

PRESS RELEASE

VISION LUMBINI URJA COMPANY LIMITED

March 2025

Rating

Instrument/Facilities	Amount (NPR Mn)	Rating	Rating Action
Issuer Rating	NA	IRN BB (Is)	Upgraded from IRN BB- (Is)
Total	NA		

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

Detailed Rationale

The upgradation of issuer rating assigned to Vision Lumbini Urja Company Limited (VLUCL) factors in successful commissioning of 25 MW Seti Nadi Hydroelectric Project (SNHEP) on November 11, 2024 along with the strength derived from presence of strong institutional promoters with experienced Board of Directors and management. The rating also takes a note of power purchase agreement (PPA) based on take or pay modality with Nepal Electricity Authority (NEA) covering the majority of the project's lifespan, at predetermined rates with escalation clause; thereby lowering the tariff risk and offtake risk. The rating also factors in moderate counterparty risk and favorable government policies towards the power sector.

These rating strengths however are constrained by the project stabilization risks associated to its recently operational 25 MW Seti Nadi Hydroelectric Project along with hydrology risk associated with the run-of-river (ROR) power generation. Also, the rating remains constrained by the dry energy short supply penalty clause in PPA. Going forward, the ability of the company to ensure its operational efficiency on sustained basis along with improved financial performance will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced Board of Directors and Management with support from strong institutional promoters

VLUCL is majorly promoted by institutional promoters with the largest shareholder being Hydro Electricity Investment & Development Company Limited (HIDCL) holding ~10% of the company's equity share capital as of mid-January 2025. HIDCL is a specialized development financial institution incorporated to mobilize funds to cater to the needs of investments in hydroelectricity generation, transmission, and distribution projects in Nepal. The company has an experienced board of directors chaired by Mr. Jagat Bahadur Pokharel, having experience in different sectors including hydropower, which is further supported by the experienced management team. Also, the presence of one of the representatives of HIDCL in VLUCL's board remains a positive.

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

On 22 November 2018, VLUCL entered a long term PPA with NEA of 30 years from Commercial Operation Date (COD) or till validity of Generation License, whichever is earlier, for the sale of power generated from the project. The net contracted plant load factor (PLF) of 67.62% with relatively higher dry energy mix of 31.43% (considering 6 months dry and 6 months' wet season) provides an additional comfort in terms of better revenue profile, given higher tariff rates in dry season. Tariff rate as per PPA for 25 MW is NPR 4.80 per kWh for wet season (June to November) and NPR 8.40

per kWh for dry season (December to May) with 3% annual escalation on base tariff for eight times after completion of twelve months from COD. Required Commercial Operation Date (RCOD) of the project was July 13, 2024. The project came into operation on November 11, 2024 and NEA imposed fines for delayed commencement. However, the company has applied for the extension of the RCOD till October 25, 2024, the approval of which is crucial for the company to get the fine revoked.

Favorable Government policies towards 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 stabilization risk

SNHEP commenced its commercial operation on November 11, 2025. The project was constructed at a cost of NPR 6,288 Mn (management estimation) up from both initial estimated cost of NPR 5,000 Mn and revised cost of NPR 5,963 Mn. The costs have been funded in the debt equity ratio of ~69:31. Since its operation, the project has generated more than 90% of the contracted energy till mid-March 2025. Though the project has been generating the energy, stabilization and streamlining of production in coming years remains to be seen. The company's ability to maintain the operational efficiency on sustained basis would remain the key monitorable.

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. Prolonged low water levels resulting from droughts or irregular rainfall can lead to operational strain and thus revenue loss. The project has a design discharge of 18.00 m³/s at 44.5% exceedance flow. Furthermore, lack of a deemed generation clause in the PPA exposes the project to hydrology risks in case of adverse river flow scenarios, without receiving any compensation for such losses. However, the river "Seti Nadi" that the project is based on is a snow fed river, which reduces the concern to some extent. Additionally, developers now have to meet 30% of the total energy production during the dry season along with the extension of dry season period from four to six months. If the energy supplied during the dry season is found to be less than 30%, the annual energy supplied above the estimated 30% will be adjusted as a compensation in the monthly bill payment. This exposes the projects to risks associated with variations in water discharge from these rivers.

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 SNHEP 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:

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

Past Rating Rationale:

[Vision Lumbini Urja Company Limited: Issuer Rating Reaffirmed](#)

About the Company:

Vision Lumbini Urja Company Limited (VLUCL) is a public limited company incorporated in October 2018. The company is operating Seti Nadi Hydroelectric Project (SNHEP) of 25 MW in Kaski district of Nepal. The project has 254 km² catchment area and 18 m³/s design discharge at 44.5% exceedance flow. HIDCL is the major institutional promoter with a stake of ~10% as of mid-January 2025.

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