

Ghalemdi Hydro Limited: [ICRANP] LB-/A4 assigned

June 29, 2020

Summary of rated instruments

Instrument	Rated Amount (NPR Million)	Rating Action
Long-term loan; Fund-based	760	[ICRANP] LB-; assigned
Short-term loan; Fund-based (Overdraft)	30	[ICRANP] A4; assigned
Total	790	

Rating action

ICRA Nepal has assigned a long-term rating of [ICRANP] LB- (pronounced ICRA NP L B minus) to Ghalemdi Hydro Limited's (GHL) long-term loan and a short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to its short-term loan.

Rationale

The assigned ratings are constrained by the delayed execution of the 5-MW Ghalemdi Khola Hydro-Electric Project (HEP) under the company leading to significant cost escalations (~NPR 270 million per MW; escalated by ~51% against initial cost estimates per MW). Debt coverage indicators are expected to remain under stress in the initial years of operation when the debt burden is heavy. The ratings are also constrained by the high evacuation risks, given the non-availability of the requisite evacuation structure (Dana substation of Nepal Electricity Authority-NEA). The current alternate evacuation arrangement (33kVA Gharap substation) will not be able to carry the higher energy generation during the wet season, which would impact the company's revenue and profitability. The ratings are further impacted by the absence of a deemed generation clause in the power purchase agreement (PPA), which exposes the project to high hydrological risks. They are also constrained by the counterparty risks arising from its exposure to the NEA, which has a moderate financial profile (with recent improvements). This is partly mitigated by the sovereign support of the Government of Nepal (GoN) to the NEA and its past track record of timely payments to independent power producers (IPPs).

Nonetheless, the ratings consider the project's ability to commence the operations, despite the delays, thereby eliminating the execution risks. The project generated ~88% of the contract energy in the initial two months of operation i.e. from mid-February to mid-April 2020. The assigned ratings also factor in the low tariff risk and the low offtake risk, given the PPA signed with the NEA (the sole purchaser and distributor of electricity in Nepal) with pre-determined tariff rates and escalations. The demand outlook for the energy sector also remains positive owing to the supply-demand gap in the power sector as well as the increasing energy consumption in the nation. Going forward, GHL's ability to achieve its designed operating parameters, availability of Dana substation for evacuating energy, good hydrology of the river and interest rate volatility in the market would be the key drivers for determining the project return metrics and other coverage indicators for the company.

Key rating drivers

Credit strengths

Project operational after significant delays, eliminating the execution risks – After around five years in the construction phase, Ghalemdi Khola HEP was finally commissioned from February 17, 2020. The project was delayed by ~27 months as against the required commercial operation date (RCOD) of November 16, 2017 for the initial 4 MW capacity (RCOD is August 19, 2020 for additional 1 MW). The project also delivered ~88% of the contracted energy for the initial two months of operation. Going forward, the hydrology support and the generation trend would determine the revenue profile of the company.

Low tariff risks, given the presence of long-term PPA with predetermined tariffs and escalations – The tariff risk is low as the company has a 30-year PPA for the project with the NEA for its entire project capacity of 5MW. The pre-defined tariff rates are NPR 4.8 per kWh for the wet season (mid-April to mid-December) and NPR 8.4 per kWh for the dry season. There

is a 3% annual escalation clause in the base tariff for five times in case of the initial 4MW capacity and eight annual escalations for the additional 1MW capacity.

Credit challenges

Project parameters remain weak with significantly high project costs – Owing to the delays in project completion, the project cost increased significantly to ~NPR 1,351 million (funded in a D:E ratio of 59:41) i.e. NPR 270 million per MW (initial estimate was ~NPR 179 million per MW, for the 4MW project). The delays can be attributed to multiple factors like the April 2015 earthquake, the elongated border disturbances thereafter, delays in completion of requisite evacuation structures of the NEA along with the lags in closing the periodic funding gaps, over increasing cost structure. Hence, the project parameters are expected to remain weak with subpar debt coverage indicators, especially given the high debt burden in the initial years of operation. The promoter's ability to timely provide financial support, in case of exigencies, might remain critical.

High evacuation risks – The energy generated by the project was to be evacuated through the proposed Dana Substation of the NEA, which is still in the later phase of construction. As of now, the company has arranged for alternative evacuation arrangements through an existing 33kVA Gharap Substation. Though this evacuation structure carried the project's dry energy generation, there could be major outages during the wet season. Timely completion of the Dana Substation remains critical for the company's cash flows and debt servicing.

High hydrology risks, given the lack of deemed generation clause in PPA – The lack of a deemed generation clause in the PPA exposes the project to hydrological risks, in case of adverse river flow scenarios. Hence, the project would not be eligible for receiving any compensation for such losses. However, Ghalemdi Khola also derives partial flow support from the snow-fed catchment area, which provides some comfort.

Analytical approach: For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Incorporated in November 2012, Ghalemdi Hydro Limited (GHL) was converted to public limited company on January 5, 2014. The company is operating a 5-MW Ghalemdi Khola HEP in Myagdi district, the Gandaki Province of Nepal. It is a run-of-the-river (RoR) type project and has been developed at 41.40% probability of exceedance (Q41.40). The project was commissioned from February 17, 2020 as against the required COD of November 16, 2017 for 4 MW and August 19, 2020 for additional 1 MW. The company's paid-up capital was NPR 550 million as of mid-April 2020, with the promoter's holding at 70% and the rest 30% raised from the general public through an IPO. As on the same date, the major promoters include Mr. Narayan Babu Adhikari (1.82%), M/s CEMAT Power P. Ltd. (1.82%), Mr. Kishor Subedi (1.68%) and Mr. Uttam Baidya (1.02%), among others.

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