

## River Falls Power Limited

### Rating

Facilities/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Issuer Rating*	NA	<b>CARE-NP BB-(Is) [Double B Minus (Issuer)]</b>	Reaffirmed
Long-Term Bank Facilities**	1,320.00	<b>CARE-NP BB- [Double B Minus]</b>	Reaffirmed
<b>Total Facilities</b>	<b>1,320.00</b>		

\*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 reaffirmed the issuer rating of 'CARE-NP BB- (Is)' assigned 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 reaffirmed the rating of 'CARE-NP BB-' assigned to the long-term bank facilities of RFPL.

### Detailed Rationale & Key Rating Drivers

The ratings assigned to RFPL continue to remain constrained by the project implementation and stabilization risk, hydrology risk associated with run-of-the-river power generation project, exposure to regulatory risk and volatile interest rate.

The ratings, however, derive strength from the experienced management team backed by institutional promoters, power purchase agreement with sufficient period of coverage, moderate counter party risk, low power evacuation risk, financial closure achieved for estimated project cost, current demand & supply gap; however, expected increase in supply in future and favorable government policies towards power sector.

*Going forward, the ability of the company to timely complete the project at the envisaged project cost without any further time or cost overrun and early stabilization of the project would remain as the key rating sensitivities.*

### Detailed Description of Key Rating Drivers

#### Key Rating Weaknesses

##### ***Residual Project implementation risk and stabilisation risk***

Though the project is approaching advanced stages of its construction, it is still exposed to execution risk associated with development of hydropower project. Till December 31, 2021, 78% of the financial progress has been achieved. In terms of physical progress, around 75% progress has been achieved till January 3, 2022 which includes completion of head works, 80% of penstock and powerhouse related works and 80% of the pipeline works, 50% of hydro mechanical works and 32% of electromechanical (EM) works. Although the project is in its advanced stage of completion and is expected to commence operations by July 2022, the company continues to remain exposed to the risks associated with project implementation and satisfactory operations thereafter. Hence, timely completion of the project within the estimated cost and time and satisfactory operations thereafter remain 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 (Mid-April to Mid-December) and less during the winter

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

season (Mid-Dec to Mid-April). RFPL is proposed to utilize discharge from Piluwa Khola having catchment area of 263.48 km<sup>2</sup> based on perennial river. The project has 11.80 m<sup>3</sup>/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 volatile interest rate***

Nepalese banking sector fixes interest rates on lending based on quarterly published base rates by the banks, adding certain percentage of premium to these quarterly base rates. Base rate of the Bank and Financial Institutions (BFIs) remains volatile to change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 2-3 years. Therefore, funding from BFIs is subject to volatile interest rate.

#### **Key Rating Strengths**

##### ***Experienced management team backed by institutional promoters***

RFPL has 3 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 associated with Shuvam Power Ltd, Prabhu Life Insurance Ltd. and Prabhu Helicopter Pvt. Ltd. Mr. Dinesh Prasad Shrestha, director, has an experience of more than 15 years and is also board member in various hydropower companies. Mr. Mitralal Shrestha, having an experience of more than 15 years, is also the chairman of Shuvam Power Ltd. and Pragyam Securities Pvt. Ltd. RFPL has 10 institutional promoters with around 15% shareholding.

##### ***Power purchase agreement with sufficient period coverage for 10.3 MW***

RFPL had entered into a long term PPA with NEA as on February 1, 2015 for sale of 9.5MW power, upgraded by additional 0.8MW to 10.3 MW as on January 6, 2022, to be generated from the project. The period of PPA is 30 years from the date of commercial operation date (COD) or till validity of Generation License (obtained on February 16, 2014 for 35 years), whichever is earlier. PPA period may be extended with mutual consensus during the last six months of validity. 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 after completion of 12 months from COD date. However, escalation will be provided for nine years for 0.8 MW which was added later. The contracted energy for the project is 57.84 million units (MU) at PLF of 64.10%.

The Required Commercial Operation Date (RCOD) of the project was further revised to July 15, 2022 amid delays due to the covid19 pandemic (initial RCOD was December 17, 2019 which had been revised to July 15, 2020 on account of delay in construction of Baneshwor Substation).

##### ***Low Power evacuation risk***

The power generated from the project will be evacuated through 3.5 Km long 33kV transmission Line to Baneshwor Substation, which will be further evacuated to National grid. The NEA's Baneshwor substation has been fully constructed and is in operations also. The construction of transmission line from powerhouse to NEA substation within the scope of RFPL has also been fully completed.

##### ***Favourable government policies for the power sector coupled with moderate counter party risk***

Considering the significance and potential of hydropower sector in Nepal, GoN has placed the hydropower generation in the priority sector and intends to maximize involvement of private sector by offering different exemptions and facilities. Also, NEA is the sole counter party for the selling and distribution of electricity in Nepal. 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. Furthermore, NEA has been making timely payment to independent power producers in past.

## 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 shareholders of the company as on July 16, 2020 are Mr. Dinesh Gurung (holding 16.12%), Ms. Mithila Shrestha (holding 9.46%) and Mr. Subhash Upreti (holding 7.36%) are major individual shareholders. The company also has 10 institutional shareholders (holding 15.02%), including Maya Khola Hydropower Company, Global Holding and Sunrise holding.

### **Annexure 1: Details of the Facilities Rated**

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Term Loan	1,320.00	CARE-NP BB-
<b>Total</b>		<b>1,320.00</b>	

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