

## Rangun Khola Hydropower Limited

### Ratings

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
<b>Issuer Rating</b>	<b>NA</b>	<b>CARE-NP B (Is) [Single B (Issuer)]</b>	<b>Assigned</b>

*\* The issuer rating is subject to total debt not exceeding Rs. 200 Mn at the end of FY24 (FY refers to the twelve-month period ending mid-July).*

*Details of instruments/facilities in Annexure-1*

CARE Ratings Nepal Limited (CRNL) has assigned issuer rating of 'CARE-NP B (Is)' to Rangun Khola Hydropower Limited (RKHL). Issuers with this rating are considered to offer high risk of default regarding timely servicing of financial obligations, in Nepal.

### Detailed Rationale & Key Rating Drivers

The rating assigned to RKHL are constrained by weak operational performance of its power project owing to difficulty in smooth power evacuation amid challenging and complex topography leading to poor financial performance in FY23 (Audited, FY refers to the twelve-month period ending mid-July) and stretched liquidity position of the company. Issues related to smooth power evacuation have plagued the company's power generation potential since commencement of operations leading to sustained muted cash flow from operations resulting into accumulated losses as on mid-July 2023. The rating also factors in hydrology risk associated with run-of-the river power generation, exposure to volatile interest rates and risk of natural calamities.

The rating, however, derive strengths from RKHL's experienced promoters and management team, presence of Power Purchase Agreement (PPA) with sufficient period coverage, moderate counter party risk and government support for the power sector. Being power project with less than 1 MW, generation license of the company is not limited to 30 years (as in case of other hydropower projects) and has indefinite life. Also, the company is not liable to pay any royalty charges to NEA, which augurs well for the company.

*Going forward, the ability the company to successfully reduce the gap between operational Plant Load Factor (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

##### Poor financial performance of the company amid low power generation

RKHL has 0.996 MW Jeuli Gad Hydropower Project (JGHP) at Bajhang District which has been in commercial operation since December 13, 2019. The energy generation was relatively low at ~65% of contracted capacity during FY22-FY23, which further declined to ~ 50% of contracted capacity during H1FY24 owing to difficulty in smooth power evacuation amid challenging and complex topography. RKHL's financial performance remain weak during consecutive three years, FY20-FY23 characterized by net losses in FY21, FY23 and muted profit in FY22. Total Operating Income (TOI) of the company was Rs. 34 Mn in FY23 (FY22: Rs. 35 Mn). The company reported cash losses of Rs. 2 Mn during FY23 (FY22: positive GCA of Rs. 13 Mn) on account of substantial amount of transmission line losses, repair and maintenance charges and rebate charges (3% rebate by NEA upon payment within 7 days of bill received) availed by the company. Capital structure of the company was leveraged with overall gearing ratio of 2.30x at the end of FY23 (FY22: 2.03x) on account of diluted tangible net worth amid accumulated losses. Apart from overall gearing, other coverage indicators including total debt to GCA stood negative in FY23 (PY: 14.95x) and interest coverage ratio stood below unity in FY23 (PY: 1.46x).

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and other CARE publications

**Stretched liquidity position amid low cash generation from operations**

RKHL's cash flow from operations has been low owing to muted net income from power sales. As a result, the company had accumulated losses of Rs. 33 Mn at the end of FY23. Amid stretched liquidity, the company has depended on financial support from promoters for meeting its debt obligations in the past. Promoter has infused additional equity of Rs. 55 Mn during H1FY24 (Unaudited, FY refers to the six-month period ending mid-January). It is expected that the company would require additional financial support to meet its repayment of financial obligations attributed to its subdued operations. The company's ability to operate the plant without substantial interruptions leading to revenue generation and adequate cash flow generation from the projects for a sustained period as envisaged remains crucial from credit perspective. To overcome the situation of its stretched liquidity position, the company is planning for public issuance of Rs. 42 Mn.

**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 Jeuli Gad Khola having catchment area of 109.84 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.

**Exposure to volatile interest rate**

RKHL's interest rates are based on floating interest rate regime, where a certain premium is added to the monthly base rate and interest rate is changed accordingly on monthly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remains quite volatile as they are impacted by available liquidity in the system, which leads to changes in interest rates. Being debt funded project, higher interest rates than envisaged could result in squeezed margins of the company, impacting its liquidity profile.

**Risk of natural calamities**

In Nepal, hydropower projects are usually located in terrains that are topographically challenging making their construction and 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 as well as impacting their timely completion. Moreover, disruption in their construction in turn could lead to time and/or cost overrun, negatively impacting the project's financial aspects. Moving forward also, these natural calamities can adversely affect the smooth flow of power generation and distribution, which can further impact financial returns of the projects. JGHP is also exposed to such risks of natural calamities that might cause infrastructural, operational and financial damages to the project.

**Key Rating Strengths****Experienced promoters and management team**

RKHL has five board of directors, chaired by Mr. Birendra Bahadur Malla, who holds 36.25% of the total share capital as on January 11, 2024, has more than two decades of experience in hydropower sector. He is also Director of Kalanga Hydro Limited (CARE-NP BB- (Is)) and Bungal Hydro Limited (CARE-NP B (Is)). Other directors of the company also have long experience in different sectors. Further, the day-to-day operations are supported by experienced management team.

**Power purchase agreement with sufficient period coverage**

RKHL had entered into PPA with Nepal Electricity Authority (NEA) for 0.996 MW as on February 03, 2014 for sale of entire power generated by the plant. The PPA is signed for a period of 30 years for from the date of COD. PPA period may be extended with mutual consensus through discussion from last six month of validity. The tariff rate as per PPA is Rs. 4.80 per kWh for wet season

(Mid-April to Mid-December) and Rs 8.40 per kWh for dry season (Mid-December to Mid-April) including 3% escalations for five times.

### About the company

Rangun Khola Hydropower Limited (RKHL) is a public limited company, incorporated in May 07, 2009 as a private limited company and later converted to public limited company in July 14, 2023. The company has been promoted by individual business persons of Nepal having long experience in the hydropower and other sectors for setting up Hydroelectric Project (HEP) in the territory of Nepal. The company is operating 0.996 MW Jeuli Gad Hydropower Project (JGHP) in Bajhang district of Nepal.

Brief financial performance of RKHL during last 3 years is given below:

(Rs. In Million)

Particulars	FY21 (A)	FY22 (A)	FY23 (A)
Income from power sales	25	36	34
PBILDT Margin (%)	68.92	65.04	59.92
Overall Gearing (times)	2.35	2.03	2.30
Interest coverage (times)	1.08	1.46	0.90
Total Debt / Gross Cash Accruals (times)	153.80	14.95	Negative

A: Audited

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