

Ridi Hydropower Development Company Limited

ICRA Nepal assigns [ICRANP] IPO Grade 4+ to the proposed Rights Issue of Ridi Hydropower Development Co. Limited

Instrument/Facility	Issue Size	Grading Action (April 2016)
Rights issue (Equity)	NPR 115.50 million	[ICRANP] IPO Grade 4+ (Assigned)

ICRA Nepal has assigned an “[ICRANP] IPO Grade 4+”, indicating below average fundamentals to the proposed rights issue offering (equity) of Ridi Hydropower Development Co. Limited (RHDL). 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. RHDL is proposing to come out with 35% rights issue of 1,155,000 numbers of equity Shares of face value NPR 100/- each to be issued to existing shareholders at par.

The assigned grading factors in rich experience of the promoters and management personnel in the field of hydropower, with the group companies having an operational hydropower capacity of 14.4 MW¹ with the first project of the group getting operational in 2003. However, the grading is constrained by moderate operational performance of 2400 KW Ridi HEP (PLF of ~64% in past 4 years ending FY15 as opposed to contract energy PLF of ~75%) affecting its financial profile. RHDL, one of the companies under Arun Valley Group, has been operating 2400 KW Ridi HEP since 2009 and 500 KW Rairang HEP since 2012 (under 100% subsidiary SPV of RHDL viz. Rairang Hydropower Company). RHDL now intends to develop 9900 kW Iwa HEP at an estimated cost of NPR 1,600 million under Rairang Hydropower Development Company (100% subsidiary of RHDL). A part of the proceeds from the proposed rights issue of RHDL is to be invested in upcoming 9900 KW Iwa Khola hydroelectricity project (HEP) which has the required commercial operation date (RCOD) of July 2018. Likely dilution in the profitability indicators of RHDL arising from rights issue and uncertainty about the revenue stream from 9900 KW Iwa Khola HEP-with considerable project execution and power evacuation risk remains a concern and has been factored into the grading. With a major portion of total equity of NPR 560 million remaining to be raised, funding also remains a major risk for the project. However, past track record of other group companies provides some comfort regarding the ability of the promoters to raise required equity for the project. The project is also exposed to the counterparty credit risks arising out of exposure to loss-making NEA for the energy supplied, although the same is partly mitigated by the fact that NEA is fully owned by the Government. Further, NEA has been making timely payments to the company so far which is also a source of comfort.

The RCOD for Iwa Khola HEP is July 2018 as per the Power Purchase Agreement (PPA) signed with Nepal Electricity Authority (NEA). Following the feasibility study in 2012, Rairang Hydropower Company Limited (promoter of Iwa HEP) has received IEE (Initial Environment Examination) approval for the project, completed detailed designing of the project, entered into grid connection agreement and power purchase agreement with Nepal Electricity Authority (NEA), received power generation license and completed the financial closure tying up the debt portion required for the project construction with consortium of banks. With firm PPA in place for the proposed project, the tariff and off-take risks are reduced considerably. As per the PPA, the tariff rates for wet season are NPR 4.80 and for dry season is NPR 8.40 with 3% annual escalation on base tariff for 5 years from COD. However, major portion of equity remains to be raised and very little has been achieved in terms of physical progress at the site till March 2016. Power generated by Iwa HEP is to be evacuated from the switchyard at the power house through a 10 km long, 132 kv transmission line to Kabeli substation proposed by NEA. Kabeli substation is the final point in NEA’s 90KM long 132 KV double circuit Kabeli Corridor Transmission Line project which has seen considerable time

¹ Including 3MW Piluwa 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

overrun vis-à-vis original schedule². Till March 2016, 35 KM transmission line out of total 90KM is operational with the balance portion under various stages of construction. Timely completion of the NEA's transmission line facilitating the evacuation of energy generated by Iwa HEP, will have a bearing on the financial profile of RHDH. Total estimated cost for the construction of 9900 KW Iwa HEP is NPR 1600 million, to be funded in 65:35 debt equity ratios. RHDH is to invest ~NPR 140 million in equity for the project which will be met through the proceeds of proposed rights issue³. With RHDH's equity commitments towards the project fulfilled, management plans to raise balance equity (NPR 560 million minus NPR 140 million) from individual promoters in the group and IPO of Rairang HEP or IPO of separate SPV for Iwa Khola in near future.

With the project in its very initial stages timely completion within the budgeted time and cost estimates is a key sensitivity for determining the returns generated by the project. Typically, hydro-power projects entails significant project execution risks as they are located in difficult terrain and hence adverse climatic conditions during the construction period and also geological surprises can disrupt construction schedule of any project. Nevertheless, the promoters have substantial experience in construction and operation of hydro power projects and presence of experienced promoters and management personnel mitigates this risk to some extent.

RHDH posted profit of NPR. 45.72 million over gross sales of NPR 57.47 million and OPBDITA⁴ of NPR 45.70 million on year ending July 2015. The company has been distributing dividend at an average rate of ~10% for the last 3 years. The company had NPR 124 million of outstanding term loan payable to the consortium bank as on July 2015 as compared to NPR 225 million as on July 2014; after major portion⁵ of IPO proceeds in 2014-15 were used towards prepayment of loans. Following the prepayment, gearing ratio of the company improved from 0.70 times in July 2014 to 0.35 times in July 2015. 2400 KW Ridi HEP has operated at an annual plant load factor (PLF) of around 64% in past 4 years ending FY2014-15 and PLF of 61% in FY2014-15.

Going forward, ability of the company to mobilize funds for the project, and achieve the required COD within the budgeted time and cost estimates and also timely commissioning of transmission line by NEA will be the key parameters which will have a bearing on the returns of the project

Company Profile

Founded in the October 2000 by 285 promoters, RHDH was converted into a public company in August 2007 with the objective of facilitating public participation. RHDH is a part of group companies that include Arun Valley Hydropower Development Company (AHPC) and Rairang Hydropower Development Company both of them with operational hydro power projects of 3 MW and 0.5.MW respectively. RHDH has 51:49 promoter-public shareholding ratio as on mid-Jan-16.

The company is operating 2,400 kW Ridi Khola Hydropower Project in Gulmi District of Western Nepal since October 2009 while its 100% subsidiary Rairang Hydropower (acquired in April 2012) is operating a 500 kW Rairang Khola Hydropower Project in Dhading District of Central Nepal since April 2012. RHDH has 16% stake of Arun Valley Hydropower Limited and its other major promoters include Mr. Guru Prasad Neupane (6.92%), Mr. Deda Raj Khadka (5.77%), Bachharaj Tater & Family (9.8%) and Mr Shivratn Sharda & Family (9.29%).

April 2016

² Originally scheduled to be completed before July 2014; as per the latest estimate the transmission line is likely to be operational by July 2017 (1 year earlier than the required commercial operation date of Iwa Khola HEP).

³ RHDH has invested ~NPR 85 million in Iwa Khola project till July-15 through its 100% subsidiary Rairang Hydropower Company. Proceeds from proposed rights issue will be in excess of equity commitment of RHDH in Iwa HEP.

⁴ Operating profit before depreciation, interest, tax and amortization expense

⁵ ~NPR 100 million out of NPR 147 million IPO proceeds were used towards repayment of bank loans.



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