

Rating Rationale

Rairang Hydropower Development Company Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	1,250.61	CARE-NP BBB- [Triple B Minus]	Assigned
Short Term Bank Facilities	50.00	CARE-NP A3 [A Three]	Assigned
Total Facilities	1,300.61		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BBB-’ to the long-term bank facilities and ‘CARE-NP A3’ to the short-term bank facilities of Rairang Hydropower Development Company Limited (RHDCL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of RHDCL derives strength from experienced directors and management team, association with the group having multiple hydropower projects and comfortable financial risk profile with the operation of 9.9 MW project during FY20 (Unaudited, refers to 12 months period ended Mid July 2020). The ratings also factor in power purchase agreement (PPA) with sufficient period coverage, moderate counter party risk, power demand supply gap in Nepal coupled with increasing demand of power in the country and government support for the power sector. The ratings, however, are constrained by projects operating at lower Plant Load Factor (PLF) and short track record of operation. The rating is also constrained by RHDCL’s exposure to volatile interest rates and hydrology risk associated with run of the river power generation.

The ability of RHDCL to reduce the gap between operational PLF and contracted PLF and availability of sufficient hydrology and timely receipt of the payments from Nepal Electricity Authority (NEA) are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Experienced directors and management team in Power sector

RHDCL is managed under the overall guidance of the company’s Board of Directors (BoD), who possesses wide experience in the power sector. RHDCL has 7 Board of directors, chaired by Mr. Shiva Ratan Sharda, has ~30 years of experience in banking sector. He is also the chairman of Sharda Group. Mr. Guru Prasad Neupane, Executive Director has more than 30 years of experience in Nepal Rastra Bank in various capacities and 20 years of experience in power sector. He is also the founder of Arun Valley Hydropower Development Company Limited (rated CARE-NP IPO Grade 4+) and chairman of Api

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

Power Limited and Ridi Hydropower Development Co. Limited. He is supported by other experienced management team.

Association with the group having multiple hydropower projects

RHDCL is one of the associate companies under Arun Valley Hydropower Group of companies (AHPC). AHPC has been involved in operation and construction of hydropower projects by itself and through associate companies. Currently, the group has 57.30 MW hydropower projects which are operational and 49.94 MW hydropower projects are under construction. The group also has 22 MW solar power projects which are under initial stage and has 8.5 MW Solar Project which is under final stage of construction.

Comfortable financial risk profile with operation of 9.9MW project during FY20 (Unaudited)

RHDCL reported total income of Rs. 171 Mn during FY20 as compared to Rs. 6 Mn in FY19 through the sale of electricity. The increase in revenue during FY20 was on account of additional electricity generation due to the commercial operation of the 9.9 MW Iwa khola Hydropower Project (IKHP) during the year. The increase in the revenue also led to increase in the PBILDT to Rs.145 Mn during FY20 over FY19. Overall gearing ratio of the company improved marginally to 2.25x at the end of FY20 on account of the increase in total networth of the company on the back of accretion of the profit. Total debt to Gross Cash Accrual (GCA) ratio improved to 39.03x during FY20 as compared to 100.71x in FY19 due to increase in gross cash accruals as a result of increase in PAT.

Power purchase agreement with sufficient period coverage

RHDCL had entered into PPA with Nepal Electricity Authority (NEA) for 9.9 MW as on May 12, 2013 and for 0.5 MW as on December 13, 2002 for sale of entire power generated by the plant of IKHP and Rairang Hydropower Project (RHP) respectively. The PPA is signed for a period of 30 years for IKHP from the date of COD or till validity of Generation License (which is obtained on July 13, 2015 for IKHP for 35 years), whichever is earlier. PPA period may be extended with mutual consensus through discussion from last six month of validity.

The RCOD of IKHP was August 05, 2019. However, the project came into an operation on October 07, 2019, as a result the company was liable to pay the late COD penalty of Rs.3.36 Mn. Since, the project was delayed by only 2 months, the company is eligible for all five escalations of 3% on base tariff.

Moderate counter party risk

RHDCL is exposed to counter party payment risk pertaining to Nepal Electricity Authority (NEA), which has been making consecutive losses in past till FY16. However, as per the annual report published by NEA, during FY20 (provisional), NEA earned profit of Rs 11,056 Mn (Rs. 9,812 Mn during FY19) resulting the accumulated profit in its book. Further, during FY20, NEA achieved gross cash accrual of Rs 16,056 Mn (Rs 14,664 Mn in FY19). 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 generating positive

gross cash accruals. Further, NEA has been making timely payment to independent power producers (IPPs) in past.

IKHP came into an operation on October 07, 2019 and operated for 9 months and 11 days during FY20. The average collection period from NEA during FY20 was 62 days (FY19:22 days). During FY20, the company received payment from NEA for supply of power generated by IKHP within 46 to 80 days.

Power demand & supply gap coupled with increasing demand of power in the country

As per the NEA's Annual Report for FY20, the current peak electricity demand is 1,408MW. The total domestic installed capacity stands at 1,328 MW which includes 632 MW owned by NEA and 696 MW by private sector IPPs. Overall, during FY20, total energy demand was 7,894 GWh which was met by import of 1,721 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 electric induction, increase in access of population using electricity (86% in FY20) etc.

Government support for the power sector

Government of Nepal (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 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 2024. Furthermore, GoN has declared to provide grant of amount equivalent to Rs. 5 Mn per MW installed capacity after receiving evidence of formal COD of complete power plant.

Key Rating Weaknesses

Projects operating at lower PLF

The annual contracted PLF for IKHP is 65.29% and for RHP is 52.94% of the installed capacity of the plant. The project has operated at lower PLF over the period. IKHP operated for 9 months and 11 days during FY20. During FY20, the PLF from IKHP was at 44.98% (over generation capacity) and the power generation as a %age to the contracted power was 76.13%. The total energy generated from the project was lower than contracted energy during Mid-October 2019 to Mid-April 2020 in case of IKHP due to its initial year of operation and hydrology issues during dry season. As per PPA, RHDCL has to supply 80% of contracted energy or availability declaration whichever is lower to the NEA, else it is liable to pay penalties. During the period, RHDCL didn't declare any energy and the energy generated was lower than 80% of the contracted energy in case of IKHP as a result there was the short supply penalty of Rs. 8.42 Mn. During FY19, the PLF from RHP was at 30.06% (over generation capacity) which increased to 37.43% during FY20. The power generation from the RHP as a %age to the contracted power as per the PPA was 56.90% during FY19 and 70.84% in FY20. The ability of the company to reduce the gap

between operational PLF and contracted PLF and availability of sufficient hydrology is the key rating sensitivity.

Exposure to volatile interest rate

Nepalese banking sectors are fixing interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions will be change by change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 1-2 year. Therefore, funding from Bank and Financial Institutions is subject 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 wet season when river flows are high (Mid-April to Mid-December) and less during the dry season (Mid-December to Mid-April). IKHP utilizes discharge from Iwa Khola having catchment area of 254.60sq. kms based on snow fed river and RHP utilizes discharge from Rairang Khola based on Perennial River. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola.

About the Company

RHDCL is a public limited company, incorporated in May 09, 2002 as a private limited company and later converted to public limited company in May 04, 2014. It is promoted by institutional investors and individual promoters having long experience in the hydropower sector for setting up Hydroelectric Project in Nepal. RHDCL had acquired 0.5 MW run-of-the-river Rairang Hydropower Project (RHP) at Dhading District which has been in commercial operation since 2011 and also it has been involved in the operation of 9.9 MW Iwakhola Hydropower Project (IKHP) at Taplejung & Panchthar district which has been in commercial operation since October 2019. The total paid up capital of the company as on July 15, 2020 is Rs. 560 Mn with promotor and public contribution ratio of 75:25. The major shareholders of the company as on July 15, 2020 are Ridi Hydropower Development Co. Ltd (25.00%), Mr. Guru Prasad Neupane (11.90%), Mr. Shiv Ratan Sharda (7.14%) and Mr. Bachha Raj Tater (7.14%). IKHP is constructed under BOOT (Build, own, Operate and Transfer) mechanism. As per the Generation License, from Government of Nepal – Ministry of Energy, obtained on July 13, 2015 for IKHP, the project shall be handed, on whatever conditions the project is, to the Government of Nepal after expiry of Generation License, which is 35 years respectively.

Brief Financial Performance during the last 3 years is as follows:

(Rs. In Million)

Particulars	FY18 (A)	FY19(A)	FY20(UA)
Income from Operations	4	6	171
PBILDT	(4)	4	145
PAT	(1)	12	16
Overall Gearing (times)	1.87	2.27	2.25
Interest coverage (times)	(2.52)	3.25	1.30

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Annexure 1: Details of the Facilities rated

Facility/ Instrument	Type of the Facility	Amount (Rs. In Million)	Rating
Long Term Bank Facilities	Term Loan	1,250.61	CARE-NP BBB-
Short Term Bank Facilities	Overdraft Loan	50.00	CARE-NP A3
Total Facilities		1,300.61	