

## Sita Hydropower Company Private Limited: Ratings downgraded to [ICRANP] LB+/A4

February 20, 2024

### Summary of rating action

Instrument (Amounts in NPR Million)	Previous rated amount	Current rated amount	Rating Action
Long-term loans limits	4,758	4,758	[ICRANP] LB+; downgraded from [ICRANP] LBB-
Short-term loans limits (within long-term loan)	(2,444)	(2,444)	[ICRANP] A4; reaffirmed
<b>Total</b>	<b>4,758</b>	<b>4,758</b>	

### Rating action

ICRA Nepal has downgraded the long-term loan rating of Sita Hydropower Company Private Limited (SHCPL) to [ICRANP] LB+ (pronounced ICRA NP L B plus) from [ICRANP] LBB- (pronounced ICRA NP L double B minus), while reaffirming the company's short-term loan rating at [ICRANP] A4 (pronounced ICRA NP A four).

### Rationale

The rating downgrade is mainly on account of the high project execution risks associated with SHCPL's under construction 35MW Nyasim Khola Hydro Power Project (HPP), which has reported a rather sluggish progress (~18% financial progress as of mid-January 2024, as against ~5% as of mid-March 2022, during the last rating). While the project's budgeted cost remains modest (~NPR 181 million per MW), the slow progress so far and any further unexpected time overruns could lead to cost overrun, thus impacting the company's return and coverage metrics. The ratings also remain subdued by the project's evacuation risks, given that the proposed connection point, i.e. the Pangtan Substation, is also in the initial stages of development. 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)]. Any cost overrun would further increase the funding gap. Furthermore, risk of natural calamities, the dependence on a single project and the hydrological risks arising from changing climatic conditions (including variation in monsoon precipitation/pattern) also continue to remain among the rating concerns.

Nonetheless, the ratings continue to be comforted by the presence of experienced promoters and management team, having developed the 22.1-MW Lower Hewa Khola HPP under Mountain Hydro Nepal Limited (MHNL, rated at [\[ICRANP\] LBB&/A4&](#)). ICRA Nepal also draws comfort of the low tariff and offtake risks for the project given the already signed power purchase agreement (PPA) with the Nepal Electricity Authority (NEA) at pre-determined tariff rates and escalations under a take-or-pay modality. Going forward, SHCPL's ability to complete the project within expected timeline and cost, while timely closing funding gaps if any will remain the key rating sensitivities.

### Key rating drivers

#### Credit strengths

**Experienced promoters and management team** – The company's board and senior management team have experience in the hydropower sector, through their involvement in developing the 22.1-MW Lower Hewa Khola HPP under MHNL. The prior experience of the promoters provide comfort from the perspective of construction as well operation and maintenance aspects of the project.

**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. As per the PPA, the pre-defined tariffs are NPR 4.8 per kWh for the wet season (mid-April to mid-December) and NPR 8.4 per kWh for the dry season (mid-December to mid-April), with 3% annual escalation on the base tariffs for eight consecutive years. Nonetheless, the project’s eligibility to avail all eight escalations would depend on the outcome of required commercial operation date (RCOD) extension, as requested by management. Furthermore, there is 10% reserve margin clause in the PPA for eight wet months, for the entire project life, which could impact the company’s wet season revenues.

## Credit challenges

**High project execution risks** – The 35 MW Nyasim Khola HPP is still in early stages of development with ~18% financial progress till mid-January 2024. Rating concerns along execution risks are accentuated by the limited incremental progress since the last rating in July 2022, when the project had achieved financial progress of ~5%. Given the low project progress and RCOD of June 27, 2025, any expectedly long delays could result in late COD penalty and tariff escalation loss. While SHCPL has applied for further RCOD extension till June 27, 2026 (citing the local disturbances, road blockades by the rural municipality and other force majeure events), its outcome would remain crucial. Further, the company is yet to award major construction contracts, mainly the hydro-mechanical and transmission line contracts.

**Modest funding risks** – The project has been planned to be developed at a cost of ~NPR 6,344 million at a debt-to-equity ratio of 75:25. While the entire required debt component has been tied up, ~46% of the overall equity requirement is yet to be injected (including 25% proposed to be raised from the IPO). The timely infusion of remaining equity and closure of any funding gaps (management has been anticipating certain cost overruns, however the quantum is yet to be ascertained) would remain crucial for smooth project development.

**Moderate evacuation risk** – The energy to be generated from the project is to be evacuated through the NEA’s proposed under construction 132kV Pangtan Substation in Sindhupalchowk, which is still in its early stages of development. In the event of non-completion of the NEA’s evacuation structure, the company has developed a contingency power evacuation plan (SHCPL, along with other two hydropower projects in the vicinity with 42 MW and 21 MW capacity, would be developing ~30km, 132 kV transmission line to operational Barhabise substation, if required), which provides some comfort.

**Climatic and geographical risks** – The hydropower projects in Nepal generally remain exposed to high hydrological risks, as their revenues are directly linked to river flow scenarios. These projects (including SHCPL’s project) are mostly developed on ungauged river and are not entitled to receive any compensation for lower revenues due to hydrological fluctuations, from the NEA or any Government bodies. However, the Nyasim River being partially snow fed provides some comfort. Nonetheless, the difficult terrain and high river discharge during monsoon season have been impacting several Nepalese projects on a YoY basis. Though the property damage and loss of profit insurances provides some cushion, elongated shutdown (after natural calamities) as seen in multiple projects (including MHNL) and lack of debt service reserve arrangements, will expose the project’s debt servicing to likely delays and hence remains a key rating sensitivity.

### Link to the last rating rationale:

[Rationale Sita Hydropower Company Private Limited Fresh BLR July 2022](#)

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

### Link to the applicable criteria:

[Corporate Credit Rating Methodology](#)

## About the company

Incorporated on June 9, 2014, Sita Hydropower Company Private Limited (SHCPL) is a SPV involved in developing the 35 MW Nyasim Khola HPP in Sindhupalchowk district of Bagmati Province of Nepal. The project is a run of the river (R-o-R) type which is being developed at 40% probability of exceedance (Q40). The budgeted cost of the project is ~NPR 6,344

million, which has been planned to be funded in a debt-to-equity ratio of 75:25. The project is in initial stages of development with a financial progress of ~18% as of mid-January 2024.

The paid-up capital (including advance for share capital) of the company was ~NPR 852 million as of mid-July-2023, which was 100% promoter held. As on the same date, the major promoters included Mr. Sitaram Timalina and his family members with ~61% stake and M/s S.R. Power Investment Company Private Limited with ~13% stake, among others. Till the same date, the promoters have infused ~54% of the project's overall equity requirement (~NPR 852 million out of required NPR 1,586 million), while the rest equity is planned to be infused progressively.

### Annexure-1: Instrumental details

Instrument (Amounts in NPR million)	Last rated amount	Current rated amount	Rating Action
<b>Long-term loan limits (A)</b>	<b>4,758</b>	<b>4,758</b>	[ICRANP] LB+; downgraded from [ICRANP] LBB-
Fund-based facilities; Term loan (TL)	4,758	4,758	
<b>Short-term loan limits (B)</b>	<b>(2,444)</b>	<b>(2,444)</b>	[ICRANP] A4; reaffirmed
Fund-based facilities; Bridge gap loan (within TL)	(400)	(400)	
Non-fund-based facilities; Letter of credit (within TL)	(2,044)	(2,044)	
<b>Total (A+B)</b>	<b>4,758</b>	<b>4,758</b>	

### Analyst Contacts

**Mr. Sailesh Subedi** (Tel No. +977-1-4519910/20)  
[sailesh@icranepal.com](mailto:sailesh@icranepal.com)

**Mr. Rajib Maharjan** (Tel No. +977-1-4519910/20)  
[rajob@icranepal.com](mailto:rajob@icranepal.com)

**Mr. Nahid Siddiqui** (Tel No. +977-1-4519910/20)  
[nahid.siddiqui@icranepal.com](mailto:nahid.siddiqui@icranepal.com)

### Relationship Contacts

**Ms. Barsha Shrestha** (Tel No. +977-1-4519910/20)  
[barsha@icranepal.com](mailto:barsha@icranepal.com)

### About ICRA Nepal Limited

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**ICRA Nepal Limited,**

Sunrise Bizz Park, 6th Floor, Dillibazar, Kathmandu, Nepal.

**Phone:** +977-1-4519910/20

**Email:** [info@icranepal.com](mailto:info@icranepal.com)

**Web:** [www.icranepal.com](http://www.icranepal.com)

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