

PRESS RELEASE

BAGMATI WATER ENERGY PRIVATE LIMITED

November 2024

Rating

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Long Term Bank Facilities	1,027.53	IRN B+	Assigned
Total	1,027.53		

Details of facilities are in Annexure 1 below

Infomerics Nepal has assigned the rating of IRN B+ (Single B Plus) to the long-term bank facilities of NPR 1,027.53 Mn.

Detailed Rationale

The rating assigned to the bank facilities of Bagmati Water Energy Private Limited (BWPL) derives its strength from experienced Board of Directors along with low tariff and offtake risk with the presence of a long term Power Purchase Agreement (PPA) and high dry energy mix. The rating also factors in the moderate counter party risk, improving electricity demand and GoN¹ support for the power sector.

However, the rating is mainly constrained by project implementation risk and funding risk associated with BWPL's under construction 6.5 MW Malta Bagmati Hydropower Project (MBHP) given its nascent development stage. Given the debt component required for the project has not been tied up, it is exposed to funding risk. Also, the company has not awarded the major contracts for the project as of mid-November 2024. Furthermore, the project is exposed to the hydrology risk associated with run-of-river (ROR) power generation arrangement and vulnerability to natural calamities. Going forward, the ability of the company to timely secure debt required for the project and complete the project without any time or cost overrun will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced board of directors

BWPL has four membered Board of Directors, chaired by Mr. Hom Bahadur Basnet, who has experience of more than two decades in trading, construction, hydropower and tourism. Also, Mr. Prakash Baral, Managing Director, has over 18 years of experience in renowned telecommunication company and also has been previously involved as a director in a hydropower company. In addition, other directors are well experienced in energy as well as other sectors.

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

BWPL has 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 6.5 MW project. The tariff for wet/ dry season (6-6 months) is NPR 4.80/ 8.40 per kWh with 3% escalation on base tariff for 8 times in every year after completion of 12 months from COD. Additionally, the project is supported by high dry energy mix of ~31% with an average PLF of ~67%. Power generated from the project is proposed to be transmitted to NEA²'s operational Malta substation through ~5 km 33 kV transmission line.

¹ Government of Nepal

² Nepal Electricity Authority

Favorable government policies towards the power sector

According to the NEA's Annual Report, the annual peak electricity demand during FY24 was 2,467 MW from 1,870 MW during FY23. Additionally, the total energy demand for the time period was 11,064 GWh during FY22 which increased to 12,369 GWh during FY23, which further increased to 13,966 GWh during FY24 of which 1,834 GWh were imported from India and the remaining was generated domestically. The total export to India soared to 1,943 GWh in FY24 against 1,333 GWh in FY23. Hence, the prospects remain positive in view of improving generation, growing demand with scope of export. 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 and funding risk

The company is constructing 6.5 MW hydropower project, which is in nascent stages of construction with ~4% financial progress till mid-November 2024. The total estimated cost of the project is NPR 1,468 Mn (~NPR 226 Mn per MW), proposed to be financed in the debt: equity mix of 70:30. As of mid-November 2024, promoters have infused ~14% of the total equity component required for the project. The debt component for the project has not yet been tied up, leaving it vulnerable to funding risks. Also, the company is yet to finalize the contract agreements 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 July 20, 2027.

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

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. MBHP is proposed to utilize discharge from Bagmati River having catchment area of 786 km² based on perennial river with design discharge of 14.15m³/s at PoE of 41.41%. Prolonged low water levels resulting from droughts or irregular rainfall can lead to operational strain and thus revenue loss. This exposes the project 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 construction and operations. These disasters not only result in costly repairs and prolonged downtime but also affect the financial viability of hydropower projects like MBHP by reducing power generation, thereby impacting their financial performance.

Analytical Approach: Standalone

Applicable Criteria:

[Private Power Producers Rating Methodology](#)

About the Company:

Bagmati Water Energy Private Limited (BWPL) was incorporated on February 01, 2017 to build, own and operate "6.5 MW Malta Bagmati Hydropower Project (MBHP)" in Lalitpur and Makwanpur districts of Nepal, with the entire power generated intended for sale. The project has total catchment area of 786 km² catchment area, a design discharge of 14.15 m³/s at 41.41% PoE and a gross head of 55m. Majority shareholding of the company is held by Mr. Hom Bahadur Basnet (~33%) and Mr. Prakash Baral (~30%) as of April 26, 2024.

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn)	Rating
Fund Based Bank Facilities- Term Loan (Proposed)	Long Term	1,027.53	IRN B+
Total Facilities		1,027.53	

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