

PRESS RELEASE

SIDDHI HYDROPOWER COMPANY LIMITED

April 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Rating	Rating Action
Long Term Bank Facilities	1,290.00	IRN B+	Assigned
Short Term Bank Facilities	50.00	IRN A4	Assigned
Total	1,340.00		

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the long-term rating of IRN B+ (Single B Plus) to the long-term bank facilities of NPR 1,290.00 Mn and short-term rating of IRN A4 (A Four) to the short-term bank facilities of NPR 50.00 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Siddhi Hydropower Company Limited (SHCL) derive strength from its experienced promoters, low tariff and offtake risk with the presence of a long-term Power Purchase Agreement (PPA) and low funding risk as debt has been already been tied up. The rating also factors in the moderate counter party risk, improving electricity demand and GoN¹ support for the power sector.

However, the rating is mainly constrained by the execution risk associated with SHCL's under construction 10 MW hydropower project given its nascent development stage. Also, the project is behind its RCOD² of July 13, 2022 and could be liable for delay penalty and loss of tariff escalations (depending on Commercial Operation Date and further extension of RCOD by NEA³, if any). Furthermore, the project is exposed to the hydrology risk associated with run-of-river (ROR) power generation arrangement and vulnerability to natural calamities and geological risk. Going forward, the ability of the company to secure the extension of RCOD and manage the timely completion of the project without any time or cost overrun will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters in the related field

SHCL has five directors in its Board of Directors, chaired by Mr. Angish Ghimire having more than a decade of experience in various industries including hydropower sector. Mr. Santosh Raj Nepal, Managing Director, has experience in financial markets and holds directorship in various hydropower companies. Also, the other directors have relevant experience in different fields. Furthermore, the board is supported by other experienced team members.

Low tariff and offtake risks with presence of a long-term PPA

SHCL had entered into a long term PPA of 30 years from commercial operation date (COD) or till validity of Generation License, whichever is earlier, for sale of power to be generated from the 10 MW project. Furthermore, the tariff for wet season/ dry season (8-4 months) is NPR 4.80/ 8.40 per kWh with 3% escalation on base tariff for 8 times in every year after completion of 12 months from COD. Power generated from the project is proposed to be transmitted to NEA's Phikkal substation through 16 km 33 kV single circuit transmission line.

¹ Government of Nepal

² Required Commercial Operation Date

³ Nepal Electricity Authority

Favorable government policies towards the power sector

The GoN has prioritized the development of the hydropower sector as a means of ensuring energy security, lowering dependency on imported fossil fuels, and positioning Nepal as a significant exporter of electricity in the region. These include attractive tax incentives like income tax holidays and reduced indirect taxes on essential equipment, encouraging investments from the private sector. Additionally, Nepal Rastra Bank (NRB) has designated it as a priority sector for lending and has mandated banks to allocate a minimum share of their advances to the energy sector, ensuring that sufficient financial support is available for the development of hydroelectric projects. This, coupled with the government's strategic partnerships for the generation and export of power makes the long-term demand outlook for the Nepalese hydropower sector promising.

Key Rating Weaknesses

Project implementation risk

The company is constructing 10 MW Siddhi Khola Hydropower Project (SKHPP), which is in nascent stages of construction with ~11% financial progress achieved till mid-March 2024, mostly towards land acquisition, access road development and waterway alignment. The total estimated cost of the project is NPR 1,915 Mn, equivalent to NPR 191.50 Mn per MW, which is proposed to be financed in the debt: equity mix of 67.34:32.66. As of mid-March 2024, promoters have infused NPR 625 Mn of the total equity component required for the project (including NPR 315 Mn as advance share capital). Also, the debt component of NPR 1,290 Mn required for the project has been tied up. As the project is in initial stages of construction, this exposes the company towards project execution risk within the envisaged time and cost.

RCOD of the project was July 15, 2020 which was extended to July 13, 2022. The company has applied for extension of the RCOD by two years. Even after factoring the RCOD extension by two years, which the company has applied for, the project is not expected to be commissioned within the timeline. Thus, it will be liable for late COD penalty (5% of revenue that could have been generated in the period between RCOD and COD) and restriction in tariff escalations, which could adversely impact income prospects of SHCL. Any further delays in construction than envisaged could further impact project returns and debt servicing capabilities.

Hydrology risk associated with run-of-the-river power generation

Run-of-the-river power (ROR) projects are sensitive to seasonal variations in river flows, producing more electricity during the wet season and less during the dry season as these projects have little or no capacity for water storage and rely on the flow of river water for power generation. Prolonged low water levels resulting from droughts or irregular rainfall can lead to operational strain and thus revenue loss. SHCL will be utilizing discharge from Siddhi Khola located at Suryodaya Gaunpalika and Rong Gaunpalika of Ilam District, having catchment area of 65 sq kms. Furthermore, 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.

Risk of Natural Calamities

Hydropower projects are prone to risk from natural disasters, such as floods, landslides and earthquakes, as the projects are generally located in challenging terrains with uncertain geology. These occurrences can significantly disrupt infrastructure, leading to construction delays and inflated costs. Moreover, they may disrupt power generation and evacuation, consequently affecting the financial performance of the projects. Hydropower projects like SKHPP are inherently exposed to risk of these natural calamities, which may affect the project's execution, functioning and financial performance.

Analytical Approach: Standalone

Applicable Criteria:

Power Projects Rating Methodology

About the Company:

Siddhi Hydropower Company Limited (SHCL) was incorporated as a private limited company on October 07, 2012 and on July 14, 2023 converted to a public limited company having corporate office located at Naxal, Kathmandu, Nepal. The company has been set up to build, own and operate 10 MW run-of-river located at Suryodaya Gaunpalika and Rong Gaunpalika of Ilam District of Nepal. The power project is proposed to utilize available head and flow from Siddhi Khola (river). The project has 65 square km catchment area and 3.81 m³/s design discharge. Mr. Gokul Prasad Poudel and Angish Ghimire are the top shareholders holding ~9% and 8% equity share capital respectively as of December 22, 2023.

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn)	Rating
Fund Based Bank Facilities-Term Loan	Long Term	1,290.00	IRN B+
Short Term Bank Facilities-Working Capital Loan	Short Term	50.00	IRN A4
Total Facilities		1,340.00	

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About Infomerics Credit Rating Nepal Limited:

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