

PRESS RELEASE

NILGIRI KHOLA HYDROPOWER COMPANY LIMITED

July 2026

Rating

Instrument/Facilities	Amount (NPR Mn)	Rating	Rating Action
Issuer Rating	NA	IRN BB+ (Is)	Reaffirmed

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

Detailed Rationale

The reaffirmation of rating assigned to Nilgiri Khola Hydropower Company Limited (NKHCL) factors in improved energy generation in the last quarter of FY25 followed by first 10 months of FY26 owing to improved water flow and discharge in the river basin due to heavier snow flow in preceding period with Plant Load Factor (PLF) of N1¹ improving to ~71.64% of contracted capacity during FY25 and ~73.56% during 10MFY26 and PLF of N2² improving to 54.76% in FY25 and ~69.62% in first 10 months of FY26 (N1 had PLF of ~71.25% during 8MFY25 and N2 had PLF of ~46.55% in FY24 and ~48.62% in 9MFY25). The improved energy generation coupled with escalated tariff has led to improvement in financial profile with TOI improving by annualized ~20% in FY26, coupled with, lowered short supply penalty, the operating margins have improved to ~82% in FY26 (~78% in FY25 and ~61% in FY24). The rating also considers marked improvement in profitability and cash accretion with PAT increasing to NPR 416 Mn till Q3FY26 from NPR 7 Mn in FY25 and GCA improving to NPR 795 Mn from NPR 509 Mn over same time frame. Similarly, the rating also continues to derive strength from the strong and experienced promoter group, low tariff and offtake risk with the presence of a long-term Power Purchase Agreement (PPA), moderate counter party risk, lower power evacuation risk coupled with improving electricity demand and GoN³ support for the power sector. However, the rating remains mainly constrained by the continued levying of short supply penalty due to lowered energy generation during dry season caused by unfavorable hydrological conditions. Though the penalty amount has reduced to NPR 152 Mn in FY26 from NPR 232 Mn in FY25, the continued levy of penalty has exerted pressure on profitability. The rating is also constrained by NKHCL's leveraged capital structure as exhibited by higher overall gearing ratio (3.03x as of Mid-April 2026 vis-à-vis 3.79x as of FY25 and 3.73x in FY24) and higher total debt/GCA (13.89x as of Mid-April 2026 against 24.04x in FY25). Similarly, the rating remains constrained due to project being exposed to hydrology related risk connected with run-of-river (ROR) power generation arrangement and vulnerability to natural calamities.

Going forward, NKHCL's ability to improve the operational efficiency alongside reducing the gap between contracted PLF and operational PLF on a sustained basis eliminating short supply fines along with successful issuance of IPO and utilization of IPO proceeds as envisaged will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Improved financial profile supported by improved energy generation

NKHCL has demonstrated a significant improvement in operational and financial performance during FY26, supported by higher electricity generation resulting from improved hydrology and increased

¹ 38 MW Nilgiri Khola-I Hydropower Project

² 71 MW Nilgiri Khola-II Hydropower Project

³ Government of Nepal

river discharge following heavier winter snowfall. Enhanced water availability boosted generation across both N1 and N2 projects, with a notable improvement in the larger N2 plant. Consequently, the PLF of N1 increased to ~73.56% of contracted energy during the first ten months of FY26 from ~71.64% in FY25, while N2's PLF rose substantially to ~69.62% from ~54.76%. The improved PLF, particularly at N2, led to a reduction in short-supply penalties, which declined to ~NPR 152 Mn in Q3FY26 from ~NPR 232 Mn in FY25. Supported by higher generation, total operating income (TOI) grew by approximately 20% on an annualized basis to NPR 1,683 Mn in Q3FY26, compared with NPR 1,872 Mn in FY25 and NPR 283 Mn in FY24. Improved revenue generation and lower penalties strengthened profitability, with EBITDA margins increasing to around 82% in Q3FY26 from 78% in FY25 and 61% in FY24. Additionally, lower interest rates amid excess liquidity and continued debt repayment reduced finance costs, resulting in a substantial improvement in earnings. NKHCL reported a PAT of NPR 7 Mn in FY25 which further increased to NPR 416 Mn in Q3FY26. Gross cash accruals (GCA) also improved to NPR 795 Mn in Q3FY26 from NPR 509 Mn in FY25.

Experienced promoters and board members in the related field

NKHCL is managed under the overall guidance of the company's Board of Directors (BoD), which consists of three members possessing wide experience in the various sector including hydropower. The board is chaired by Mr. Maheshwor Prakash Shrestha who has more than two decades of experience in development & operation of hydroelectricity project as well as banking sector. He is promoter shareholder of Mandu Hydropower Limited (22 MW) and Tundi Hydropower Limited (35.5 MW+48.5 MW). He is supported by other experienced directors along with a team of experienced management personnel. Mr. Shivant Bahadur Pande, Director, has more than 15 years of experience in various sectors including Real Estate and Banking. Mrs. Isha Shrestha, Director, has more than decade of experience in hydropower sector. NKHCL is also promoted by institutional promoters namely Lotus Investment Fund Private Limited and Himalayan Infrastructure Fund Limited, both private equity firms investing in various projects.

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

NKHCL has 2 hydropower projects under its wings namely N1 and N2. For project N1, NKHCL has a power purchase agreement with Nepal Electricity Authority (NEA) in February 2017 for a period of 30 years from RCOD. PPA period may be extended with mutual consent during last six month of validity. The tariff for the wet season (April to November) is NPR 4.80 per kWh and for the dry season (December to March) is NPR 8.40 per kWh with 3% annual escalation on the base tariff for eight times. The contracted energy for the project is 211.84 million units (MU) (i.e. 31.77 MU for dry season and 180.07 MU for wet season), at PLF of 64.52%. Required RCOD of the project was August 12, 2024 however the project achieved commercial operation a week prior on August 05, 2024.

Regarding project N2, NKHCL has a power purchase agreement with Nepal Electricity Authority (NEA) in July 2017 for a period of 30 years from Required Commercial Operation Date (RCOD). PPA period may be extended with mutual consent during last six month of validity. The tariff for the wet season (June to November) is NPR 4.80 per kWh and for the dry season (December to May) is NPR 8.40 per kWh with 3% annual escalation on the base tariff for eight times. The contracted energy for the project is 387.17 million units (MU) (i.e. 116.19 MU for dry season and 243.29 MU for wet season), at PLF of 65.41%. Required RCOD of the project was December 15, 2024 however the project is completed 8 months ahead of its RCOD on April 06, 2024.

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

Leveraged capital structure

The capital structure of NKHCL is leveraged owing to significant amount of debt involved in construction of the projects. The overall gearing ratio, though improved still leveraged at 3.03x as of Q3FY26 from 3.79x as on FY25 and 3.73x as on FY24. Improvement being driven by gradual accentuation of profit into reserve and repayment of debt. Likewise, the Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood on higher side at 3.10x in Q3FY26 (4.02x in FY25 and 3.81x in FY24). Likewise, DSCR stood moderate at 1.35 in Q3FY26 vis-à-vis 1.12x in FY24. With gradual repayment of debt in coming years, the capital structure is expected to gradually improve.

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

ROR projects have no or little capacity for storage of water leading to high dependence on the river water flow for power generation. Due to this, these projects have higher generation during wet season and lower during dry season. ROR projects are directly exposed to risk associated with variation in discharge of water from the river. NKHCL is utilizing discharge from Nilgiri Khola located at Myagdi District, having catchment area of 150 sq. kms. for N1 and 160 sq. kms. for N2. 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 N1 and N2 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:

[Nilgiri Khola Hydropower Company Limited: Issuer Rating Reaffirmed](#)

About the Company:

Incorporated as a private limited company on August 2012, Nilgiri Khola Hydropower Company Limited (NKHCL) was converted into a public company on September 2014. The company has two operational HEP's including 38 MW Nilgiri Khola-I Hydropower Project in Myagdi District (Date of operation: 5th August 2024) and 71 MW Nilgiri Khola-II Cascade Hydropower Project (Date of operation: 6th April 2024). The projects to utilize the discharge of water from Nilgiri Khola at Myagdi District having catchment area of 150 sq. kms. for N1 and 160 sq. kms. for N2. The company is promoted majorly by Maheshwor Prakash Shrestha (31.57%) and Prithvi Bahadur Pande (15.10%) as on Mid-July 2025.

Financial Indicators (Standalone)

For the year ended* As on	FY24	FY25	Q3FY26
	Audited	Audited	Unaudited
Total Operating Income (NPR Mn)	283	1,872	1,683
EBITDA Margin (%)	60.93	78.49	81.60
Operational PLF (%)	46.55% for N2	65.78% for N1 54.76% for N2	70.68% for N1 72.51% for N2**
Interest Coverage Ratio (x)	1.05	1.53	2.43
Total Debt/GCA (x)	40.87	24.04	13.89
Overall Gearing Ratio (x)	3.73	3.79	3.03
TOL/TNW (x)	3.81	4.02	3.10

Earnings before Interest Tax Depreciation Amortization (EBITDA)

*Classification as per Infomerics Nepal standards

** 73.56% for N1 and 69.62% for N2 till Mid-May 2026 (10 Months FY26)

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