

## Ridi Power Company Limited

### Ratings

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
<b>Issuer Rating</b>	<b>NA</b>	<b>CARE-NP BB+ (Is) [Double B Plus (Issuer)]</b>	<b>Assigned</b>

*The issuer rating is subject to overall gearing ratio of the company not exceeding 1.25x at the end of FY23 (FY refers to the twelve-month period ending mid-July).*

CARE Ratings Nepal Limited (CRNL) has assigned the issuer rating of 'CARE-NP BB+ (Is)' to Ridi Power Company Limited (RIDI). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations, in Nepal.

### Detailed Rationale & Key Rating Drivers

The issuer rating assigned to RIDI is constrained by modest operating performance of its power projects during 9MFY23 (Unaudited; refers to the nine-month period ended mid-April 2023) resulting in moderation in income from sale of electricity. The rating also factors in equity commitments to a subsidiary company and related project implementation risk associated with under construction 20 MW hydropower project of the subsidiary, which is considerably larger than the currently operational projects of the company. Furthermore, the rating also takes note of hydrology risk associated with run-of-the-river power generation, geological and risk of natural calamities in hydropower projects, exposure of solar projects to climatic conditions and associated technological risks and exposure to regulatory risk.

The rating, however, derives strength from experienced board members and management team with long track record in operating power projects and association with large group having multiple power projects, presence of power purchase agreement (PPA) with sufficient period coverage, and favorable government policies towards power sector. The rating takes cognizance of varied revenue profile of the company supported by multiple operational power projects, which bodes well for the company in terms of lower revenue concentration risk associated with any single operational project. The rating also factors in low gearing ratio of company and moderate debt coverage indicators in 9MFY23.

*Going forward, the ability of the company to successfully reduce the gap between operational PLF and contracted PLF on a sustained basis with timely receipt of payments from Nepal Electricity Authority (NEA) are the key rating sensitivities. Furthermore, any substantial capital commitment that could lead to material deterioration in the company's capital structure from current levels will also be key rating sensitivities.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### Modest operating performance of power projects during 9MFY23

The company has three operational hydropower projects, 9.9 MW Iwakhola Hydropower Project (IKHP) which came into operation in October 07, 2019, 0.5 MW Rairang Hydropower Project (RHP) which came into operation in November 17, 2011 and 2.4 MW Ridi Khola Hydropower Project (RKHP) which came into operation in October 27, 2009. 8.5 MW Butwal Solar Project (BSP) came into operation in October 31, 2020. Energy generation of IKHP was modest with PLF of 79% and 59% of contracted capacity during FY22 and 9MFY23 respectively, on account of plant being fully shut down for two and half months from Mid-June 2022 to August end 2022 due to destruction of infrastructures caused by flood. Furthermore, power generation in FY24 is expected to be impacted by the floods on June 16, 2023. Infrastructural damages on the headworks, headrace pipe and equipment at powerhouse inflicted by the flood have resulted in shutdown of the plant currently. PLF of RKHP is relatively better, which was 93% and 82% of the contracted capacity during FY22 and 9MFY23, respectively, owing to better hydrology in dry seasons, particularly during FY22. Besides, the energy generation of RKHP in dry seasons are on higher side, which is likely to benefit the revenue generation

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

from the power plant as tariff rate in dry season are higher than wet seasons. Also, the power generation of its operational solar projects BSP have been relatively better at average 90% of the contracted capacity.

However, since IKHP is the largest hydropower project of RIDI, prolonged downtime of the plant could adversely impact the revenue profile of the company. Thus, recommissioning of IKHP as soon as possible along with company's ability to reduce the gap between operational PLF and contracted PLF, on a sustained basis, will remain a key monitorable aspect.

### **Equity commitments to subsidiary company**

In the current financial year (FY23), RIDI has acquired the entire equity shares of Sajha Power Development Company Private Limited (SPPL) and SPPL is now the fully owned subsidiary of RIDI. RIDI made investment of Rs 150 Mn in SPPL. SPPL has obtained generation license and signed PPA for 20 MW Lower Balephi Hydropower Project (LBHP), the estimated cost of which is Rs. 4,400 Mn proposed to be financed in debt equity mix of 75:25. The equity commitments of RIDI for LBHP is Rs. 1,100 Mn, out of which Rs. 150 Mn has already been invested and Rs. 774 Mn is to be financed from proposed right proceeds. As the construction of project is yet to be started, this exposes the company towards project implementation risk associated with under construction hydropower project. Also, any substantial cost overrun in under-construction projects could require additional investments from RIDI. Substantial fund flow to its subsidiary as a result of current commitments and any potential cost overrun, which is not uncommon for hydro projects in Nepal given the challenging geology, could have adverse impact on future liquidity prospects and financial risk profile of the company. Thus, equity commitments and investments to the subsidiary will continue to be key 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). RKHP utilizes discharge from Ridi Khola having catchment area of 591sq. kms based on Perennial River. IKHP utilizes discharge from Iwa Khola having catchment area of 254.60sq. kms based on snow fed river and RHP utilizes discharge from Rairang Khola based on Perennial River. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola.

### **Risk of Natural Calamities**

In Nepal, hydropower projects are usually located in terrains that are topographically challenging making their operations vulnerable to adversities of nature. Floods and landslides that tend to occur in these areas pose threat to these power projects damaging their infrastructures. These natural calamities can adversely affect the smooth flow of power generation and distribution, which can impact financial returns of the projects. Furthermore, RIDI's operations are currently impacted by the recent flood on Iwa Khola. Assessment of the damages is in progress. Nonetheless, in case of a prolonged plant downtime, the company's returns are likely to be supported, to some extent, by the insurance coverage taken by the company.

### **Solar project operations exposed to climatic conditions and technological risks**

The company has used poly-crystalline technology in solar projects. Poly-crystalline technology suffers relatively higher degradation, requires more land area and has low heat tolerance as compared to mono- crystalline technology and are less efficient than mono- crystalline panels. Achievement of desired Capacity Utilization Factor (CUF) going forward would be subject to change in climatic conditions, amount of degradation of modules as well as technological risks

**Exposure to regulatory risk**

Government of Nepal (GoN) has 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****Experienced directors/management team in power sector and part of Arun Valley Hydropower Group of Companies**

RIDI is managed under the overall guidance of the company's Board of Directors (BoD), who possesses wide experience in the power sector. The board is chaired by Mr. Sanjeev Neupane, who has around one and half decades of experience in hydropower sector. He is also managing director of API Power Company Limited [CARE-NP BB+(Is)] and was also involved as director of Arun Kabela Power Limited and People Investment Company Limited. Mr. Kuber Mani Nepal, Managing Director, has more than two decades of experience and has been involved with Ridi Hydropower Development Company Limited (RHPC) since its inception. The board is supported by other experienced management team. RIDI is part of Arun Valley Hydropower Group of companies (AHPC) which has 79.74 MW operational power projects under its wing as on April 13, 2023 along with 68 MW hydropower and solar projects under construction. Experienced background of BOD's and RIDI being a part of AHPC could provide technical support and operational synergy to RIDI.

**Moderate financial profile**

RIDI is generating revenue from sale of electricity having three operational hydropower projects. RIDI's income through sale of electricity was Rs. 263 Mn during 9MFY23, affected by IKHP plant being shut down for around 45 days during 9MFY23. Owing to lower revenue generation and increased operating expenses related to increased lease payments of BSP coupled with increased interest expenses attributable to margin lending loans taken by RIDI during FY23, company reported PAT of Rs. 6 Mn during 9MFY23. Gross Cash Accruals was Rs. 89 Mn during 9MFY23. However, the company has insurance coverage for both machinery breakdown and Loss on Pay (LOP) for IKHP, the claim proceeds of which are yet to be accounted for. During previous year, 60-66% of the income from electricity sale in contributed by IKHP, any adverse effect on operating performance of which will impact revenue profile of the company.

RHPC made substantial gain on sale of investments on sale of 1.22 Mn shares of Rariang Hydropower Development Company Limited (RKHP) during FY22 resulting into substantial gross cash accruals and thus supporting liquidity position of the company with cash and bank balance of Rs. 191 Mn and investments in secondary shares of Rs. 231 Mn at the end of FY22. Cash and bank balance however decreased to Rs. 23 Mn as on mid-April, 2023.

**Moderate gearing levels and debt coverage indicators**

The overall gearing ratio of the company stood comfortable and improved to 0.99x at the end of 9MFY23 (FY22: 1.06x) marked by repayment of scheduled term loans. The term loan of RHP and RKHP has already been fully paid, thus the cash accruals from these operational hydropower projects is likely to support debt repayment of IKHP and BSP. RIDI's capital base and tangible networth stood at Rs. 1,549 Mn and Rs. 1,637 Mn respectively at the end of 9MFY23. Similarly, Interest Coverage ratios stood moderate at 1.68x at the end of 9MFY23. Total debt to Gross Cash Accrual (GCA) ratio was 18.23x during 9MFY23, which was relatively on higher side on account of decreased profitability and gross cash accruals. The debt levels are likely to slightly rise to finance the reconstruction of damaged infrastructures of IKHP, which coupled with lower accretion of profit expected may slightly elevate the gearing levels during FY23.

**Power purchase agreement with sufficient period coverage**

The company had entered into PPA with Nepal Electricity Authority (NEA) for 0.5 MW RHP as on December 13, 2002 for sale of entire power generated by RHP. RHP being hydropower project of less than 1 MW has no clause of expiry in the generation license which was obtained on September 09, 2002. For 8.5 MW BSP and 2.4 MW RKHP, PPA is signed for a period of 25 years from the date of COD/ RCOD or till validity of Generation License, whichever is earlier. For 9.9 MW IKHP, PPA has been entered for a period of 30 years from the date of COD or till validity of Generation License, whichever is earlier. PPA period may be extended for RKHP and IKHP with mutual consensus through discussion from last six month of validity. The tariff rate of the hydropower projects ranges from Rs 3.00 per kWh to Rs 8.40 per kWh with clause of escalation in base tariff over the period. In case of solar projects, the tariff rate is fixed at Rs. 7.30 per kWh. For operational hydropower projects, the wet/dry season is under 8/4 months modality.

**Favorable government policies towards power sector**

Government of Nepal (GoN) considers power generation as priority sector and intends to maximize private sector participation in generation of electricity by offering different exemptions and facilities on power sector. 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 2027. Also, with government focus more toward reservoir-based hydropower projects; Monetary Policy FY23 has provided full tax exemption for first 15 years and 50% tax exemption for next 6 years to reservoir and semi- reservoir projects whose capacity is higher than 40 MW, completing financial closure within mid-April 2029. 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. Also, increasing trend of cross border energy trade and its prospect in upcoming days with bilateral agreements with the neighboring nations shows positive outlook on long- term demand for the power sector.

**About the Company**

Ridi Hydropower Development Company Limited (RHPC), incorporated in May 09, 2002 acquired Rairang Hydropower Development Company Limited (RRHP), incorporated in March 11, 2001. The joint transactions of combined company started under the name of "Ridi Power Company Limited" (RIDP) on July 15, 2022. The swap ratio between RHPC and RRHP was finalized at 1:0.93. Also, RIDP's total paid up capital increased to Rs. 1,549 Mn post issuance of 40% bonus shares during 9MFY23. The company has three operational hydropower projects and one operational solar project.

**Contact us****Analyst Contact**

Ms. Monika Rawal

Contact No.: 977-01-4012630

Email: [monika.rawal@careratingsnepal.com](mailto:monika.rawal@careratingsnepal.com)

Ms. Santosh Pudasaini

Contact No.: +977-01-4012628

Email: [pudasaini.santosh@careratingsnepal.com](mailto:pudasaini.santosh@careratingsnepal.com)

**Relationship Contact**

Name: Achin Nirwani

Contact No.: +977 9818832909

Email: [achin.nirwani@careratingsnepal.com](mailto:achin.nirwani@careratingsnepal.com)

**About CARE Ratings:**

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

**Disclaimer**

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.