

Snow Rivers Limited: Issuer rating of [ICRANP-IR] BB- assigned; bank loan ratings reaffirmed

February 12, 2024

Summary of rating action

Instrument * (Amounts in NPR million)	Previous Rated Amount	Current Rated Amount	Rating Action
Issuer Rating	NA	NA	[ICRANP-IR] BB-; assigned
Long-term limits	1,810.13	1,810.13	[ICRANP] LBB-; reaffirmed
Short-term limits	80.00	80.00	[ICRANP] A4; reaffirmed
Total	1,890.13	1,890.13	

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

Rating action

ICRA Nepal has assigned an issuer rating of [ICRANP-IR] BB- (pronounced ICRANP issuer rating double B minus) to Snow Rivers Limited (SRL or the company). Issuers with this rating are considered to have a moderate risk of default regarding timely servicing of financial obligations. ICRA Nepal has also reaffirmed the long-term loan rating of SRL at [ICRANP] LBB- (pronounced ICRA NP L double B minus) and a short-term loan rating of [ICRANP] A4 (pronounced ICRA NP A four) respectively.

Rationale

The rating actions consider the satisfactory incremental progress in the company's under construction 13.5 MW Super Kabeli Khola-A hydropower project (HPP) along with its relatively lower budgeted cost (NPR 179 million per MW). The competitive project cost, coupled with up to eight tariff escalations and ballooning repayment model are expected to support the company's return and coverage indicators. The ratings also take note of the company's plan to come up with an initial public offering (IPO) which it intends to utilize for deleveraging. The ratings also continue to draw comfort from the presence of experienced promoters having prior experience in both operational and under-construction projects and track record of completion of HPPs within the budgeted project cost and timeline. Furthermore, the ratings take comfort from the firm long-term power purchase agreement (PPA) for the entire project capacity under the take or pay modality with fixed tariff and fixed escalations, which eliminates the project's tariff risk and offtake risk. The ratings also consider the low evacuation risk given the presence of Nepal Electricity Authority's (NEA) operational Kabeli substation in Panchthar district (connection point for the project).

Nonetheless, the ratings continue to be constrained by the inherent project execution risks for the remaining portion (~25-30%) before the required commercial operation date (RCOD) i.e. April 11, 2025. The ratings also take note of the moderate funding risk as ~23% of the project's equity requirements is yet to be infused. Also, the promoter's ability to absorb any cost overrun for all group projects wherein they have equity commitment, also remains to be seen. Since the promoters have three under-construction projects in the vicinity, coordinated development across these and timely injection of remaining equity, would remain crucial in timely commissioning of these projects. Furthermore, rating concerns also emanate from the geological and climatic risks, as inherent in HPPs.

Going forward, completion of project within expected timeline/cost, interest rate volatility, the project's ability to achieve its designed operating parameters will be the key drivers for determining the project return and metrics and coverage indicators for the company.

Key rating drivers

Credit strengths

Experienced promoters in the hydropower sector – The management group and the board of directors have relevant hydropower industry expertise. The 7.8 MW Super Mai HPP developed by Super Mai Hydropower Limited and the 9.6 MW Super Mai A HPP developed by Sagarmatha Jalabidhyut Company Limited (both rated at [ICRANP-IR] BBB-) as well as the 8.63 MW Chepe Small HPP developed by Aashutosh Energy Limited (rated at [ICRANP] LBB-/A4) demonstrate their track record of timely project completion and within the budgeted cost, which remain a major source of comfort.

Low evacuation risk – The evacuation risk for the project remains on the lower side, given the presence of NEA's operational evacuation structure, Kabeli (Amarpur) substation in Panchthar district. The power to be generated by the project is to be evacuated through a 3-km long 132 kV transmission line from the project's powerhouse to the switchyard of the 12 MW Super Kabeli Khola Cascade hydropower project under a sister concern viz. Hilton Hydro Energy Limited. Thereafter, the combined energy is planned to be evacuated through a 7-km long 132 kV transmission line to switchyard of 21.96 MW Kabeli-3 HPP under another sister concern viz. Kabeli Hydropower Company Limited and from there, jointly through an 18-km transmission line to the NEA's Kabeli (Amarpur) substation. The coordinated development of these transmission lines remains crucial in joint evacuation of energy from these projects to the said substation.

Low tariff and offtake risks – The project's tariff and offtake risks are low as the company has a 30-year PPA with NEA at pre-determined tariffs and escalations for its entire project capacity under a take or pay modality. The pre-defined base tariff rates 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 up to eight consecutive years.

Credit challenges

Inherent project execution risks – While the 13.5 MW project is in its later stage of development (physical progress of ~70-75% as of mid-January 2024, as against ~20-25% as of October 2022, when last rated), it would still remain subject to the inherent project execution risks for the remaining project components. Any unexpected delays in any front or delays in project progress of associated projects under the sister companies, could impact its commissioning timeline. Hence, the company's ability to commission the project with the RCOD (~14 months of project execution period till then) remains to be seen.

Moderate funding risk – The 13.5 MW project has been planned to be developed at a relatively low budgeted cost of ~NPR 2,419 million (i.e., ~NPR 179 million per MW; a positive amid the fixed tariff and escalations regime) at debt-to-equity of ~75:25. Though the finalisation of entire debt financing remains a positive, equity funding risk remains a concern since ~23% of the project's equity requirements is yet to be infused. Timely infusion of the balance equity remains to be seen in the backdrop of the major promoters' equity commitment in other two hydropower projects in the same river basin viz. Hilton Hydro Energy Limited and Kabeli Hydropower Company Limited (both rated at [ICRANP] LBB-/A4). Thus, the coordinated and timely equity infusion and the promoters' ability to close any funding gaps, in case of a cost overrun (in these projects), would remain crucial.

Climatic and geological risks – The generational efficiencies of the project would remain exposed to hydrological risks which in turn remains dependent on climatic factors (including monsoon fluctuations and effect of globally increasing temperatures). Similarly given the project terrain, the risk of events like flood, landslide, etc also remain high. Any disruption in the project due to natural calamities can have a direct impact on the company's financial profile in the backdrop of dependence on single project for cash flows. The company's financial profile would also remain exposed to interest rate volatility risk in the banking sector.

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

Links to the applicable criteria:

[Corporate Credit Rating Methodology](#)

[Issuer Rating Methodology](#)

www.icranepal.com

Link to the previous rating rationale:

[Rationale Snow-Rivers-Limited BLR Surveillance Nov-2022](#)

About the company

Snow Rivers Limited (SRL), incorporated in August 2014 as a private limited company, was converted into public limited company on June 17, 2022. The paid-up capital of the company was ~NPR 467 million as of mid-January 2024, which was 100% promoter held. Till the same date, the promoters had infused ~77% of the overall equity requirement (~NPR 467 million out of required NPR 609 million), while rest of the equity has been planned to be infused by promoters progressively. The company is also planning to come up with an IPO shortly which it plans to deleverage the project loans.

The company is developing a 13.5 MW Super Kabeli Khola-A HPP in Taplejung district of Koshi Province of Nepal. The project is a run of the river (R-o-R) type which is being developed at 42.32% probability of exceedance (Q42.32). The budgeted cost of the project is ~NPR 2,419 million which is being funded in a D:E ratio of 75:25. The project is in its later-stage of development with a financial progress of ~75% and physical progress of ~70-75% as of mid-January 2024.

Annexure-1: Instrument details

Instrument (NPR Million)	Previous Rated Amount	Current Rated Amount	Rating Action
Fund-based facilities; Long-term loan	1,810.13	1,810.13	[ICRANP] LBB-; reaffirmed
Fund-based facilities; Short-term loan (Working capital loan)	80.00	80.00	[ICRANP] A4; reaffirmed
Non-fund-based facilities; short-term loan (Bridge Gap Loan; within term loan)	(250.00)	(250.00)	
Non-fund-based facilities; short-term loan (Bank guarantee; within term loan)	(8.40)	(8.40)	
Non-fund-based facilities; short-term loan (Letter of credit; within term loan)	(930.00)	(930.00)	
Total	1,890.13	1,890.13	

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About ICRA Nepal Limited

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