

Thulo Khola Hydropower Limited

Rating

Facility/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	2,875.00 (Increased from 1,875.00)	CARE-NP BB [Double B]	Reaffirmed
Total Facilities	2,875.00 (Two Thousand Eight Hundred Seventy-Five Million 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 Thulo Khola Hydropower Private Limited (TKHL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of TKHL continues to remain constrained by project implementation risk associated with the under-construction 22.50 MW Mathillo Thulo Khola-A Hydropower Project (MTKHPP) considering the project's nascent stage. The rating continues to factor in hydrology risk associated with run of the river power generation, power evacuation risk, risk of natural calamities, and volatile interest rates.

The rating, however, continues to derive strength from TKHL's experienced promoters and management team, financial closure achieved for the full project cost, power purchase agreement (PPA) with sufficient period coverage, and favorable government policies towards power sector.

Going forward, the ability of the company to successfully execute the project within the cost and time estimates and early stabilization thereafter will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Project implementation risk

TKHL is setting up a 22.50 MW MTKHPP (increased from 15 MW) in Myagdi district of Nepal. The estimated cost of the 22.50 MW project is Rs. 3,940 Mn (i.e., Rs. 175 Mn per MW), which is proposed to be funded through debt-to-equity ratio of 75:25. On the basis of the physical progress report of August 25, 2023, around ~29% of the project work has been completed. As the project is in the initial stage of construction, it remains exposed to project execution risks in terms of completion of the project within the envisaged cost and time. The Required Commercial Operation date (RCOD) of the project is October 14, 2025. If the project is not completed within the mentioned RCOD, then the company is 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 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 more power during summer season when seasonal river flows are high (June to November) and less during the winter season (December

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

to May). The project is proposed to utilize discharge from Thulo Khola having catchment area of 85.97sq km based on Perennial River. The project has 7.40 m³/s design discharge at 40% exceedance flow. Hence, the expected power generation is exposed to risk associated with variation in discharge of water from the aforesaid river/khola.

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

Moderate power evacuation risk

The Power generated from the project will be evacuated by ~29.70 Km long 132KV single Circuit KV Transmission Line which will be connected to Dana Substation of 220KV. Construction of Dana substation within the scope of NEA has been completed. The transmission line will connect to the currently operational Dana Substation in Myagdi. The Power from Dana Substation will be further evacuated to Dana-Khurkot transmission line under the Kaligandaki corridor transmission line, which is also operational. The construction of transmission line from powerhouse to NEA substation is within the scope of TKHL, under which the company has completed the design while construction is yet to commence. Timely completion of the transmission lines will remain key monitorable aspect.

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.

Key Rating Strengths

Experienced promoters and management team

TKHL has three members in its Board of Directors, chaired by Mr. Narendra Ballav Panth, who has more than twelve years of working experience in hydropower sector. He is also associated with other operational and under construction hydro power projects in different capacities. Mr. Panth is also an Executive Member of Independent Power Producers' Association Nepal (IPPAN) and Nepal Chamber of Commerce (NCC). Other directors of the company also have experience in various sectors including hydropower projects. The board is aptly supported by an experienced management team.

Power purchase agreement (PPA) with sufficient period coverage

TKHL had entered into a PPA with NEA as on August 9, 2018 for sale of 15.00 MW power and amendment with Nepal Electricity Authority (NEA) signed on June 21, 2023 for sale of 22.50 MW to be generated from the project. However, the generation license for the additional capacity remains to be pending. The period of the PPA is 30 years from commercial operation date (COD) or till validity of Generation License, whichever is earlier. 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 every year after completion

of 12 months from COD date on base tariff for 8 times. The contracted energy for the project is 133.05 million units (MU) (i.e., 41.66 MU for dry season and 91.39 MU for wet season), at PLF of 67.50%.

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 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.

About the Company

Thulo Khola Hydropower Limited (TKHL) is a public limited company incorporated on April 23, 2017 as a private limited and converted into public limited on February 06, 2023. The company is setting up a 22.50 MW (enhanced from 15.00 MW) run-of-river, Mathillo Thulo Khola-A Hydropower Project (MTKHP) in Myagdi district of Nepal by utilizing available head and flow from Upper Thulo Khola River. The project is being 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	2,875.00	CARE-NP BB
Total		2,875.00	

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