

Richet Jalbidhyut Company Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	732.00	CARE-NP BB+ [Double B Plus]	Reaffirmed
Short Term Bank Facilities	3.00	CARE-NP A4+ [A Four Plus]	Reaffirmed
Total Facilities	735.00 (Seven Hundred and Thirty-Five Million Only)		
Issuer Rating	NA	CARE-NP BB+(Is) [Double B plus (Issuer)]	Assigned

**The issuer rating is subject to overall gearing ratio of the company not exceeding 3.5x at the end of FY23.*

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned issuer rating of 'CARE-NP BB+ (Is)' to Richet Jalbidhyut Company Limited (RJCL). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations, in Nepal.

Also, CRNL has reaffirmed the rating of 'CARE-NP BB+' assigned to the long-term bank facilities and 'CARE-NP A4+' assigned to the short-term bank facilities of RJCL.

Detailed Rationale & Key Rating Drivers

The ratings assigned to RJCL continue to be constrained by project stabilization risk associated with its 4.9 MW Richet Khola Small Hydroelectric Project (RKSHP) having short track record of commencement of operations on with modest Plant Load Factor (PLF), and leveraged capital structure of the company leading to relatively high finance burden on the company in initial years of operations. The rating also continues to factor in hydrology risk associated with run-of-the-river power generation, risk of natural calamities, exposure to volatile interest rate risk and regulatory risk.

The ratings, however, derive strength from experienced board members and management team, presence of power purchase agreement (PPA) with sufficient period coverage and moderate counter party risk. The ratings also factor government's support for the power sector.

Going forward, the ability the company to successfully reduce the gap between operational PLF and contracted PLF and availability of sufficient hydrology with timely receipt of payments from Nepal Electricity Authority (NEA) will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Project stabilization risk with modest Plant Load Factor

During FY22, the plant operated at a Plant Load Factor (PLF) of 69.91% of contracted energy. The generated PLF was relatively lower mainly on account of tripping issues in NEA transmission line of 33 KV which is shared by number of hydro power projects for evacuation. PLF continued to remain sub-par in 8MFY23 at 68.58% of contracted energy. NEA is in process of constructing 132 KV double circuit transmission line which is expected to reduce the transmission losses. The transmission line is expected to be operational by Jan 2024. Furthermore, the upcoming transmission line will connect Dhading Besi to Devghat substation, which will also reduce the distance of evacuation route from the company by ~20 kms. This would likely to reduce the energy loss during transit for the company in coming years. However, timely completion of the transmission line by NEA and the ability of the company to derive benefits as envisaged remains to be seen. The company's ability to reduce the gap between operational PLF and contracted PLF, on a sustained basis, will remain a key monitorable aspect.

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

Leveraged capital structure

RJCL's overall gearing ratio stood high at 3.18x at the end of FY22 owing to debt pertaining to the project with total cost of Rs. 1,012 Mn (Rs 203 Mn per MW) which was financed through Debt equity mix of 75: 25. The cost was revised from initially estimated Rs. 980 Mn (197 MW) mainly due to increased interest during construction (IDC) cost and other incidental expenses towards project. Owing to higher debt levels, total debt to GCA stood elevated at 291x in FY22. Similarly, interest coverage ratio was also modest at 1.03x in FY22. However, the capital structure of the company is expected to improve post issuance of Initial Public Offering of Rs.112 Mn, likely to be completed in FY24.

Hydrology risk associated with run-of-the-river power generation

Run-of-the-river power is considered an unsteady source of power, as a run-of-the-river project has little or no capacity for water storage and therefore is dependent on the flow of river water for power generation. It, thus, generates much more power during wet season when river flows are high (Mid-April to Mid-December) and less during the dry season (Mid-December to Mid-April). The project utilizes discharge from Richet Khola having catchment area of 40.83 sq. kms based on Perennial River. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola.

Risk of Natural Calamities

In Nepal, hydropower projects are usually located in terrains that are topographically challenging making their operations vulnerable to adversities of nature. Floods and landslides that tend to occur in these areas pose threat to these power projects damaging their infrastructures. These natural calamities can adversely affect the smooth flow of power generation and distribution, which can impact financial returns of the projects. RJCL is also exposed to such risks of natural calamities that might cause infrastructural, operational and financial damages to the project.

Exposure to volatile interest rate

The company's interest rates are based on a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. Higher interest rates than envisaged could result in squeezed margins of the company. Hence, funding taken by the company is exposed to volatile interest rate.

Exposure to regulatory risk

Government of Nepal (GoN) has recently established Electricity Regulatory Commission (ERC) for regulating hydropower companies in Nepal. ERC will regulate generation, transmission and distribution of electricity in Nepal among others. Policies and directives issued by ERC such as approval process for IPO issuance and PPA approval through ERC poses a new challenge to hydropower companies. Hence, the hydropower sector is prone to regulatory risk and changes in other policies by GoN.

Key Rating Strength**Experienced board members and management team in hydropower sector**

RJCL has four Board of Directors, chaired by Mr. Arjun Prasad Paudel, who holds 31.21% of the total share capital, has more than two decades of experience in different sector including hydropower projects. He is associated with various hydro power companies (under implementation and operational) at board levels positions. He is supported by other experienced management team members. Moreover, the promoters have also been involved in other hydropower projects such as Sikles Hydropower Limited [CARE-NP BB+(Is)/A4+] and Gandaki Hydropower development Company Private Limited (4.8MW).

Power purchase agreement with sufficient period coverage

RJCL had entered into a PPA with NEA as on May 05, 2016 for sale of 4.98 MW power to be generated from the project. The period of the PPA is 30 years from commercial operation date (COD) or till validity of Generation whichever is earlier. The tariff for wet season (Mid-April to Mid-December) is Rs 4.80 per kWh and for dry season (Mid- December to Mid-April) is Rs 8.40 per kWh with 3% escalation on base tariff every year for 5 times after completion of 12 months from COD date. The company has signed PPA with NEA is owned by Government of Nepal and hence counter party default risk is low; however, timely realization of critical for the company and from analytical perspective also. The power generated from the project is evacuated to NEA Salyantar Substation. Thus, smooth evacuation of the power without tripping is crucial from rating perspective.

Favorable Government policies towards power sector

Government of Nepal (GoN) considers power generation as priority sector and intends to maximize private sector participation in generation of electricity by offering different exemptions and facilities on power sector. GoN has announced full tax exemption for first 10 years and 50% tax exemption for next 5 years for such person/entity who starts commercial operation, transmission and distribution of electricity up to mid-April 2027. Also, with government focus more towards reservoir-based hydropower projects; Monetary Policy FY23 has provided full tax exemption for first 15 years and 50% tax exemption for next 6 years to reservoir and semi- reservoir projects whose capacity is higher than 40 MW, completing financial closure within mid-April 2029. As per various directives from NRB, all the banks (type A, B C, D) have to allocate minimum share of their total advances to energy sector which argues well for the sector. Also, increasing trend of cross-border energy trade and its prospect in upcoming days with bilateral agreements with the neighboring nations shows positive outlook on long- term demand for the power sector.

About the Company

Richet Jalbidhyut Company Private Limited (RJCL) is a private limited company, incorporated in March 26, 2014. RJCL is involved in the operation of 4.98 MW run-of-the-river Richet Khola Small Hydroelectric Project (RHSHP) at Gorkha District which has been in commercial operation since August 12, 2021. The project is constructed under BOOT (Build, own, Operate and Transfer) mechanism.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	732.00	CARE-NP BB+
Short Term Bank Facilities	Overdraft	3.00	CARE-NP A4+
Total Facilities		735.00	

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