

## Buddhabhumi Nepal Hydropower Company Limited: [ICRANP-IR] BB- and [ICRANP] LBB-/A4 assigned

August 24, 2020

### Summary of rated instruments

Instrument*/Facility	Rated Amount (NPR Million)	Rating Action
Issuer Rating	NA	[ICRANP-IR] BB-; assigned
Long-term loans; Fund-based	773.5	[ICRANP] LBB-; assigned
Short-term loans; fund-based and non-fund based	(370.0)	[ICRANP] A4; assigned
<b>Total</b>	<b>773.5</b>	

\* Instrument details are provided in [Annexure-1](#)

### Rating action

ICRA Nepal has assigned an issuer rating of [ICRANP-IR] BB- (pronounced ICRA NP issuer rating double B minus) to Buddhabhumi Nepal Hydropower Company Limited (BNHCL). ICRA Nepal has also assigned a long-term rating of [ICRANP] LBB- (pronounced ICRA NP L double B minus) to the long-term loans and a short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to the short-term loans of BNHCL.

### Rationale

The assigned ratings consider the lowering of project execution risks for the 4.993-MW Lower Tadi Khola hydro power project (HPP) being developed by BNHCL. Despite the delays so far, the project is now in the later stages of development with ~85% physical progress achieved till mid-August 2020. The ratings further remain supported by the low funding risks with almost the entire promoter's equity commitment already injected and required debt component fully tied upon. The project is also being built on the ~54% exceedance flow model (against 40% for most HPPs) with high dry energy mix (~23%) and high contract PLF (~73%). The river is also gauged with the presence of long-term gauge data and its flow is partially snow supported, which could augur well for generation prospects. Further, the ratings also take comfort from the long-term power purchase agreement (PPA) with predetermined tariffs and escalations under the take-or-pay modality, which eliminates the tariff risk and offtake risk for the energy to be generated by the project.

Nonetheless, the assigned ratings are constrained by the delays in project execution resulting in significantly increased project cost to ~NPR 238 million per MW (initial estimate was ~NPR 197 million per MW). Amid the fixed tariff structure, high project costs are likely to result in subdued returns and coverage indicators. However, a relatively low share of debt funding (~65%) and an elongated loan repayment period of 15 years (earlier 11 years) might provide support in terms of debt servicing. The ratings are also constrained by high evacuation risks, given the non-completion of the proposed NEA's evacuation structures (Samundratar-Trishuli 3B 132 kV transmission lines and associated substations). With a likely slowdown in construction progress amid the Covid-19 pandemic-induced lockdowns, the company may not be able to meet its current required commercial operation date (RCOD) of October 21, 2020. This could result in further additions to project costs incurred through incremental financial and monitoring, as well as a likely late COD penalty and loss of tariff escalations. Further, the ratings also remain impacted by the limited experience of the major promoters/directors in hydropower project development and operation. Similarly, rating concerns also arise from the hydrological risks, given the absence of a deemed generation clause in the PPA. The ratings are also constrained by the counterparty credit exposure from the Nepal Electricity Authority (NEA), which has a moderate financial profile (with recent improvements). This is partly mitigated by the sovereign support of the Government of Nepal to the NEA and its past track record of timely payments to independent power producers (IPPs).

Going forward, BNHCL's ability to raise equity within the stipulated time through the proposed IPO, commission the project within the estimated cost and timeline and in addition, the timely availability of the NEA's evacuation structures will remain crucial. Further, the project's ability in achieving its designed operating parameters as well as interest rate volatility in the market would be the key drivers for determining the project's return metrics and coverage indicators.

## Key rating drivers

### Credit strengths

**Lowering project execution risks and low funding risks** – The 4.993-MW project under the company is in the later stages of development; ~85% physical progress was achieved till mid-August 2020 with major critical components approaching completion. The funding risks also remain on the lower side with almost the entire promoter’s committed equity already injected and loan requirement of NPR 773.5 million already tied up. However, the project still needs to raise ~29% of equity through the proposed IPO issue (NPR 120 million). BNHCL’s ability in raising the equity from the IPO within time, would remain crucial.

**Relatively high plant load factor and high share of dry energy** – The Tadi Khola HPP is being developed at a probability of exceedance of 53.80% (40% for most of the recent projects) with a higher plant load factor (PLF) of ~73% and higher dry energy mix of ~23% (~15% for most projects). A higher PLF and dry energy mix would result in relatively higher revenues per MW and hence support the project’s revenue metrics. Similarly, the Tadi river along which this project is being built, is a gauged river with the gauging site some 20 km downstream from its headworks. The river is also partly snow fed, which could support hydrology during the dry season.

**Low tariff and offtake risks with presence of long-term PPA at predetermined tariffs and escalations** – The project’s tariff and offtake risks remain low as the company has a 30-year PPA with the NEA (the sole purchaser and distributor of electricity in Nepal) for its entire project capacity. As per the PPA, the pre-defined tariffs are NPR 4.8 per kWh for the wet season (eight months) and NPR 8.4 per kWh for the dry season with 3% annual escalation on the base tariff, for five times.

### Credit challenges

**Moderate return indicators amid relatively higher project cost** – The project was initially planned to be developed at per MW cost of ~NPR 197 million at D:E of 65:35. Its initial RCOD was January 14, 2018, which has been revised to October 21, 2020, through a series of extensions. Further revisions to RCOD is also likely, depending upon the progress along NEA’s evacuation structures. The delays so far have escalated the project cost by ~21% to ~NPR 238 million per MW. Hence, the project’s return indicators are expected to remain moderate amid a fixed tariff structure. Any unexpected delays towards project completion would further suppress the return indicators and hence remain a rating sensitivity. The promoter’s ability to manage the funding gaps in such scenario, also remains to be seen. The project’s ability to achieve its design operating parameters would remain crucial, once it is operational.

**High evacuation risks given the non-completion of NEA’s evacuation structures** – The power generated from the project is to be evacuated through the proposed NEA’s Samundratar Substation which is currently under construction. The 132-KV transmission line and the associated substations of Samundratar-Trishuli 3B are also in the construction phase. The current RCOD of the project is October 2020, while the planned completion date of the NEA’s evacuation structure is December 2020, leading to the evacuation risk being on the higher side.

**Limited experience of major promoters/directors in hydropower project execution** – BNHCL is promoted by individual promoters and directors with experience from diverse sectors, albeit with limited experience in hydropower projects. This remains a concern until project completion as well as during its operation. However, the promoters’ increasing ventures in other HPPs as well as experience gathered during construction of this project, provides some comfort.

**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 hydrology risk in case of adverse river flow scenarios without receiving any compensation for such losses from the NEA. However, the Tadi river being gauged as well as partly snow-fed, mitigates the concerns along the hydrological front to an extent.

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

#### Links to applicable criteria:

[Issuer Rating Methodology](#)

[Corporate Credit Rating Methodology](#)

[www.icranepal.com](http://www.icranepal.com)

## About the company

Incorporated in October 2007 as a private limited company, Buddhabhumi Nepal Hydropower Company Limited (BNHCL) was converted to a public limited company in August 2017 to facilitate public participation. The company's paid-up capital as of mid-August 2020 was ~NPR 293 million, including ~NPR 13 million calls in advances. As on the same date, the major promoters include Mr. Purna Lal Shrestha with ~11.5% stake, Mr. Pramod Khadka with ~10% stake, Mr. Balram Khadka and Mr. Anil Kumar Thapa with a ~7% stake each, among others. The company plans to raise ~29% of the required equity capital i.e. NPR 120 million from the general public through the proposed IPO issue.

The company is developing a 4.993-MW Lower Tadi Khola hydro power project in Nuwakot District, Province 3 of Nepal. It is a run of the river (R-o-R) type and has been developed at 53.80% probability of exceedance (Q53.8). The project has been planned to be developed at a revised budgeted cost of NPR 1,190 million, to be funded in a D:E ratio of ~65:35.

## Annexure-1: Instrument details

Instrument *	Rated Amount (NPR Million)	Rating Action
Fund-based facilities; Long-term loan	773.5	[ICRANP] LBB-; assigned
Fund-based facilities; Short-term loan (Bridge gap loan; within term loan)	(50.0)	[ICRANP] A4; assigned
Non-fund based facilities; short-term loan (Letter of credit; within term loan)	(320.0)	[ICRANP] A4; assigned
<b>Total</b>	<b>773.5</b>	

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## About ICRA Nepal Limited

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