Upper Balephi Hydropower Limited

Ratings

Facilities	Amount (Rs. in Million)	Rating[1]	Rating Action
Long Term Bank Facilities	7,070.00	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	178.00 (Decreased from 180.00)	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	7,248.00 (Decreased from 7,250.00)		

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 and the rating of 'CARE-NP A4' assigned to the short-term bank facilities of Upper Balephi Hydropower Limited (UBHL).

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of UBHL factors in project implementation risk and operations stabilization risk thereafter associated with its under-construction hydropower project. The project is at a nascent stage of construction, exposing it to potential risks of cost and time overruns, which remain common challenges for hydropower projects in Nepal, primarily due to geological surprises encountered during the construction phase. Such delays or escalations could adversely impact the project's revenue profile and debt service coverage indicators, particularly given the fixed tariff structure outlined in the Power Purchase Agreement (PPA) with the Nepal Electricity Authority (NEA). The ratings also factor in power evacuation risk, hydrology risk associated with run-of-the-river power generation, and risk of natural calamities. The ratings, however, derive strength from UBHL's experienced promoters with established presence in hydropower sector, fully tied up debt for the project, low offtake risk and moderate counterparty risk and government support for the power sector. UBHL'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 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

UBHL is setting up a run-of-river hydropower project with a capacity of 46 MW in Sindhupalchowk district of Nepal. The initial estimated project cost was Rs. 9,452 Mn till mid-August, 2024. Due to decrease in Interest During Construction (IDC), the revised estimated cost of the project is Rs. 9,433 Mn (Rs. 205 Mn per MW) which is proposed to be financed in Debt equity ratio of 75:25 (i.e., Rs. 7,070 Mn term loan and Rs. 2,363 Mn equity), the debt for which is fully tied up. Financial progress till mid-July, 2025 is ~13% (~5% till mid-August, 2024). The access road, camp house and Bailey Bridge and ~15% of civil works have been completed. 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, project has adequate headroom to execute the project by Required Commercial Operation Date (RCOD) of May 09, 2027. 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.

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

Power evacuation risk

The power generated from the project is proposed to be evacuated through a 11 km long 132 KV single circuit transmission line to under construction 132/33 KV Pangtang substation of NEA. Construction of transmission line from powerhouse to UBHL switchyard is within the scope of UBHL. 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 Balephi Khola, covering a catchment area of 268.65 sq. kms, characterized as a perennial snow and glacier fed river. UBHL tends to produce higher electricity output during the wet season, from 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, variability in water discharge and optimized power generation efficiency 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. UBHL'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 promoter groups and management team

UBHL derives strength from the financial flexibility of its promoter groups belonging to Golyan group, HR Goel Group, Siddhartha Group and Kasaju Group. These groups have diversified business presence in Nepal which includes manufacturing, power generation projects, international trade & services, banking, insurance, real estate, textile, hospitality, energy etc. UBHL is managed under the overall guidance of the company's six Board of Directors (BoD), who possess wide experience in the power sector. Mr. Umesh Kasaju, Chairman, has more than 30 years of experience in hydropower and other sectors. The BOD is further supported by other experienced management team members.

Low offtake risk and moderate counter party risk

UBHL had entered into PPA with NEA on November 21, 2023 for sale of power generated from project of capacity 46 MW on a take or pay modality. 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). The contracted Plant Load Factor (PLF) is 68.22% with total contracted energy of 274.89 MU. PPA has been entered for the period of 30 years from the COD or till validity of generation license (obtained on August 16, 2021, and valid for 35 years), whichever is earlier. PPA period may be extended with mutual consensus during the last six months of validity. Tariff rate as per PPA is Rs 4.80 per kWh for wet season and the tariff rate for dry season is 8.40 per kWh with 3% annual escalation on base tariff for 8 years. Dry energy mix of the project is ~31%. Relatively higher contracted PLF levels and dry energy bodes well for the income prospect of UBHL. 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.

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. 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. 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.

Applicable Criteria

Rating Methodology- Power Generation Projects

About the company

Upper Balephi Hydropower Limited (UBHL) incorporated on January 04, 2017 is involved in developing a 46 MW run-of-river Mathillo Balephi Hydropower Project (MBHP) in Jugal Rural Muncipality of Nepal. The project is 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	7,070.00	CARE-NP BB
Short Term Bank Facilities	Fund Based Limits	150.00	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based Limits	28.00	CARE-NP A4
Total		**7,248.00**	

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