

Gorakshya Hydropower Limited: [ICRANP] LB+/A4 assigned

December 18, 2023

Summary of rating action

Instrument* (Amount in NPR million)	Rated amount	Rating Action
Long-term loan limits	3,420	[ICRANP] LB+; assigned
Short-term loan limits	90	[ICRANP] A4; assigned
Total	3,510	

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

Rating action

ICRA Nepal has assigned a long-term rating of [ICRANP] LB+ (pronounced ICRA NP L B plus) to the long-term loans of Gorakshya Hydropower Limited (the company) and a short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to its short-term loans.

Rationale

The ratings are mainly constrained by the high project execution risks for the company's under-construction 23.5-megawatt (MW) Super Ankhu Khola Hydropower Project due to its nascent development stage (financial progress of ~7% until mid-July 2023) while the project's required commercial operation date (RCOD) is December 29, 2025. These concerns are further accentuated by the presence of a ~3.5-kilometre (km) long headrace tunnel structure, which could potentially impact the project's cost and timeline estimates in case of any adverse geological events. The ratings also remain subdued by the high evacuation risks for the project, given that the proposed connection point, i.e. the Borang Substation, is also in the initial stages of development. Owing to the project's modest budgeted cost (~NPR 194 million per MW), any unexpected time and cost overruns could impact the return and coverage metrics for the company. The project is also exposed to moderate funding risk, as ~46% of equity requirements are yet to be injected [including 25% proposed to be raised from initial public offering (IPO)]. However, the required debt component has been tied up, which remains a positive. The assigned ratings also remain impacted by the stringent short-supply penalty clauses in the project's power purchase agreement (PPA) and the borderline dry energy mix of ~30%, which is the minimum requirement to avoid such penalties. This further accentuates the project's hydrological risks amid the absence of a deemed generation clause in the PPA.

Nonetheless, the ratings factor in the prior experience of the promoters/directors in executing hydropower projects. ICRA Nepal also takes comfort from the project's long-term PPA at predetermined tariffs and escalations under the take-or-pay modality, which eliminates the tariff and offtake risks for the project. Going forward, the company's ability to manage the funding gaps and commission the project within its budgeted cost and estimated timeline to achieve its designed operating parameters will remain the key rating sensitivities.

Key rating drivers

Credit strengths

Experienced promoter profile – The major promoters of the company have experience in hydropower project development and operation (including Super Madi Hydropower Limited rated [LBB-/A4](#), Ankhu Khola Jalbidhyut Company Limited rated at [LB-/A4](#), among others), which could aid the company during the construction and operational stages of its project.

Low tariff and offtake risks – The tariff and offtake risks are low, as the company has a 30-year PPA with the Nepal Electricity Authority (NEA) for 23.5 MW (against the installed capacity of 25.4 MW). The pre-defined tariff rates are NPR 4.8 per kWh for the wet season (June to November) and NPR 8.4 per kWh for the dry season. Additionally, there is a 3% annual escalation clause on the base tariffs, for a total of eight times.

Credit challenges

High project execution risks – The 23.5-MW project is in the nascent stages of construction with ~7% financial progress achieved till mid-July 2023, mostly towards access road development and construction of onsite camps. The project's execution risk is accentuated by the presence of a 3.5 km long headrace tunnel (HRT) structure, wherein adverse geological events could impede the execution pace, impacting the project costs. The company was awarded the construction contract for civil works in July 2023, however, major site mobilisation is yet to start and the finalisation of contract agreements for other major segments such as electro-mechanical and hydro-mechanical works are still pending. The rating concerns are further accentuated by the execution risks, driven by the project's RCOD of December 29, 2025, which leaves around two years for project execution as against ~3.5 years envisaged in the initial timeline estimates. The project has now accommodated an adit tunnel provision in its HRT layout for faster execution, however, the ability to shorten the overall timeline as per revised plan, remains to be seen. Going forward, the extent of the RCOD extension, if any, by the NEA and the company's ability to expedite the project progress would have a bearing on factors such as late COD penalty, tariff escalation losses, and others, which will eventually determine its return metrics.

High evacuation risk – The evacuation risk for the project remains on the higher side given the company's proposal to revise its connection point (on account of much closer proximity; however subject to NEA's approval) to NEA's under-construction evacuation structure, i.e. the Borang Substation and associated transmission lines in the Dhading district. Timely commissioning of the evacuation structures before the project's RCOD (December 29, 2025) will remain essential for the project's operational and financial profile.

Relatively modest project cost – The project is being planned at a cost of ~NPR 4,561 million, leading to a modest project cost of ~NPR 194 million per MW. Typically, hydropower projects in Nepal are located in difficult terrain and witness unanticipated delays owing to various factors, generally leading to cost overrun. Such unexpected time and cost overruns could impact the return and coverage metrics for the company, given the fixed tariff structure.

Moderate funding risks – The project has been planned in a debt-to-equity ratio of 75:25. Until mid-July 2023, ~54% of the overall equity requirements were injected by the promoters while 25% was to be raised from IPO at a later date. The timely infusion of balance equity commitment by the promoters, as well as timely collection from IPO, would remain crucial to avoid delays in project development due to funding gaps. However, the pace of equity injection from the promoters vis-à-vis project progress has remained good. This, coupled with the financial closure for the required debt funding, remains a positive.

High hydrological risks amid the stringent PPA terms – The 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. Also, the stringent PPA terms could result in proportional reduction of annual energy sales revenue in case of weak generation during the dry season (<30% of annual energy). Additionally, the project's annual dry energy mix is just marginally above 30%, which leaves limited cushion to avoid the stringent penalties, remaining a major rating concern. The PPA also has a clause regarding the conditional offtake for 10% of the PPA capacity in five wet months for the period up to FY2033 if the COD is within FY2026, which also remains a concern.

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 May 04, 2014, as a private limited company, Gorakshya Hydropower Limited (the company) was converted to a public limited on September 10, 2023, to facilitate public participation. The company's paid-up capital was ~NPR 583 million as of mid-July 2023. As on the same date, the major promoters are M/s River Group Private Limited (~17% stake), Mr. Raghunath Puri (~16%), Mr. Raju Regmi (~9%), M/s Pushpalal Investment Company Limited (~6%) and Overseas Nepalese Investment Company Limited (~6%) among others.

The company is developing a run-of-the-river Super Ankhu Khola Hydropower Project with the PPA capacity of 23.5 MW in Dhading district of Bagmati Province of Nepal. The project's PPA is based on 41.5% probability of exceedance model (Q41.5), for which the design discharge is 13.56 m³/sec while the gross head is 202.86 m. At ~67% contract plant load factor (PLF), the annual saleable energy is 138.26 GWh with a dry energy mix of 30.11% in the annual energy mix. The project has been planned at a total project cost of ~NPR 4,561 million, which is to be funded in a debt-to-equity ratio of ~75:25.

Annexure-1: Instrument details

Instrument* (Amount in NPR million)	Rated amount	Rating Action
Long-term loan limits (A)	3,420	[ICRANP] LB+; assigned
Fund-based facilities; Term Loan	3,420	
Short-term loan limits (B)	90	[ICRANP] A4; assigned
Fund-based facilities; working capital loan	90	
Non-fund-based facilities; Letter of credit (within term loan)	(1,000)	
Fund-based facilities; Bridge gap loan (within term loan)	(250)	
Non-fund-based facilities; Bank Guarantee (within term loan)	(50)	
Total (A+B)	3,510	

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About ICRA Nepal Limited

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