

## White Lotus Power Limited: Ratings reaffirmed

September 27, 2023

### Summary of rating action

Instrument* (Amounts in NPR million)	Last rated amount	Current rated amount	Rating Action
Long-term loan limits	929	929	[ICRANP] LBB-; reaffirmed
Short-term loan limits	50	50	[ICRANP] A4; reaffirmed
<b>Total</b>	<b>979</b>	<b>979</b>	

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

### Rating action

ICRA Nepal has reaffirmed the long-term rating of [ICRANP] LBB- (pronounced ICRA NP L Double B Minus) to the long-term loans and the short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to the short-term loans of White Lotus Power Limited (WLPL/the company).

### Rationale

The ratings reaffirmation continues to take comfort from the moderate budgeted cost for the company's under construction 6.82 MW hydropower project (HPP) at ~NPR 195 million per MW which coupled with relatively higher dry energy mix at ~33% (which is subject to higher tariffs) and corresponding contract plant load factor (PLF) of 69%, augurs well for the long-term financial prospects. Furthermore, the presence of up to eight annual tariff escalations on the base tariff is expected to support the company's revenue profile, once the project is operational. ICRA Nepal also draws comfort from the low tariff and offtake risks amid the already signed power purchase agreement (PPA) with the Nepal Electricity Authority (NEA), at predetermined tariff rates and escalations under a take or pay modality. Further, the ratings also take comfort from low evacuation risk for the project considering the agreement with operational Nyadi Hydropower for sharing its transmission line. The ratings also derive comfort from institutional promoters of the company.

Nonetheless, the ratings are constrained by the high project execution risk given the nascent stage of project development (financial progress of ~19% till mid-June 2023) and minimal incremental developments since last rating (~10% financial progress during last rating). The ratings also remain impacted by the lowering project execution timeline amid the required commercial operation date (RCOD) of August 29, 2025. In case of delays beyond this timeline, the project would be exposed to late COD penalty and likely tariff escalation loss. The ratings further remain constrained by the funding risks for the project, with ~23% of the targeted equity yet to be injected by promoters and ~18% of the targeted equity yet to be raised from the proposed initial public offering (IPO). Rating concerns also arise from hydrological risks owing to the absence of a deemed generation clause in the PPA, along with presence of other stringent terms in the PPA. Going forward, WLPL's ability to commission the project within the budgeted cost and estimated timeline, achieve its designed operating parameters, as well as interest rate volatility in the market will be the key rating sensitivities for the company.

### Key rating drivers

#### Credit strengths

**Presence of institutional promoters** – The company's promoters include five institutional shareholders with total equity commitment of 60%, viz. M/s. Kriti Venture Fund Ltd (~43% of injected equity as of mid-July 2023), M/s White Lotus Management Pvt Ltd (~16%), M/s. All Bright Holdings Pvt Ltd (~7%), M/s. Shikhar Insurance Ltd. (~6%, rated at [ICRANP-IR] A+), M/s. Citizen Life Insurance Ltd (~6%; rated at [ICRANP-IR] BBB). The promoter's profile and experience of the board and senior management in the hydropower sector remains a comfort for the constructional, operation and maintenance aspects of the project.

**High dry energy mix to support revenue profile** – The 6.82-MW project’s PPA has been executed under the six-month dry season and six-month wet season modality, with a dry energy mix of ~33%. This reflects positively on the project’s levelized tariff, which coupled with the availability of up to eight tariff escalations in the base tariff is likely to support the company’s long-term revenue and profitability prospects. However, the eligibility for all tariff escalations will depend on the project’s timely commissioning, which remains a key rating monitorable.

**Low tariff/offtake risks and low evacuation risks** – The tariff and offtake risks for the project remains on the lower side 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 under a take or pay modality. As per the PPA, the pre-defined tariffs are NPR 4.8 per kWh for the wet season (June to November) and NPR 8.4 per kWh for the dry season (December to May) with 3% annual escalation on the base tariffs for eight consecutive years (starting from 12 months from the month following COD). However, the number of escalations could reduce in case of elongated delays in project commissioning (one escalation will be lost for every 12 months of delay, starting from six months after the RCOD). In the evacuation front, the required evacuation structure for the project i.e., NEA’s under constructional Tari Kuna substation is also in advanced stages of development and is expected to be completed within a period of one year (i.e., one year ahead of the project’s RCOD). As a contingency plan, the company has also signed transmission line sharing agreement with another operational hydropower company viz. Nyadi Hydropower Limited, which lies at ~11km from the project and is connected to another substation, thus lowering the evacuation risks.

## Credit challenges

**High project execution risks** – The project is still in nascent stages of development with ~8% of physical progress and ~19% financial progress till mid-June 2023. Rating concerns along execution risks are accentuated by the limited incremental developments since the last rating in July 2022, when the project had achieved physical progress of ~5% and financial progress of ~10%. Given the RCOD of August 29, 2025, any expectedly long delays could result in late COD penalty and tariff escalation loss.

**Moderate funding risks** – The project has been planned to be developed at a cost of ~NPR 1,327 million at a debt-equity ratio of 70:30. Till mid-July 2023, ~59% of the overall equity requirement had been injected by the promoters. Similarly, the company plans to raise an IPO for ~18% of total project equity requirements (NPR 400 million). The timely infusion of balance equity by the promoters as well as timely completion of IPO process would also remain crucial in achieving project commissioning before the RCOD of August 29, 2025 (extended by one year since last rating). However, the pace of equity injection by the promoters remains good vis-à-vis the project progress, which along with fully tied debt component remains a positive.

**High hydrological risks amid the lack of a deemed generation clause in PPA, with other stringent terms** – 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. While the source river is partially snow supported, stringent PPA terms could result in proportional reduction of annual energy sales revenue in case of weak generation during dry season (<30% of annual energy), which remains a major rating concern. Additionally, the relatively low catchment area (~22 square kilometers) and design discharge (1.14 cusecs) for the project also remain the monitorable regarding the project’s energy generation potential, as a slight drop in hydrology is likely to result in major drop in generation, given the high head (724 meters) nature of the project.

### Links to the previous rating rationale:

[Rationale White Lotus Power Limited Fresh BLR July 2022](#)

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

### Links to the applicable criteria:

[Corporate Credit Rating Methodology](#)

## About the company

Incorporated on January 28, 2018, as a private limited company, White Lotus Power Limited (WLPL) was converted to public limited on September 23, 2021. The company's paid-up capital was ~NPR 234 million as of mid-July 2023, which is to be increased to NPR 400 million (including IPO plans). As on the same date, major promoters included M/s. Kriti Venture Fund Ltd, M/s White Lotus Management Pvt Ltd, M/s. All Bright Holdings Pvt Ltd, M/s. Shikhar Insurance Ltd., M/s. Citizen Life Insurance Ltd, Mr. Pratap Jung Pandey, among others.

The company is developing a 6.82MW Hidi Khola Hydropower Project in Lamjung district of Gandaki Province of Nepal. The project is a low discharge (1.14 m<sup>3</sup>/s) and high head (gross head of 724m) run of the river (R-o-R) type which is being developed at ~43% probability of exceedance (Q43). The budgeted cost of the project is ~NPR 1,327 million which has been planned to be funded in a debt to equity mix of 70:30. With a net contract PLF of 69% and a catchment area of 21.8km<sup>2</sup>, the annual saleable energy from the project is ~41GWh with a dry energy mix of 32.53%. The project is in nascent stage of development with a physical progress of ~8% and a financial progress of ~19% as of mid-June 2023.

## Annexure-1: Instrument details

Instrument (Amounts in NPR million)	Last rated amount	Current rated amount	Rating Action
<b>Long-term loan limits (A)</b>	<b>929</b>	<b>929</b>	[ICRANP] LBB-; reaffirmed
Fund-based facilities; Term loan	929	929	
<b>Short-term loan limits (B)</b>	<b>50</b>	<b>50</b>	[ICRANP] A4; reaffirmed
Fund-based facilities; cash credit	30	30	
Fund-based facilities; Bridge gap loan (within term loan)	(150)	(150)	
Non-fund-based facilities; Bank Guarantee	20	20	
Non-fund-based facilities; Letter of credit (within term loan)	(700)	(700)	
<b>Total (A+B)</b>	<b>979</b>	<b>979</b>	

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## About ICRA Nepal Limited

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