

Rating Rationale
River Falls Power Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	1,320.00	CARE-NP B+ [Single B Plus]	Assigned
Total Facilities	1,320.00		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP B+’ to the long-term bank facilities of River Falls Power Limited (RFPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of RFPL is constrained by project implementation and stabilization risk given its initial stage of construction followed by the power evacuation risk and pending Generation License and Power Purchase Agreement (PPA) for additional 0.8 MW. The rating is also constrained by RFPL’s exposure to volatile interest rates, hydrology risk associated with run of the river power generation and negative impact of Covid-19 pandemic on the project. The rating, however, derives strength from promoters, directors and management having prior experience in hydropower sector and moderate counter party risk. The ratings also factor in financial closure achieved for part of debt component with letter of intent received for balance amount, presence of power purchase agreement (PPA) with sufficient period coverage for 9.50 MW, shortage of power at present coupled with increasing demand of power in the country and government support for the power sector. The ability of RFPL to timely complete the project without any time and cost overrun, timely completion of transmission infrastructure and approval of revised Generation License and Power Purchase Agreement for additional power of 0.8 MW are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Project implementation and stabilisation risk, given its initial stage of construction

The project is at the initial stage of construction and it is exposed to execution risk associated with development of hydropower project. Till May 31, 2020, only 19.75% of the total project cost has been incurred by the company. As per progress report of March 2020, staff quarters at power house and intake area has been completed, required land for the project has been acquired and the excavation at the Headworks area is started. As the major part of the project work is yet to be completed, it continues to remain exposed to the risks associated with project implementation and satisfactory operations thereafter, given the expected Commercial Operational Date (COD) of Mid- July 2021. Timely completion of the

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

project within the estimated cost and time and satisfactory operations thereafter are the key rating sensitivities.

Power evacuation risk

The power generated from the project will be evacuated through 3.5 Km long 33kV transmission Line to Baneshwor Substation. Although, as per connection agreement, Baneshwor-Basantapur-New Duhabi 220kV transmission line to be constructed by Nepal Electricity Authority (NEA) was targeted to be completed by Mid-April 2018, the same is not completed till date. This has led to time overrun of the project as the company slowed down its construction work parallel to the transmission line works. Construction of transmission line within the scope of company has not yet started. Construction of substation and transmission line within the scope of NEA is ongoing which is expected to be completed by December 2020. Timely completion of Baneshwor Substation and Koshi Corridor Transmission Line will be the key rating sensitivities.

Pending Generation License and PPA for additional 0.80 MW

RFPL has already obtained Generation License and entered into PPA for the capacity of 9.50 MW with NEA. However, RFPL has proposed to increase its capacity to 10.3 MW and for the additional capacity of 0.80 MW, the company has obtained “Agreement in Principle” from the Department of Electricity Development. Timely receipt of Generation License and PPA for additional 0.8 MW will be critical for the project revenue generation.

Exposure to volatile interest rate

Nepalese banking sector fix interest rates on lending, based on quarterly published base rate by the banks. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, funding from Banks and Financial Institutions are exposed to volatile interest rate.

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 summer season when seasonal river flows are high (Mid-April to Mid-December) and less during the winter season. RFPL is proposed to utilize discharge from Piluwa Khola having catchment area of 263.48 km² based on perennial river. The project has 11.80 m³/s design discharge at 40% exceedance flow and gross head of 106.5 m. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river.

Impact of Covid-19 on the Project

Due to the pandemic of Corona Virus there are several impacts on the under-construction projects like unavailability of contract labor and unavailability of construction material due to partial operations of manufacturing units across Nepal. Also, there is expected delay in supply of Electromechanical (EM) and Hydromechanical (HM) equipment due to effect of pandemic in Nepal and India. Delay in execution of

project due to various reasons may lead to increase in cost. The project is also likely to attract penalty as per the PPA entered with NEA if the RCOD is not extended further.

Key Rating Strengths

Promoters, directors and management having prior experience in hydropower sector

RFPL has 4 directors in its board chaired by Mr. Bijayman Sherchan, who is a mechanical engineer having experience of more than 20 years. He is also director in Khani Khola Hydropower Company Ltd., chairman of Pashupati Energy Development Company Pvt. Ltd. and Maya Khola Hydropower Company Ltd. He is also an ex-member of Water and Energy Commission Secretariat and worked as managing director of Mailung Khola Hydropower Company Pvt. Ltd. Board of Directors are further supported by experienced team members across various functions/ departments.

Moderate counter party risk

RFPL is exposed to counter party payment risk pertaining to NEA, which has been making consecutive losses in past till FY16 and carry huge accumulated loss in its book. However, as per the annual report published by NEA, during FY19 (provisional), NEA earned profit of Rs 7,205 Mn (Rs 2,897 Mn during FY18). Further, during FY19, NEA achieved gross cash accrual of Rs 11,915 Mn (Rs 7,107 Mn in FY18). The counter party payment risk is moderated by the fact that, NEA is fully owned by government of Nepal, net loss is declining over the period and NEA is generating positive gross cash accruals. Further, NEA has been making timely payment to independent power producer (IPPs) in past.

Financial closure achieved for part of debt component with letter of intent received for balance amount

The total cost of the project for 10.3 MW is envisaged at Rs. 1,893.95 Mn to be funded in debt: equity ratio of 70:30 (i.e. Rs 1,320 Mn term loan and Rs 573.95 Mn equity). The company has achieved the financial closure for Rs. 650 Mn as on February 25, 2020. For the balance amount of Rs. 670 Mn, RFPL has obtained letter of intent from proposed banks. Further, out of Rs 573.95 Mn of equity required for project, the promoter shareholders have already injected Rs 332.39 Mn equity till May 31, 2020 (which include Rs. 255.77 Mn paid up capital and Rs 76.62 Mn advance for share capital). Out of the total project cost; RFPL has incurred Rs. 374 Mn till May 31, 2020.

Power purchase agreement with sufficient period coverage for 9.5 MW, however same under process for additional 0.8 MW

RFPL had entered into a long term PPA with NEA as on February 1, 2015 for sale of 9.5MW power to be generated from the project. 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 for 5 times in every year. The contracted energy for the project is 54.44 million units (MU) (i.e. 8.17 MU for dry season and 46.27 MU for wet season), at PLF of 66.33%. Required Commercial Operation date (RCOD) of the project is July 15, 2020 (initial RCOD was December 17, 2019) Due to impact of COVID-19, construction of sub-station at Baneswor VDC and Koshi Corridor 220 kV transmission line is

expected to be completed by December 2020. With this company is expecting extension of RCOD further by one year to July 15, 2021. If RCOD is not revised by NEA till COD, the company is required to pay late COD penalty. Further, if COD is delayed by 6 months to 18 months from RCOD, then the number of escalations in tariff rate will decrease to 4 times from 5 times. The company has also proposed to revise its capacity and upgrade it to 10.30 MW. For the revised capacity, the contracted energy for the project is proposed to be 58.32 million units (MU) (i.e. 8.76 MU for dry season and 49.56 MU for wet season), at PLF of 65.54%.

Shortage of Power at present coupled with increasing demand of power in the country

As per the NEA’s Annual Report for FY19, the current peak electricity demand is 1,320 MW. The total domestic installed capacity stands at 1,178 MW which includes 617 MW owned by NEA and 561 MW by private sector IPPs. Overall, during FY19, total energy demand was 7,584 GWh which was met by import of 2,813 GWh from India whereas balance was met by domestic generation. As per NEA, electricity demand is in increasing trend and is expected to increase in future with increase in electricity consumption through the promotion of electric vehicles by building charging station and replacing cooking gas with electricity, increase in access of population using electricity (78% in FY19) etc.

Government support for the power sector

GoN considers hydropower generation as priority sector and intends to maximize private sector participation in generation of hydroelectricity by offering different exemptions and facilities. GoN on 5 December 2019 has announced full tax exemption for first 10 years and 50% tax exemption for next 5 years to those who generate electricity within mid-April 2024. Also, GoN has declared to provide grant of amount equivalent to Rs. 5 Mn per MW installed capacity after receiving evidence of formal COD of power plant.

About the Company

River Falls Power Ltd (RFPL) is a Public limited company, incorporated on October 5, 2004 as private limited company, later on converted to public limited company in October, 2015. The company has been set up to build, own and operate 10.30 MW run-of-river, Down Puluwa Khola Small Hydropower Project in Sankhuwasabha district of Nepal, for sale of entire power within Nepal. The power project is proposed to utilize available head and flow from Puluwa Khola (river). It is promoted by individual promoters from different background and institutional investors. The major shareholder of the company as on July 16, 2019 are Mr. Mitralal Shrestha (holding 8.63%), Mr. Subash Amatya (holding 6.45%) and Sunrise Holdings Pvt Ltd. (holding 26.79%).

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Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	1,320.00	CARE-NP B+
Total		1,320.00	