# Happy Energy Private Limited

## Rating

| Facilities | Amount (Rs. Million) | Rating[1] | Rating Action |
|---|---|---|---|
| **Long Term Bank Facilities** | **6,180.00** | **CARE-NP BB- [Double B Minus]** | **Reaffirmed** |
| **Total Facilities** | **6,180.00** | | |

*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 of Happy Energy Private Limited (HEPL).

**Detailed Rationale & Key Rating Drivers**

The reaffirmation of the rating assigned to the bank facilities of HEPL factors in project implementation risk and operations 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 power generation. The rating, however, derives strengths from HEPL's experienced promoters and management team, debt being fully tied up, power purchase agreement with sufficient period coverage, 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 sensitivity.*

**Detailed description of the key rating drivers**

**Key Rating Weaknesses**

**Project implementation risk and stabilization risk thereafter**

HEPL is setting up of a run-of-river Upper Sankhuwa Khola Hydropower Project (USKHP) with a capacity of 40 MW in Sankhuwasabha district of Nepal. The estimated cost of the project is Rs. 8,241 Mn for total installed capacity of 40 MW (i.e. Rs. 206 Mn per MW) which is proposed to be financed in debt equity ratio of 75:25 (i.e., Rs. 6,180 Mn term loan and Rs. 2,061 Mn equity). Debt component of the funding mix has already been tied up. As of mid-December 2025, Rs. 1,099 Mn equity (~53% of total equity) has been infused.

As the project is in the early stages of construction with access road and camp setup only reaching final stages of completion, this exposes the company towards project execution risk in terms of timely completion within envisaged cost. However, HEPL has adequate headroom to execute the project by Required Commercial Operation Date (RCOD) of June 12, 2028. 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 pose significant threats by damaging infrastructure and disrupting operations. However, in case of HEPL, such risk is

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

partially mitigated by presence of project in a single rock unit (i.e. Barun gneiss unit) having relatively strong bedrock, which is beneficial for constructing dams, tunnels, and other infrastructure without facing significant risk of landslides or foundation issues. HEPL's power project is inherently exposed to 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 project extracts discharge from Sankhuwa Khola and Lungsung Khola, characterized as a perennial snow-fed river. HEPL tends to produce higher electricity output during the wet season, June to November, when river flows are abundant. Conversely, during the dry season, 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. However, as the river is snow fed river, hydrology risk is partially mitigated by presence of snow, which generally melts during February and March, providing Sankhuwa Khola and Lungsung Khola with steady source of discharge during dry seasons.

**Power evacuation risk**

Power generated from USKHP is proposed to be evacuated through 132 kV single circuit transmission line of length 18 km from USKHP switchyard to NEA's under construction Sitalpati substation. Construction of substation is within the scope of NEA and construction of transmission line from powerhouse of the project to the Sitalpati substation is within the scope of HEPL. Timely completion of the transmission lines by HEPL and substation by NEA will be key rating sensitivity.

**Key Rating Strengths**

**Experienced promoters and management team**

HEPL is managed under the overall guidance of the company's Board of Directors (BoD), who possess wide experience in the power sector. The company has 5-member board of directors chaired by Mr. Indra Bahadur Bista, who has over two decades of experience in hydropower and banking sector. He is also currently involved in the capacity of Executive Chairman at Great Hydropower Private Limited. Mr. Purna Lal Shrestha, director of the company, has wide experience of over decades in hydropower sector. He is also involved as the chairman at Buddhabhumi Nepal Hydropower Company Limited, ABP Energy Private Limited and ATLAS Energy Private Limited. Other directors of the company also have wide experience across various sectors ranging from hydropower, construction, manufacturing, banking, etc. Furthermore, the board is supported by an experienced team in the related field.

**Low offtake risk and moderate counterparty risk**

HEPL is developing a hydropower project with a total installed capacity of 40 MW. Power Purchase Agreement (PPA) has been signed for capacity of 40 MW between Nepal Electricity Authority (NEA) and HEPL 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 69.76% of the total contracted energy, which amounts to 244.42 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 to 32%. 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. These contractual terms outline the framework governing the sale of power generated by the HEPL hydropower project, delineating the revenue structure and operational parameters for HEPL 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 for the company.

**Government support for 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 augurs 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**

Happy Energy Private Limited was incorporated as a private limited company on May 20, 2018. It is promoted by both institutional as well as individual investors having experience in the hydropower and other sectors for setting up Hydroelectric Project in Nepal. HEPL is involved in setting up of a 40 MW run-of-river, Upper Sankhuwa Khola Hydroelectric Project (USKHP) in Sankhuwasabha district 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 | Term Loan | 6,180.00 | CARE-NP BB- |
| **Total** | | **6,180.00** | |

**Contact us**

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**About CARE Ratings Nepal Limited:**

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