Balephi Hydropower Limited: [ICRANP] LBB assigned

July 12, 2019

Summary of rated instruments

Instrument *	Rated Amount (NPR Million)	Rating Action
Long-term loans; Fund based	4,250	[ICRANP] LBB; Assigned
Total	**4,250**	

** Instrument details are provided in Annexure-1*

Rating action

ICRA Nepal has assigned the long-term rating of [ICRANP] LBB (pronounced ICRA NP L double B) to the long-term loans of Balephi Hydropower Limited (BHL).

Rationale

The assigned rating factors in the high project execution and implementation risk of the 36-MW Upper Balephi "A" Hydroelectric Project (HEP) being developed by BHL (~60% physical progress at the end of May 2019), considering any geographical surprises that may arise during the excavation of the 4.4-km long tunnel (~60% completed so far). Any unexpected delays in project execution could result in cost escalations, impacting interest capitalisation and the overall project cost. This would also delay the commercial operation of the project against the required commercial operation date (RCOD)[1], resulting in tariff escalation loss and late COD penalties. This would impact the overall project return and debt coverage metrics.

Nonetheless, the rating positively takes into consideration the moderate return potential of the project, given the relatively lower budgeted capital cost (~NPR 17 crore per MW) amid economies of scale (36 MW) and the relatively higher mix of high tariff to dry energy of around 18%. The rating also considers the low tariff risk and low offtake risk emanating from the firm power purchase agreement (PPA) and good demand outlook. Going forward, BHL's ability to commission the project at the budgeted cost of NPR 6,078 million, meet the estimated timelines, and achieve the designed operating parameters amid interest rate volatility in the market would be the key driver for project returns and debt coverage metrics.

Key rating drivers

Credit strengths

Modest project cost amid economies of scale could result in comfortable return metrics at current budgeted cost – The 36-MW Upper Balephi "A" hydroelectric project has been budgeted to be developed at a cost of NPR 6,078 million. This represents a cost of ~NPR 169 million per MW. The moderate per MW cost of the project remains a major comfort in determining the debt coverage indicators and return metrics for the project amid fixed tariff structures. Also, the relatively higher mix of high tariff to dry energy at ~18% as well as the economies of scale provide some financial benefits to the project. All these are expected to result in comfortable project return metrics, debt service coverage ratios (DSCR) and interest coverage ratios (ICR). The timely completion of the project within the budgeted cost would remain critical for sensitising the return metrics and coverage indicators for the days ahead. The relatively higher project PLF[2] (67% at 41.60% of the exceedance flow) is a source of comfort.

Minimal funding gap with 100% promoters' equity injection and fully tied-up debt component – The project has been planned to be developed at a cost of NPR 6,078 million at a debt-equity ratio of 70:30. While the full debt requirement has already been tied up, 80% (promoters' commitment) of the overall equity requirement has been fully injected. The

[1]RCOD is January 20, 2019 as per the PPA. However, the same is proposed to be rescheduled on September 9, 2019, as per the Coordination Committee meeting dated January 16, 2019
[2] Plant load factor

remaining 20% would be coming from the proposed initial public offering (IPO) issue. Any funding gap, resulting from delayed project execution cost, and cost escalations thereafter would be funded by the promoters.

Presence of long-term PPA results in low tariff risks – BHL has a PPA with Nepal Electricity Authority (NEA; sole purchaser and distributor of electricity in Nepal) for its entire project capacity for a period of 30 years from the COD. The company would be able to sell power for a period of 30 years if the project becomes operational latest by July 2021. The PPA has a predefined tariff rate for the purchase of energy. While the tariff for the wet season (mid-April – mid December) is NPR 4.8 per kWh, the tariff for the dry season is NPR 8.4 per kWh. For the PPA rates, escalation allowed is at 3% per annum on the base tariff for eight consecutive years after the COD. With a firm PPA in place, the tariff risks for the project are low.

Supply-demand gap to result in healthy offtake – Nepal is a net importer of electricity, even with limited electrification across the country and the current supressed demand (per capita power consumption of <150 KW as per a 2015 study[3]; among the lowest in Asia). In the fiscal year (FY) 2017-2018, the peak power demand in the Integrated Nepal Power System (INPS) surged to 1,508 MW while the installed operational capacity was only 1,074 MW. The shortfall was met through the import of electricity. As per the NEA, the power demand is expected to grow at a rate of ~15% over the next 22 years (driven by an increase in electrification and per capita consumption, and higher industrial demand). Hence, the supply-demand gap is expected to persist, resulting in healthy offtake of the energy generated by the project.

Credit challenges

High execution risk with only 60% of project works completed so far – The project achieved a technical progress of around 60% as of May-end 2019 with considerable work left to be done. The execution risk would escalate with any geographical surprises that may arise during further excavation of the 4.4-km long tunnel. Such scenarios may delay the project and can further put its timely execution at risk. Also, the timely completion of the project's own 21-km long 132-kV transmission line would remain critical for the timely evacuation of energy. However, the operational 132-kVA Lamosanghu substation of the NEA moderates the overall evacuation risk. As for the 21-km long transmission line, land acquisition for 47 of the 63 towers has been completed so far.

Risk of tariff escalation loss and late COD penalty – Delays in meeting the RCOD by more than six months would subject the project to loss of tariff escalation for every year of delay. This would also subject the company to a late COD penalty[4]. Hence, early COD would remain a factor for ensuring healthy financials for the company.

Hydrology risks remain high amid lack of deemed generation clause in PPA – The hydrology risk of the project remains high, given the lack of a deemed generation clause in the PPA. This could expose the project to hydrological risks resulting in loss of revenue if the adverse flow of the river leads to low discharge. However, comfort is drawn from the fact that the river is gauged over the long term with a snow-fed source.

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

Links to applicable criteria:
Corporate Credit Rating Methodology

About the company

Incorporated in February 15, 2012 as a private limited company, Balephi Hydropower Limited (BHL) was converted into a public limited company on January 6, 2017 to facilitate public participation. The major promoters of the company include Mr. Shakti Kumar Golyan (18.25%), Mr. Shulav Agrawal (18.25%), Mr. Shushil Gupta (17.50%), Mr. Shandeep Kumar Sharda (15%), Mrs. Prabha Goyanka (Bhimshariya) (9.95%) and Mr. Umesh Kasaju (8.68%). BHL is developing a 36-MW Upper Balephi "A" hydroelectric project in the Sindhupalchowk district of Province 3 of Nepal.

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[3] *Study conducted by Water and Energy Commission Secretariat, GoN*

[4] *Late COD penalty is calculated at 0.05 * (energy, based on the contracted energy that would have been produced during the difference in days between RCOD and COD) * rate as applicable on COD date*

Annexure-1: Instrument details

Instrument	Limit (Amount in NPR Million)	Rating Action
Fund-based long term	4,250	[ICRANP] LBB
Total Rated Loan Limits	**4,250**	

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About ICRA Nepal Limited:

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