

Super Khudi Hydropower Limited

Rating

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	3,646.00	CARE-NP BB [Double B]	Reaffirmed

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB' assigned to the long-term bank facilities of Super Khudi Hydropower Limited (SKHL).

Detailed Rationale & Key Rating Drivers

The rating assigned to SKHL continues to be constrained by project implementation risk and operations stabilization risk thereafter associated with its under-construction hydropower project. With amendment of Upper Khudi Hydropower Project (UKHP) to 26 MW from earlier 21.21 MW, the project also remains exposed to funding risk for the incremental cost, albeit debt is expected to be tied-up soon. The ratings also factor in the power evacuation risk, hydrology risk associated with run-of-the-river power generation, risk of natural calamities and the company's exposure to volatile interest rate risk. The ratings, however, continue to derive strength from the company's experienced promoters and management team, low offtake risk and revenue profile supported by relatively higher dry energy mix, moderate counter party risk and government's support for the power sector.

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

Detailed description of the key rating drivers

Key Rating Weaknesses

Project implementation risk

SKHL is setting up a 26MW (earlier 21.21MW) run-of-river Upper Khudi Hydropower Project (UKHP), in Lamjung district of Nepal. Additional discharge of water from Kiche Khola led to enhancement of capacity to 26 MW. Estimated cost of the project of 26 MW has been revised to Rs. 5,210 Mn (Rs. 200 Mn per MW), which is proposed to be funded in a debt-to-equity ratio of 70:30 (i.e., Rs. 3,636 Mn term loan and Rs. 1,564 Mn equity). Debt funding for Rs. 2,930 Mn has been fully tied up while additional debt for enhanced capacity is in process of being tied-up. As of July 01, 2024, the promoters had injected Rs. 791 Mn into the project. As on August 11, 2024, the company has incurred cost of Rs. 2,205 Mn including project expenses and advances, which was funded through debt of Rs. 1,393 Mn and remaining through equity. With approximately 58% physical progress achieved as on August, 2024. The project is still in its mid stages of construction, which exposes it to project execution risk.

The Required Commercial Operation Date (RCOD) for the project is January 20, 2026. Failure to meet the RCOD deadline would result in the company is liable to delay penalties. Furthermore, if the Commercial Operation Date (COD) is delayed by 6 to 18 months from the RCOD, there are restriction clauses on the escalation of the tariff rate. Therefore, timely project completion is critical for the company to avail accelerated tariff clauses. Any delays would adversely affect the project's expected returns and debt servicing capabilities, posing credit risks.

¹Complete definition of the ratings assigned are available at <https://www.careratingsnepal.com/> and other CARE publications

Power evacuation risk

The power generated from the Upper Khudi Hydropower Project (UKHP) will be transmitted to the currently under-construction Tadikuna Substation (Khudi Hub), located at a distance of 5.5 km from the switchyard of the project. Construction of the substation is within the scope of Nepal Electricity Authority (NEA), while SKHL is responsible for erection of the transmission lines up to the substation.

It's imperative for SKHL that both the construction of the substation and transmission lines are completed in a timely manner. The timely completion of these critical infrastructure components is vital for SKHL's revenue generation prospects. Any delays in the construction of the substation or transmission lines could hinder the evacuation of power generated by the project, consequently impacting SKHL's ability to generate revenue from the sale of electricity. Therefore, ensuring the timely completion of these infrastructure projects is crucial for SKHL's operational success.

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

Run-of-the-river power is considered an unsteady source of power, as a run-of-the-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 power during wet season when river flows are high (June to November) and less during the dry season (December to May). The power project is proposed to utilize discharge from Khudi Khola (river) having catchment area of 72.3 sq. km based on snow-fed perennial river. Consequently, the project's performance will be exposed to the inherent risk associated to the natural hydrological patterns, variability in water discharge and optimized power generation efficiency throughout the year.

Risk of Natural Calamities

In Nepal, hydropower projects are usually located in terrains that are topographically challenging making their construction and operations vulnerable to adversities of nature. Floods and landslides that tend to occur in these areas pose threat to these power projects damaging their infrastructures as well as impacting their timely completion. Moreover, disruption in their construction in turn could lead to time and/or cost overrun, negatively impacting the project's financial aspects. Moving forward also, these natural calamities can adversely affect the smooth flow of power generation and distribution, which can further impact financial returns of the projects. SKHL's power project is inherently exposed to these natural calamities that have the potential to cause infrastructural, operational, and financial damages to the project.

Key Rating Strengths**Experienced promoters and management team**

SKHL has its Board of Directors chaired by Er. Gyanendra Lal Pradhan, who has been associated with power generation companies for more than two decades. Mr. Pradhan is also the Executive Chairman of Hydro Solutions Private Limited and Chairman of Nepal Hydra Developer Limited. He has also been a member of the Rt. Hon. Prime Minister's Economic Advisory Council and High-Level Taskforce and Hydropower Development Project Taskforce. Mr. Ganesh Karki, Managing Director, possesses experience of more than a decade, having worked for multiple hydropower companies in different capacities. The board is aptly supported by an experienced management team across different functions.

Low offtake risk and income profile supported by high dry energy mix

SKHL had entered into a long term PPA with NEA as on April 24, 2019 for sale of 21.21 MW power to be generated from the project on take-or-pay basis. The company is in process to sign PPA with NEA by end of September, 2024 for 26MW power. The contracted Plant Load Factor (PLF) is 69.64% of total generation capacity. The PPA has been entered for the period of 30 years from COD or the till the validity of generation license, whichever is earlier. PPA period may be extended

with mutual consensus during the last six months of validity. The project's PPA has been executed under the six-month dry season (December to May) and six-month wet season (June to November) modality, with the dry energy mix at 33.39% of the total contracted energy. Tariff rate as per PPA is Rs. 4.80 per Kwh for wet season and 8.4 per Kwh for dry season with 3% annual escalation on base tariff for eight years. High dry energy mix along with eight tariff escalations in the base tariff is expected to support the project's incremental revenue and return and coverage indicators, provided the project is commissioned within the RCOD.

Favourable 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 2028. 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

Super Khudi Hydropower Limited (SKHL) is a public limited company incorporated on December 17, 2008 for setting up a 26 MW (amended from 21.21 MW) run-of-river Upper Khudi Hydropower Project (UKHP) in Marshyangdi Rural Municipality of Lamjung District. The project is constructed under BOOT model (Build, Own, Operate and Transfer).

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	3,646.00	CARE-NP BB
Total Facilities		3,646.00	

Contact us

Analyst Contact

Ms. Dikshya Lamichhane

Contact No.: +977-1-4012628/29/30

Email: dikshyalamichhane@careratingsnepal.com

Mr. Santosh Pudasaini

Contact No.: + 977 9802312855

Email: pudasaini.santosh@careratingsnepal.com

Relationship Contact

Mr. Ananda Prakash Jha

Contact No.: +977 9818832909

Email: anand.jha@careratingsnepal.com

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