Jhapa Energy Limited: [ICRANP-IR] BB- assigned, long-term rating upgraded and short-term rating reaffirmed

April 22, 2024

Summary of rating action

Instrument * (Amount in NPR million)	Previous Rated Amount	Current Rated Amount	Rating Action
Issuer Rating	NA	NA	[ICRANP-IR] BB-; assigned
Long-term loans	(599.25)	(599.25)	[ICRANP] LBB-; upgraded from [ICRANP] LB+
Short-term loans (within I)	671.30	671.30	[ICRANP] A4; reaffirmed
Total	**671.30**	**671.30**	

** Instrument details are provided in Annexure-1*

Rating action

ICRA Nepal has assigned an issuer rating of [ICRANP-IR] BB- (pronounced ICRA NP issuer rating double B minus) to Jhapa Energy Limited (JEL/the company). Issuers with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations. The rating is only an opinion on the general creditworthiness of the rated entity and not specific to any debt instrument.

ICRA Nepal has also upgraded the long-term rating assigned to JEL to [ICRANP] LBB- (pronounced ICRA NP L double B minus) from [ICRANP] LB+ (pronounced ICRA NP L B Plus) and reaffirmed the short-term loan rating at [ICRANP] A4 (pronounced ICRA NP A four).

Rationale

The rating actions factor the commencement of commercial operation of the 10-MW Jhapa Solar Photo Voltaic project (PV) from January 24 2024[1], eliminating the project execution risk. The assigned ratings also consider its promoters prior experience in hydropower and solar projects. ICRA Nepal also draws comfort from the low tariff and offtake risks amid the already-signed power purchase agreement (PPA) with the Nepal Electricity Authority (NEA; rated at [ICRANP-IR] AA+) at pre-determined tariff (NPR 7.3/unit) throughout the PPA life of 25 years under a take-or-pay modality. The ratings also take note of the low evacuation risk for the project amid the presence of an operational evacuation structure, the NEA's Buluchowk substation in Jhapa district. JEL has been evacuating power to the said sub-station through a ~1km long 33kV TL structures.

Nonetheless, the ratings remain constrained by the time and cost overrun in the project which has moderated the financial profile given the fixed tariff structure and exposure to late COD penalty. Rating concerns also arise from limited operational track record of the project and its lower generations of ~80% of contract energy between January 2024 and mid-April 2024. Going forward, JEL's ability to improve the generations would remain crucial in determining the overall financial health of the company. Similarly, the company's single project dependency for cash flows also remains a concern amid the exogenous/technological factors affecting the project such as solar insolation level (dependent on weather conditions), modules annual degradation rate [2], etc. The rating action also factors in promoters' support/bankers' support to ease the liquidity constraints during the project stabilization period to ensure timely debt servicing. The ratings also remain constrained by the annual and monthly short-supply penalties, which can impact the company's financial profile.

Going forward, JEL's ability to operate as per the designed parameters, appropriately structure the principal repayments (repayments to kick-off from Q4FY2024) will remain key rating sensitivity. ICRA Nepal also notes the company's equity raising plans through Initial Public Offering (IPO), which will also remain a monitorable.

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[1] *As against the revised required COD (RCOD) of September 18, 2023; initial RCOD was May 25, 2023.*
[2] *1% to 2% in the first year and 0.5% thereafter*

Key rating drivers

Credit strengths

Commencement of commercial operations – The project is in commercial operation since January 24, 2024, which eliminates the inherent project execution risk. The O&M aspects of the project is comforted by the presence of experience promoters with prior association with energy projects including solar projects in Nepal.

Low evacuation risk – The evacuation risk for the project is low given the presence of the NEA's operational 33/11-kV Buluchowk substation in Jhapa under Damak Distribution Centre. The company is evacuating its power from its project's switchyard to the said substation through ~1-km long 33kV transmission lines structures.

Low tariff and offtake risks – The tariff and offtake risks for the company remain on the lower side given the presence of the 25-year PPA with the NEA (the sole purchaser and distributor of electricity in Nepal) for its entire project capacity under a take-or- pay modality at a fixed tariff of NPR 7.3/unit throughout the project period. The offtake risk also takes comfort from the increasing energy consumption in the nation and the Nepal Government's policy of having up to 10% of the national grid connected installed capacity in the form of alternative energy.

Credit challenges

High project capex and debt burden - The project was commissioned at NPR 873 million (~9% higher than budgeted estimate) and was financed through ~69% debt. As such the debt burden on the company remains high, the repayment of which is set to commence from Q4FY2024. Similarly, the project was completed with a delay of four months vis-à-vis its revised RCOD (September 18, 2023), resulting in a late COD penalty of ~NPR 2 million. These factors remain negatives for the overall project metrices given the fixed tariff structure with no tariff escalation which does not compensate for high capital cost.

Limited track record of operations – Between January 2024 and April 2024, the project generated an average of ~80% of the contract energy. The company's ability to improve the current generation level would remain crucial in determining the overall financial health including debt coverage metrices of the company; especially considering the high debt burden, lack of annual tariff escalations and annual degradation of the module (1% to 2% in the first year and 0.5% thereafter) which could result in a gradual decline in project's revenue potential over the longer timeframe.

Vulnerability to exogenous factors – Solar projects are vulnerable to exogenous factors such as seasonal variation, irradiance level, module degradation, etc., which can impact its overall revenue profile. As solar projects are relatively newer phenomenon the O&M and technological aspect also remains a concern. Furthermore, since the revenue of the company is directly linked to unit sales, a fall in the solar insolation level, higher annual modules degradation rate and/or inability to ensure adequate O&M practice can impact the project's generational output. These concerns are exacerbated given the provisions of annual short-supply[3] penalties (if supplied energy is less than 75% of the CUF[4]) and monthly short-supply penalty[5] (less than 85% of the Availability Declaration) and single-project dependence for the company.

Exposure to Interest rate risk – The company is still in moratorium period for the principal repayments of its term loans the commencement of which is likely to start from Q4FY2024. The repayment schedule is yet to be finalized and the

[3] *Annual short-supply penalty= (0.15*installed capacity*8760) less energy delivered by the project/less energy that could not be delivered due to the NEA or scheduled outage or force majeure*per unit tariff rate (NPR 7.30) *0.75*

[4] *Capacity Utilisation Factor (CUF) = Total annual energy (kWh) delivered by the solar plant/contract capacity in kW*8760; the project's CUF is ~20%*

[5] *Monthly short-supply penalty= Energy based on 85% of AD – Electricity supplied to Authority – that month's non-production of electricity by the company due to Authority's fault or scheduled outage or force majeure) * per unit tariff (NPR 7.3)*

tenure and modality of the same (linear/ballooning) and would have a bearing on its coverage metrices. Similarly, given the freshly incurred capex and high debt burden, the company's profitability will remain dependent on interest rate volatility.

Link to the previous rating rationale:
Rationale_Jhapa-Energy-Limited_Fresh-BLR_February 2023

Analytical approach: For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below.
Issuer Rating Methodology
Corporate Credit Rating Methodology

About the company

Jhapa Energy Limited (JEL), incorporated on October 02, 2018, as a public limited company, has a paid-up capital (including share advances) of ~NPR 175 million as at mid-April-2024, which is 100% promoter held. The company is operating a 10 MW Jhapa Solar PV plant in Jhapa district of Province 1 of Nepal since January 24, 2024. The project is a photo voltaic solar project which was commissioned at a cost of NPR 873 million with ~69% debt financing. The project is generating an average of ~80% since its COD till mid-April 2024.

As of mid-April 2024, the major promoters of the company include Mr. Narayan Prasad Pokhrel (2.3%), Mr. Suvas Bhattarai (2.2%), Ms. Pabitra Devi Mahatara (1.8%), Mr. Lal Prasad Sanwa Limbu (1.7%), Mr. Ram Chandra Upreti (1.5%) Mr. Dwiraj Sharma Siwakoti (1.6%) and Mr. Ram Chandra Aryal (1.5%), Mr. Nillab Baral (1.4%), M/s. Eastern Sahara Co. Ltd. (1.4%), Mr. Kadam Mani Nepal (1.3%), Mr. Kuber Mani Nepal (1.2%), Ms. Sharda Devi Murrakka (1.1%) and Mr. Kamal Prasad Paneru (1.0%) with the rest being aggregately held by 677 other shareholders.

Annexure-1: Instrument details

Instrument	Last Rated Limit	Current Rated Limit	Rating Action
Long-term loan limit (A)	**(599.25)**	**(599.25)**	
Fund based; term loan (within Letter of credit)	(599.25)	(599.25)	[ICRANP] LB+ (Assigned)
Short-term loan limit (B)	**671.30**	**671.30**	
Fund-based; working capital loan	15.00	15.00	[ICRANP] A4 (Assigned)
Fund-based; bridge gap loan (within term loan)	(100.00)	(100.00)	
Non-fund based; letter of credit	650.00	650.00	
Non-fund based; bank guarantee	6.30	6.30	
Total rated limits (A+B)	**671.30**	**671.30**	

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About ICRA Nepal Limited

ICRA Nepal Limited, the first Credit Rating Agency of Nepal, is a subsidiary of ICRA Limited (ICRA) of India. It was licensed by the Securities Board of Nepal (SEBON) on October 3, 2012. ICRA Nepal is supported by ICRA Limited through a technical support services agreement, which envisages ICRA helping ICRA Nepal in areas such as rating process and methodologies, analytical software, research, training, technical and analytical skill augmentation.

Our parent company, ICRA Limited, was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies.

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