

PRESS RELEASE

VISION LUMBINI URJA COMPANY LIMITED

March 2024

Rating

Instrument/Facilities	Amount (NPR Mn)	Rating	Rating Action
Issuer Rating	NA	IRN BB- (Is)	Reaffirmed
Total	NA		

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has reaffirmed the issuer rating of IRN BB- (Is) [Double B Minus (Issuer)]. Issuers with this rating are considered to have a moderate risk of default regarding the timely servicing of financial obligations.

Detailed Rationale

The reaffirmation of issuer rating assigned to Vision Lumbini Urja Company Limited (VLUCL) continue to derive strength from presence of strong institutional promoters with experienced Board/management. The ratings also take a note on power purchase agreement (PPA) based on take or pay modality with Nepal Electricity Authority (NEA) covering the majority of the project's lifespan, at predetermined rates with escalation clause; thereby lowering the tariff risk and offtake risk. The rating also factors in low power evacuation risk with the presence of an operational NEA substation in a distance of ~6km from the project switchyard, moderate counterparty risk and favorable government policies towards the power sector. These rating strengths however are constrained by the project implementation and execution risk associated to under construction 25 MW Seti Nadi Hydroelectric Project (SNHEP) along with hydrology risk associated with the project. The assigned rating also remains constrained by the dry energy short supply penalty clause in PPA. The rating further take note on the funding risk, given the debt component required for the escalated cost is yet to be tied up. Going forward, the ability of the company to secure extension of RCOD from NEA and commence its project within the estimated cost and timeline remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced Board/ Management with support from strong institutional promoters

VLUCL is majorly promoted by institutional promoters with the largest shareholder being Hydro Electricity Investment & Development Company Limited (HIDCL) holding ~10% of the company's equity share capital as of mid-January 2024. HIDCL is a specialized development financial institution incorporated to mobilize funds to cater to the needs of investments in hydroelectricity generation, transmission, and distribution projects in Nepal. The company has an experienced board of directors chaired by Mr. Jagat Bahadur Pokharel, having experience in different sectors including hydropower, which is further supported by the experienced management team. Also, the presence of one of the representatives of HIDCL in VLUCL's board remains a positive.

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

On 22 November 2018, VLUCL entered into a long term PPA with NEA of 30 years from COD or till validity or till validity of Generation License, whichever is earlier, for the sale of 25 MW of power to be generated from the project. The net contracted plant load factor (PLF) of 67.62% with relatively higher dry energy mix of 31.43% (considering 6 months dry and 6 months' wet season) provides an additional comfort in terms of better revenue profile, given higher tariff rates in dry season. Tariff rate as per PPA for 25 MW is NPR 4.80 per kWh for wet season (June to November) and NPR 8.40 per kWh for dry season (December to May) with 3% annual escalation on base tariff for eight times after completion of twelve months from COD. Hence, considering the same, the tariff risk and offtake risk remains low to VLUCL. The power evacuation risk is low as the power generated from the project is expected to be evacuated through a ~6 km long double circuit 132 kV transmission line, which runs from the switchyard to the NEA Lahachowk (New Hemja) substation, which is already operational.

Favorable Government policies towards 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 and stabilization risk

SNHEP is in its final stage of development with reported financial and physical progress of ~95% as of February 2024. The estimated cost of the project was revised to NPR 5,200 Mn from its initial estimate of NPR 5,000 Mn, which is expected to further inflate to NPR 5,963 Mn. Also, the RCOD of the project was extended by a year to July 20, 2023 and as the project was not completed within the envisaged timelines, company has applied to NEA for further extension of RCOD to mid-June 2024. As the project is yet to achieve its completion, the company continues to remain exposed to the risks associated with project implementation and stabilization thereafter. Company concluded the IPO of NPR 382.50 Mn in November 2023 and utilized the proceeds for project development. However, the debt component required for the escalated cost of NPR 550 Mn is yet to be tied up, which exposes it to the funding risk also. Hence, the company's ability to secure the debt and extension of RCOD with the completion of its project within the extended RCOD would remain the key rating sensitivity.

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

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. The project has a design discharge of 18.00 m³/s at 44.5% exceedance flow. Furthermore, the lack of a deemed generation clause in the power purchase agreement (PPA) exposes the project to hydrology risks in case of adverse river flow scenarios, without receiving any compensation for such losses. However, the river "Seti Nadi" that the project is based on is a snow fed river, which reduces the concern to some extent. Additionally, developers now have to meet 30% of the total energy production during the dry season along with the extension of dry season period from four to six months. If the energy supplied during the dry season is found to be less than 30%, the annual energy supplied above the estimated 30% will be adjusted as a compensation in the monthly bill payment. This exposes the projects to risks associated with variations in water discharge from these rivers.

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 SNHEP 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:

[Issuer Rating Methodology](#) & [Power Projects Rating Methodology](#)

About the Company:

Vision Lumbini Urja Company Limited (VLUCL) is a public limited company incorporated in October 2018. The company is developing Seti Nadi Hydroelectric Project (SNHEP) of 25 MW in Kaski district of Nepal. The project has 254 km² catchment area and 18 m³/s design discharge at 44.5% exceedance flow. HIDCL is the major institutional promoter with a stake of ~10% as of mid-January 2024.

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