

Him Star Urja Company Limited: [ICRANP-IR] B+ and [ICRANP] LB+/A4 assigned

December 26, 2022

Summary of rating action

Instrument*	Rated Amount (NPR Million)	Rating Action
Issuer Rating	NA	[ICRANP-IR] B+; assigned
Long-term loan limits	650	[ICRANP] LB+; assigned
Short-term loan limits (within term loan)	(415)	[ICRANP] A4; assigned
Total	650	

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

Rating action

ICRA Nepal has assigned 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.

ICRA Nepal has also assigned 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 assigned ratings are mainly constrained by the inherent project execution risks, given the middle stage of project development (physical progress of ~50-55% till mid-November 2022). The lack of prior experience of the promoters in the hydropower sector further accentuates this risk. The ratings also remain constrained by high evacuation risk as the proposed evacuation structure, i.e., Nepal Electricity Authority's (NEA) Bamti Substation in Ramechhap district is still under development. Further, the ratings remain impacted by the moderate fund risk as 30% of the overall project's equity of ~NPR 373 million is yet to be raised through an initial public offering (IPO). Although tying up of the required loan component as per the project budgeted cost remains a positive, timely loan disbursement from the bank amid a credit crunch in the banking sector will remain monitorable. Rating concerns also arise from hydrological risks owing to the absence of a deemed generation clause in the power purchase agreement (PPA), which further remains accentuated as the Buku and Kapati rivers are ungauged, rainfed rivers.

Nonetheless, 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.

Going forward, the company's ability to timely raise remaining equity, commission the project within the budgeted cost/timeline estimates, achieve its designed operating parameters, as well as interest rate volatility in the market will be the key rating drivers for the company.

Key rating drivers

Credit strengths

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 and dry seasons, respectively. Relatively high dry energy mix along with eight tariff escalations would remain supportive to 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, a 3% annual escalation is charged on the base tariffs of eight times (applicable after 12 months from the Commercial Operation Date, or COD). However, the project commissioning date would determine its eligibility for availing all tariff escalations as per the PPA and, hence, timely project completion would remain crucial.

Credit challenges

High project execution risk – The 5-MW Buku Kapati hydropower project is in its middle stage of construction with ~50-55% of physical progress till mid-November 2022. The execution risk is exacerbated due to two headworks in the Buku and Kapati rivers (as of mid-December 2022 work in Buku headworks was at an advance stage, while that at the Kapati headworks has just started). The limited prior experience of the promoters in the hydropower sector (this 5-MW project being their maiden venture) further accentuates the execution risk. Any unexpected delay in project development could lead to cost overruns, which could erode the project’s financial metrics, given the fixed-tariff regime.

High evacuation risk – The power to be generated from the project is planned to be evacuated through NEA’s under-construction Banti substation in Ramechhap district via ~10-km-long 33kV, single circuit transmission line. The proposed connection point for power evacuation, i.e., NEA’s Banti substation is still under development. Further, with the contract for the transmission line from the project to NEA’s substation yet to be awarded, the evacuation risk for the project remains on the higher side.

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. Of the total required project equity of ~NPR 373 million, the company plans to collect 70% from the promoters and 30% from the IPO. Though the promoters have already injected their entire capital commitment, i.e., ~NPR 261 million, timely IPO issue worth ~NPR 112 million remains a rating monitorable as the IPO proceeds are to be used for project construction. On the debt financing front, though the entire loan requirement for the project as per the budgeted cost has already been tied-up; timely disbursement of the same amid the credit crunch in the banking industry will also remain a concern.

High hydrology risks – Lack of a deemed generation clause in the PPA exposes the project to high hydrological risks in case of any adverse river flow scenarios, without being eligible for any compensation for such losses. Also, rating concerns are further accentuated by the fact that the Buku and Kapati rivers are ungauged, rainfed rivers with consequent lack of long-term flow data. Hydrological risks are further accentuated as the PPA for the project was 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.

Links to applicable criteria:

[Issuer Rating Methodology](#)

About the company

Him Star Urja Company Limited was initially incorporated as a private limited company on August 19, 2010, and was later converted to a public limited company on December 8, 2017. The company is developing a 5-MW Buku Kapati Khola hydropower project at Okhaldhunga and Solukhumbu districts in 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-December 2022 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%), and Mr. Dut Raj Lama (~2.3%), among others.

Annexure-1: Instrument details

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

Analyst Contacts:

Mr. Sailesh Subedi, (Tel No. +977-1-4419910/20)

sailesh@icranepal.com

Mr. Basanta Chapagain, (Tel No. +977-1-4419910/20)

basanta@icranepal.com

Mr. Shakti Sigdel, (Tel No. +977-1-4419910/20)

shakti.sigdel@icranepal.com

Relationship Contacts:

Ms. Barsha Shrestha, (Tel No. +977-1-4419910/20)

barsha@icranepal.com

About ICRA Nepal Limited:

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For more information, visit www.icranepal.com

ICRA Nepal Limited

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

Phone: +977 1 4419910/20

Email: info@icranepal.com **Web:**

www.icranepal.com

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