Gaurishankar Power Development 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	3,160	3,160	[ICRANP] LBB-; reaffirmed
Short-term loan limits	89.04	89.04	[ICRANP] A4; reaffirmed
Total	**3,249.04**	**3,249.04**	

** 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 Gaurishankar Power Development Limited (GPDL/the company). Issuers with this rating are considered to have a moderate risk of default regarding the 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 a rating of [ICRANP] A4 (pronounced ICRA NP A four) to the short-term bank loans of the company.

Rationale

The reaffirmed ratings consider the presence of experienced promoters, which offers comfort to the construction as well as operation and maintenance (O&M) aspect of the under-construction 22.9 MW Middle Hongu Khola 'B' HPP (hydropower project) once operational. The ratings also factor in a relatively higher dry energy mix (~31%) (which have high tariffs), a net contract Plant Load Factor (PLF) of 65%, and the provision of up to eight annual tariff escalations on the base rate which supports the incremental revenue profile of the company. Further, the ratings continue to take comfort of the lower evacuation risk given the presence of Nepal Electricity Authority's (NEA) operational evacuation structure i.e., Tingla sub-station in Solukhumbhu district. ICRA Nepal also factor the low tariff and offtake risks for the project given the already signed PPA with the NEAat 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.

Nevertheless, 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 ~3.8-km tunnel structures (~50% progress till mid-September 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 cost escalations and a cost escalation which could impact its financial profile. Further, the ratings also take note of the project's relatively higher budgeted cost[1] 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 ~40%% (including 20% to be raised through Initial Public Offering (IPO)) of the overall equity of NPR 1,200 million remains 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 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. Similarly, the rating concerns also arise from hydrological risks owing to the absence of a deemed generation clause in the power purchase agreement (PPA) without any compensation from the NEA in case of

[1] ~NPR 189 million per MW, amid its approaching RCOD and mid-stage progress, works may need to expediate that may call for cost escalations.

hydrology fluctuations. Though, the snow-fed origin of the river supports the project's hydrology, the same remains to be tested. 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, GPDL's ability to infuse additional equity including IPO, commission the project within the budgeted cost and 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 have experiences in the hydropower/engineering sector. The major promoters and directors of the company were previously involved in the development of operational 9.7-MW Siprin Khola HPP developed by Synergy Power Development Limited (rated at [ICRANP-IR]BB+) and other hydropower projects. The experienced promoters' profile provides comfort to the construction, O&M and financial support to the company at times of need.

High dry energy mix – The 22.9-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 ~31% and contractual Plant Load Factor (PLF) of ~65%. 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's commissioning date would determine the number of tariff escalations that the project can avail, and hence timely project completion would remain 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 tested.

Low 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 of Solukhumbu district 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 upstream HPP, Apex Makalu Hydropower Limited (AMHL) (rated at LBB-/A4) which is being developed by the similar promoter group.

Low tariff and offtake risk- 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 22.9-MW project is in its mid stage of construction with around ~41% 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 a scenario arises. 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 cost of ~NPR 4,329 million at a debt-equity ratio of 72:28. Though the required budgeted debt component (NPR 3,160 million) for the project development has already been tied up and remains a comfort, ~60% (NPR 720 million) of the overall equity requirement has been injected by the promoters till mid-September 2023. Hence, 40% of the overall equity requirement including 20% (NPR 240 million from the IPO) is yet to be raised and injected. The timely equity infusion by the promoters as well as collection of IPO proceeds remains crucial 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 exposure to other risks – Though the budgeted per MW cost of the project is around NPR 189 million/MW; its ability to complete within the same cost remains to be seen given ~nine months of project execution timeline before its RCOD expires. 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 cost and time escalations, exposing the project towards late COD penalty as well as tariff escalation loss which coupled with moderate 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 with stringent PPA terms – Lack of a deemed generation clause in the PPA exposes the project to high hydrology risks in case of any adverse river flow scenarios without receiving any compensation for such losses. However, the source river is partially snow supported, which somewhat lowers these concerns.

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

Links to the previous rating rationale:
Rationale_Gaurishankar Power Development Ltd._Fresh-IR & BLR_July 2022

About the company

Incorporated on September 4, 2016, as a private limited company, Gaurishankar Power Development Ltd. (GPDL) was converted to public limited on July 5, 2021. The company is developing a 22.9 MW Middle Hongu Khola "B" HPP in Solukhumbhu district of Province 1 of Nepal. The project is a run of the river (R-o-R) type which is being developed at ~41% probability of exceedance (Q41). The budgeted cost of the project is ~NPR 4,339 million which has been planned to be funded in a D:E ratio of 75:25. The project is in mid-stage of development with a financial progress of around ~41% as of mid-October 2023.

The paid-up capital of the company as of mid-September 2023 is ~NPR 720 million, which is 100% promoter held. Major shareholders with their final shareholding include Mrs. Rajya Laxmi Gurung (23.60%), Mr Indra Bahadur Thapa (16.66%), Mr. Bishnu Raj Adhikari (13.88%), Ms. Ruja Thapa (11.79%), Ms. Nikita Adhikari (11.79%), Ms. Rekha Kumari Sharma (7.98%), Mr. Pratik Raj Adhikari (7.98%), Mr. Kedar Nath Paudel (4.86%), Ms. Urmila Basnet Thapa (3.31%) and Mr. Roshan Regmi (0.07%).

Annexure-1: Instrument details

Instrument* (NPR million)	Current Rated Amount	Last Rated Amount	Rating Action
Long term loan limits (A)	**3,160.00**	**3,160.00**	[ICRANP] LBB-; reaffirmed
Fund-based facilities; Term loan	3,160.00	3,160.00	
Short term loan limits (B)	**89.04**	**89.04**	[ICRANP] A4; reaffirmed
Fund-based facilities; Overdraft	75.00	75.00	
Fund-based facilities; Bridge gap loan (within term loan)	(500.00)	(500.00)	
Non-fund-based facilities; Bank Guarantee	14.04	14.04	
Non-fund-based facilities; Letter of credit (within term loan)	(1,250.00)	(1,250.00)	
Total (A+B)	**3,249.04**	**3,249.04**	

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About ICRA Nepal Limited

ICRA Nepal Limited, the first Credit Rating Agency of Nepal, is a subsidiary of ICRA Limited (ICRA) of India. It was licensed by the Securities Board of Nepal (SEBON) on October 3, 2012. ICRA Nepal is supported by ICRA Limited through a technical support services agreement, which envisages ICRA helping ICRA Nepal in areas such as rating process and methodologies, analytical software, research, training, technical and analytical skill augmentation.

Our parent company, ICRA Limited, was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies.

For more information, visit www.icranepal.com

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