

Rating Rationale
Ridge Line Energy Private Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating¹	Rating Action
Long Term Bank Facilities- (Proposed)	1,134.13	CARE-NP B+ [Single B Plus]	Assigned
Short Term Bank Facilities- (Proposed)	75.87	CARE-NP A4 [A Four]	Assigned
Total Facilities	1,210.00		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP B+’ to the long term bank facilities and ‘CARE-NP A4’ to the short term bank facilities of Ridge Line Energy Private Limited (RLEPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to RLEPL are constrained by the early stage of construction of the project leading to high project implementation & stabilization risk and financial closure yet to be achieved leading to high financing risk for the project. The rating is also constrained by the limited experience of the management in developing hydropower project, hydrology risk associated with run-of-the-river power generation and exposure to volatile interest rates and fluctuation in the foreign currency. The ratings, however, derive strength from presence of power purchase agreement (PPA) with sufficient period coverage and moderate counter party risk and also comparatively low cost of hydropower development (Rs. 179 Mn per MW). The ratings also factor in current demand and supply gap of power generation in the country and government support for the power sector. The ability of company to timely achieve the financial closure and completion of the project without any time or cost overrun are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Financial closure yet to be achieved for Project Cost

The total cost of the project is envisaged at Rs. 1,620.19 Mn, which is proposed to be funded in debt equity ratio of 70:30 (debt of Rs 1,134.13 Mn and equity of Rs. 486.06 Mn). RLEPL is in the process of entering into the loan agreement for the proposed loan amount of Rs. 1,134.13 Mn. Out of Rs 486.06 Mn of equity, till January 7, 2021, Rs. 118.78 Mn has been infused by shareholders. As on January 7, 2021, RLEPL has incurred cost of Rs. 97.34Mn on the project. Timely completion of financial closure will be the key rating sensitivity with regard to the funding risk of the project.

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

Limited Experience of the Management in developing Hydropower project

RLEPL is managed under the overall guidance of the company's Board of Directors (BoD) consisting of 7 individuals from different backgrounds who are also promoters of the company. The board is chaired by Dr. Basant Giri, PhD in Chemistry from University of Wyoming, USA, having more than 15 years of experience in the education and Research field. Mr. Rewant Kumar Rawat, Managing Director, M.Sc. in Geotechnical Engineering from Tribhuvan University, Nepal, having more than 9 years of experience in various sector. He was previously involved as Board of director of Budigandaki Hydroelectric Project (1200MW), he was also Managing Director in AARAN Engineering Pvt. Ltd. for more than 2 years, the company works in fabrication of turbines & Penstock of micro-hydropower and has worked in more than 45 micro-hydropower in Nepal. However, all the directors have limited experiences in developing hydropower projects in Nepal. Super Chepe Hydropower (SCHP) is their first hydro project as a promoters and directors in Nepal.

Power Evacuation Risk

The Power generated from the project is proposed to be evacuated through approx. 25km long 33KV Transmission Line to NEA's Marki-Chowk Substation at Tanahu district. Power from Marki-Chwok Substation is further evacuated to National Grid of the NEA. The Marki-Chowk substation is already in operation. Construction of transmission line from powerhouse to Marki-Chowk substation is within the scope of RLEPL. Timely completion of the transmission line will be key rating sensitivity.

Project implementation and stabilization risk

The RCOD of the project is September 5, 2022 and the project is at the preliminary stage of construction. Till January 7, 2021, ~6% of the total project cost has been incurred. Selection of Civil contractor, Hydro-mechanical contractor and Electro-mechanical contractor is going on and yet to be finalized. The project includes 3411m long headrace pipe, and 1195.8m long penstock pipe. Two turbines, Horizontal Pelton type (each having 4,766 MW capacity), two generators (each having 5385 kVA capacity) and two transformers having 12 MVA rated capacity are proposed to be used in the project.

As the major part of the project work is yet to be initiated, the company continues to remain exposed to the risks associated with project implementation and satisfactory operations thereafter. Timely completion of the project within the estimated cost and time and satisfactory operations thereafter are the key rating sensitivities.

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 (May to December) and less during the winter season (December to May). SCHP is proposed to utilize discharge from Chepe Khola having catchment area of 49.32 sq kms based on semi snow fed

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 and fluctuation in foreign currency

Interest rate is determined by adding certain percentage of premium (risk premium) on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions is changed 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 are exposed to volatile interest rate. The company is planning to use the European technologies for the Electrometrical works (whose portion is 17% of total project cost) for which the hydropower equipment will be imported from the Europe and the company will be exposed to fluctuation in the foreign exchange.

Key Rating Strengths:

Power purchase agreement with sufficient period coverage

RLEPL entered into PPA with NEA for 9.05 MW on March 23, 2019 for sale of entire power generated by RLEPL. The PPA is valid for a period of 30 years from Commercial Operation date (COD). The company is yet to receive the generation license for the project. The contracted Plant Load Factor (PLF) is 69.07% with total contracted energy of 54.76 MU. The tariff for wet season (May to December) is Rs 4.80 per kWh and for dry season (December to May) is Rs 8.40 per kWh with 3% escalation on base tariff for 8 years. Required Commercial Operation (RCOD) of the project is September 5, 2022. If the project is not completed within the mentioned RCOD, then the delay penalty will be levied to the company which is 5% of total contracted energy for the delay period at the applicable tariff rate as on COD.

Moderate counter party risk

RLEPL 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 and gross cash accrual of Rs 16,056 Mn. The counter party payment risk is moderated by the fact that, NEA is fully owned by government of Nepal, and generating positive gross cash accruals. Further, NEA has been making timely payment to independent power producers (IPPs) in past

Current demand & supply gap coupled with increasing demand for 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 1,720 GWh (~22% of total demand) 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. This could put pressure in NEA’s payment capabilities which is sole counter party with majority of PPA signed by NEA are 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.

Comparatively low project development cost

The entire project cost for SCHP is estimated at around Rs 1,620.19 Mn (including IDC) generating 9.05 MW electricity (per MW cost is at around Rs. 179 Mn), which is comparatively lower than other hydropower projects having installed capacity of less than 10 MW in Nepal.

About the Company

Ridge Line Energy Private Limited (RLEPL) is a private limited company, incorporated on December 28, 2017. It is promoted by individual promoters to develop Super Chepe Hydropower Project (SCHP) having installed capacity of 9.05 MW in a “BOOT” (Build, Own, Operate and Transfer) model, and is located at Ajirkot Rural Municipality, Gorkha District of Nepal.

Analyst Contact Mr. Rujan Bajracharya rujan.b@careratingsnepal.com Tel No.: +977-01-4012629	Group Head Mr. Shisir Pokharel shisir.pokharel@careratingsnepal.com Tel No.: +977-01-4012628	Relationship Contact Mr. Sajan Goyal sajan.goyal@careratingsnepal.com Tel No.: 9818832909/+977-01-4012628/29/30
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Annexure 1: Details of the Facilities rated

S. N.	Name of Bank	Type of the Facility	Amount (Rs. in Million)	Rating
1	Long Term Bank Facilities – Proposed	Term Loan	1,134.13	CARE-NP B+
2	Short Term Bank Facilities - Proposed	Working Capital Loan	75.87	CARE-NP A4
Total			1,210.00	