

PRESS RELEASE

UNITED MEWA KHOLA HYDROPOWER LIMITED

June 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Rating	Rating Action
Issuer Rating	NA	IRN BB (Is)	Assigned
Long Term Bank Facilities	6,750.00	IRN BB	Assigned
Short Term Bank Facilities	250.00	IRN A4	Assigned
Total	7,000.00		

Details of facilities are in Annexure-1 below

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

Infomerics Nepal has also assigned the rating of IRN BB (Double B) to the long-term bank facilities of NPR 6,750.00 Mn and IRN A4 (A Four) to the short-term bank facilities of NPR 250.00 Mn.

Detailed Rationale

The rating assigned to United Mewa Khola Hydropower Limited (UMKHL) and its bank facilities 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 Power Purchase Agreement (PPA) and low funding risk as the debt has already been tied up. The ratings also factor in the moderate counter party risk, low power evacuation risk, improving electricity demand and Government of Nepal support for the power sector.

However, the ratings are mainly constrained by the execution risk associated with UMKHL's under construction 50 MW hydropower project given its mid stages of construction. 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 will be key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Strong promoter group with experienced directors/ management team

The company is majorly promoted by United Modi Hydropower Limited [[IRN BBB- \(Is\)](#)], operating a 9.9 MW- Lower Modi-1 Hydropower Project (LMHP) since November 24, 2012. Similarly, Taksar Pikhuwa Khola Hydropower Private Limited (8 MW) and Suryatara Investment Private Limited are major institutional promoters. In addition, the company is managed under the overall guidance of the three-member board of directors chaired by Mr. Ashish Thapa. Mr. Thapa has prior experience in hydropower sector and holds directorships in various entities. Other board members also have relevant experience in hydropower sector and the board is supported by experienced management team.

Low tariff and offtake risk with presence of a long-term PPA

UMKHL 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 50 MW project with Nepal Electricity Authority (NEA). Furthermore, the tariff for wet/ dry season (6-6 months) is NPR 4.80/ 8.40 per kWh with 3% escalation on base tariff every year for 8 times after completion of 12 months from COD. Additionally, the project is supported by high dry energy mix of ~32% with an average Plant Load Factor (PLF) of ~69%. The power generated from the project is proposed to be transmitted through ~7 km long 132kV transmission line to NEA's Dhungesanghu Substation.

Low power evacuation risk

The power to be generated by the project is planned to be evacuated through the NEA's Dhungesanghu 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 132kV transmission line from its powerhouse to NEA's Dhungesanghu substation. The ability of the company to complete the evacuation structure on timely basis will remain crucial.

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 50 MW Mewa Khola Hydropower Project (MeKHP), which is in mid stages of construction with ~67% financial progress achieved till mid-May 2024. The total estimated cost of the project is NPR 9,000 Mn, equivalent to NPR 180 Mn per MW including IDC, which is proposed to be financed in the debt: equity mix of 75:25. As of mid-May 2024, promoters have infused ~75% of the total equity component required for the project. The debt component of the project mix has been fully tied up. The company is exposed to the risks associated with project implementation within the envisaged time and cost as the Required Commercial Operation date (RCOD) of the project, February 12, 2025, is nearing.

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

Run-of-the-river power (ROR) projects are sensitive to seasonal variations in river flows, producing more electricity during the wet season and less during the dry season as these projects have little or no capacity for water storage and rely on the flow of river water for power generation. Prolonged low water levels resulting from droughts or irregular rainfall can lead to operational strain and thus revenue loss. MeKHP utilize discharge from Mewa Khola which are based on perennial rivers. This exposes the projects to risks associated with variations in water discharge from these rivers.

Risk of natural calamities

Nepal lies in a seismically active region along the Himalayan belt, making the country vulnerable to earthquakes, landslides, and floods, all of which pose significant threats to hydropower infrastructure. In addition, the country's rugged topography and monsoon rains make it prone to landslides and floods, which can cause structural damage and disrupt project operations. These disasters not only result in costly repairs and prolonged downtime but also affect the financial viability of hydropower projects by reducing power generation, thereby impacting their financial performance.

Analytical Approach: Standalone

Applicable Criteria:

[Issuer Rating Methodology](#) & [Power Projects Rating Methodology](#)

About the Company:

United Mewa Khola Hydropower Limited (UMKHL) was initially incorporated as a Private Limited company on June 01, 2010 and later converted to Public Limited company on July 06, 2023 to build, own and operate a 50 MW run-of-river Mewa Khola Hydropower Project (MeKHP) in Meringden and Mikkwakhola Rural Municipality, Taplejung district of Nepal. The project has catchment area of 527 sq kms based on Perennial River with design discharge of 33 m³/s at exceedance flow of 42%. United Modi Hydropower Limited held ~57% of total shareholding of company as of Mid-May 2024.

Annexure-1: Details of Bank Facilities

Instrument/ Facilities	Type of Facilities	Amount (NPR Mn)	Rating
Long-term Bank Facilities-Term Loan	Long-Term	6,750.00	IRN BB
Short-Term Bank Facilities-Working Capital Loan	Short-Term	250.00	IRN A4
Total		7,000.00	

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About Infomerics Credit Rating Nepal Limited:

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