

Rairang Hydropower Development Company Limited

ICRA Nepal assigns [ICRANP] IPO Grade 4 to the proposed initial public offering (IPO) of Rairang Hydropower Development Company Limited

Instrument/Facility	Issue Size	Grading Action (February 2017)
IPO (equity) Grading	NPR 140 million	[ICRANP] IPO Grade 4 (Assigned)

ICRA Nepal has assigned an “[ICRANP] IPO Grade 4”, indicating below average fundamentals to the proposed Initial Public Offering (IPO) of Rairang Hydropower Development Company Limited (Rairang). ICRA Nepal assigns IPO grading on a scale of IPO Grade 1 through IPO Grade 5, with Grade 1 indicating strong fundamentals and Grade 5 indicating poor fundamentals. For the grading categories 2, 3 and 4, the sign of + (plus) appended to the grading symbols indicate their relative better position within the grading categories concerned. Rairang has proposed to come out with an Initial Public Offer of 1,400,000 numbers of equity shares of face value NPR 100 each at par. Of the total shares, 560,000 shares will be issued to project affected population while remaining 840,000 shares will be issued to the public. The proceeds from proposed IPO will be infused as equity in the development of 9.9 MW Iwa Khola hydroelectric project (HEP) being developed by Rairang in Eastern Nepal.

The assigned grading takes into account the significant risks associated with timely commissioning of 9.9 MW Iwa Khola HEP being developed by Rairang. Power from the HEP will be evacuated through 132 KV transmission line being developed by Nepal Electricity Authority (NEA). Transmission line projects of NEA have witnessed substantial delays in the past and this poses substantial risk towards timely start of operations of Iwa Khola HEP scheduled for July 2018. The grading is also constrained by early stage of development (~24% of total project cost incurred¹); exposing the project to typical implementation risks such as increase in time and cost estimates and hydrology risk (possible lack of sufficient discharge since the river is not gauged) which could affect the project return indicators. Counterparty credit risks arising out of exposure to NEA for the energy supplied also remains a concern; although partly mitigated by the sovereign support of Nepal Government to the NEA.

Nonetheless, the assigned grading factors in rich experience of the promoters and management personnel in the field of HEP development and operation; the group companies have operational hydropower projects capacity of 14.4 MW² with the first project of the group operating since 2003. With a firm Power Purchase Agreement (PPA) in place for under construction 9.9 MW Iwa KHola HEP, the tariff and off-take risks are reduced considerably for the project. Financial closure with banks has been completed in February 2015 for debt funding and >95% of promoter’s equity has been infused till mid-January 2017, minimizing the funding risk. Going forward, ability of the company to commission the project within the budgeted time and cost estimates and availability of sufficient hydrology will be the key parameters which can impact returns of the project.

Rairang is constructing Iwa Khola project, a 9.9 MW run-of-the-river hydropower project in Iwa river which divides two hilly districts in Eastern Nepal viz. Panchthar and Taplejung. The electricity generated from this project shall be connected to proposed Kabeli substation at Amarapur VDC in Panchthar district; 12 Km away from the powerhouse of Iwa Khola. PPA was signed in May 2013 with the NEA, following the approval of Initial Environmental Examination (IEE) report from Ministry of Energy (MOE). The developers also obtained power generation license from MOE in July 2015.

The project cost for the 9.9 MW project is budgeted at NPR 1,600 million; funded by bank loans of NPR 1,040 million and equity of NPR 560 million in a debt: equity ratio of 65:35. The promoters have put in NPR 410 million (out of NPR 420 million) into the project development till mid-January 2017 with additional NPR 140 million proposed to be raised through IPO.

The scheme of the project consists of 35 m long diversion weir with free overflow and equipped with under sluice and gate. Side intake structure leads the water from diversion weir to settling basin with dimensions 82mX10mX3.7m divided into 2 rectangular bays. ~2700 m long steel headrace pipe and ~450 m steel penstock pipe will carry the water from settling basin to the surface powerhouse of Iwa Khola HEP. The

¹ As per the latest certified report. The cost includes the import cost of materials and advance to contractors.

² Including 3MW Puluwa HEP since 2003, 2.4 MW Ridi HEP since 2009, 0.5 MW Rairang HEP since 2012 and 8.5 MW Naugarh HEP since 2015

electricity at the powerhouse will be generated through 2X5,500 KW horizontal axis francis turbine and 2 generators with rated generation voltage of 6.3 KV which will be stepped up to 132 KV for transmission over a 12-km transmission line³ from the switchyard of the project to the switchyard of proposed Kabeli Substation of NEA at Amarpur VDC.

The contract for hydro-mechanical and civil works of the project has been awarded to Api Hydro-mechanical Company and Makalu Developer Private Limited (both private contractor companies affiliated to Arun Valley Group). Electromechanical contract has been awarded to Andritz Hydro Pvt Ltd, India and Neon Energy Pvt Ltd, India with the latter's work largely based on specifications provided by Andritz.

Company Profile

Incorporated in 2002 as private limited company, Rairang was converted into a public company in May 2014 with a view to increase the public participation. Rairang is one of the group companies under Arun Valley Group; that includes Arun Valley Hydropower Development Company, Api Power Company Limited and Ridi Hydropower Development Company with operational hydro power projects of 3 MW, 8.5.MW and 2.4 MW respectively. These group companies share common promoters and include cross holding to some extent. The major promoters of Rairang include Ridi Hydropower Development Company Limited (33%), Guru Prasad Neupane and associates (~23%), Shivratn Sharada and associates (~10%), Bachharaj Tater and associates (~10%) among others. Rairang has 100% promoter shareholding as of now which will be diluted to 76% post IPO.

Rairang has an operational 500KW small hydropower project in Dhading district of Central Nepal. The company is developing a 9.9 MW Iwa Khola Hydropower project in Eastern Nepal. The project is being developed along Iwa river at Panchthar-Taplejung district border. The electricity generated by this project shall be connected to NEA's proposed Kabeli substation at Amarpur VDC in Panchthar district, 12 Km from the powerhouse of Iwa Khola project. Rairang has already received power generation license for Iwa and power purchase agreement has been signed with NEA for entire generation capacity of the project. The total project cost as per latest estimate is NPR 1,600 million to be funded in 65:35 debt equity model. As per the latest estimate, the 132 KVA Kabeli corridor transmission line is likely to be completed by October 2017, before the require commercial operation date of July 2018 of Iwa Khola HEP.

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³ In new arrangement, energy generated by Iwa will be transferred by 5KM 33 KV line to switchyard of 25 MW Kabeli-B1 HEP (by Arun Kabeli, an associated company). From there, combined energy will be transmitted to proposed Kabeli substation of NEA at Amarpur through 5 KM 132 KVA transmission line. Management is seeking approval from NEA for this revised evacuation arrangement.