

PRESS RELEASE

SALASUNGI POWER PRIVATE LIMITED

August 2022

Ratings

Instruments/ Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	9,233.00	IRN BB	Assigned
Short Term Bank Facilities	0.30	IRN A4	Assigned
Total	9,233.30		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the long term rating of IRN BB (Double B) to the long term bank facilities of NPR 9,233.00 Mn and IRN A4 (A Four) to the short term bank facilities of NPR 0.30 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Salasungi Power Private Limited (SPPL) derive strength from its experienced management team with strong institutional promoters, Power Purchase Agreement (PPA) covering the majority of the project's lifespan at predetermined rates and financial closure achieved for the estimated project cost.

These rating strengths, however, are constrained by its project implementation risk and stabilization risk, given its initial stage of construction and hydrology risk associated with run-of-the-river (ROR) power generation. Further, the ratings also factored exposure to foreign exchange fluctuation risk, interest volatility risk and significant time overrun of the project. Going forward, ability of the company to manage the foreign exchange fluctuation risk and timely completion of the project without any time or cost overrun will remain the key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced management team with strong institutional promoters

SPPL is promoted by two institutional promoters namely M/s China Harbour Engineering Co. Ltd, China (CHEC) and M/s Wide Resources Ltd., China (Hong Kong). CHEC has more than 90 branches (subsidiaries) and representative offices around the world with presence in over 100 countries & regions undertaking hundreds of international projects. SPPL have five in its board, chaired by Mr. Yun Liang having more than 29 years of experience with association in various capacities at management levels and exposure in many hydro power companies. Mr. Bishnu Raj Adhikari, Director, has more than 20 years of experience in various sectors such as power, education, travel and financial services. The board is further supported by other experienced team members.

Power Purchase Agreement covering the majority of the project's lifespan, at predetermined rates

In March 15, 2016, SPPL and NEA¹ signed a long-term PPA for 78 MW of energy. The total 78 MW's contracted Plant Load Factor (PLF) is 62.71%. Tariff rate as per PPA for 78 MW is NPR 4.80 per kWh for wet season (Mid-April to Mid-December) and NPR 8.40 per kWh for dry season (Mid-December to Mid-April) with 3% annual escalation on base tariff for 8 times. Required Commercial Operation Date (RCOD) of the project was July 31, 2022. The company has requested NEA for further extension of RCOD.

¹ Nepal Electricity Authority is the sole entity involved in generation, transmission, distribution and trading of electricity in Nepal
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Financial closure achieved for estimated project cost

The initial estimated project cost for 78 MW was NPR 13,190 Mn which was increased to NPR 15,387 Mn, due to depreciation of Nepalese currency against US Dollar, as ~80% of total project cost is linked to US Dollar. SPPL has already entered into a consortium loan agreement in the debt equity ratio of 60:40.

Key Rating Weaknesses

Project implementation risk and stabilization risk, given its initial stage of construction

Till May 2022, ~20.55% of the total project cost has been incurred by the company. The overall physical progress of the project achieved is ~25% till August 04, 2022. The project implementation risk is moderated to some extent as the project is being built by experienced contractors under Engineering, Procurement and Construction (EPC) Model. The power generated from the project is proposed to be evacuated through 7.5 km long 132KV transmission line to proposed Chilime Hub at Thambuchet, Rasuwa District. The IEE Report has been submitted to the concern authority for its approval. As the project is at initial stage and construction is expected to end by July 2024, the company continues to remain exposed to the risks associated with project implementation and satisfactory operations thereafter.

Hydrology risk associated with run-of-the-river (ROR) power generation

ROR projects are directly exposed to risk associated with variation in discharge of water from the river. SPPL is utilizing discharge from tailrace of Sanjen Khola located at Rasuwa District, having catchment area of 136.70 sq km. Further, the lack of a deemed generation clause in the PPA exposes the project to hydrology risk in case of adverse river flow scenarios without receiving any compensation for such losses.

Foreign exchange fluctuation risk

Out of the total project cost, ~80% of the project cost is linked to US Dollar for which the company is exposed to the foreign exchange fluctuation risk.

Significant time and cost overrun of the project

As per the PPA, the initial Required Commercial Operation Date (RCOD) of the project was June 22, 2020 which was extended to June 21, 2021 and further extended to July 31, 2022. As per latest notice issued by NEA on July 20, 2022, RCOD for hydropower projects will be extended by 1 year to cope up the impact of Covid-19 in the construction of the hydropower projects, with this the company has already processed for extension of RCOD with NEA. SPPL further expects the extension of RCOD to July end 2024 by which time, construction of the project is also expected to be completed. Hence, any further delay may lead to significant time and cost overrun of the project.

Analytical Approach: Standalone

Applicable Criteria:

[Power Projects Rating Methodology](#)

About the Company:

Salasungi Power Private Limited (SPPL) is a private limited company having corporate office located at Naxal, Kathmandu. The company was earlier incorporated as a public limited company on December 11, 2009 and later converted to private limited company on January 12, 2020. The company has been set up to build, own and operate 78 MW run-of-river located at Chilime VDC of Rasuwa District of Nepal, for sale of entire power within Nepal. SPPL is promoted by two Chinese companies and one domestic individual.

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn.)	Ratings
Fund Based Bank Facilities- Term Loan (TL)	Long Term	9,233.00	IRN BB
Non Fund Based Bank Facilities	Short Term	0.30	IRN A4
Total Facilities		9,233.30	

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About Infomerics Credit Rating Nepal Limited:

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