

## Ridge Line Energy Private Limited

### Ratings

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	1,134.10	CARE-NP BB- [Double B Minus]	Rating revised from CARE-NP B+ to CARE-NP BB-
Short Term Bank Facilities	75.90	CARE-NP A4 [A Four]	Reaffirmed
<b>Total Facilities</b>	<b>1,210.00</b> <b>(One Thousand Two Hundred and Ten Million Only)</b>		

Details of instruments/facilities in Annexure-1

Care Ratings Nepal Limited (CRNL) has revised the rating to 'CARE-NP BB-' to the long-term bank facilities and reaffirmed 'CARE-NP A4' to the short-term bank facilities of Ridge Line Energy Private Limited (RLEPL).

### Detailed Rationale & Key Rating Drivers

*The revision in long term rating assigned to bank facilities of RLEPL factors in completion of the financial closure of the project, thereby reducing the funding risk. The ratings derive strength from experienced board members and management team, presence of power purchase agreement (PPA) with sufficient period coverage, and low cost of the project and favorable government policies for the power sector.*

*However, the rating continues to be constrained by project implementation risk with its debt-funded greenfield hydro power project, hydrology risk associated with run-of-the-river power generation and exposure to volatile risk and power evacuation.*

*Going forward, the ability of the company to timely execute the project within the Required Commercial Operation Date (RCOD) avoiding time or cost overrun is the key rating sensitivity.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### Project implementation risk

The estimated cost of the project is Rs 1,620.19 Mn (Rs 179 Mn per MW) which is proposed to be financed in Debt equity ratio of 70:30 (Rs. 1,134.13 Mn term loan and Rs. 486.06 Mn equity). The total debt of the project has already been tied up.

Till December 20, 2021, ~23% of the total project cost has been incurred. The contracts for civil works, hydro-mechanical works and electro-mechanical works have been awarded. Excavation and slope protection work throughout the access road has been completed and maintenance of access road is going on. The company expects to complete the project by mid-August 2022.

As the major part of the project is yet to be executed, the company continues to remain exposed to the risks associated with project implementation and satisfactory operations thereafter. Though the debt funding of the project has been fully tied up; however, timely infusion of the funds by the promoters as project equity would remain crucial for timely completion of the project within the estimated cost and time.

##### 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 (Mid-Dec to Mid-April). The project 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.

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

### 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 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 are exposed to volatile interest rate.

### Key Rating Strength

#### Experience board members and management team

RLEPL has seven Board of Directors, chaired by Dr. Basant Giri and he has more than 15 years of experience in the education and research. He is associated with various research institutes in different capacities. The Company's management team is led by Mr. Rewant Kumar Rawat (Managing Director), who has around a decade of experience in power generation companies. He is supported with the other experienced management team members.

#### Power purchase agreement with sufficient period coverage

RLEPL has 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) or till validity of generation license. 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.

#### Relatively low cost of Project and moderate power evacuation risk

The project cost is estimated at around Rs 1,620.19 Mn (including IDC) generating 9.05 MW electricity. Cost per MW is around Rs. 179 Mn, which comparatively lower than other hydropower plants having installed capacity less than 10 MW in Nepal. The low project cost mainly attributable to low cost for land acquisition, fast mobilization of civil works & labors and socio-mitigation issues and timely execution of works till date without any cost spill overs. Comparatively lower project cost argues well for the company in terms of shorter payback period, better return and debt service coverage indicators in the light of fixed tariff structure. The power generated from the project is proposed to be evacuated to New Marshyangadi Substation. Considering the slow progress in the construction of New Marshyangadi Substation, RLE has entered into new connection agreement with NEA to evacuate the power generated from the project to operational Kritipur substation which reduces the power evacuation risk of the project subject to the timely construction of transmission line by the company.

### 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.

### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	1,134.10	CARE-NP B+
Short Term Bank Facilities-Proposed	Working Capital Loan	75.90	CARE-NP A4
<b>Total Facilities</b>		<b>1,210.00</b>	

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