

Richet Jalbidhyut Company Private Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	732.00	CARE-NP BB+ [Double B Plus]	Assigned
Short Term Bank Facilities	3.00	CARE-NP A4+ [A Four Plus]	Assigned
Total Facilities	735.00 (Seven Hundred and Thirty-Five Million Only)		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB+' to the long-term bank facilities and 'CARE-NP A4+' to the short-term bank facilities of Richet Jalbidhyut Company Private Limited (RJCL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of RJCL is constrained by project stabilization risk, hydrology risk associated with run-of-the-river power generation, exposure to volatile interest rate risk and regulatory risk.

The ratings, however derive strength from experienced board members and management team, presence of power purchase agreement (PPA) with sufficient period coverage and moderate counter party risk. The ratings also factor in current demand & supply gap; however, possible oversupply in future and government support for the power sector.

Going forward, the ability of the company to successful stabilization of the operations of newly commenced hydro power project, having availability of sufficient hydrology to generate energy equivalent to contracted are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Project stabilization risk

RJCL had incurred an expenditure of Rs. 1012 Mn for setting up 4.98 MW hydro power project and the expenditure incurred has been funded through term loan of Rs 735 Mn and balance from the promoters' contribution in the form of equity capital and unsecured loans. There was time overrun in the project due to the pandemic of COVID-19 which resulted the increase in the overall cost of the project on account of increased interest during construction (IDC) cost and other incidental expenses towards project. The project came into an operation in August 12, 2021. During initial 6 months of operations, the plant was operated at 54.44 % of its generation capacity. The annual contracted PLF of the plant is 62.77%. The total energy generated against the contracted PLF during the said period is 77.48%. Being a new unit, it is crucial for the company to stabilization & streamlining of operations in coming years and achieve the contracted energy which is also key rating monitorable.

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). The project utilizes discharge from Richet Khola having catchment area of 40.83 sq. kms based on 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

Nepalese banking sectors are fixing floating 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 (BFIs)

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

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.

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 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 Strength

Experienced board members and management team in hydropower sector

RJCPL has 2 Board of Directors, chaired by Mr. Arjun Prasad Paudel, who holds 43.52% of the total share capital, has more than 2 decades of experience in different sector including hydropower projects. He is associated with various hydro power companies (under implementation and operational) at board levels positions. He is supported by other experienced management team members.

Power purchase agreement with sufficient period coverage

RJCPL had entered into a PPA with NEA as on May 05, 2016 for sale of 4.98 MW power to be generated from the project. The period of the PPA is 30 years from commercial operation date (COD) or till validity of Generation whichever is earlier. 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 every year for 5 times after completion of 12 months from COD date. The company has signed PPA with NEA is owned by Government of Nepal and hence counter party default risk is low; however, timely realization of critical for the company and from analytical perspective also. The power generated from the project is evacuated to NEA Salyantar Substation. Thus, smooth evacuation of the power without tripping is crucial from rating perspective.

Favorable Government policies towards 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. As per various directives from NRB whereby all the banks (type A, B C, D) have to allocate minimum share of their total advances to energy sector which argues well for the sector.

About the Company

Richet Jalbidhyut Company Private Limited (RJCPL) is a private limited company, incorporated in March 26, 2014. RJCPL is involved in the operation of 4.98 MW run-of-the-river Richet Khola Small Hydroelectric Project (RHSHP) at Gorkha District which has been in commercial operation since August 12, 2021. The project is constructed under BOOT (Build, own, Operate and Transfer) mechanism.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	732.00	CARE-NP BB+
Short Term Bank Facilities	Overdraft	3.00	CARE-NP A4+
Total Facilities		735.00	

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