

PRESS RELEASE

DOVAN HYDROPOWER LIMITED

February 2025

Rating

Instrument	Amount (NPR Mn)	Rating	Rating Action
Issuer Rating	NA	IRN BB- (Is)	Assigned

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

Detailed Rationale

The issuer rating assigned to Dovan Hydropower Limited (DHL) derive strength from experience of its promoters and board members in the hydropower sector. Additionally, the ratings derive comfort from the long-term Power Purchase Agreement (PPA) with NEA, ensuring revenue visibility through predetermined tariffs. The project has also achieved significant progress, with ~85% physical progress as of mid-November 2024, mitigating execution risk. Furthermore, the successful completion of the necessary transmission infrastructure substantially reduces evacuation risk. The hydropower sector benefits from favorable government policies, including tax incentives and priority sector lending by Nepal Rastra Bank, which provides a supportive regulatory environment for sustained industry growth.

However, the ratings are constrained by the significant construction delays and cost escalations, which have increased the project cost by ~29%, thereby raising the overall debt levels and putting pressure on profitability due to higher finance costs. Although the funding risk is mitigated by fully secured debt and equity components, the increased leverage could affect financial performance. Additionally, the project's delayed commissioning has shortened the operational window, leaving only 22 years remaining on the generation license. The tariff structure according to PPA also allows for only five-time escalation, which is lower than industry norms. Furthermore, the absence of a deemed generation clause in the PPA exposes the project to hydrology risk, and the inherent exposure to natural calamities adds to the operational risk, potentially disrupting the project's execution and affecting its long-term financial stability. Going forward, the company's ability to complete the project on time with early stabilization and successfully secure full IPO subscription for loan prepayment, thereby improving its solvency ratios will remain key sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters and board members in the related field

DHL operates under the overall guidance of its Board of Directors (BoD), comprising of seven members. The board is chaired by Mr. Rakam Chemjong, who brings nearly a decade of experience in the hydropower sector, having been associated with projects such as Gurkhas Himalayan Hydro Limited, and Chairman of Abiral Hydropower Company Limited. Mr. Anil Basnet, Director, also has a track record as an investor and developer in multiple hydropower projects. The Board of Directors is further supported by a competent management team with extensive experience in relevant areas of business, ensuring the effective operation and growth of the organization.

PPA covering significant life of the project, at predetermined tariffs

DHL had entered into a long term PPA with NEA as on April 11, 2013 for sale of 5.2 MW power to be generated from the project. The contracted Plant Load Factor (PLF) for total 5.2 MW is 71.49%. 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 5 times.

However, the project has faced delays, with the Required Commercial Operation Date (RCOD) set for March 24, 2022. The company has applied for an RCOD extension, and any failure to secure approval from NEA may result in penalty payments, exerting pressure on the company's financial profile. Furthermore, in the absence of an extension, DHL would be eligible for only two tariff escalations instead of five, potentially constraining revenue growth and affecting long-term cash flow generation. Additionally, even with the full five-time tariff escalation, the total escalation remains lower than industry norms, which could limit the project's long-term revenue potential and weaken its financial sustainability.

Low evacuation risk

The generated power from Junbesi Khola Hydroelectric Project (JKHP) will be evacuated through a 6 km long 33 kV transmission line, connecting its switchyard to a switchyard of Upper Solu Hydropower Project (18MW). Subsequently, a 12 km long 132 kV single-circuit transmission line has been developed under a cost-sharing arrangement with neighboring projects to facilitate power transmission to NEA's Tingla substation. The Tingla substation has been fully completed and is operational at 132 kV double circuit capacity. Additionally, the entire transmission infrastructure under the Solu corridor, extending from Tingla to Mirchaiya, has been successfully completed and charged, thereby substantially mitigating evacuation risk.

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 nearing completion; although constrained by cost and timeline challenges

The 5.2MW Junbesi Khola Hydroelectric Project (JKHP) is in its final stages of construction, with ~85% physical progress as of mid-November 2024. The project encountered construction delays and cost escalations, with the total project cost increasing by ~29% from the original budget, rising from NPR 213 Mn per MW to NPR 275 Mn per MW. However, the low funding risk mitigates concerns to some extent, as both debt and equity components are fully secured for the revised budget. As of January-end 2025, ~93% of the debt has been disbursed, while ~91% of the equity has been infused by promoters. The project is financed through a debt-to-equity ratio of ~63:37. The escalated project cost has led to an increase in debt levels, potentially impacting the project's profitability and return indicators due to higher finance costs. The company plans to raise additional equity through an IPO, with the proceeds earmarked for prepayment of outstanding loans. This strategy is expected to reduce leverage, enhance financial flexibility, and improve debt-servicing capabilities over the medium term.

Limited license tenure constraining revenue visibility

The generation license of JKHP has a 35-year validity from the date of license (January 04, 2013 to January 03, 2047). However, prolonged construction delays have deferred the commencement of operations, effectively shortening the revenue-generating period, with only 22 years of validity remaining in the license. This reduced operational window limits the project's long-term revenue potential and earnings visibility. Furthermore, the delay in commissioning is likely to result in lower

cumulative revenue realization, as a significant portion of the license tenure has elapsed without any power generation, thereby impacting the project's overall financial sustainability.

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

Run-of-the-river (ROR) projects are directly exposed to risk associated with variation in discharge of water from the river. DHL is utilizing discharge from tailrace of Junbesi Khola located about 9 km from Salleri bazaar, the district headquarter of Solukhumbu district, having catchment area of 66.80 km². 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.

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. Hydropower projects like JKHP 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:

Dovan Hydropower Limited (DHL) is a public limited company having corporate office located at Tinkune, Kathmandu, Nepal. The company was earlier incorporated as a private limited company on April 13, 2007 and later converted to public limited company on May 26, 2023. The company has been set up to build, own and operate 5.2 MW run-of-river Junbesi Khola Hydroelectric Project (JKHP) located at Beni VDC of Solukhumbu District of Nepal. The project has 66.80 km² catchment area and 2.99 m³/s design discharge at 40% exceedance flow. The major shareholders of DHL are Ms. Jayanti Kala Rai (4.77%), Mr. Rajendra Kumar Rai (4.77%), and Mr. Sudip Shrestha (4.38%).

Analyst Contacts

Mr. Raunak Mulmi

+977-1-4583304/4585906

raunak.mulmi@infomericsnepal.com

Mr. Sanjeev Dangol

+977-1-4583304/4585906

sanjeev.dangol@infomericsnepal.com

Relationship Contact

Mr. Rabin Pudasaini

+977-1-4483304/4485906

rabin.pudasaini@infomericsnepal.com

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Infomerics Credit Rating Nepal Limited

Tanka Prasad Marga, Baneshwor Height, Kathmandu

Phone: +977-1-4583304/4585906

Email: info@infomericsnepal.com

Web: www.infomericsnepal.com

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