

## Him Star Urja Company Limited: Ratings reaffirmed

February 20, 2024

### Summary of rating action

Instrument* (Amount in NPR million)	Previous Rated Amount	Current Rated Amount	Rating Action
Issuer Rating	NA	NA	[ICRANP-IR] B+; reaffirmed
Long-term loan limits	650	650	[ICRANP] LB+; reaffirmed
Short-term loan limits (within term loan)	(415)	(415)	[ICRANP] A4; reaffirmed
<b>Total</b>	<b>650</b>	<b>650</b>	

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

### Rating action

ICRA Nepal has reaffirmed an issuer rating of [ICRANP-IR] B+ (pronounced ICRA NP issuer rating B plus) to Him Star Urja Company Limited (HUCL or the company). Issuers with this rating are considered to have a high 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 is not specific to any debt instrument. The sign of + (plus) or – (minus) appended to the rating symbols indicates their relative position within the rating categories concerned.

ICRA Nepal has also reaffirmed the long-term rating of [ICRANP] LB+ (pronounced ICRA NP L B plus) to the company's long-term loans and short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to the company's short-term loans.

### Rationale

The ratings reaffirmation derives comfort from the advanced development stage of the under-construction 5-MW Buku Kapati Khola Hydropower project (HPP) with the project achieving ~79% of physical progress as of mid-November 2023. The ratings also factor the low evacuation risks with the completion of the required evacuation structure i.e., Nepal Electricity Authority's (NEA) Bamti Substation in Ramechhap district. Besides, the ratings take comfort from the project's relatively higher dry energy mix of ~30% (however, the short supply penalty/loss of revenue in the event of lower than 30% energy generation during the dry season remains a concern). The ratings further consider the low tariff and offtake risks, amid the already-signed PPA with the NEA (rated [\[ICRANP-IR\] AA+](#)), the sole purchaser and distributor of electricity in Nepal, at pre-determined tariffs and escalations under a take-or-pay modality. Additionally, the ratings factor in the positive demand outlook for the energy sector with increasing energy consumption in the nation and improved energy export prospects.

Nonetheless, the ratings remain constrained by the moderate funding risk due to the delays in raising the required equity (~30% of total project equity of ~NPR 373 million) through initial public offering (IPO). Given the advanced stage of project development (~86% financial progress as of mid-January 2024); any elongated delays in fund-raising may require alternative funding arrangements and may lead to project cost escalation and delayed project completion. The required commercial operation date (RCOD) has elapsed (RCOD of March 15, 2023) and the company has applied for extension of the COD. The extension of RCOD will remain essential to avoid late COD penalty and avail all tariff escalation and remains a key monitorable. Furthermore, the rating remains constrained by the general exposure of Nepalese hydropower projects towards risk of natural calamities as well as high climatic/hydrological risks as Buku and Kapati river are ungauged rainfed rivers.

Going forward, the company's ability to timely raise remaining equity, commission the project within the budgeted cost/timeline estimates, receive approval of the RCOD extension and achieve its designed operating parameters will be the key rating drivers for the company.

## Key rating drivers

### Credit strengths

**Low project execution and evacuation risk** – The 5 MW project under the company is in later stage of construction with ~79% of physical progress as of mid-November 2023 and financial progress of ~86% as of mid-January 2024. The power to be generated by the project is planned to be connected to NEA's Bamti substation which is now operational. Furthermore, the required 9.15 km 33kV transmission line to connect Bamti Substation from 5 MW Buku Kapati Khola HPP is also complete.

**High dry energy mix** – The PPA for the 5 MW project has been executed under the six-month dry (December-May)/six-month wet (June-November) season modality, with a relatively high dry energy mix of ~30%. As per the PPA, the pre-defined tariffs are NPR 4.8 per kWh and NPR 8.4 per kWh for the wet season and dry season. Relatively high dry energy mix along with eight tariff escalations is expected to support the project's financial metrics.

**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 of 5MW. As per the PPA, there is a 3% annual escalation on the base tariffs of eight times (after the Commercial Operation Date). However, the project commissioning date and RCOD extension would determine its eligibility for availing all tariff escalations as per the PPA and, hence, timely project completion would remain crucial.

### Credit challenges

**Limited experience of the promoters** – The 5 MW project under HUCL is the first major hydropower project for its promoter group. Limited prior experience of the promoters and inherent risk of the hydropower projects remains a concern.

**Moderate funding risk** – The project has been budgeted to be completed at a total cost of NPR 1,023 million at a D:E ratio of 64:36. Out of the total required project equity of ~NPR 373 million, the promoter has injected the entire capital commitment (i.e. ~NPR 261 million) while the IPO issuance process (~30%) is pending at the regulatory authority. Given the advanced stage of project development with ~86% financial progress as of mid-January 2024; timely injection of the required funds will remain essential to ensure the project completion within timeline. Any elongated delays in fund-raising could delay project commissioning, lead to cost escalation and necessitate alternative funding arrangements.

**Climatic and geographical risks** – The hydropower projects in Nepal generally remain exposed to high hydrological risks, given the direct linkage of their revenues to river flow. These projects (including HUCL's project) are mostly developed on ungauged rivers and are not eligible for any compensation for lower revenues due to hydrological fluctuations. Also, the difficult terrain and high river discharge during monsoon season have been impacting several Nepalese projects on regular basis. Hydrological risks are further accentuated as the PPA for the 5 MW project under HUCL has been signed under the 6-6 months dry and wet energy modality, with required supply of at least 30% contract energy during the dry season. In case the project fails to supply a minimum of 30% energy in the dry months, the supplied dry energy would be assumed to be 30% of the deemed annual energy and the additional energy supplied in the wet months would remain unpaid.

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

**Link to previous detailed rating rationale:**

[Issuer and Bank Loan Rating – December 2022](#)

**Links to applicable criteria:**

[Issuer Rating Methodology](#)

[Corporate Credit Rating Methodology](#)

## About the company

Him Star Urja Company Limited was initially incorporated as private limited company on August 19, 2010 and was later converted to public limited company on December 8, 2017. The company is developing 5MW Buku Kapati Khola hydropower project in Okhaldhunga and Solukhumbu districts of Province 1 of Nepal. The project is a R-o-R type and is being developed at 40% probability of exceedance (Q40). The project has been budgeted to be developed at a total cost of NPR 1,023 million at a D:E ratio of 64:36.

The paid-up capital of the company as of mid-January 2024 is ~NPR 261 million. As on the same date, the major promoters include Mr. Dipak Tiwari (~16.4%), Mrs. Shobha Upreti (~7.2%), Mr. Dhruva Lal Pandey (~3.5%), Mr. Narayan Prasad Upreti (~3.5%), Mr. Jagdish Poudel (~2.9%), Mr. Kishor Dutta Baral (~2.7%), M/s. Vision Lumbini Ltd. (~2.6%), Mr. Dut Raj Lama (~2.3%) among others.

## Annexure-1: Instrument details

Instrument *(NPR Million)	Rated Amount	Rating Action
<b>Long-term limits (A)</b>	<b>650</b>	[ICRANP] LB+; reaffirmed
Term loan (Long-term; Fund-based)	650	
<b>Short-term limits (B)</b>	<b>(415)</b>	[ICRANP] A4; reaffirmed
Letter of Credit (Short-term; non-fund-based within term loan)	(350)	
Bridge gap loan (Short-term; fund-based within term loan)	(65)	
<b>Total (A+B)</b>	<b>650</b>	

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