

## PRESS RELEASE

### **PUWA KHOLA-ONE HYDROPOWER LIMITED**

July 2026

#### Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Issuer Rating	NA	IRN B+&* (Is)	Downgraded from IRN BB- (Is) and placed on watch with developing implications
Long Term Bank Facilities	263.57	IRN B+ &*	Assigned
Short Term Bank Facilities	310.00	IRN A4 &*	Assigned
<b>Total</b>	<b>573.57</b>		

Details of facilities are in Annexure 1 below

\* The symbol '&' indicates [Rating watch with developing implications](#)

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has downgraded the issuer rating to IRN B+ (Is) [Single B Plus (Issuer)] from IRN BB- (Is) [Double B Minus (Issuer)]. Also, Infomerics Nepal has assigned the bank loan rating of IRN B+ (Single B Plus) to long term bank facilities of NPR 263.57 Mn and A4 (A Four) to the short term bank facilities of NPR 310.00 Mn. Also, the rating has been placed on rating watch with developing implications.

#### Detailed Rationale

The revision of ratings and placement of ratings on watch with developing implications assigned to Puwa Khola One Hydropower Limited (PKHP) factors in cessation of operation following devastating floods in Ilam District in October 5, 2025. Resulting from such floods, the reconstruction is expected to take until Mid-April 2027 causing LOP (loss of profit) for over 18 months and have estimated to cause damage worth exceeding NPR 300 Mn to the company. Owing to such cessation of operations, the PLF during first nine months of FY26 remained low at ~16% of contracted energy and revenue generation is minimal at ~NPR 14 Mn. The ratings also remain constrained due to modest financial profile prior to floods owing to lowered PLF in FY25 at ~53% of contracted energy, also primarily attributable to force majeure prompting plant to shut down for 36 days in FY25 as well. Repeated disturbance in operation due to natural disasters underscores inherent risk of natural calamities associated with hydropower projects like PKHP. The ratings also remain constrained owing to project execution risk related to its investee project- 21 MW Aayu Malun Hydropower Company Private Limited (AAYU) <sup>1</sup> [\[IRN B\]](#) as well as its own under renovation 4 MW Puwa Khola-One Hydropower Project.

Nonetheless, the ratings derive strength from adequate insurance coverage of PKHP, providing PKHP with adequate cushion against losses due to floods. The ratings also derive strength from its low gearing profile with overall gearing ratio of 0.50x as of mid-April 2026, and 0.55x in FY25 (0.74x in FY24) following minimal debt obligation and fresh promoter infusion for investment in its subsidiary company- AAYU. The rating also factors in positive PAT during FY25 and FY26 due to presence of non-operating income in form of insurance income and sale of licenses, temporarily supporting operations. The ratings continue to take positive note of the experienced promoters coupled with strong management team and a moderate track record relating to electricity generation by PKHP (since 2017). Similarly, the ratings also continue to take note of 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.

<sup>1</sup> Aayu is a subsidiary company of PKHP which is constructing 21 MW hydropower project in Okhaldhunga district.

Going forward, the company's ability to renovate and commence operation of its 4MW project in a timely manner, successful issuance of IPO along with the timely completion of AAYU and its expected realization will be the key rating sensitivities.

## Detailed Description of Key Rating Drivers

### Key Rating Strengths

#### Strong and experienced promoters and management

PKHP is mainly promoted by High Himalaya Hydro Construction Pvt Ltd and Mr. Kiran Malla, and is chaired by Mr. Kiran Malla who has more than 37 years of experience in hydropower sector. Mr. Malla is also the chairperson of Union Mewa Hydropower Limited (23 MW) [[IRN BB-/A4](#)] and Aayu Malun Hydropower Limited (21 MW). Board constitutes of other four directors who all are experienced in the field of hydropower. Similarly, the Board is supported by Senior Civil Engineer, Er. Uttam Kumar Thapa with his experience of more than 15 years in the field of hydropower.

#### Power Purchase Agreement at predetermined tariffs covering majority of project's lifespan

PKHP had entered into Power Purchase Agreement (PPA) with NEA for sale of power to be generated from its project. The period of the PPA is 30 years from commercial operation date (COD) or till validity of Generation License whichever is earlier. However, PPA period may be extended with mutual consensus during the last six months of validity. PKHP started its commercial operation from November 2017. Tariff rate as per PPA for wet season (Mid-April to Mid-December)/dry season (Mid-December to Mid-April) is NPR 4.8/8.4 per kWh. For these PPA rates, escalation allowed is 3% per annum on the base tariff for five times after COD. Power generated by the project is evacuated through a 4 km long 33 kVA single circuit transmission line to the switchyard and then through common line to NEA Godak Substation at Illam district. The contracted energy for the project is 23.11 Mn units (MUs). Also, the counter party payment risk pertaining to NEA is moderate as it is fully owned by Government of Nepal and has been regular in making payments to independent power producers (IPPs).

#### 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

#### Significant flood damage affecting operations and earnings

The company suffered significant damage during the floods of October 5, 2025, which inundated the hydropower plant's power station and completely destroyed key electromechanical components, including the turbine, generator, and other critical equipment. The flood also severely damaged civil structures, dam walls, embankments, and approximately 200 meters of penstock pipe, resulting in

a complete shutdown of operations with no power generation since the incident. Consequently, the plant operated only during the first three months of FY26, leading to energy generation of ~16% of contracted energy compared to a PLF of ~53% in FY25 (~49% in FY24). Revenue from electricity sales declined sharply to ~NPR 14 Mn by Q3FY26 from ~NPR 72 Mn in FY25. While the company reported a profit of ~NPR 44 Mn in FY25, primarily supported by non-operating income of ~NPR 67.27 Mn from the sale of a license to its subsidiary, it recorded a loss of ~NPR 6 Mn by Q3FY26 despite receiving NPR 40 Mn in insurance proceeds that partially mitigated the financial impact of the flood. Nonetheless, the capital structure has been supported by infusion of equity by promoter in FY25 with overall gearing ratio improving to 0.55x in FY25 from 0.74x in FY24 (0.50x in Q3FY26), providing some comfort. Though, interest coverage ratio has deteriorated to 0.11x in FY26 from 1.38x in FY25, the operations is being supported via cash inflow from insurance proceeds. The ability of company to restart the operations and manage necessary funds for reconstruction in timely manner remains key rating sensitivity.

### **Investment in under-construction project having execution risk**

PKHP has invested ~NPR 500 Mn in the equity shares of Aayu Malun Hydropower Private Limited (AAYU) till Mid-April 2026. Aayu is constructing 21 MW Aayu Malun Hydropower Project, which has achieved ~33% physical progress as of Mid-April 2026, mostly towards land purchase and onsite infrastructure development, with progress being slowed down by disturbances in army camp and explosive related works. The total estimated cost of the project is NPR 3,675 Mn, equivalent to NPR 175 Mn per MW, which is proposed to be financed in the debt: equity mix of 70:30. The debt component for the project has been tied up but progress is slow exposing the project to fines and subsequently execution risk. Also, the company is yet to finalize the contract agreements for major parts of the project which exposes the company to the risks associated with project implementation within the envisaged time and cost.

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

Run-of-the-river (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, such kind of projects have higher generation during wet season (Mid-April to Mid-December) and lower during dry season (Mid-Dec to Mid-April). ROR projects are directly exposed to risk associated with variation in discharge of water from the river. PKHP is utilizing discharge from tailrace of Puwa Khola located at Illam District, having catchment area of 94 km<sup>2</sup>. 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. However, as per 746<sup>th</sup> board meeting<sup>2</sup> of NEA, for hydropower projects with less than 10MW capacity, penalty on short supply of electricity due to lower discharge of water from the river has been exempted. Thus, relieving PKHP of additional financial burdens in case of contractual noncompliance regarding electricity supply.

### **Natural Calamities**

Hydropower projects are inherently exposed to natural disaster risks due to their location in geologically sensitive and challenging terrains. PKHP has experienced multiple operational disruptions from such events, including an over eight-month shutdown following a flood in FY21 and a 36-day power evacuation disruption in September 2024 due to damage to Nepal Electricity Authority (NEA) transmission infrastructure. The project's vulnerability was further underscored by the severe flood of October 2025, which caused extensive damage to the powerhouse, electromechanical equipment, civil structures, and related infrastructure, resulting in estimated losses exceeding NPR 300 Mn. Consequently, the project has remained non-operational for the past nine months, with restoration works underway and commercial operations expected to resume only from April 2027. Given the company's reliance on a single hydropower project, such natural calamities pose significant risks of operational disruption, financial overruns, and deterioration in its financial profile.

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<sup>2</sup> PPA was amended through Third Amendment dated Sept 2021

**Analytical Approach:** Standalone

**Applicable Criteria:**

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

**Link to past rating rationale:**

[Puwa Khola-One Hydropower Limited: Issuer Rating Assigned](#)

**About the Company:**

Puwa Khola-One Hydropower Limited (PKHP) was incorporated on December 31, 2008 and got converted into public limited in May 2018. The company has developed and operating 4-MW Puwa Khola-One Hydropower Project which is located in Barbote and Shanti Dada Rural Municipality, Illam, Koshi Province. The project came into commercial operation on November 2017. The project has 94 km<sup>2</sup> catchment area & 4.46 m<sup>3</sup>/s design discharge at 40% PoE with gross head of 125m. The floods of October 5, 2025 have damaged the plant and operation is ceased ever since. As of July 16, 2025, Mr. Kadam KC (~11.32%) is major shareholder followed by High Himalaya Hydro Construction Pvt Ltd (~8.45%).

**Financial Indicators (Standalone)**

For the year ended* As on	FY23	FY24	FY25	9MFY25
	Audited	Audited	Audited	Unaudited
Total Operating Income (NPR Mn)	77	68	72	14
EBITDA Margin (%)	79.37	75.71	77.70	21.36
Operational PLF (%)	56.17	48.54	52.94	15.89
Interest Coverage Ratio (x)	1.91	1.21	1.38	0.11
Current Ratio (x)	0.95	1.48	0.54	0.44
Overall Gearing Ratio (x)	0.94	0.74	0.55	0.50

*Earnings before Interest Tax Depreciation Amortization (EBITDA)*

*\*Classification as per Infomerics Nepal standards*

**Annexure 1: Detail of facilities**

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn)	Rating
Fund Based Bank Facilities- Term Loan	Long Term	263.57	IRN B+ &
Fund Based Bank Facilities- Short Term Loan	Short Term	170.00	IRN A4 &
Non-Fund Based Bank Facilities- Short Term (Proposed)	Short Term	140.00	IRN A4 &
<b>Total Facilities</b>		<b>573.57</b>	

**Analyst Contacts**

**Mr. Raunak Mulmi**

Tel No. +977-1-4583304/4585906

[raunak.mulmi@infomericsnepal.com](mailto:raunak.mulmi@infomericsnepal.com)

**Ms. Ruchata Shrestha**

Tel No. +977-1-4583304/4585906

[ruchata.shrestha@infomericsnepal.com](mailto:ruchata.shrestha@infomericsnepal.com)

**Relationship Contact**

**Mr. Rabin Pudasaini**



# Infomerics Credit Rating Nepal Limited

Tel No. +977-1-4483304/4485906

[rabin.pudasaini@infomericsnepal.com](mailto: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: +977-1-4483304/4485906

Email: [info@infomericsnepal.com](mailto:info@infomericsnepal.com)

Web: [www.infomericsnepal.com](http://www.infomericsnepal.com)

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