rural municipality and powerhouse is in Telkot rural municipality. The project has 165 km² catchment area and 3.95 m³/s design discharge at 40% exceedance flow.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	1,547.00	CARE-NP BB
Total Facilities		1,547.00	

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