

Ridge Line Energy Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Issuer Rating	NA	CARE-NP BB- (Is) [Double B Minus (Issuer)]	Assigned
Long Term Bank Facilities	1,412.70	CARE-NP BB- [Double B Minus]	Reaffirmed
Short Term Bank Facilities	-	-	Rating Withdrawn
Total Facilities	1,412.70 (One billion four hundred twelve million and seven hundred thousand only)		

The issuer rating is subject to total debt of the company not exceeding Rs. 1,500 Mn at the end of FY24 (FY refers to the twelve-month period ending mid-July).

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned issuer rating of 'CARE-NP BB- (Is)' to Ridge Line Energy Limited (RLEL). Issuers with this rating are considered to offer moderate risk of default regarding timely servicing of financial obligations, in Nepal.

CRNL has also reaffirmed the rating of 'CARE-NP BB' assigned to the long-term bank facilities of RLEL. Furthermore, CRNL has withdrawn the rating of 'CARE-NP A4' assigned to the proposed short term bank facilities of RLEL upon request of withdrawal of the same from RLEL and confirmation that the proposed facility has not been used for mobilizing funds, and as such, no amount is outstanding against the rated facility.

Detailed Rationale & Key Rating Drivers

The ratings assigned to RLEL is constrained by residual implementation risk and operations stabilization risk thereafter associated with its hydropower project, which is in advanced stages of construction. The ratings also factor in hydrology risk associated with run-of-the-river power generation, risk of natural calamities, and the company's exposure to interest rate risk. The ratings, however, derive strength from its experienced board members and management team, presence of Power Purchase Agreement (PPA) with sufficient period coverage, lower power evacuation risk, and favourable government policies for the power sector.

Going forward, the ability of the company to successfully execute the project within the cost and time as envisaged and early stabilizations thereafter will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Residual project implementation risk and operations stabilization risk thereafter

RLEL is setting up a 9.05 MW run-of-the-river Super Chepe Hydropower Project (SCHP) in Gorkha district of Nepal. The estimated cost of the project is Rs 1,953.92 Mn (Rs. 216 Mn per MW), which is proposed to be financed in debt equity ratio of 72:28. As on September 27, 2023, the company had incurred the total expenditure of Rs. 1,853 Mn (~95% of the total project cost). After completion of construction works, dry test has completed and wet test started on October 15, 2023. Commercial operation is expected to commence by mid-November 2023. Till this date, funding has been done through term loan of Rs. 1,262 Mn and balance through promoter's contribution. Required Commercial Operation (RCOD)

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications.

of the project was September 05, 2023. The company has applied for extension of the RCOD. Although major works have been completed, the project is still exposed to the residual risks associated with project implementation and swift stabilizations of operations thereafter.

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 to no capacity for water storage and is, therefore, dependent on the flow of river water for power generation. Such projects generate much more power during summer season (mid-April to mid-December) when seasonal river flows are high and less during the winter season (mid-Dec to mid-April). RLEL 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.

Risk of natural calamities

In Nepal, hydropower projects are usually located in terrains that are topographically challenging, making their construction and 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 as well as impacting their timely completion. Moving forward, these natural disasters can adversely affect the smooth flow of power generation and distribution, which can further impact financial returns of the projects. RLEL is also exposed to such risks of calamities that might cause infrastructural, operational, and financial damages to the project.

Exposure to volatile interest rates

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system, which leads to changes in interest rates. Hence, funding taken by the company is exposed to volatile interest rates and higher interest rates than envisaged could result in squeezed margins of the company.

Key Rating Strengths

Experienced board members and management team

RLEL's BOD, consisting of seven directors, is chaired by Dr. Basant Giri, PhD in Chemistry from University of Wyoming, USA. With more than 15 years of experience in education and research, he is associated with various research institutes in different capacities. The company's management team is led by Managing Director, Mr. Rewant Kumar Rawat, M.Sc. in Geotechnical Engineering from Tribhuvan University, Nepal, having a decade of experience in the power generation sector. He is supported by other experienced management team members and promoters, who have been involved in operational hydropower projects like Rawa Energy Hydropower Project (3MW) and Ghalemdi Khola Hydropower Project (5MW).

Power purchase agreement (PPA) with sufficient period coverage

RLEL has entered into a long-term PPA with NEA as on March 23, 2019, on the basis of Take or Pay arrangement, for sale of entire power to be generated from its project. The contracted Plant Load Factor (PLF) is 69.07% with total contracted energy of 54.76 MU. PPA has been entered for the period of 30 years from the COD or till validity of generation license, whichever is earlier. The PPA period may be extended with mutual consensus during the last six months of validity. Tariff rate as per PPA is Rs 4.80 per kWh for wet season (mid-April to mid-December) and Rs 8.40 per kWh for dry season (mid-December to mid-April) with 3% annual escalation on base tariff for 8 years.

Lower power evacuation risk

The power generated from the project was previously proposed to be evacuated through approx. 25km long transmission line to New Marshyangadi Substation. Considering the slow progress in the construction of this substation, RLEL entered into new connection agreement with NEA to evacuate the power generated from the project to the fully constructed 132 KV Kritipur Substation. Thus, the power evacuation risk was duly moderated owing to the completion of construction of transmission lines from the powerhouse to Kritipur Substation.

Government support for the power sector

Government of Nepal (GoN) considers energy as a 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 the person/ entity which starts commercial operation, transmission and distribution of electricity up to mid-April 2027 (Chaitra end, 2083). Further, Unified Directive of 2020/21 has directed Class A, B, and C banks to allocate a minimum percent of their credit to energy sector within mid-July 2024. Likewise, Value Added Tax is exempted for import of machinery, equipment, and tools required for hydropower projects. Furthermore, GoN has declared to provide grant of amount equivalent to Rs. 5 Mn per MW installed capacity after receiving evidence of formal COD of complete power plant.

About the Company

Ridge Line Energy Limited (RLEL) is a public 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	1,262.70	CARE-NP BB-
Long Term Bank Facilities	Proposed	150.00	CARE-NP BB-
Total Facilities		1,412.70	

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About CARE Ratings Nepal Limited:

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