

Super Bagmati Hydropower Limited

Rating

Facility/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	6,900.00	CARE-NP BB- [Double B Minus]	Assigned
Total Facilities	6,900.00		

Details of Facilities in Annexure 1

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

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of SBHL is primarily constrained by project implementation risk associated with its under-construction 41.31 MW Super Lower Bagmati Hydropower Project (SLBHP), which is in initial stages of construction. The rating also factors in hydrology risk associated with run of the river power generation, risk of natural calamities and exposure to volatile interest rate.

The rating, however, derives strength from SBHL's experienced promoters and management team, power evacuation risk, low offtake risk and moderate counterparty risk, and favourable government policies towards power sector. The project's relatively higher contracted PLF levels and dry energy mix also enhance its revenue profile.

Going forward, the ability of the company to successfully execute the project without cost and time overrun and early stabilization thereafter will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Project implementation risk

SBHL is setting up of a run-of-river hydropower project with a capacity of 41.31 MW in Makwanpur district of Nepal. The estimated cost of the project is Rs. 9,282.91 Mn (i.e., Rs. 224.71 Mn per MW) which is proposed to be funded through debt-to-equity ratio of 74.33:25.67 (i.e. Rs. 6,900.00 Mn term loan and Rs. 2,382.91 Mn equity). The debt has been fully tied up. As on September 30, 2024, promoters' infusion stood at Rs. 720.50 Mn (inclusive of Rs. 390.00 Mn paid-up capital and Rs. 330.50 Mn calls in advance). Relatively high cost per MW and high debt mix is likely to impact the project's debt service and coverage indicators amid fixed tariff and escalation clauses. However, it is partially offset by relatively higher contracted PLF levels and dry energy mix. Furthermore, the project is in the nascent stages of construction and remains exposed to the project execution risks in terms of completion of the project within the envisaged cost and time.

The Required Commercial Operation Date (RCOD) of the project is June 30, 2028 with sufficient cushion to complete the project within RCOD. However, if the project is not completed within the mentioned RCOD, then the company is required to pay delay penalty. Furthermore, if Commercial Operation Date (COD) is delayed by 6 months to 18 months from RCOD, there are restriction clauses in escalation of tariff rate. It is crucial for the company to complete the project within the timelines to avail the accelerated clauses of tariff. Any delay in the same would impact project returns and debt servicing capabilities, which is critical from analytical perspective.

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

Hydrology risk associated with run of the river power generation

A Run-of-the-river (ROR) power project is recognized as a variable energy source of generation of power due to its reliance on natural river flow without significant water storage capacity. The dependency on river flow makes the power generation from the project highly responsive to seasonal variations. The project extracts discharge from Bagmati river. The effective catchment area of the proposed intake site is 1,033 km². The design discharge of 24.12 m³/s for the project is derived at a 40% probability of flow exceedance. SLBHP tends to produce higher electricity output during the wet season, June to November, when river flows are abundant. Conversely, during the dry season, from December to May, power generation may be reduced due to lower river flows. Consequently, the project's performance will be exposed to the inherent risk associated to the natural hydrological patterns, and variability in water discharge throughout the year.

Risk of Natural Calamities

In Nepal, hydropower projects are commonly situated in topographically challenging terrains, making them susceptible to the vagaries of nature. The rugged landscapes often expose these projects to the risks of floods and landslides, which can pose significant threats by damaging infrastructure and disrupting operations. SBHL's power project is inherently exposed to these natural calamities that have the potential to cause infrastructural, operational, and financial damages to the project.

Exposure to volatile interest rate

SBHL's interest expenses 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 monthly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system, which leads to changes in interest rates. Higher interest rates than envisaged could result in squeezed margins of the company, impacting its liquidity position. Therefore, funding taken by the company from BFIs will also likely be subject to interest rate volatility.

Key Rating Strengths

Experienced promoters and management team

SBHL is managed under the overall guidance of its four-member board of directors who possess wide industry experience. The board is chaired by Mr. Shree Ram Maharjan, who has more than 30 years of experience in various sectors. He is currently involved at ANK Construction Company in the capacity of Chairman. Other directors of the company also have long experience across various sectors ranging from hydropower, insurance, finance, etc. The BOD is aptly supported by an experienced team across various functions/departments.

Low offtake risk and moderate counterparty risk

SBHL had entered into a PPA with NEA as on July 10, 2023, for sale of energy generated from plant capacity of 41.31 MW. Total contracted Plant Load Factor (PLF) is 67.36% with total contracted energy of 243.80 Million Units (MU) annually. However, 10% of contracted energy for the period of mid-June to mid-November is placed under reserve margin (take and pay modality) and will be purchased under instruction of Load Dispatch Center (LDC). Duration of the PPA extends for 30 years from the Commercial Operation Date (COD) or until the expiration of the generation license, whichever occurs earlier. A provision for extension of the PPA period exists, subject to mutual consensus within the final six months of its validity. Tariff rates for SLBHP, as per PPA is Rs. 4.80 per kWh for wet season which extends from June to November and Rs. 8.40 per kWh for dry season which extends from December to May. Dry energy mix of the project is ~31%. Relatively higher contracted PLF levels and dry energy bodes well for the income prospect of SBHL. However, stringent short-supply penalty clause requiring minimum dry energy mix of 30% annually could adversely impact the revenue generation capacity

of the company. Additionally, the counterparty payment risk associated with NEA is deemed moderate, given its full ownership by the Government of Nepal. Such arrangements are expected to provide revenue stability and sustainability to the company.

Low Power evacuation risk

The power generated from the project is proposed to be evacuated about 28 km long single circuit 132 kV transmission line required to evacuate the power from the project's switchyard to NEA's under substation at Chandranigahpur, Rautahat district. The charging of the substation is completed and is likely to be operational shortly. Stringing of transmission line from switchyard to substation falls under the scope of SLBHP. However, timely completion of transmission lines within RCOD for successful commissioning of operations is crucial for the company from revenue generation prospective.

Favourable government policies towards power sector

Government of Nepal (GoN) considers power generation as priority sector and intends to maximize private sector participation in generation of electricity by offering different exemptions and facilities. GoN has announced full tax exemption for first 10 years and 50% tax exemption for next 5 years for such person/entity who starts commercial operation, transmission and distribution of electricity up to mid-April, 2028. Additionally, GoN has provided full tax exemption for first 15 years and 50% tax exemption for next 6 years to reservoir and semi- reservoir projects completing financial closure within mid-April, 2029 with a capacity higher than 40 MW. Furthermore, directives from Nepal Rastra Bank (NRB) mandate financial institutions to allocate minimum share of their total advances to energy sector which augurs well for the sector. Also, increasing trend of cross-border energy trade and its prospect in upcoming days with bilateral agreements with the neighbouring nations shows positive outlook on long- term demand for the power sector.

About the Company

Super Bagmati Hydropower Limited (SBHL) is a public limited company, incorporated on September 17, 2023 involved in setting up of a 41.31 MW Run of river (RoR) Super Lower Bagmati Hydropower Project (SLBHP) at Bageri Village Bagmati Rural Municipality. The project is being constructed under BOOT (Build, Own, Operate and Transfer) mechanism.

Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Term Loan	6,900.00	CARE-NP BB-
Total		6,900.00	

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