

Darchula Power Limited

Rating

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	4,245.00	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	110.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	4,355.00		

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 and the rating of 'CARE-NP A4' to the short-term facilities of Darchula Power Limited (DPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of DPL is primarily constrained by project implementation risk and stabilization risk thereafter associated with its under-construction hydropower project. The rating also factors in risk of natural calamities, power evacuation risk and hydrology risk associated with run-of-the-river for power generation. The rating, however, derives strength from DPL's association with resourceful promoter group having multiple hydropower projects, experienced directors and management team. The rating also factors in low offtake risk with 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 and stabilization risk thereafter

DPL is setting up of a run-of-river hydro power project with a capacity of 28.30 MW in Darchula district of Nepal. The estimated cost of the project is Rs. 5,660 Mn for total installed capacity of 28.304 MW (Rs. 199 Mn per MW) which is proposed to be financed in Debt equity ratio of 75:25 (i.e., Rs. 4,245 Mn term loan and Rs. 1,415 Mn equity). Debt component of the funding mix is in process of being tied up. Financial progress till January 06, 2025 was around 3% of the total project cost. As the project is in the early stages of construction, this exposes the company towards project execution risk in terms of timely completion within envisaged cost. However, DPL has adequate headroom to execute the project by Required Commercial Operation Date (RCOD) of June 10, 2029. If the project is not completed within RCOD, the company will be liable to pay delay penalty (5% of revenue that could be generated in the period between RCOD and COD). Furthermore, if COD is delayed by more than six months from RCOD, there are restriction clauses in escalation of tariff rate, thereby limiting its income prospects.

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

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

pose significant threats by damaging infrastructure and disrupting operations. DPL's power project is inherently exposed to these natural calamities that have the potential to cause infrastructural, operational, and financial damages to the project.

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 design discharge of 25.17 m³ /s for the project is derived at 40% probability of flow exceedance and available gross head is 136.26 m. DPL 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.

Key Rating Strengths

Association with resourceful promoter group having multiple hydropower projects

DPL is managed under the overall guidance of the company's Board of Directors (BoD), who possesses wide experience in the various sector including hydropower projects. The company is subsidiary company of API Power Company Limited [CARE-NP BB+ (Is)/ CARE-NP BB+/A4] which is part of Arun Valley group having multiple hydropower projects. The company is chaired by Mr. Sanjeev Neupane who has more than one decade of experience in various sectors including hydropower sector. He is also the current Chairman of API Power Company Limited (API) [CARE-NP BB+(Is)/BB+/A4+] and a founder director of Arun Valley Hydropower Development Company Limited (AHDL) [CARE-NP BB+ (Is)].

Low offtake risk and moderate counterparty risk

DPL is developing a hydro power project with a total installed capacity of 28.304 MW. Power Purchase Agreement (PPA) has been signed for capacity of 28.304 MW between Nepal Electricity Authority (NEA) and DPL on a take or pay modality, with the exception of 10% of contracted energy during wet months, which is placed under reserve margin and will be purchased under the instruction of the Load Dispatch Centre (LDC). The Contracted Plant Load Factor (PLF) is set at 74.86% of the total contracted energy, which amounts to 185.62 million units (MU). The duration of the PPA extends for 30 years from the Commercial Operation Date (COD) or until the expiration of the generation license, valid for 35 years, 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 as per the PPA stand at Rs 4.80 per kilowatt-hour (kWh) for the wet season and Rs 8.40 per kWh for the dry season, with a 3% annual escalation on the base tariff for a duration of 8 years. Additionally, the dry energy mix of the project amounts 36.15%. The Contracted PLF of the project is on the higher side at 74%. Furthermore, the DPL has relatively higher dry energy mix of ~36% which increases the average realization, bodes well for income prospects of the project. These contractual terms outline the framework governing the sale of power generated by the DPL hydro power project, delineating the revenue structure and operational parameters for DPL within the energy market. 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.

Favorable policies towards power sector

Government of Nepal (GoN) considers hydropower generation as priority sector and intends to maximize private sector participation in generation of hydroelectricity 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. Also, Unified Directive of 2023/24, has directed "Class-A" to allocate minimum 7% of credit to energy sector and "Class-B" and "Class-C" banks to allocate minimum 17% and 12% of total credit respectively to agriculture, energy, SMEs and tourism sector within mid-July 2025.

About the Company

Darchula Power Limited (DPL), is a public limited company, incorporated on 28 May, 2017 as a private limited company and later converted to a public limited company in November 22, 2024. It is promoted by individual investors having experience in the hydropower and other sectors for setting up Darchula Power Limited (DPL) in Nepal. DPL is involved in setting up of a 28.304 MW run-of-river, Madhya Chamelia Hydroelectric Project (MCHP) in Darchula district of Sudhur Paschim Province in the Far Western region 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)	Term Loan	4,245.00	CARE-NP BB-
Short Term Bank Facilities (Proposed)	Working Capital	110.00	CARE-NP A4
Total		4,355.00	

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