

## PRESS RELEASE

### **DARAMKHOLA HYDRO ENERGY LIMITED**

July 2024

#### Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Issuer Rating	NA	IRN BB- (Is)	Reaffirmed
Long Term Bank Facilities	1,300.00	IRN BB-	Reaffirmed
Short Term Bank Facilities	(1,235.00)*	IRN A4	Reaffirmed
<b>TOTAL</b>	<b>1,300.00</b>		

\*within Term Loan

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has reaffirmed the issuer rating of IRN BB-(Is) [Double B Minus (Issuer)], the rating of IRN BB- (Double B Minus) assigned to the long-term bank facilities of NPR 1,300.00 Mn and the rating of IRN A4 (A Four) assigned to the short-term bank facilities of NPR 1,235.00 Mn.

#### Detailed Rationale

The reaffirmation of rating assigned to Daramkhola Hydro Energy Limited (DKHEL) and its bank facilities continue to derive strength from the presence of a large number of individual promoters, including locals along with Power Purchase Agreement (PPA) covering the majority of the project's lifespan, at predetermined rates. The ratings also factor in the moderate counter party risk and improving demand for electricity and GoN support for the power sector.

These rating strengths are partially offset by execution risk associated with its under construction 9.6MW Daramkhola Hydro Electric Project (DKHEP), along with hydrology risk and risk of natural calamities associated with the project. In addition, the ratings also take note of high project cost of ~NPR 224 Mn per MW, which is expected to be further escalated, which could constrain profitability and return indicators going forward. Additionally, there is a partial funding risk, given the pending equity requirement is yet to be raised from the initial public offerings (IPO); however, financial closure with the banks for the required debt funding and equity from promoters remains positive. Going forward, the ability of the company to commence its project within the estimated cost and timeframe and successful completion of IPO issuance at par will remain key rating sensitivities.

#### Detailed Description of Key Rating Drivers

##### Key Rating Strengths

#### Promoted by a large group of individuals mostly comprising locals

DKHEL's capital structure is strengthened by a significant number of individual promoters, particularly local stake holders. Currently, the company boats over 830 shareholders, collectively contributing to a total equity of NPR 635.50 Mn. Although, the directors have limited prior experience in the hydropower sector, their affiliation with various government offices offers some reassurance. Mr. Nar Bahadur Pun, the Chairman, is a former member of parliament and is also involved in establishment of various mini-micro hydropower. Hence, the substantial and diverse base of promoters instills confidence and is expected to facilitate the project going forward.

#### PPA in place at predetermined rates; lowering the tariff and offtake risk

The power purchase agreement (PPA) for initial 7.3 MW was executed on January 2017, while the PPA for the enhanced capacity of 9.6 MW was executed on October 2018. The PPA is for 30 years from the commercial operation date (COD) and cover the entire capacity of 9.6 MW, subject to a 10% reverse margin clause, under take or pay arrangement with NEA. The combined net contracted

plant load factor (PLF) is 63.54%, considering a contracted energy of ~53.43 gWh. The tariff rate specified in the PPA is NPR 4.80 per kWh for wet season (mid-April to mid-December) and NPR 8.40 per kWh for dry season (mid-December to mid-April) with 3% annual escalation on base tariff for five times after completion of 12 months from COD for 7.3 MW and eight times for additional 2.3 MW. Hence, considering the same, the tariff risk and offtake risk remains low.

### **Low power evacuation risk**

The power generated from the project will be evacuated through Loop in Loop Out (LILO) arrangement with NEA at the Manewa switching substation. Subsequently, it will further be connected to an operational 33KV Harichaur- Kharbang transmission line.

### **Improving market demand with Government support for the power sector**

According to the NEA's Annual Report, the annual peak electricity demand during FY23 was 1,870 MW from 1,748 MW during FY22. Additionally, the total energy demand for the time period was 8,850 GWh during FY21 which increased to 11,064 MW during FY22 which further increased to 12,369 MW during FY23 of which 1,833 GWh were imported from India and the remaining was generated domestically. The total export to India soared to 1,333 GWh in FY23 against 493 GWh in FY22. With this the net import of electricity reduced to ~510 GWh representing ~4.12% of total electricity available. Further, NEA has earned ~NPR 10.54 Bn from exporting electricity to India in FY23. Hence, the prospects remain positive in view of improving generation, growing demand with scope of export. Also, GoN considers hydropower generation as priority sector and intends to maximize private sector participation in the generation of hydroelectricity by offering different exemptions and facilities. Individuals or entities commencing commercial operations, transmission, and distribution of electricity before Mid-April 2027 are eligible for a 100% income-tax exemption for the first 10 years followed a 50% exemption for the next five years.

## **Key Rating Weaknesses**

### **High project cost**

The initial estimated project cost of NPR 1,862 Mn (~NPR 194 Mn per MW) has been escalated to NPR 2,150 Mn which is ~ NPR 224 per MW. This increase of ~15% from the previous budgeted is due to the elevated prices of various construction materials. Also, the project cost is expected to be further escalate which is proposed to be funded through the IPO proceeds. The higher budgeted cost, coupled with the potential risk of exceeding the budget, could have an adverse impact on the project's profitability and return indicators, particularly in the fixed tariff and escalation regime. Therefore, it is crucial for the company to conclude IPO and consequently, project construction within the estimated time frame.

### **Delay in project commissioning**

DKHEP, with a capacity of 9.6 MW, is approaching its final stage of development. As of mid-March 2024, the reported financial progress stood at ~90%, while the reported physical progress exceeding 97% as of mid-March 2024. The approved required commercial date of operation (RCOD) for the initial 7.3 MW and enhanced 2.3 MW was set for Feb 04, 2023 and Jun 27, 2023 respectively. However, as the RCOD has already passed the company has applied for the extension for 15 months. The management expects the commercial operational within first quarter of FY25. In the event that the company fails to receive RCOD extension from NEA, it may be subject to a sizable penalty and tariff escalation losses, which could impact its financial indicators.

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

ROR projects are directly exposed to risk associated with variation in discharge of water from the river. DKHEP is utilizing discharge from Daram Khola located in Baglung District, having catchment area of 247 km<sup>2</sup> and design discharge of 10.30m<sup>3</sup>/s at 40% exceedance flow. 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.

**Analytical Approach:** Standalone

**Applicable Criteria:**

[Bank Loan Rating Methodology & Issuer Rating Methodology](#)

**Past Rating Rationale:**

[Daramkhola Hydro Energy Limited: Issuer Rating Assigned](#)

[Daramkhola Hydro Energy Limited: Bank Facilities Rating Assigned](#)

**About the Company:**

DKHEL is a public limited company incorporated in December 2015. The company is developing Daram Khola Hydroelectric Project (DKHEP) of 9.6 MW in Baglung district of Nepal. The project has 247 km<sup>2</sup> catchment area and 10.30 m<sup>3</sup>/s design discharge at 40% exceedance flow. DKHEL is promoted by a large group of individuals especially the locals. Mr. Nar Bahadur Pun (Niraj) is the chairman of the company.

**Annexure:1 Detail of Facilities:**

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn)	Rating
Fund Based Bank Facilities- Term Loan	Long Term	1,300.00	IRN BB-
Fund Based Bank Facilities- Bridge Gap Loan	Short Term	(300.00)*	IRN A4
Fund Based Bank Facilities- LC/BG	Short Term	(935.00)*	IRN A4
<b>Total Facilities</b>		<b>1,300.00</b>	

LC/BG: Letter of Credit/ Bank Guarantee

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