

Apex Makalu Hydropower Limited: Ratings reaffirmed

November 06, 2023

Summary of rating action

Instrument* (NPR million)	Last rated amount	Current Rated Amount	Rating Action
Issuer Rating	NA	NA	[ICRANP-IR] BB-; reaffirmed
Long-term loan limits	3,320	3,320	[ICRANP] LBB-; reaffirmed
Short-term loan limits	120	120	[ICRANP] A4; reaffirmed
Total	3,440	3,440	

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

Rating action

ICRA Nepal has reaffirmed the issuer rating of [ICRANP-IR] BB- (pronounced ICRA NP Issuer Rating Double B Minus) to Apex Makalu Hydropower Limited (AMHL/the company). Issuers with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations. The rating is only an opinion on the general creditworthiness of the rated entity and not specific to any debt instrument.

ICRA Nepal has also reaffirmed the long-term rating of [ICRANP] LBB- (pronounced ICRA NP L Double B Minus) to the long-term bank loans and the rating of [ICRANP] A4 (pronounced ICRA NP A four) to the short-term loans of the company.

Rationale

The ratings continue to factor the presence of institutional promoter¹, and experienced promoters and management team which offer comfort to the construction² and operation & maintenance (O&M) aspect of the 22-MW Middle Hongu Khola 'A' HPP (hydropower project) once operational. The ratings also take note of the project's fair net contract Plant Load Factor (PLF) of 70%, relatively higher dry energy mix (33%) (that have high tariffs), and the provision of up to eight annual tariff escalations on the base rate which are expected to support the incremental revenue profile of the company. Further, the ratings also continue to factor the project's lower evacuation risk given the presence of Nepal Electricity Authority's (NEA) operational evacuation structure i.e., Tingla sub-station in Solukhumbu district. ICRA Nepal also draws comfort of the low tariff and offtake risks for the project given the already signed PPA with the NEA at pre-determined tariff rates and escalations under a take-or-pay modality. Additionally, the ratings factor in the positive demand outlook for the energy sector, given the nation's rising energy consumption and increasing prospects of cross border energy trade.

Nonetheless, the ratings are constrained by the inherent project execution risk, given the mid stage of project development and limited headroom given the required commercial operation date (RCOD) deadline of July 16, 2024. This risk is further accentuated by the presence of ~3.9-km tunnel structures (~50% physical progress till Mid-October 2023) wherein the possibility of geological surprises remains high which can affect the project cost and time estimates. Inability to commission the project within the RCOD exposes the company towards late COD penalty, tariff escalation loss and a cost escalation which could impact its financial profile. Further, the ratings also take note of the project's relatively higher budgeted cost³ and a high D: E mix of 75:25, which could pressurise the return and coverage indicators amid the fixed tariff regime. The ratings further remain constrained by the moderate funding risk given ~48% (including 21% to be raised through Initial Public Offering (IPO)) of the overall equity of NPR 1,200 million is yet to be collected. Though the tying up of entire debt-funding requirements with banks remains a positive, its ability to timely raise the balance equity and/or further equity/loans in case of cost escalations remains crucial in timely commissioning of the project. Similarly, the rating concerns also arise from

¹ Synergy Power Development Ltd. is one of the promoters and has provided corporate guarantee for total consortium exposure until settlement of entire consortium loan.

² Financial progress of ~39% completed till mid-September 2023 Vs 10% during last rating.

³ ~NPR 201 million per MW, amid its approaching RCOD and mid-stage progress, works may need to expediate that may call for cost escalations.

hydrological risks (albeit partly comforted by snow-fed origin of the river) owing to the absence of a deemed generation clause in the power purchase agreement (PPA) without any compensation from the NEA in case of hydrology fluctuations. The ratings also take note of stringent short supply penalty clauses in the PPA, which can impact the company's revenue profile in case of fluctuations in dry season hydrology.

Going forward, AMHL's ability to infuse additional equity including IPO, commission the project within the budgeted cost/timeline estimates, achieve its designed operating parameters, as well as interest rate volatility in the market will be the key rating drivers for the company.

Key rating drivers

Credit strengths

Experienced promoters – The board and the senior management of the company are experienced in the hydropower/engineering sector. The major promoter of the company viz. Synergy Power Development Limited (rated at [ICRANP-IR]BB+) is operating a 9.7-MW Siprin Khola HPP since January 2013. The institutional parentage and its corporate guarantee of SPDL for the entire loan along with the prior experience of the promoters provide comfort to the construction, O&M and financial support to the company at times of need.

High dry energy mix – The project's PPA has been executed under the six-month dry season and six-month wet season modality, with a relatively high dry energy mix of ~33% (high tariff energy) and Plant Load Factor (PLF) of 70%. This, coupled with relatively good hydrology (with snowfall support), along with availability of up to eight tariff escalations in the base tariff, are expected to support the project's levelized tariff. However, the project commissioning date would determine the number of tariff escalations that the project can avail, and hence the timely project completion remains crucial. Also, the project is subjected to dry energy short supply penalty in case the project fails to supply a minimum of 30% energy in the dry months, which could result in proportional reduction of annual energy sales revenue, which remains to be assessed.

Lower evacuation risk – The evacuation risk for the project remains on the lower side amid the presence of operational evacuation structures. The power generated by the project is to be transmitted to the NEA's operational Tingla substation by developing a ~25-km long 132-kV single circuit transmission line from its powerhouse to the substation under a cost sharing mechanism with a nearby downstream HPP, Gaurishankhar Power Development Limited (rated at LBB-/A4) which is being developed by the similar promoter group.

Low tariff and offtake risks– 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 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 (applicable after 12 months from the month following COD).

Credit challenges

Inherent project execution risks – The 22-MW project is in its mid-stage of construction with around ~39% financial progress till mid-September 2023 which subjects the project to inherent project execution risk. This risk is further accentuated by the presence of 3.9-km long tunnel structures (~50% yet to be completed) that can give rise to geological surprises that can impede the project execution pace/costs if such surprises arise. Also, the project's inherent risk is subjected to natural calamities risks and other regulatory risks which can also impede its development pace and cost structures.

Moderate funding risks – The project has been planned to be developed at a budgeted cost of ~NPR 4,427 million at a debt-equity ratio of 75:25. Though the tying up of entire required budgeted debt component (NPR 3,320 million) for the project remains a comfort, ~48% (including 20% ; NPR 249 million from the IPO) of the overall equity requirement (NPR 1,200 million) is yet to be raised and injected. The timely equity infusion, of the remaining portion, by the promoters and collection of IPO proceeds remains crucial for timely project development given the approaching RCOD of July 16, 2024. Also, ability

to infuse additional equity/loan arrangements from the promoters and/or financial institutions, in case of cost escalations, also remains to be seen.

Project cost and exposures to other risks – The budgeted per MW cost of the project is around NPR 201 million/MW. Amid the approaching RCOD, the timely infusion of the remaining equity including IPO remains crucial in timely funding and completion of the project. Inability to timely raise equity and meet the RCOD may result in further cost and time escalations, exposing the project towards late COD penalty as well as tariff escalation loss which coupled with relatively higher project cost amid the fixed tariff regime, that does not compensate for higher project cost, would be deteriorating the return and coverage parameters.

High hydrological risk amid the lack of a deemed generation clause in the PPA – Lack of a deemed generation clause in the PPA exposes the project to high hydrological risks in case of any adverse river flow scenario without receiving any compensation for such losses. However, the source river is partially snow supported, which reduces these concerns to some extent.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Issuer Rating Methodology](#)

Link to the previous rating rationale:

[Rationale Apex Makalu Hydropower Ltd. Fresh IR & BLR July-2022](#)

About the company

Incorporated on October 25, 2016, as a private limited company and later converted to a public limited one on July 4, 2021, Apex Makalu Hydropower Limited (AMHL) is developing a 22-MW Middle Hongu Khola “A” HPP in Solukhumbu district of Province 1 of Nepal. It is a run-of-the-river (R-o-R) type project which is being developed at ~43% probability of exceedance (Q43). The budgeted cost of the project is ~NPR 4,427 million, which has been planned to be funded in a D:E ratio of 75:25. As of mid-September 2023, the project has a financial progress of ~39%.

The paid-up capital of the company as of mid-September 2023 is ~NPR 620, which is 100% promoter held. The major promoters with their final shareholding include M/s. Synergy Power Development Ltd. (SPDL at 50%), Ms. Ruja Thapa (8%), Mr Indra Bahadur Thapa 12%), Mr. Bishnu Raj Adhikari (10%), Ms. Nikita Adhikari (6%), Ms. Urmila Basnet Thapa (4%), Ms. Rekha Kumari Sharma (5%), Mr. Pratik Raj Adhikari (4%) and Mr. Bishwa Bikram Thapa (1%).`

Annexure-1: Instrument details

Instrument (NPR million)	Current Rated Amount	Last Rated Amount	Rating Action
Long term loan limits (A)	3,320	3,320	[ICRANP] LBB-; reaffirmed
Fund-based facilities; Term loan	3,320	3,320	
Short term loan limits (B)	120	120	[ICRANP] A4; reaffirmed
Fund-based facilities; Overdraft	120	120	
Fund-based facilities; Bridge gap loan (within term loan)	(500)	(500)	
Non-fund-based facilities; Letter of credit (within term loan)	(1,100)	(1,100)	
Non-fund-based facilities; Bank Guarantee (within term loan)	(100)	(100)	
Total (A+B)	3,440	3,440	

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About ICRA Nepal Limited

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