

PRESS RELEASE

INGWA HYDROPOWER LIMITED

January 2025

Ratings

Instruments/ Facilities	Amount (NPR Mn)	Rating	Rating Action
Long Term Bank Facilities	1,803.42 (enhanced from 1,660.00)	IRN BB	Reaffirmed
Short Term Bank Facilities	54.00 (reduced from 108.00)	IRN A4	Reaffirmed
Total	1,857.42		

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has reaffirmed the rating of IRN BB (Double B) assigned to the long term bank facilities of NPR 1,803.42 Mn and IRN A4 (A Four) to the short term bank facilities of NPR 54.00 Mn.

Detailed Rationale

The reaffirmation of ratings assigned to the Bank facilities of Ingwa Hydropower Limited (IHL) factors in successful commissioning of the project as on April 10, 2024 (delay by around 11 months from RCOD of May 14, 2023) as well as moderate operational performance of the project since commercial operation date (COD) with the project generating moderate plant load factor (PLF) of ~69% of contracted energy in FY24 (last 3 months) and ~ 66% of contracted energy in first four months of FY25. The ratings also derive comfort from healthy EBITDA margin of the project (~84.3% in FY24) alongside moderate interest coverage indicators (1.4x in FY24). The ratings continue to take positive note of the strong institutional promoters i.e. Api Power Company Limited and Arun Kabeli Power Limited both having a proven track record in commissioning and operating multiple Hydroelectric Projects with a cumulative generation capacity exceeding 100 MW. Similarly, the ratings also continue to take note of experienced management team alongside presence of long term Power Purchase Agreement (PPA) covering majority of the project's lifespan, at predetermined rates, low power evacuation risk alongside improving demand for electricity and Government of Nepal support for the power sector.

However, these rating strengths are constrained by leveraged capital structure (Overall gearing ratio of 2.82x as of mid-July 2024) owing to high debt portion of the project. The ratings remain further constrained by the hydrology risk associated with run-of-the-river (ROR) power generation, risk of natural calamities inherent in operational hydropower projects as indicated by moderation in PLF during FY24 and FY25 as result of two separate floods impacting project operations and interest volatility risk. Going forward, the company's ability to improve the operational efficiency alongside reducing the gap between contracted PLF and operational PLF on a sustained basis, strengthen its coverage indicators and improve gearing ratios will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Project commenced operation though stabilization risk remains

The project has been in operation since April 10, 2024. The project was constructed at a cost of NPR 2,367.50 Mn (management estimation) up from initial estimated cost of NPR 1,950 Mn. The costs have been funded in the debt equity ratio of 75:25. Since its operation, the project has generated ~69% of contracted energy in FY24 (last 3 months) and ~ 66% of contracted energy in first four months of FY25. The electricity generation from the project has taken a hit due to occurrence of two separate instances of natural disasters. The floods of Mid-July 2024 had disrupted the power supply for couple of weeks and another nationwide flood and landslide took down transmission line disrupting

power supply for a month in September 2024. Though the project has commenced its operations; the stabilization and streamlining of production in coming years remains to be seen. The company's ability to improve the operational efficiency alongside reducing the gap between contracted PLF and operational PLF on a sustained basis is key rating monitorable.

Experienced promoters and management team with strong group support

IHL is promoted by individual promoters involved in various other hydropower projects and institutional investors being Api Power Company Ltd, Arun Kabeli Power Ltd., Api Hydromechanical Ltd. IHL is managed under four-member board of directors chaired by Ms. Sumitra Devi Neupane who has over a decade of experience in hydropower sector. The Board of directors is supported by team of experienced management team including Mr. Umesh Nepal as a Project Manager having over 9 years' of work experience in different industry.

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

IHL had entered into a long term PPA with Nepal Electricity Authority as on June 24, 2011 for sale of 9.7 MW power to be generated from the project. The contracted PLF for total 9.7 MW is 78.43%. Tariff rate as per 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. Required Commercial Operation Date (RCOD) of the project is May 14, 2023. Further, company had applied for the extension of the RCOD with NEA. The project came into operation since April 10, 2024 and NEA imposed fines for delay commencement. The extension of RCOD is crucial to the company to revoke its fine and avail all the benefits of escalations.

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

Leveraged capital structure

The capital structure of IHL is leveraged owing to high debt funded project (debt equity ratio 75:25). The gearing ratio is quite high at 2.82x as of mid-July 2024 along with stressed DSCR of 0.88x in FY24. With energy being generated in a streamlined manner and commencement of loan repayment, the gearing ratio is expected to improve in the future. However, the coverage indicators including interest coverage ratio is moderate at 1.42x in FY24. The ability of the company to improve its capital structure will remain key monitorable.

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

ROR projects are directly exposed to risk associated with variation in discharge of water from the river. IHL is utilizing discharge from tailrace of Ingwa Khola located at Taplejung District, having catchment area of 200 km². 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 UIHP 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](#)

Link to past rating rationale:

[Ingwa Hydropower Limited: Bank Facilities Rating Reaffirmed](#)

About the Company:

Ingwa Hydropower Limited (IHL) is a public limited company having corporate office located at Thapathali, Kathmandu. The company was earlier incorporated as a private limited company on June 23, 2009 and later converted to public limited company on August 25, 2014 to facilitate public participation. The company has been set up to build, own and operate 9.7 MW run-of-river, Upper Ingwa Hydropower Project (UIHP) at Yangbarak and Sidingba VDC of Taplejung and Panchthar District of Nepal, for sale of entire power within Nepal. The project has 200 Km² catchment area and 6.19 m³/s design discharge at 65% PoE. As on July 16, 2024; M/s. Api Power Company Limited, Mr. Guru Prasad Neupane are the major shareholders of the company holding 25.00% and 7.56% respectively.

Financial Indicators (Standalone)

For the year ended* As on	FY24	Q1FY25
	Audited	Provisional
Total Operating Income (NPR Mn)	70	72
EBITDA Margin (%)	84.28	81.84
Interest Coverage Ratio (x)	1.42	1.01
Current Ratio (x)	0.45	0.22
Overall Gearing Ratio (x)	2.82	2.79

Annexure 1: Detail of Facilities

Instrument/Facilities	Type of Facilities	Amount (NPR Mn)	Rating
Long Term Bank Facilities-Term Loan	Long-Term	1,803.42	IRN BB
Short Term Bank Facilities-Working Capital Loan	Short-Term	54.00	IRN A4
Long Term/ Short Term – Letter of Credit	Long-Term/Short-Term	(290.00)	IRN A4
Long Term/ Short Term – Bank Guarantee	Long-Term/Short-Term	(0.30)	IRN A4
Total		1,857.42	

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About Infomerics Credit Rating Nepal Limited:

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