

## PRESS RELEASE

### Union Mewa Hydropower Limited

April 2024

#### Ratings

Instrument/Facilities	Amount (NPR Mn)	Rating	Rating Action
Long Term Bank Facilities- Fund Based Loan	3,520.00	IRN B+	Assigned
Short Term Bank Facilities- Fund Based Loan	120.00	IRN A4	Assigned
Long Term/Short Term Non Fund Based Loans	13.80	IRN B+/A4	Assigned
<b>Total</b>	<b>3,653.80</b>		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the long term rating of IRN B+ (IRN Single B Plus) to the long term bank facilities of NPR 3,520.00 Mn, the short term rating of IRN A4 (A Four) to the short term bank facilities of NPR 120.00 Mn and IRN B+ (Single B Plus) /A4 (A Four) to the long term/short term bank facilities of NPR 13.80 Mn.

#### Detailed Rationale

The rating assigned to Union Mewa Hydropower Limited (UMWHL) derives strength from the experienced promoters and management team, low tariff and offtake risk with the presence of a long term PPA and high dry energy mix of the project. The rating also factors in the moderate counter party risk, low power evacuation risk, improving electricity demand and GoN support for the power sector. However, the rating is mainly constrained by the execution risk associated with UMWHL's under construction 23 MW hydropower project given its nascent development stage. Also, the major contracts for the project have not been yet awarded and is still under evaluation phase of bidding. Also, the project is exposed to the hydrology risk connected with run-of-river (ROR) power generation arrangement and vulnerability to natural calamities. Going forward, the ability of the company to 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 and management team

UMWHL has four directors in its Board of Directors, chaired by Mr. Kiran Malla who has experience of more than three decades in various industries along with hydroelectric projects. Mr. Malla is also the Chairman of High Himalaya Hydro Construction. Furthermore, Mr. Brindaban Man Pradhananga, the Director, has more than 2 decades of work experience in Hydropower projects and is the managing director at Jade Infra Private Limited. The management team is led by Mr. Kiran Malla himself with Mr. Shishir Devkota as a Project Manager who has around a decade of experience in hydroelectric projects majorly relating to civil and construction works.

##### Low tariff and offtake risks with presence of a long-term PPA and high dry energy mix

UMWHL had entered into a long-term PPA of 30 years from the commercial operation date (COD) or till validity of the Generation License, whichever is earlier, for the sale of power to be generated from the 23 MW project. Furthermore, the tariff for wet/ dry season (6-6 months) is NPR 4.80/ 8.40 per kWh with a 3% escalation on base tariff 8 times every year after the completion of 12 months from the COD date. Additionally, the project is supported by a high dry energy mix of ~31% with an average PLF of ~68%. Power generated from the project is proposed to be transmitted to NEA's Dhunge-Sangu substation, which is in final stages of completion, through a 40 km 132 kV transmission line.

## **Improving market demand with Government support for the power sector**

According to the NEA's Annual Report, the annual peak electricity demand during FY23 was 1,870 MW from 1,748 MW during FY22. Additionally, the total energy demand for the time period was 8,850 GWh during FY21 which increased to 11,064 GWh during FY22 which further increased to 12,369 GWh during FY23 of which 1,833 GWh were imported from India and the remaining was generated domestically. The total export to India soared to 1,333 GWh in FY23(UA) against 493 GWh in FY22. With this the net import of electricity reduced to ~510 GWh representing 4.12% of total electricity available. Further, NEA has earned ~NPR 10.54 Bn from exporting electricity to India in FY23. Hence, the prospects remain positive in view of improving generation, growing demand with scope of export. Also, GoN considers hydropower generation as priority sector and intends to maximize private sector participation in the generation of hydroelectricity by offering different exemptions and facilities. Individuals or entities commencing commercial operations, transmission, and distribution of electricity before Mid-April 2027 are eligible for a 100% income-tax exemption for the first 10 years followed a 50% exemption for the next five years

## **Key Rating Weaknesses**

### **Project implementation risk**

The company is constructing 23 MW Mewa Khola Hydroelectric Project, which is in nascent stages of construction with ~2% financial progress achieved till mid-January 2024, mostly towards access road development and construction of onsite camps. The total estimated cost of the project is NPR 4,700 Mn, equivalent to NPR 204 Mn per MW, which is proposed to be financed in the debt: equity mix of 75:25. As of mid-January 2024, promoters have infused ~26% of the total equity component required for the project. The debt component of the project mix has been tied up. However, the company is yet to finalize the contract agreements for Civil, Hydro-mechanical, Electromechanical and Transmission works of the project which exposes the company to the risks associated with project implementation within the envisaged time and cost. The Required Commercial Operation date (RCOD) of the project is December 29, 2025.

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

ROR projects face direct exposure to the risks linked to fluctuations in water discharge from rivers, given that they lack the capacity for water storage. UMWHP is intended to utilize discharge from Mewa Khola having a catchment area of 66.75 sq km based on Perennial River with design discharge of the project is 3.15m<sup>3</sup>/s at an exceedance flow of 40%. Insufficient water flow may lead to reduced energy output, affecting project performance and financial viability. Therefore, the project is exposed to risks linked with fluctuations in river water discharge. Furthermore, the lack of a deemed generation clause in the PPA leaves the project vulnerable to revenue losses during adverse conditions without compensation, which may have an impact on company's financial health.

### **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 UMWHP 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:**

United Mewa Hydropower Limited (UMWHL) was incorporated on August 14, 2016 to build, own and operate 23 MW run-of-river Mewa Khola, Mikwa Rural Municipality, Taplejung district of Nepal, for the sale of entire power. The project has catchment area of 66.75 sq kms based on Perennial River with design discharge of the project is 3.15 m<sup>3</sup>/s at exceedance flow of 40%. UMWHL is promoted

by Mr. Kiran Malla and Mr. Kiran Malla is majority shareholder of the company holding 60% of shareholding of company as on Mid-July 2023.

## Annexure 1: Detail of Facilities

Instrument/Facilities	Type of Facilities	Amount (NPR Mn)	Rating
Long Term Bank Facilities- Term Loan	Long-Term	3,520.00	IRN B+
Short Term Bank Facilities- Working Capital Loan	Short-Term	120.00	IRN A4
Long Term/ Short Term – Bank Guarantee	Long-Term/Short- Term	13.80	IRN B+/A4
<b>Total</b>		<b>3,653.80</b>	

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## About Infomerics Credit Rating Nepal Limited:

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