Aashutosh Energy Limited: Long-term ratings upgraded/short-term ratings reaffirmed

December 06, 2022

Summary of rating action

Instrument* (Limits in NPR million)	Last rated limits	Current rated limits	Rating Action
Long-term loan limits	1,125	1,125	[ICRANP] LBB; upgraded from [ICRANP] LBB-
Short-term loan limits	50	40	[ICRANP] A4; reaffirmed
Total	**1,175**	**1,165**	

** Instrument details are provided in Annexure-1.*

Rating Action

ICRA Nepal has upgraded the long-term rating of Aashutosh Energy Limited (AEL or the company) to [ICRANP] LBB (pronounced ICRA NP L double B) from [ICRANP] LBB- (pronounced ICRA NP L double B minus). ICRA Nepal has reaffirmed the short-term rating at [ICRANP] A4 (pronounced ICRA NP A four).

Rationale

The rating upgradation factors in the timely commissioning (since October 2, 2022) of the 8.63-MW Chepe Khola Small Hydropower Project (HPP) within its required commercial operation date (RCOD) of October 12, 2022; eliminating the execution risk and enabling the project to avail all the eight tariff escalations as per the power purchase agreement (PPA). This coupled with its relatively lower capital cost (NPR 170 million/MW), high dry energy mix of ~31% and ballooning repayment model (final repayment schedule yet to be finalized) are expected to support the return and coverage indicators of the company amid the fixed tariff and escalation regime. The ratings also factor in the promoters' and the management team's prior experience in the development and operation of hydropower projects which is expected to support the operation and maintenance (O&M) aspect of the project. The ratings also consider the low tariff and offtake risks, amid the already signed PPA with Nepal Electricity Authority (NEA; rated at [ICRANP-IR] AA+), the sole purchaser and distributor of electricity in Nepal, at pre-determined tariff rates and escalations. Furthermore, the ratings factor in the positive demand outlook for the energy sector owing to the increasing energy consumption in the nation and the increasing prospects of cross-border energy trade.

Nonetheless, the ratings remain constrained by the moderate evacuation risks with the non-completion of the requisite integrated evacuation structures[1] and the evacuation of power through a contingent plan[2]; due to which the project is operating at a reduced capacity (average generation of ~31% of the contract energy since the commissioning till mid-November 2022) without any compensation from the NEA. The early completion of the requisite evacuation structures by the NEA and the project's ability to generate as per the design parameters remains crucial for healthy operational/financial profile of the company and thus, remains a key rating consideration. The ratings also take note of the hydrological risks, given the absence of a deemed generation clause in the PPA, stringent penalty terms in the event of non-supply of the requisite 30% of total energy in the dry season and the presence of a 10% reserve margin clause (not eligible for compensation in case of non-offtake) during the wet season till FY2028.

Going forward, the timely completion of the requisite integrated evacuation structures, AEL's ability to achieve the design operating parameters and interest rate volatility would be the key drivers for determining the project's return/coverage indicators.

Key Rating Drivers

[1] Though PPA indicated evacuation point, Kirtipur sub-station, is ready, one of the integrated structures, Udipur sub-station (connection point to INPS) is yet to be completed.
[2] using the jointly (with other projects) constructed 132kV bay near the switchyard of 70MW Madhya Marsyangdi HPP.

Credit Strengths

Commissioning within time and cost estimates – The project came into commercial operation since October 2, 2022 (i.e., within the RCOD of October 12, 2022, and within the budgeted cost of NPR 1,500 million-actual cost of NPR 1,471 million i.e., NPR 170 million per MW). Given the timely commissioning, the project is eligible for all eight annual tariff escalations. This coupled with its relatively competitive capital cost and high dry energy mix of 31% (dry energy rates have higher tariff) remain positive for project's return and coverage parameters amid fixed tariff and escalation regime. Going forward, the project's generation trend (yet to be seen) will be determining the return and coverage indicators.

Experienced promoters and key management personnel – AEL's major promoters and senior management possess adequate experience in the development of hydropower projects, having been involved in numerous operational as well as under-construction projects. In the past, the key promoters have been involved in the completion of 7.8 MW Super Mai HPP under Super Mai Hydropower Limited (rated [ICRANP] LBBB-/A3) and 9.6 MW Super Mai-A HPP under Sagarmatha Jalabidhyut Company Limited (rated [ICRANP] LBBB-/A3), both projects ahead of their required commercial operation date (RCOD) and within their budgeted costs. The promoters' prior experience in the hydropower sector are expected to aid the O&M aspects of the project under AEL.

Low tariff and off-take risks given the presence of a firm PPA with high dry energy mix – The tariff risk for the project is low as the company has a 30-year PPA with NEA at predetermined tariffs and escalations for the entire 8.63 MW, contracted under the six-six months' dry-wet season modality with a ~31% dry energy mix. The pre-defined, base tariff rates are NPR 4.8 per kWh for the wet season and NPR 8.4 per kWh for the dry season (i.e., December to May; the rest being the wet months), with the provision of 3% annual escalation clauses on base tariffs for eight times (AEL is eligible for all). Similarly, the offtake risk for the project is low given the 'take-or-pay' clauses in the PPA, increasing energy demand in the nation and the increasing prospects of cross border trade. However, there exists a 10% reserve margin clause for five wet months (mid-June to mid-November) till FY2028, which allows the NEA to offtake only 90% energy of the availability declaration (up to contract energy) during this period, based on the grid requirements, without paying any compensation to AEL.

Credit Challenges

Moderate evacuation risk with contingent evacuation point – The power generated by the project is to be evacuated through NEA's Kirtipur substation to Udipur substation and then to Markichok substation. Though PPA indicated evacuation point (Kirtipur sub-station) is ready, one of the integrated structures (Udipur sub-station, connection point to INPS) is yet to be completed. Due to this, the power is being evacuated through an alternate arrangement using the transmission line of 70 MW Madhya Marsyangdi HPP (a government project), via jointly constructed (with other HPPs) 132 KV bay. Under this contingency plan (as per the coordination committee meeting with NEA), the company is to dispatch energy as per the demand from Load Dispatch Center (LDC) and NEA can order for low generation without any compensation to AEL, based on the grid power requirement.
The company is currently running at a lower capacity (the project generated ~31% of contract energy in around 1 month since commissioning i.e., till mid-November 2022). Thus, the early completion of the requisite evacuation structures by the NEA and the project's ability to generate as per the design parameters remains crucial for healthy operational/financial profile of the company and thus, remains a key rating consideration.

High hydrological risk amid lack of deemed generation clause– Lack of a deemed generation clause in the PPA exposes the project to high hydrological risks in case of any adverse river flow scenarios without receiving any compensation for such losses. Hydrological risks are further increased as the PPA requires supply of at least 30% of the annual energy during the dry season. In case the project fails to supply the same, then the actual energy supplied in the dry season shall be considered as 30% of the total annual energy generation and the excess energy supplied above this calculated total annual energy would not be compensated. Further, hydrological risks are accentuated by the Chepe River (along which the project is being built), which is an ungauged river with a lack of long-term flow, albeit with partial snow support.

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

Link to previous rationale:

Rationale_Aashutosh-Energy-Private-Limited_BLR-Surveillance_August-2021

Link to applicable criteria:
Corporate Credit Rating Methodology

About the Company

Aashutosh Energy Limited (AEL), incorporated on January 5, 2018, as a private limited company had been converted into a public limited company on May 19, 2022, to facilitate the public participation. As of mid-October 2022, AEL has a paid-up capital of NPR 400 million which is 100% promoter held; equity infused so far is ~100% of the overall equity requirement. As on the same date, the major promoters include M/s Suruchi Investment Pvt. Ltd. (~36%), Mr. Mohan Bikram Karki (~6%), M/s Aashutosh Investment Pvt. Ltd. (~5%) and other 81 individual shareholders aggregately holding ~53% of share.

The company has recently completed the development of 8.63 MW Chepe Khola Small HPP in Lamjung district, Gandaki Province of Nepal and commissioned the project from October 2, 2022. The project is a run of the river (R-o-R) type and has been developed at 45% probability of exceedance (Q45) having design discharge of 4.82 m^3/sec at a total cost of NPR ~1,469 million (i.e., NPR. 170 million per MW) in a D:E ratio of 73:27.

Annexure-1: Instrument details

Instrument (Limits in NPR Million)	Last Rated Limits	Current Rated Limits	Rating Action
Long-term limits (A)	**1,125**	**1,125**	
Fund-based facilities; Term Loan (TL)	1,125	1,125	[ICRANP] LBB; upgraded from [ICRANP] LBB-
Short-term limits (B)	**50**	**40**	
Fund-based; Working capital loan	50	40	[ICRANP] A4; reaffirmed
Fund-based; Bridge gap loan (within TL)	(100)	(100)	
Non-fund-based; Letter of credit (within TL)	(700)	(700)	
Non-fund-based; Bank guarantee (within TL)	(~5)	(~5)	
Total (A+B)	**1,175**	**1,165**	

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About ICRA Nepal Limited

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