

Press Release

Nilgiri Khola Hydropower Company Limited

June 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Rating	Rating Action
Issuer Rating	NA	IRN BB+	Assigned

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

Detailed Rationale

The rating assigned to Nilgiri Khola Hydropower Company Limited (NKHCL) derives strength from the strong and experienced promoter group, presence of institutional promoters, 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. The rating also factors in completion of Nilgiri Khola-II Cascade Project ahead of its Required Commercial Operation Date (RCOD) and relatively lower per MW cost of the projects.

However, the ratings are mainly constrained by the project execution risk associated with NKHCL's under construction 38 MW Nilgiri Khola-I Hydropower Project given it is still under construction. In addition, the rating remained constrained due to stabilization risk associated with recently operational Nilgiri Khola-II Cascade Hydropower Project. Also, the projects are 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 Nilgiri Khola-I Hydropower Project without any time or cost overrun and ability of the company to stabilize operations of the hydropower projects leading to sustained cash flow from operations will be key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters and board members in the related field

NKHCL is managed under the overall guidance of the company's Board of Directors (BoD), which consists of three members possessing wide experience in the various sector including hydropower projects. The board is chaired by Mr. Maheshwor Prakash Shrestha who has more than two decades of experience in development & operation of hydroelectricity project as well as banking sector. He is promoter shareholder of Mandu Hydropower Limited (22 MW) and Tundi Hydropower Limited (35.5 MW+48.5 MW). He is supported by other experienced directors along with a team of experienced management personnel. Mr. Shivant Bahadur Pande, Director, has more than 15 years of experience in various sectors including Real Estate and Banking. Mrs. Isha Shrestha, Director, has more than decade of experience in hydropower sector. NKHCL is also promoted by institutional promoters namely Lotus Investment Fund Private Limited and Himalayan Infrastructure Fund Limited, both private equity firms investing in various projects.

Power Purchase Agreement covering significant life of the project, at predetermined tariffs

NKHCL has 2 hydropower projects under its wings namely N1² and N2³. For project N1, NKHCL has a power purchase agreement with Nepal Electricity Authority (NEA) in February 2017 for a period of 30 years from RCOD which is set at June 11, 2024 and company has applied to NEA for extension of RCOD to August 13, 2024. PPA period may be extended with mutual consent during last six month of validity. The tariff for the wet season (April to November) is NPR 4.80 per kWh and for the dry

¹ Government of Nepal

² 38 MW Nilgiri Khola I Hydropower Project (N1)

³ 71 MW Cascade Nilgiri Khola II Hydropower Project (N2)

season (December to March) is NPR 8.40 per kWh with 3% annual escalation on the base tariff for eight times. The contracted energy for the project is 211.84 million units (MU) (i.e. 31.77 MU for dry season and 180.07 MU for wet season), at PLF of 64.52%.

Regarding project N2, NKHCL has a power purchase agreement with Nepal Electricity Authority (NEA) in July 2017 for a period of 30 years from Required Commercial Operation Date (RCOD). PPA period may be extended with mutual consent during last six month of validity. The tariff for the wet season (June to November) is NPR 4.80 per kWh and for the dry season (December to May) is NPR 8.40 per kWh with 3% annual escalation on the base tariff for eight times. The contracted energy for the project is 387.17 million units (MU) (i.e. 116.19 MU for dry season and 243.29 MU for wet season), at PLF of 65.41%. Required RCOD of the project was December 15, 2024 however the project is completed 8 months ahead of its RCOD on April 06, 2024.

Low power evacuation risk

The power generated by the project is planned to be evacuated through the NEA's Dana substation, which is already operational, thereby removing the evacuation bottleneck from NEA's side. Furthermore, for the power evacuation, the company has developed 3km long 132kV transmission line from its powerhouse to NEA's Dana substation for N2 and is developing 8km long 132 kV transmission line from its powerhouse to NEA's Dana substation for N1.

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 associated with Nilgiri Khola Hydropower Project – I

Nilgiri Khola Hydropower Project-I is in final stages of construction with more than 90% financial progress achieved till mid-May 2024 and dry tests scheduled within June 2024. The budgeted cost of the project is NPR 6,396 Mn (~NPR 168 Mn per MW) in debt equity ratio of 80:20. The debt component has already been tied up. The project is an under construction project with the works being more than 90% completed as on Mid-May 2024. RCOD of the project is June 11, 2024 however the management has applied to NEA for extension of RCOD till August 13, 2024 which is nearing albeit the project is near completion and expected to complete by the given schedule. However, failure to complete the project within RCOD attracts penalties from NEA to the company as well as causes reduction on number of escalations available, both of these having toll on company's initial year profit and revenue. Thus, ability of management to complete the project promptly without any delays and cost overruns is key monitorable.

Project stabilization risk associated with Nilgiri Khola Hydropower Project – II

Nilgiri Khola Hydropower Project II has come into operations from April 06, 2024. As the project has recently come into operation, the project is exposed to stabilization risk. The company's ability to achieve operational PLF as envisaged will remain a key monitorable. The final cost of the project is yet to be ascertained. As of latest certification date data available i.e., Mid-March 2024, the company has had incurred NPR 7,810 Mn cost out of budgeted NPR 8,721 Mn which was equivalent to 90% of total cost of project N2. The company has already sold 12.08 Mn units of electricity generating NPR 62.85 Mn revenue during April 06, 2024 to May 14, 2024.

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

Run-of-the-river (ROR) projects have no or little capacity for storage of water leading to high dependence on the river water flow for power generation. Due to this, these projects have higher generation during wet season and lower during dry season. ROR projects are directly exposed to risk associated with variation in discharge of water from the river. NKHCL is utilizing discharge from Nilgiri Khola located at Myagdi District, having catchment area of 150 sq. kms. for N1 and 160 sq. kms. for

N2. Further, 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 N1 and N2 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 August 2012, Nilgiri Khola Hydropower Company Limited (NKHCL) was converted into a public company on September 2014. The company is constructing 38 MW Nilgiri Khola-I Hydropower Project in Myagdi District and has operational 71 MW Nilgiri Khola-II Cascade Hydropower Project (Date of operation: 6th April 2024). The projects to utilize the discharge of water from Nilgiri Khola at Myagdi District having catchment area of 150 sq. kms. for N1 and 160 sq. kms. for N2. The company is promoted majorly by Maheshwor Prakash Shrestha (32.89%), Prithvi Bahadur Pande (15.90%) and Rijan Shrestha (8.61%).

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