

## Yambaling Hydropower Limited: Long-term rating reaffirmed and short-term rating withdrawn

December 11, 2023

### Summary of rating action

Instrument (Amounts in NPR Million)	Last Rated Amount	Current Rated Amount	Rating Action
Long-term loan limits (Term Loan -TL)	1,109	1,186	[ICRANP] LB; reaffirmed
Short-term loan limits (within TL above)	(450)	-	Rating withdrawn
<b>Total</b>	<b>1,109</b>	<b>1,186</b>	

### Rating action

ICRA Nepal has reaffirmed the long-term loan rating of Yambaling Hydropower Limited (YHL) at [ICRANP] LB (pronounced ICRA NP L B). ICRA Nepal has also withdrawn the company's short-term loan rating of [ICRANP] A4 (pronounced ICRA NP A four).

### Rationale

The rating mainly remains constrained by the relatively higher project cost (~NPR 233 million per MW) for the ~7.27 MW hydropower project (HPP) being developed by YHL. This, coupled with the project's lower plant load factor (PLF of ~59%) at contract energy, YHL's high borrowing rates and the project's shortened economic life (amid commissioning delays), is likely to suppress the company's return and coverage indicators. This is likely to necessitate funding support to the company for debt servicing, especially during the early years when debt burden is high. YHL is also exposed to funding risks as ~40% of the project's equity requirements (including a nominal portion of promoter equity) is yet to be raised through the proposed IPO<sup>1</sup>. Rating concerns also arise from the hydrological risks, given the absence of a deemed energy generation clause in the power purchase agreement (PPA). Moreover, the project hydrology is based on a non-gauged rainfed perennial river and the project's catchment area and design discharge is low. Hence, a slight drop in hydrology is likely to have a major impact on the project's energy generation and subsequently, on the company's revenues and debt-servicing metrics.

Nonetheless, the rating factors in the project now being in testing phases, albeit with significant delays against the initial estimates. The rating also continues to consider the project's low tariff and offtake risks amid the presence of a firm PPA with pre-determined tariff/escalations under the take or pay model. The rating also takes comfort from YHL's transmission line sharing arrangements with the operational Balephi Hydropower Limited (BHL), thus reducing the evacuation risks.

Going forward, YHL's ability to commission the project without further overrun in cost/timeline, interest rate volatility and achievement of the designed operating parameters would remain the key factors for determining the project's return metrics and YHL's coverage indicators.

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<sup>1</sup> The consortium has availed ~70% of the proposed IPO amount through Bridge Gap Loan against IPO, in order to meet the current requirements.

## Key rating drivers

### Credit strengths

**Low execution risk, along with low evacuation risk** – The 7.271 MW hydropower project being developed by YHL, is currently in the testing stage, thus reducing the project execution risks. Amid the requisite evacuation structures i.e. Bahrabise substation yet to be completed, the company has entered into transmission line sharing agreement on a long-term with the operational 36-MW Upper Balephi-A HPP (under BHL), which is connected to Lamosanghu Substation, thus reducing power evacuation risks.

**Low tariff and offtake risks** – The tariff and offtake risk for the project is low as the company already has signed a PPA with the Nepal Electricity Authority (NEA, the sole purchaser and distributor of electricity in Nepal) for its entire project capacity, valid throughout the expected project life of ~27 years. The predefined tariff as per the PPA is NPR 4.8 per kWh for the wet season (mid-April – mid-December), while that for the dry season is NPR 8.4 per kWh. An escalation of 3% per annum is allowed on the base tariff for five consecutive years after 12 months of commercial operation date (COD).

### Credit challenges

**Relatively high project cost** – Initially budgeted at a cost of ~NPR 165 million per MW, the project witnessed significant delays in execution thus leading to multiple cost increases to ~NPR 233 million per MW. The delays were mainly because of the Covid pandemic and the impacts of difficult project terrain. The project's significantly increased cost, along with its low contract PLF of ~59% and high rates of borrowings (from Class-B and Class-C Financial institutions), would suppress the project's return and coverage indicators given the fixed tariff and escalation structure. The company would also be subject to late COD penalty for not meeting the required commercial operation date (RCOD) of July 31, 2023. Any further unexpected delays and cost increases towards project completion could aggravate the return and coverage indicators and hence remains a key rating sensitivity. Going forward, the project's ability to achieve its design operating parameters post-commissioning will remain crucial.

**High hydrological risks** – The lack of a deemed generation clause in the PPA exposes the project to high hydrological risks in case of adverse river flow scenarios, as it will not receive any compensation for such losses from the NEA. As the Yambaling River, along which the project has been built, is an ungauged river with no snow support, the project's generation trend would remain monitorable. Rating concerns regarding the same are accentuated by the fact that the project has a relatively small catchment area of ~14 sq. km and the project is based on high head (gross head of 798 metres) and very low design discharge (~1.14 m<sup>3</sup>/s). Hence, a slight drop in the rainfall pattern/hydrology in its catchment would significantly impact project's generation, thus remaining a major rating concern.

**Moderate funding risk** – The latest project cost estimate of NPR 1,694 million has been planned to be funded in a debt to equity ratio of ~70:30. The required debt portion has already been tied up with the consortium banks. Out of the required equity, promoters are yet to inject ~4% of their committed portion (~NPR 420 million) and the IPO issuance process is in pipeline for the balance ~40% equity requirement of NPR 700 million.

**Reduced project's economic life** – The validity of the PPA is 30 years from COD or 35 years from the generation license date (valid till September 24, 2052). Due to the elongated delays in project execution, the project's revenue realisation period is expected to be limited to ~27 years (as per the management's estimated commissioning timeline by end of December 2023).

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

**Link to applicable criteria:**

[Corporate Credit Rating Methodology](#)

**Link to the last rating rationale:**

[Rationale\\_Yambaling Hydropower Limited\\_BLR Surveillance\\_June 2022](#)

**About the company**

Yambaling Hydropower Limited (YHL) was incorporated on November 21, 2007, as a private limited company and was converted to public limited on August 29, 2021. The company is developing a 7.27MW Yambaling Khola hydropower project in Sindhupalchowk district, Bagmati Province of Nepal. The project is a R-o-R type and is being developed at ~40% probability of exceedance (Q40). The paid-up capital of the company was ~NPR 404 million as of October 17, 2023, which was 100% promoter held. As on the same date, major shareholders included Mr. Roshan Shah (~6.9% stake), M/s. Susan Karmacharya (~5.2%), Mr. Om Bahadur Basnet (~4.9%), Mr. Abash Basnet (~4.9%), among others. M/s. Susan Karmacharya is the chairperson of the company.

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