

Press Release

Blue Energy Limited

May 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Rating	Rating Action
Long Term Bank Facilities- Fund Based Loan	12,350.00	IRN B+	Assigned
Long Term/Short Term- Non Fund Based Loans	150.00	IRN B+/A4	Assigned
Total	12,500.00		

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 12,350.00 Mn and IRN B+ (Single B Plus) /A4 (A Four) to the long term/short term bank facilities of NPR 150.00 Mn.

Detailed Rationale

The ratings assigned to Blue Energy Limited (BEL) derive strength from the strong promoter group, presence of institutional promoters, low tariff and offtake risk with the presence of a long term PPA and high dry energy mix of the project. The ratings also factor in the moderate counter party risk, moderate power evacuation risk, improving electricity demand and GoN¹ support for the power sector.

However, the ratings are mainly constrained by the execution risk associated with BEL's under construction 100 MW hydropower project given its nascent development stage. Also, the project construction was halted for a period of ~2 years due to delay in achieving financial closure resulting in delays in the estimated timelines and any further delays may result in reduction of project life further and ultimately adversely impact the initially estimated financial benefits from the project. 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 and ability of company to secure extension of generation license will be key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Strong promoter group and presence of institutional promoters

BEL is part of Saraf group, promoted by Mr. Varun Saraf having decades of experience in hospitality industry. Another promoter Mr. Shekhar Kumar Rana has two decades of experience in hospitality industry. The promoters also include institutions from diverse field namely M/S Dominion Investment Limited, Hong Kong (a share Investment company situated in Hong Kong), and M/S Yak and Yeti Hotel Limited, Nepal (a 5-star Hotel in Kathmandu) providing strong technical support and financial backing. Furthermore, the promoters are supported by experience management team.

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

BEL 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 100 MW project with 70 MW being contracted energy and additional power generated in wet season being sold on take and pay basis. Furthermore, the tariff for wet/ dry season (6-6 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 date. Additionally, the project is supported by high dry energy mix of ~31% with an average PLF of ~57%. Power generated from the project is proposed to be transmitted to NEA's Markhi Chowk substation through 18.8 km 220 kV transmission line. In addition, a Loop in Loop out connection agreement with New Marsyangdi-Matatirtha 220 KV transmission line is under review at

¹ Government of Nepal

NEA which is expected to reduce the transmission line to ~ 1 km resulting in further reduction of associated costs and time.

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 Super Trishuli Hydroelectric Project (Installed Capacity 100 MW), which is in nascent stages of construction with ~11% financial progress (management certified) achieved till mid-March 2024, mostly towards access road development and construction of onsite camps. The total estimated cost of the project is NPR 16,247 Mn, equivalent to NPR 162 Mn per MW, which is proposed to be financed in the debt: equity mix of 75:25. As of mid-March 2024, promoters have infused ~22% of the total equity component required for the project. The debt component of the project mix has been tied up. The company has awarded major contracts for the civil, hydro-mechanical and electro-mechanical works of the project. Also, the project construction was halted for a period of ~2 years due to delay in achieving financial closure resulting in delays in the estimated timelines and any further delays may result in reduction of project life further and ultimately adversely impact the initially estimated financial benefits from the project. The ability of the management to secure extension of the generation license till PPA period will be key monitorable.

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. STHHP is intended to utilize discharge from Trishuli river having catchment area of 11,659 sq. km based on rain-fed area of 7,609 sq. km and snow-fed area of 4,050 sq. km with design discharge of the project is 410.66m³/s at 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 STHHP 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:

Incorporated as a private limited company, Blue Energy Limited (BEL) was later converted into a public limited company on July 6, 2023. The company is constructing 100 MW Super Trishuli Hydroelectric Project (STHHP) in Gorkha and Chitwan District, Nepal for sale of 70 MW contracted

energy and 30 MW additional energy. STHHP is intended to utilize discharge from Trishuli river having catchment area of 11,659 sq. km based on rain-fed area of 7,609 sq. km and snow-fed area of 4,050 sq. km with design discharge of the project is 410.66m³/s at exceedance flow of 40%. BEL is majorly promoted by individuals and companies from Saraf Group.

Annexure 1: Detail of Facilities

Instrument/Facilities	Type of Facilities	Amount (NPR Mn)	Rating
Long Term Bank Facilities-Term Loan	Long-Term	12,184.96	IRN B+
Long Term Bank Facilities-Term Loan (Proposed)	Long-Term	165.04	IRN A4
Long Term/ Short Term – Bank Guarantee	Long-Term/Short-Term	150.00	IRN B+/A4
Total		12,500.00	

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About Infomerics Credit Rating Nepal Limited:

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