PRESS RELEASE

DUDHKOSHI HYDROPOWER NEPAL PRIVATE LIMITED

July 2026

Ratings

Instrument/Facilities	Amount (NPR Mn)	Rating	Rating Action
Long Term Bank Facilities	10,500.00	IRN B+	Reaffirmed
Short Term Bank Facilities	312.00	IRN A4	Assigned
Total	**10,812.00**		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has reaffirmed the rating of IRN B+ (Single B Plus) to the long-term bank facilities of NPR 10,500.00 Mn and assigned the rating of IRN A4 (A Four) to the short-term facilities of NPR 312.00 Mn.

Detailed Rationale

The reaffirmation of ratings assigned to bank facilities of Dudhkoshi Hydropower Nepal Private Limited (DHNPL) continues to derive strength from the experienced promoter group post acquisition[1], low tariff and offtake risk with the presence of a long-term Power Purchase Agreement (PPA). The ratings also take a positive note of the fact that project is a Pondage run-of-river system (PROR) with maximum peaking capacity of 6 hours/day providing DHNPL with increased tariff rates during peak hours of dry season, strengthening the revenue generation capacity. The ratings further derive comfort from the project achieving financial closure alleviating funding risk significantly. The ratings also factor in the moderate counter party risk, lower power evacuation risk, improving electricity demand and Government of Nepal (GoN) support for the power sector.

However, the ratings are mainly constrained by the execution risk associated with DHNPL's under construction 70 MW hydropower project given its nascent development stage (5.17% financial progress as of July 13, 2026). In addition, the ratings remain constrained by the significant delay in project execution owing to regulatory hurdles with Required Commercial Operation Date (RCOD) slated for July 30, 2026 and modest physical progress achieved till July 13, 2026. Barring RCOD extension from NEA, the company is likely to incur substantial penalties, along with reduced revenue potential due to the lapse of tariff escalation provisions. Also, the project is exposed to the hydrology risk connected with PROR power generation arrangement, albeit moderated in comparison to run-of-river (ROR) projects and vulnerability to natural calamities. Going forward, the ability of the company to manage the timely completion of the project without any further time or cost overrun as well as its ability to secure RCOD extension to avoid penalties and potential losses of escalation clause will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Post-acquisition experienced promoter group

Post-acquisition, the BOD is led by Mr. Kadam KC, experienced personnel with over 15 years of experience in the related field. He is also a BOD member of High Himalaya Hydro Construction Pvt Ltd, 21 MW Aayu Malun Hydropower Pvt Ltd [IRN B+/A4]. and 4 MW Puwa Khola One Hydropower Limited [IRN B+&(Is)]. Mr. KC is also the Chairman of Aayu Entertainment Pvt Ltd and Managing Director of Dhaulagiri Construction and Development Pvt Ltd. Further, the promoters are well supported by experience and well diverse management team.

[1] DHNPL was originally slated to be promoted by Indian Promoter M/S Dudhkoshi Hydropower Private Limited. Owing to regulatory hurdles relating to FDI imposed by Reserve Bank of India (RBI), DHPL is forced to divest its entire stake to Nepalese promoters.

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

DHPL had entered into a long term PPA with NEA as on 22nd November 2021 for sale of 70 MW power contracted energy to be generated from the project. The period of the PPA is 30 years from the commercial operation date (COD) or till validity of Generation License (obtained on 23rd September 2020), whichever is earlier. The tariff has been structured at Rs. 4.80 per kWh during the wet season (June to November) and Rs. 8.40 per kWh during the dry season (December to May) for non-peaking hours. For peak hours, defined as 5:00 PM to 10:00 PM, the tariff ranges from Rs. 8.50 to Rs. 10.55 per kWh depending on the number of hours of electricity supplied, with a maximum cap of 6 hours per day during the dry season. The tariff is further subject to an annual escalation of 3% for a period of eight years. The power generated from the project is proposed to be evacuated through 12 km long 132 KV Transmission Line to NEA’s Tingla Substation, which is already operational, thereby removing the evacuation bottleneck from NEA’s side. Timely availability of fund will remain essential for the timely completion of the evacuation structure on the company’s side.

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 70 MW Dudhkoshi-2 (Jaleshwor) Hydropower Project (DKHP2), which is in nascent stages of construction with ~5.17% financial progress achieved till July 13, 2026. The total estimated cost of the project is NPR 15,000 Mn, equivalent to NPR 214.29 Mn per MW, which is proposed to be financed in the debt: equity mix of 70:30. Out of total equity of NPR 4,500 Mn, NPR 563.00 Mn (~13% of the total equity) had been infused by the promoters till December 08, 2025. The debt component of the project mix has been tied up on September 21, 2025. The company has awarded the civil and hydro-mechanical works contract. The Required Commercial Operation Date (RCOD) of the project is July 30, 2026. However, the management expects the project to commence commercial operations from July 16, 2028, resulting in the loss of two tariff escalations and a truncated revenue stream. Therefore, the timely completion of the project remains a key rating monitorable.

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

DKHP2 is a pondage Run-of-river (PROR) type of HEP which stores water in dry season. However, in absence of reservoir, the hydrology risk persists albeit lower than the ROR arrangement. It, thus, generates much more power during summer season when seasonal river flows are high (June to November) and less during the winter season (December to May). The project is proposed to utilize discharge from Dudhkoshi river having catchment area of 2,614.77 sq kms based on Perennial River with design discharge of the project is 62.30m3/s at exceedance flow of 40%. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/khola. 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 of the projects. Hydropower projects like DKHP2 are inherently exposed to risk of these natural calamities, which may affect the project's execution, functioning and financial performance.

Analytical Approach: Standalone

Link to Past Rating Rationale:
Dudhkoshi Hydropower Nepal Private Limited: Bank Facilities Rating Assigned

Applicable Criteria:
Power Projects Rating Methodology

About the Company:
Incorporated as a private limited company on October 2013, Dudhkoshi Hydropower Nepal Private Limited (DHNPL) is constructing 70 MW Dudhkoshi-2 (Jaleshwor) Hydropower Project (DKHP2) in Solukhumbu District, Nepal for sale of 70 MW contracted energy. DKHP2 is intended to utilize discharge from Dudhkoshi river having catchment area of 2,614.77 sq. km with design discharge of the project 62.30m3/s at exceedance flow of 40%. DHNPL is majorly promoted by Aayu Malun Hydropower Limited.

Annexure 1: Detail of Facilities

Instrument/Facilities	Type of Facilities	Amount (NPR Mn)	Rating
Funded Based Loan Long Term Bank Facilities-	Long-Term	10,500.00	IRN B+
Fund Based Loans Short Term Facilities	Short-Term	270.00	IRN A4
Non-Funded Based Loans Short Term Facilities	Short-Term	42.00	IRN A4
Total		**10,812.00**	

Analyst Contacts

Mr. Raunak Mulmi
+977-1-4583304/4585906
raunak.mulmi@infomericsnepal.com

Ms. Ruchata Shrestha
+977-1-4583304/4585906
ruchata.shrestha@infomericsnepal.com

Relationship Contact

Mr. Rabin Pudasaini
+977-1-4583304/4585906
rabin.pudasaini@infomericsnepal.com

About Infomerics Credit Rating Nepal Limited:
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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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