

Barpak Daraudi Hydropower Private Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	1,670.00	CARE-NP BB [Double B]	Assigned
Total Facilities	1,670.00 (One Thousand Six Hundred and Seventy Million Only)		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB' to the long-term bank facilities of Barpak Daraudi Hydropower Private Limited (BDHPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of BDHPL is constrained by project implementation risk associated with its under-construction hydropower project. The rating also factors in hydrology risk associated with run-of-the-river power generation, power evacuation risk and exposure to volatile interest rate. The rating, however, derives strength from BDHPL's experienced promoters and management team, power purchase agreement with sufficient period coverage and financial closure achieved for the debt portion of the funding mix. The rating also factors in moderate counter party risk and government support for the power sector.

Going forward, the ability of the company to successfully execute the project within the envisaged cost and time will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Project implementation risk

BDHPL is setting up of a 10 MW run of river Madhya Super Daraudi Hydropower Project (MSDHP) in Gorkha district of Gandaki Province Nepal. The total cost of project has been estimated at Rs. 2,059 Mn (Rs. 206 Mn per MW) which will be financed in debt equity ratio of ~78:22 (Rs. 1,606 Mn debt and Rs. 453 Mn equity). Debt for the project is fully tied up. Out of required equity of Rs. 453 Mn, Rs. 183 Mn (~40%) has been infused till March 14, 2024. Out of the overall estimated project cost, the company has already incurred Rs. 893 Mn (financial progress of 43%) till April 1, 2024. The Required Commercial Operation Date (RCOD) of the project is June 14, 2025. As the project is still under construction, this exposes the company towards project execution risk in terms of completion of the project within the envisaged time and cost which impacts project returns and debt servicing capabilities which is critical from analytical perspective.

Power Evacuation Risk

The power generated from the project is proposed to be evacuated through 18km 33 kV double circuit transmission line from powerhouse to NEA's 33 kV under construction Ghyampesal substation at Gorkha. Timely completion of transmission line within RCOD for successful commissioning of operations and crucial for the company from revenue generation prospective. Therefore, there remains power evacuation risk as the construction of the substation is ongoing.

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

Run-of-the-river power is considered an unsteady source of power, as run of river project has little or no capacity for water storage and therefore is dependent on the flow of river water for power generation. It, thus, generates much more

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

power during wet season when river flows are high (June 1 to November end) and less during the dry season (December 1 to May end). BDHPL utilizes discharge from Daraudi river of Gorkha, Nepal. Hence, any variation in discharge of water and lower generation from the project might impact the energy generation of Project which is crucial from the revenue perspective.

Exposure to volatile interest rate

The company's interest rates are based on a floating interest rate regime, where a certain premium is added to the monthly base rate and interest rate is changed accordingly on a monthly basis. The base rates of the banks and financial institutions (BFIs) in Nepal are subject to volatility, influenced by the liquidity available in the system, causing fluctuations in interest rates. The company is vulnerable to the impact of these changes, and higher-than-anticipated interest rates could potentially narrow the company's profit margins, particularly on account of its highly leveraged capital structure.

Key Rating Strengths

Experienced promoter/directors and management team

BDHPL is under the guidance of the experienced Board of Directors who possesses wide experience in power sector. The board consist of Dr. Sundeep Khadka who has over 10 years of experience in project investment, planning and developing hydropower investment and development, dental surgery and hospital management. Mr. Anand Pradhan, director as well as the CEO holds BE Civil, M.Sc. Hydropower (Norway) with over 25 years of experience in hydropower project development and engineering. Mr. Diwas Bhattarai possess BE Mechanical, M.Sc. (London) and has over 18 years in hydropower design, operations and maintenance of hydropower plant. The company is also supported by the experienced key personnel and management team.

Power purchase agreement with sufficient period coverage

BDHPL had entered into a Power Purchase Agreement (PPA) with NEA as on March 7, 2019, for sale of 10 MW power to be generated from the project and the PPA had been first amended on July 10, 2023 to extend the RCOD date to June 14, 2025. The period of the PPA is 30 years from commercial operation date (COD) or till validity of Generation License (obtained on June 19, 2020 for 35 years), whichever is earlier. PPA period may be extended with mutual consensus during the last six month of validity. The tariff for wet season (June 1 to November end) is Rs 4.80 per kWh and for dry season (December 1 to May end) is Rs 8.40 per kWh with 3% escalation on base tariff every year for 8 times after completion of 12 months from COD date. The contracted energy for the project is 59.16 million units (MU) (i.e. 18.58 MU for dry season and 40.58 MU for wet season), at contracted PLF of 67.54%. Additionally, the counterparty payment risk associated with NEA is deemed moderate, given its full ownership by the Government of Nepal. Such arrangements provide revenue stability and sustainability to the company.

Favorable Government policies towards power sector

The Government of Nepal (GoN) has featured the significance of power generation as a priority sector and encouraging private sector involvement by providing various exemptions within the power generation sector. GoN has also announced a comprehensive tax incentive package, offering full tax exemption for the initial 10 years and a 50% tax exemption for the subsequent 5 years to individuals or entities engaged in the commercial operation, transmission, and distribution of electricity until mid-April 2027. This approach is aimed at promoting investment and growth in the energy sector. Furthermore, directives from the Nepal Rastra Bank (NRB) mandate financial institutions regulated by NRB to allocate a minimum share of their total advances to the energy sector. This strategic initiative is expected to contribute to the financial support and development of projects within the energy sector which argues well for the sector. The increasing

trend of cross-border energy trade, coupled with the growing prospects stemming from new bilateral agreements between Nepal and India for additional power export from Nepal to India, further boosts the long-term demand outlook for the power sector in Nepal.

About the Company

BDHPL is a private limited company incorporated on April 19, 2017. BDHPL is setting up a 10 MW run of river (MSDHP) in Ajirkot Rural Municipality and Sulikot Rural Municipality of Gorkha district, Gandaki Province of Nepal. The project will be constructed under BOOT (Build, own, Operate and Transfer) mechanism.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities (Proposed Rs. 64 million)	Term Loan	1,670.00	CARE-NP BB
Total Facilities		1,670.00	

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