PRESS RELEASE

UPPER SOLU HYDRO ELECTRIC COMPANY LIMITED

July 2026

Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Issuer Rating	NA	IRN BBB- (Is)	Reaffirmed
Long Term Bank Facilities	3,079.97 (Reduced from 3,243.96)	IRN BBB-	Reaffirmed
Short Term Bank Facilities	80.00	IRN A3	Reaffirmed
Total	**3,159.97**		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has reaffirmed the issuer rating of IRN BBB- (Is) [Triple B Minus (Issuer)]. Issuers with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations.
Also, Infomerics Nepal has reaffirmed the rating of IRN BBB- (Triple B Minus) assigned to the long-term bank facilities of NPR 3,079.97 Mn and IRN A3 (A Three) assigned to the short-term bank facilities of NPR 80.00 Mn.

Detailed Rationale

The reaffirmation of the ratings assigned to Upper Solu Hydro Electric Company Limited (USHEC) and its bank facilities factors in stable operational and financial performance of the company during FY25 and 9MFY26. The company recorded improved energy generation from its 23.5 MW Solu Hydroelectric Project (Solu HEP) in FY25 and 9MFY26 compared to the same period in the preceding year. Consequently, the revenue continued to improve, further supported by escalated tariff rates. While the EBITDA margin remained stable, the PAT margin improved significantly on account of reduced finance costs. Furthermore, the ratings continue to derive strength from the experienced board of directors and management team and the presence of a power purchase agreement (PPA) with sufficient period coverage, moderate counterparty risk, along with favorable government policies towards the power sector.
These rating strengths are partially offset by the company's moderate leveraged capital structure, hydrology risk associated with run-of-river (ROR) power generation and inherent risk of natural calamities in the hydropower projects. Going forward, the ability of the company to maintain steady operational Plant Load Factor (PLF) against contracted PLF on a sustained basis with timely receipt of payments from the Nepal Electricity Authority (NEA) while improving its capital structure will be the key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced board of directors and management team

USHEC is managed under overall guidance of six-member Board of Directors, chaired by Mr. Suresh Lal Shrestha, having more than four decades of experience in various sectors. The management team is led by Mr. Yagartha Pokhrel, Chief Executive officer, who has experience of over 26 years in project management and power generation.

Improving operational and financial performance

USHEC generated Total Operating Income (TOI) of NPR 724 Mn in FY25, recording ~7.30% year-on-year revenue increase compared to FY24, on account of increased energy sales at escalated tariff rates. The annual PLF has remained above 90% of its contracted capacity from FY23 onwards (~92%

in FY24, ~96% in FY25, and ~102% in 10MFY26). Prior to that, the company had been operating under contingency transmission arrangement from March 23, 2020 until February 20, 2022, therefore, recorded modest PLF and revenue in its early operational years. EBITDA margin of the company remained relatively stable at ~84% over the past three years ending FY25. PAT margin improved significantly in FY25 to 17.41% from 1.58% in FY24, primarily due to reduced interest expenses. PAT margin was negative in FY22 and FY23. Consequently, Gross Cash Accruals of the company improved to NPR 317 Mn in FY25 from NPR 201 Mn in FY24 (FY23: NPR 148 Mn). As of mid-April 2026, the company reported total operating income of NPR 624 Mn, increased from NPR 586 Mn during the same period in FY25. The EBITDA margin continued to remain stable at 83.98%. GCA stood at NPR 352 Mn as of mid-April 2026 vis-à-vis NPR 265 Mn as of mid-April 2025.

PPA with sufficient period coverage and favorable Government policies

USHEC had entered into a PPA with NEA on November 10, 2013 for sale of power generated from 23.5 MW Solu HEP. The period of the PPA is 30 years from the Commercial Operation Date (COD) or till validity of Generation license i.e., mid-March 2049 whichever is earlier. PPA period may be extended with mutual consensus during the last six months of validity. The tariff for wet season (mid-April to mid-December) is NPR 4.80 per kWh and for dry season (mid-December to mid-April) is NPR 8.40 per kWh with 3% annual escalation on base tariff for 8 times after completion of 12 months from the month succeeding COD month. The contracted energy for the project is 132.53 million units (MU) (i.e., 24.44 MU for dry season and 108.09 MU for wet season), at PLF of 64.38%. Power generated by the project is evacuated through ~3 km 132 kV transmission line to NEA's Tingla Substation.

According to NEA's Annual Report, the annual system peak demand increased significantly in FY 2024/25 compared to FY 2023/24. Total exports to India soared to 2,380 GWh in FY 2024/25, compared to 1,946 GWh in the previous year, enabling NEA to become a net electricity exporter for the first time. The GoN has prioritized the hydropower sector to ensure energy security, reduce dependency on fossil fuels, and position the nation as a clean energy leader in South Asia. Favorable fiscal policies remain in place, including income tax holidays (typically a full 10-year holiday followed by a 50% concession for the next five years) and reduced duties on essential equipment. Furthermore, the Nepal Rastra Bank (NRB) continues to designate hydropower as a priority sector for lending, mandating banks to allocate a minimum share of advances to energy projects. These initiatives, coupled with expanding cross-border transmission infrastructure make the demand outlook for the Nepalese hydropower sector highly promising.

Key Rating Weaknesses

Moderately leveraged capital structure

USHEC's capital structure remained moderately leveraged with overall gearing of 2.38x as of mid-July 2025, albeit improved from 2.78x as of mid-July 2024 due to scheduled repayment of loans and accretion of profits to the company's reserves. The capital structure of the company further improved, albeit, continued to remain moderately leveraged at 2.00x as of mid-April 2026. Also, interest coverage stood at 2.12x in FY25, improved from 1.53x in FY24 (9MFY26: 3.07x) mainly on account of increased EBITDA and declining interest expenses. Total Debt to Gross Cash Accruals stood elevated at 10.51x in FY25, although improved from 17.67x in FY24 and 25.04x in FY23.

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

Run-of-the-river power (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. Solu HEP utilize discharge from snow fed Solu Khola (River) having catchment area of 291 sq kms with design discharge of 12.26 m^3/s at exceedance flow of 40%. The project is exposed to risks associated with variations in water discharge from these rivers.

Climatic and revenue concentration risk

Nepal lies in a seismically active region along the Himalayan belt, making the country vulnerable to earthquakes, landslides, and floods, all of which pose significant threats to hydropower infrastructure. In addition, the country's rugged topography and monsoon rains make it prone to landslides and floods, which can cause structural damage and disrupt project operations. These disasters not only result in costly repairs and prolonged downtime but also affect the financial viability of hydropower projects by reducing power generation, thereby impacting their financial performance. USHEC derives its income from a single operational project which exposes the company towards concentration risk as its financial and liquidity profile remain exposed to operational and financial performance of the project.

Analytical Approach: Standalone

Applicable Criteria:

Issuer Rating Methodology & Corporate Credit Rating Methodology

Past Rating Rationale:

Upper Solu Hydro Electric Company Limited: Issuer Rating and Bank Facilities Rating Assigned

About the Company:

Upper Solu Hydro Electric Company Limited (USHEC) is a public limited company, incorporated on May 28, 2010 as a private limited company and later converted to public limited company on April 14, 2016. The company operates 23.5 MW Solu Hydroelectric Project (Solu HEP) located in Solukhumbu district of Nepal. The project commenced its business operations under contingency arrangement from March 23, 2020 and commenced commercial operation from February 20, 2022. Solu HEP is utilizing discharge from Solu Khola having catchment area of 291 sq. kms with design discharge of 12.26 m^3/s at exceedance flow of 40% with gross head of 229.30m. USHEC is promoted by institutional and individual promoters with M/s B.E.S. Private Limited (~19% holding) being major shareholder as mid-July, 2025.

Financial Indicators (Standalone)

For the year ended* As on	FY22	FY23	FY24	FY25	9MFY26
	Audited	Audited	Audited	Audited	Unaudited
Total Operating Income (NPR Mn)	369	668	675	724	624
EBITDA Margin (%)	74.17	83.71	84.31	83.41	83.98
Interest Coverage Ratio (x)	0.91	1.35	1.53	2.12	3.07
Current Ratio (x)	1.17	0.95	0.86	1.03	1.77
Overall Gearing Ratio (x)	3.01	2.94	2.78	2.38	2.00

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)	Ratings
Long Term Bank Facilities- Term Loan	Long Term	3,079.97	IRN BBB-
Short Term Bank Facilities- Fund Based	Short Term	80.00	IRN A3
Total Facilities		**3,159.97**	

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