

Press Release

Aayu Malun Hydropower Private Limited

June 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Rating	Rating Action
Long Term Bank Facilities- Fund Based Loan (Proposed)	2,572.50	IRN B	Assigned
Total	2,572.50		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the rating of IRN B (Single B) to the long term bank facilities of NPR 2,572.50 Mn.

Detailed Rationale

The rating assigned to bank facilities of Aayu Malun Hydropower Private Limited (AMHPL) derives strength from the strong promoter group, presence of institutional promoter namely Puwa Khola-One Hydropower Limited, low tariff and offtake risk with the presence of a long term Power Purchase Agreement (PPA). The rating also factors in the moderate counter party risk, moderate power evacuation risk, improving electricity demand and GoN¹ support for the power sector. However, the rating is mainly constrained by the execution risk associated with AMHPL's under construction 21 MW hydropower project given its nascent development stage. In addition, the rating remains constrained by the execution of PPA/ generation license by Puwa Khola-One Hydropower Limited, the parent company of AMHPL, posing inherent risk regarding ownership of 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 as well as its ability to secure the transfer of PPA from its parent company, will be key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced and well diverse promoters and management team

The major promoter of the company, Puwa Khola-One Hydropower Limited [[IRN BB-\(Is\)](#)] is operating a 4MW Puwa Khola-One Hydropower project. AMHPL has three members in its board of directors chaired by Kiran Malla who has Masters' in Hydropower Development and has more than 35 years of experience in the hydropower sector. Mr. Malla is also the chairman of High Himalaya Hydro Construction Pvt Ltd, 23MW Union Mewa Hydropower Limited [[IRN B+/A4](#)] and Aayu Malun Hydropower Pvt Ltd. Similarly, the board is represented by Mr. Kadam KC who has more than 15 years of experience in business sector. Mr. KC is also the Chairman of Aayu Entertainment Pvt Ltd and Managing Director of Dhaulagiri Construction and Development Pvt Ltd. Similarly, Ms. Abhighya Malla, another director also has large experience in hydropower sectors including directorship at Union Mewa Hydropower Limited.

Power Purchase Agreement (executed by its parent company) covering significant life of the project, at predetermined tariffs and low evacuation risk

Puwa Khola-One Hydropower Limited, parent company of AMHPL had entered into a long-term PPA with NEA in June 2023 for the sale of 21 MW of power to be generated from the project. The period of the PPA is 30 years from the commercial operation date (COD) or till the validity of the Generation License (obtained on November 30, 2022), whichever is earlier.

The tariff for the wet season (May to December) is NPR 4.80 per kWh and for the dry season (January to April) is NPR 8.40 per kWh with a 3% escalation on the base tariff 8 times every year after completion of 12 months from COD. The contracted energy for AMHPL is 112.59 million units (MU) at a PLF of 61.20%. The Required Commercial Operation date (RCOD) of the project is August 03,

¹ Government of Nepal

2024 and management has applied for extension of RCOD to 31 January, 2027 and same is under review at NEA. The execution of license/ agreement relating to the project by Puwa Khola-One Hydropower Limited, the parent company of AMHPL poses inherent risk regarding ownership of the project. The ability of management to secure the transfer of license/agreement to AMHPL is a key monitorable. The power to be generated by the project is to be evacuated through the NEA's Tingla substation, which is already operational, thereby removing the evacuation bottleneck from NEA's side. Furthermore, for the power evacuation, the project has to develop 18km long 132kV transmission line from its powerhouse to NEA's Tingla substation. Timely availability of fund will remain essential for the timely completion of the evacuation structure on the company's side.

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 21 MW Aayu Malun Hydropower Project, which is in nascent stages of construction with ~6.26% financial progress achieved till mid-April 2024, mostly towards leasing and acquisition of land required for hydroelectric project alongside pre-operating expenses. The total estimated cost of the project for 21 MW is NPR 3,675 Mn to be funded in debt: equity ratio of 70:30 (i.e., NPR 2,573 Mn term loan and NPR 1,102 Mn equity). Financial closure for the project is yet to be achieved. However, the company has secured letter of intent from the lending bank to act as a lending bank for the entire loan amount. Out of total equity requirement of NPR 1,103 Mn, NPR 318 Mn (~29% of the total equity; including NPR 299 Mn as advance share capital, pending allotment) had been infused by the promoters till April 30, 2024. Also, the company is yet to finalize the contract agreements for Civil, Hydro-mechanical 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 August 03, 2024. The company has applied for extension of RCOD till 31 January, 2027 to NEA. The ability of the company to secure the extension of RCOD and complete the project within envisaged timeline and cost will remain a key monitorable.

Project Lacks Funding

The project is being constructed at a debt equity ratio of 70:30 with debt portion being NPR 2,573 Mn. The debt has not been secured, leaving the project vulnerable to funding risks. Also, AMHPL is yet to conclude the contracts relating to civil, hydro-mechanical and electro-mechanical works owing to delays in tie up of debt. The ability of the management to tie up debt promptly without further delays will remain crucial for timely completion of the project.

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

Run-of-the-river power is considered an unsteady source of power, as a run-of-the-river project has little or no capacity for water storage and therefore is dependent on the flow of river water for power generation. It, thus, generates much more power during summer season when seasonal river flows are high (May to December) and less during the winter season (January to April). AMHP is proposed to utilize discharge from Malun river having catchment area of 94.87 sq. kms based on perennial river with design discharge of the project is 4.52 m³/s at exceedance flow of 40%. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/khola. 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 AMHP 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 on March 2017, Aayu Malun Hydropower Private Limited (AMHPL) is constructing 21 MW Aayu Malun Hydroelectric Project (AMHP) in Okhaldhunga District, Nepal for sale of 21 MW contracted energy. AMHP is intended to utilize discharge from Malun river having catchment area of 94.87 sq. km with design discharge of the project 4.52m³/s at exceedance flow of 40%. AMHPL is majorly promoted by Puwa Khola-One Hydropower Limited holding 85.62% as on April end, 2024.

Annexure 1: Detail of Facilities

Instrument/Facilities	Type of Facilities	Amount (NPR Mn)	Rating
Long Term Bank Facilities-Term Loan (Proposed)	Long-Term	2,572.50	IRN B
Total		2,572.50	

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About Infomerics Credit Rating Nepal Limited:

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