

PRESS RELEASE

INGWA HYDROPOWER LIMITED September 2022

Ratings

| Instruments/ Facilities | Amount (NPR. Mn) | Ratings | Rating Action |
|----------------------------|------------------|---------|---------------|
| Long Term Bank Facilities | 1,460.00 | IRN BB | Assigned |
| Short Term Bank Facilities | 54.00 | IRN A4 | Assigned |
| Total | 1,514.00 | | |

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 1,460.00 Mn and IRN A4 (A Four) to the short term bank facilities of NPR 54.00 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Ingwa Hydropower Limited (IHL) derive strength from its strong promoters including support from institutional promoters, experienced board members and management team in the related field, Power Purchase Agreement (PPA) covering the majority of the project's lifespan at predetermined rates, financial closure achieved for the estimated project cost, low power evacuation risk and GoN¹ support for the power sector. These rating strengths, however, are constrained by the project implementation risk and stabilization risk, hydrology risk associated with run-of-the-river (ROR) power generation. Further, the ratings also factor in an exposure to interest volatility risk and regulatory risk. Going forward, ability of the company to timely execute the project without any time or cost overrun and early stabilization afterward will remain the key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Strong promoters with support from institutional promoters

IHL is promoted by both individual as well as institutional promoters involved in various other hydropower projects. Mr. Guru Prasad Neupane is one of the major individual promoter having more than three decades of experience in hydropower projects, while Api Power Company Ltd., Arun Kabeli Power Ltd., Rairang Hydropower Development Ltd. and Api Hydromechanical Ltd are some of the major institutional promoters. The promoters of the company have wide experience in hydropower sector and have setup various operational as well as under-construction hydropower projects.

Experienced board members and management team in the related field

IHL is managed by four-members in a board of directors chaired by Mr. Satish Neupane having more than a decade of experience in hydropower generation. Mr. Guru Prasad Neupane, director, having more than three decades of experience in various industries including power sector. The directors of the company are further supported by the team of experienced and qualified management.

¹ Government of Nepal

Power Purchase Agreement covering significant life of the project, at predetermined tariffs

IHL had entered into a long term PPA with NEA² as on June 24, 2011 for sale of 9.7 MW power to be generated from the project. The contracted Plant Load Factor (PLF) for total 9.7 MW is 77.36%. Tariff rate as per PPA 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 five times. Required Commercial Operation Date (RCOD) of the project is May 15, 2022. The company has requested NEA for further extension of RCOD.

Financial closure for the estimated project cost achieved

The total estimated cost of the project for 9.7 MW is NPR 1,950 Mn to be funded in debt-equity ratio of 75:25. IHL has entered into consortium loan agreement on June 14, 2021 for NPR 1,460 Mn term loan. Promoters have already injected NPR 421 Mn equity as on June 03, 2022. The financial progress achieved by IHL as of June 03, 2022 was 47.51%.

Low power evacuation risk

The power generated from the project will be evacuated through 16 Km long 33kV transmission Line to the NEA's operational Kabeli (Amarpur) Substation which is further evacuated to National grid. Construction of transmission line from powerhouse to NEA substation is within the scope of IHL. As per the progress report for June 2022, ~60% of the transmission line works has been completed.

Support from Government for the power project

100% tax exemption is provided to all such person/entity who starts commercial operation, transmission and distribution of electricity up to mid-April 2027 for first 10 years and 50% tax rebate in subsequent five years from the date of commercial production. Further, the short supply penalty has also been waived by Government for projects up to 10MW, which remains positive to IHL. Additionally, imports of machinery, equipment, tools, and other items necessary for hydropower projects that are imported are exempted from Value Added Tax, and they are subject to zero rate if produced and supplied by native industry.

Key Rating Weaknesses

Project implementation risk and stabilization risk

The overall physical progress of the project achieved was ~55% as on June 2022. The project implementation risk is moderated to some extent as the project is being built by experienced contractors and various task is appointed to different contractors resulting timely progression of the project. As the construction is expected to end by mid-May 2023, 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 power generation

ROR projects are directly exposed to risk associated with variation in discharge of water from the river. IHL is utilizing discharge from tailrace of Modi Khola located at Kaski District, having catchment area of 575 Sq. Kms. 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.

Exposure to regulatory risk

Government has recently established Electricity Regulatory Commission (ERC) for regulating generation, transmission and distribution of electricity in Nepal. ERC will be the regulator under the Government which will be responsible for regulating hydropower companies in Nepal. Policies and the directives issued by ERC

² Nepal Electricity Authority is the sole entity involved in generation, transmission, distribution and trading of electricity in Nepal

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 issued by Government.

Analytical Approach: Standalone

Applicable Criteria:

[Power Projects Rating Methodology](#)

About the Company:

Ingwa Hydropower Limited (IHL) is a public limited company having corporate office located at Thapathali, Kathmandu. The company was earlier incorporated as a private limited company on June 23, 2009 and later converted to public limited company on August 25, 2014 to facilitate public participation. The company has been set up to build, own and operate 9.7 MW run-of-river, Upper Ingwa Hydropower Project (UIHP) at Yangbarak and Sidingba VDC of Taplejung and Panchthar District of Nepal, for sale of entire power within Nepal. The project has 211 Sq. Km catchment area and 6.19 m³ /s design discharge at 45.79% exceedance flow. M/s Api Power Company Ltd and Mr. Guru Prasad Neupane are the major institutional and individual promoters respectively.

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 | 1,460.00 | IRN BB |
| Fund Based Bank Facilities- Working Capital Loan (WCL) | Short Term | 54.00 | IRN A4 |
| Total Facilities | | 1,514.00 | |

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About Infomerics Credit Rating Nepal Limited:

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