

Ridi Hydropower Development Company Limited

ICRA Nepal assigns [ICRANP] IPO Grade 3 to the proposed IPO Issue of Ridi Hydropower Development Co. Limited

ICRA Nepal has assigned an “[ICRANP] IPO Grade 3”, indicating average fundamentals to the proposed initial public offering (IPO) 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 an Initial Public Offer of 1,170,000 (1.17 million) numbers Equity Shares of face value NRs 100/- each share.

The average fundamental grading factors in the rich experience of the promoters and management personnel in the field of hydropower project development, the group company has over 10 years of experience in the power generation sector, the company has been operating 3000 kW Piluwa Khola project since 2003, in addition, other group companies are involved in providing consultancy to various domestic and international hydro power projects. . RHDL has been operating 2400 KW Ridi Khola project since 2009 and 500 KW Rairang Hydropower since 2012 (100% subsidiary of RHDL). The company now intends to develop 9900 kW Iwa Khola Project at an estimated cost of NPR 1,600 million under Rairang Hydropower Development Company (100% subsidiary of RHDL). The company has entered into a Power Purchase Agreement (PPA) with the Nepal Electricity Authority (NEA) for its entire generation capacity and applied for power generation licence. With a 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 4.8 and for dry season is NPR 8.4 with 3% escalation for 5 years. Power is to be evacuated from the switchyard of Iwa Khola Project through a 10 km long, 132 kv transmission line to Kabeli substation proposed by NEA. NEA has to construct 90 Km long transmission line from Damak substation to Kabeli Substation and also substations at this location as part of connection agreement.

The required Commercial Operation Date (COD) for the project is July 2018 as per the PPA. The project is proposed to be funded in debt: equity ratio of 75:25. The current IPO will fund a portion of equity requirement of the project, while the management plans to raise the balance equity from the accruals of Rairang Hydropower Limited and the IPO of Rairang Hydropower Limited or IPO of the Special Purpose Vehicle (SPV) formed for the Iwa Project itself (if any). The project has received IEE (Initial Environment Examination) approval and has also signed the grid connection agreement with NEA for evacuation of generated power. Preparation of Detailed Project Report (DPR) for the project is currently under progress.

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.

The grading also factors in the counterparty credit risks in terms of delayed payments by NEA for the energy supplied, however the same are mitigated as NEA is fully owned by Government. However, it is to be noted that the receivable days for the operational project have remained below 90 days in the last five years indicating that NEA has been making timely payments to the developer. The grading also factors in the risk arising out of delay in construction of transmission line by NEA for proposed Iwa Khola

Hydropower project which can potentially delay the COD of the project despite the developer constructing the project in time. However, it is expected that NEA will complete construction of the transmission line within the next two years whereas the COD of Iwa Khola project is July 2018. This provides sufficient buffer for the project although it is a critical factor for grading.

RHDL has been operating a 2.4 MW Ridi Khola Hydropower project since October 2009. The company has posted profit of NPR. 21.21 million over gross sales of NPR 64.07 million and OPBDITA of NPR 52.63 million on year ending July 2013. The company has also been distributing dividend at an average rate of 8% for the last 3 years. The company had NPR 225 million of outstanding term loan payable to the consortium bank as per the audited financials as on July 2013 and as informed by the lead bank of the consortium, RHDL has been satisfactorily meeting its repayment schedules. The company operated at an annual plant load factor (PLF) of around 65% in the last two years.

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, RHDL was converted into a public company in August 2007 with the objective of facilitating public participation. RHDL 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.

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. RHDL 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 Shivratana Sharda & Family (9.29%).

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