

PRESS RELEASE

Hydro Support Private Limited

June 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Rating	Rating Action
Long Term Bank Facilities- Fund Based Loan (Proposed)	11,130.00	IRN BB-	Assigned
Total	11,130.00		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the long term rating of IRN BB- (IRN Double B Minus) to the long term bank facilities of NPR 11,130.00 Mn.

Detailed Rationale

The rating assigned to the bank facilities of Hydro Support Private Limited (HSPL) derive strength from the strong promoter group, experienced management personnel, 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 rating also factors in the moderate counter party risk, low 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 HSPL's under construction 66.30 MW hydropower project given its nascent development stage. Also, the project construction was delayed on account of regulatory issues resulting in delay in achieving financial closure ultimately leading to 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. Furthermore, 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 PPA for additional 12.761 MW of energy with NEA will be key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters and management team

HSPL has two directors in its Board of Directors, chaired by Mr. Chandra Prasad Dhakal who has experience of more than four decades in various industries along with hydroelectric projects. Mr. Dhakal is co-founder of conglomerate IME Group as well as chairman of Global IME Bank Limited. He is also experienced in management of hydroelectric projects such as Dordi Hydropower project (27MW) through Himalayan Power Partner Limited and Mistri Khola Hydropower Project(42MW) and Tadi Khola Hydropower Project(6MW) through Mountain Energy Nepal Limited. Furthermore, Mr. Guru Prasad Dhakal, the Director, has more than three decades of work experience in Infrastructure development projects and has involved in design of various hydropower projects. The management team is led by Mr. Chandra Prasad Dhakal himself with Mr. Munna Shakya as a Technical Manager who has around three decade of experience working as a project manager/design engineer in various hydroelectric projects and Mr. Bishwa Nath Dhakal as executive manager who have more than four decades of management experience in governmental organization and hydropower projects.

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

HSPL 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 equating to 53.539 MW to be generated from the 66.30 MW project with additional PPA for sale of 12.761 MW power which is under review at NEA. 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

¹ Government of Nepal

from the COD. Additionally, the project is supported by a high dry energy mix of ~32% with an average PLF of ~71.5%. Power generated from the project is proposed to be transmitted to NEA's operational Dana substation through a 7 km 220 kV transmission line. The project is proposed to be financed through Debt equity ratio of 75:25, however, which is contingent on securing PPA for sale of additional 12.761 MW energy from the project, thereby remaining a key monitorable.

Low power evacuation risk

The power to be generated by the project is to be evacuated through the NEA's Dana substation, which is already operational, thereby lowering the evacuation bottleneck from NEA's side. Furthermore, for the power evacuation, the project has to develop 7km long 220kV transmission line from its powerhouse to NEA's Dana substation. The ability of the company to timely secure the fund to complete the evacuation structure on timely basis will remain crucial.

Favourable 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 66.30 MW Middle Kaligandaki Hydroelectric Project (MKGHEP), which is in nascent stages of construction with ~2.49% financial progress achieved till mid-April 2024, mostly towards leasing and acquisition of land required for hydroelectric project. The total estimated cost of the project is NPR 14,840 Mn, equivalent to NPR 224 Mn per MW including IDC. As of mid-April 2024, promoters have infused ~21% of the total equity component required for the project. The debt component of the project mix is yet to be tied up but indicative term sheet has been ascertained. 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 June 21, 2028. However, there was a delay in securing financial closure and PPA agreement due to regulatory issues which has caused delays in timeline and reduction of life of the project. 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 management to secure extension of 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. HSPL is intended to utilize discharge from Middle Kaligandaki river having a catchment area of 3,638.4 sq kms based on Perennial River with design discharge of the project is 41.92m³/s at exceedance flow of 40%. Insufficient water flow may lead to reduced energy output, affecting project performance and financial viability. However, as per hydrology of project & being a perennial river, there is low chance of reduction in river flow. Therefore, the project is exposed to certain level of 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. In addition, PPA envisages HSPL to sell at least 30% of its contracted energy during dry season, failure to which will account for penalties hampering operating profits of HSPL further.

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 MKGHEP are likely 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:

Hydro Support Private Limited (HSPL) was incorporated on January 01, 2008 to build, own and operate 66.30 MW run-of-river Middle Kaligandaki Hydropower Project, Annapurna Rural Municipality, Myagdi district of Nepal. The project has catchment area of 3,638.4 sq kms based on Perennial River with design discharge of the project is 41.92m³/s at exceedance flow of 40%. The major shareholder of the company is Mr. Chandra Prasad Dhakal, holding ~39% of shareholding of company as on Mid-April 2024.

Annexure 1: Detail of Facilities

Instrument/Facilities	Type of Facilities	Amount (NPR Mn)	Rating
Long Term Bank Facilities-Term Loan (Proposed)	Long-Term	11,130.00	IRN BB-
Total		11,130.00	

Analyst Contacts

Mr. Girish Bhatta

+977-1-4583304/4585906

girish.bhatta@infomericsnepal.com

Mr. Raunak Mulmi

+977-1-4583304/4585906

raunak.mulmi@infomericsnepal.com

Relationship Contact

Mr. Rabin Pudasaini

+977-1-4583304/4585906

rabin.pudasaini@infomericsnepal.com

About Infomerics Credit Rating Nepal Limited:

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Infomerics Credit Rating Nepal Limited

Tanka Prasad Marga, Baneshwor Height, Kathmandu



Infomerics Credit Rating Nepal Limited

Phone: +977-1-4583304/4585906

Email: info@infomericsnepal.com

Web: www.infomericsnepal.com

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