

Rating Rationale
River Falls Power Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating ¹	Rating Action
Issuer Rating	NA	CARE-NP BB- (Is) [Double B Minus (Issuer)]	Assigned
Long Term Bank Facilities	1,320.00	CARE-NP BB- [Double B Minus]	Revised from CARE-NP B+ [Single B Plus]
Total Facilities	1,320.00		

* The issuer rating is subject to the company maintaining overall gearing not exceeding 2.10x at the end of FY23.

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned Issuer rating of ‘CARE-NP BB- (Is)’ to River Falls Power Limited (RFPL). Issuers with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations, in Nepal. Also, CRNL has revised the rating of ‘CARE-NP B+’ to ‘CARE-NP BB-’ assigned to the long-term bank facilities of the company.

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of RFPL factors in financial closure achieved by the company for the entire debt requirement for the project thereby reducing the funding risk and improvement in the progress of the project over the period. The rating continues to be constrained by initial stage of construction of the project of ~30% as on December 25, 2020 where company is yet to revise its Required Commercial Operation Date (RCOD) in line with its expected COD of mid-July 2022, project implementation and stabilization risk followed by the power evacuation risk. The rating is also constrained by pending Generation License and Power Purchase Agreement (PPA) for additional 0.8 MW, RFPL’s exposure to volatile interest rates and regulatory risk and hydrology risk associated with run of the river power generation. 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 presence of power purchase agreement (PPA) with sufficient period coverage for 9.50 MW, current demand & supply gap however expected increase in supply in future and government support for the power sector. The ability of RFPL to timely complete the project without any time and cost overrun, extension of RCOD to avoid late COD penalty, 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

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

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

The project is at the initial stage of construction and till December 25, 2020, 30.31% of the total project cost has been incurred by the company. As per progress report of November 2020, staff quarters at power house and intake area has been completed, required land for the project has been acquired, construction of weir structure, and settling basin is under progress. Also, excavation of power canal, head race alignment and surge tank is under progress. 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, as the plant is being executed in the hilly region where the uncertain geology and adverse climatic conditions of the area plays a major role in timely completion of the planned activities. Timely completion of the 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) 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 March 31, 2021. 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.

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.

Exposure to regulatory risk

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

Key Rating Strengths***Promoters, directors and management having prior experience in hydropower sector***

RFPL has 4 directors in its board chaired by Mr. Subash Amatya, having experience of more than 15 years. He is also the chairman of Sunrise Holdings Pvt. Ltd and director in Shuvam Power Ltd, Prabhu Life Insurance Ltd. and Prabhu Helicopter Pvt. Ltd. Mr. Mitralal Shrestha, director, having experience of more than 15 years, is also the chairman of Shuvam Power Ltd. and Pragyam Securities 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 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). 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 profit is increasing over the period and generating positive gross cash accruals. Further, NEA has been making timely payment to independent power producers (IPPs) in past.

Financial closure achieved for estimated project cost

The total cost of the project for 10.3 MW is envisaged at Rs. 1,893.95 Mn (Rs. 184 Mn per MW) 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 the project on August 31, 2020. Further, out of Rs 573.95 Mn of equity required for project, the promoter shareholders have already injected Rs 343.88 Mn equity funds till December 25, 2020. Out of the total project cost; RFPL has incurred Rs. 574 Mn till December 25, 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 March 31, 2021 (initial RCOD was July 15, 2020) 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 March 31, 2020. Further, with construction progress of RFPL also been impacted by COVID-19, RFPL expects extension of RCOD further to July 15, 2022. If RCOD is not revised by NEA till COD, the company will be liable 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%.

Current demand & supply gap however expected increase in supply in future

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. However, considering under construction projects which are expected to generate electricity in next 2-3 years and electricity demand which has not increased substantially in past few years could create a situation of oversupply in near future in wet season. This could put pressure on NEA’s payment capabilities which is sole counter party with majority of PPA signed on take or pay basis.

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.

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 Piluwa Khola Small Hydropower Project in Sankhuwasabha district of Nepal. The major shareholder of the company as on July 16, 2020 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 BB-
Total		1,320.00	