

## Expert Hydro Investment Private Limited

### Rating

Facility/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	7,200.00	CARE-NP BB- [Double B Minus]	Assigned
Total Facilities	7,200.00		

*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 Expert Hydro Investment Private Limited (EHIL).

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of EHIL is primarily constrained by project implementation risk associated with its under-construction 44.52 MW Sani Bheri Hydropower Project (SBHP), which is in nascent stages of construction. The rating also factors in moderate funding risk amid in principle approval from consortium lead bank for required debt component, power evacuation risk, 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 EHIL's experienced promoters and management team, 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

EHIL is setting up of a run-of-river hydropower project with a capacity of 44.52 MW in Rukum East district of Nepal. The estimated cost of the project is Rs. 9,600 Mn (i.e., Rs. 215.63 Mn per MW) which is proposed to be funded through debt-to-equity ratio of 75:25 (i.e. Rs. 7,200.00 Mn term loan and Rs. 2,400 Mn equity). The debt component of the funding has been approved, in principle, by the consortium lead bank. As on December 15, 2024, promoters' infusion stood at Rs. 169 Mn. 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 December 23, 2027 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.

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

**Power evacuation risk**

The power generated from the project is proposed to be evacuated through a 20 km long 132 KV single-circuit transmission line to the 132/33 KV Bafikot substation of NEA, which is in the preliminary stage of construction. The construction of the transmission line from the powerhouse to the SBHP switchyard is within the scope of EHIL. Timely completion of the transmission lines and construction of substation by NEA will be key rating sensitivity.

**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 Sani Bheri River. The effective catchment area of the proposed intake site is 1,533 km<sup>2</sup>. The design discharge of 36.8 m<sup>3</sup>/s for the project is derived at a 43% probability of flow exceedance. SBHP 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. EHIL'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**

EHIL'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**

Mr. Anghish Ghimire, Chairman, has more than sixteen years of experience in hydropower, distillery, merchant banking, real estate, pharmaceutical among others, etc. Mr. Santosh Raj Nepal, Managing Director, currently serves as Managing Director in Siddhi Hydropower Company Limited, holds directorship positions in Peoples Power Limited (operational 4.96 MW), Next Holdings Limited, Shree Distillery, and Next Properties Limited. 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**

EHIL had entered into a PPA with NEA as on July 12, 2023, for sale of energy generated from plant capacity of 44.52 MW. Total contracted Plant Load Factor (PLF) is 72.08% with total contracted energy of 281.11 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 SBHP, 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 ~35%. Relatively higher contracted PLF levels and dry energy bodes well for the income prospect of EHIL. 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.

### 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

Expert Hydro Investment Private Limited (EHIL) was incorporated on November 17, 2016, and is involved in the development of a 44.52 MW Run-of-River (RoR) Sani Bheri Hydropower Project (SBHP) located in Jugal Rural Municipality, Nepal. 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	7,200.00	CARE-NP BB-
<b>Total</b>		<b>7,200.00</b>	

### Contact us

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