

Ru Ru Jalbidhyut Pariyojana Limited: [ICRANP-IR] BBB assigned

July 27, 2020

Facility/Instrument	Rated Amount (NPR Million)	Rating Action
Issuer Rating	NA	[ICRANP-IR] BBB; Assigned

Rating action

ICRA Nepal has assigned a rating of [ICRANP-IR] BBB (pronounced ICRA NP issuer rating triple B) to Ru Ru Jalbidhyut Pariyojana Limited (RJPL), indicating a moderate degree of safety regarding the timely servicing of financial obligations. Such issuers carry a moderate credit risk. The rating is only an opinion on the general creditworthiness of the rated entity and is not specific to any debt instrument.

Rationale

The assigned rating considers the low risk profile of the 5-MW operational Upper Hudgi Hydropower Project (HPP) developed by RJPL. Higher discharge coupled with reduced outage/transmission losses led by strengthening of evacuation structures has resulted in increased generation in FY2020. Relatively lower project cost of ~NPR 149 million per MW and higher dry energy mix at ~19% of annual contract energy should result in a healthy return and coverage indicators. With the downsizing of bank loans from the proposed IPO proceeds¹, the capitalisation and coverage indicators would further improve. The rating also factors in the promoters' and management team's adequate experience in the sector, which remains a comfort for the project's operational and maintenance aspects. Similarly, the assigned rating also takes note of the low tariff and off-take risks amid already signed power purchase agreement (PPA) with the Nepal Electricity Authority (NEA), the sole purchaser and distributor of electricity in Nepal, with pre-determined tariff rates and escalations.

Nonetheless, the rating remains constrained by the low PPA rates for the project (~20% lower to new projects); although, it is supported to some extent by the promotional tariff rates for the first seven years of operation. The absence of a deemed generation clause in the PPA also accentuates the concern along hydrological risks. Given the fixed tariff structure, interest rate volatility and control over operating costs will remain crucial. The rating is also impacted by the counterparty credit exposure from the NEA, which has a moderate financial profile (albeit with recent improvements). This is partly mitigated by the sovereign support of the Government of Nepal (GoN) to the NEA and its past track record of timely payments to independent power producers (IPPs). Going forward, the project's ability to achieve its designed operating parameters along with its operating cost structure and the interest rate volatility would be the key drivers for determining the company's return metrics and coverage indicators.

Key rating drivers

Credit strengths

Improving generation trend – The operational 5-MW Upper Hudgi Khola HPP generated ~88% of the contracted energy in FY2020 against an average generation of ~77% for earlier three fiscals. The improvement in generation was aided by good hydrology support, along with strengthening of the evacuation structure and hence reduced outage levels. In the first full year of operation (i.e. FY2016), the project faced ~2,346 outage hours (~6.5 hours per day) which gradually decreased to only ~729 outage hours (~2 hours per day) in FY2020. The net energy supplied to the NEA was ~84% of the contract energy in FY2020 (~73% in earlier three fiscals), with a slight reduction in transmission loss (3.82% for FY2020 against an average of 4.32% in the earlier three fiscals) Going forward, the hydrology support and the generation trend would determine the company's revenue profile. While the reduction in outages has been viewed positively, hydrology is prone to fluctuations and hence ICRA Nepal expects that average generation trend over the years might be slightly lower than reported in FY2020.

Low project development cost to support profitability and return parameters – The project has been in operation since March 2015 and was developed in relatively low cost of NPR 745 million (~NPR 149 million per MW), funded in an initial debt-equity ratio of ~63:37. This is expected to support the company's profitability profile in the fixed tariff regime. The

¹ Ru Ru is proposing to shortly come up with an IPO of 815,411 shares; 50% of these are allocated for project affected locals at NPR 100 per share, while the rest has been allocated to general public at NPR 120 per share (including premium of NPR 20 per share).

improved operation performance along with the planned debt downsizing from proposed IPO proceeds are likely to aid improvement in the return metrics. It has provided ~10% returns to shareholders on an average from FY2017 to FY2019.

Healthy capitalisation and coverage indicators – RJPL’s HPP had relatively lower project cost along with relatively low debt mix in the project funding. With repayments so far, RJPL’s capitalisation remains comfortable with low gearing of 0.79 times as of mid-July 2020. The company’s interest cover and DSCR remained healthy in FY2020 at 3.34 times and 1.30 times respectively while TD/OPBDITA remained comfortable at 2.58 times. These indicators are likely to further improve with debt prepayments from proposed IPO proceeds, assuming full subscription.

Low tariff risk, given long-term PPA at predetermined tariffs and escalations – The tariff and off-take risks remain low for the project amid the already signed PPA with the NEA. The tariff for the wet season (mid-April to mid-December) is NPR 4 per kWh while that for the dry season is NPR 7 per kWh. For the PPA rates, there is a 3% annual escalation on the base tariff for nine times. The project is eligible for all its escalation clauses. By virtue of the Government’s initiative to promote hydropower development, the company has also entered into promotional tariff rate agreement of NPR 4.80 and NPR 8.40 (for wet and dry season respectively) with 3% annual escalation for 5 times on the base tariff. This would be applicable until completion of seven years from the commercial operation and thereafter the rates will be as per the original PPA. Incrementally, the Government has also waived the short supply penalty for projects up to 10MW. The demand outlook for the energy sector remains also good owing to the supply-demand gap as well as the increasing energy consumption in the nation.

Experienced promoters and management team – The company’s promoters/board and the senior management have adequate experience and technical expertise in the hydropower/engineering sector. The promoters’ current/past association with other hydropower projects and the management team’s experience provide comfort in terms of the project’s operational aspects. The company has developed in-house maintenance capabilities for routine issues, which remain a positive.

Credit challenges

Exposure to interest rate volatility and rising operating costs amid fixed tariff structure – Since the revenues are fixed, volatility in interest rates would impact the company’s profitability and coverage ratios. These indicators could come under further pressure in case the project deviates significantly from its design operating parameters. Additionally, the company has reported a sharp increment in operating costs at CAGR ~13% in the last three fiscals. Hence, the company’s ability to control the operating cost structure would also remain critical.

High hydrology risk, given lack of deemed generation clause in PPA – The lack of a deemed generation clause in the PPA exposes the project to hydrology risk in case of adverse river flow scenarios without receiving any compensation for such losses. This concern is further accentuated by the fact that the river flow is dependent on the rain-fed perennial source, which could affect the available hydrology based on rainfall fluctuations in the basin.

Analytical approach: For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below.

Links to applicable criteria:

[Issuer Rating Methodology](#)

About the company

Incorporated in March 22, 2006 as private limited company, RJPL was converted into a public limited company on July 23, 2015 to facilitate public participation. As on mid-July 2020, the paid-up capital of RJPL stood at ~NPR 326 million. As on same date, major promoters include Mr. Bharat Prasad Nepal (15%), M/S Subhakarma Investment Company (12%) and M/S Samuchit Investment Company (11%).

RJPL has one operational hydropower project - Upper Hugdi Khola Hydropower Project of 5MW, in Gulmi District of Province-5 of Nepal. A run-of-the-river (R-o-R) type project, it has been developed at 43% probability of exceedance (Q43). The project came into commercial operation from March 23, 2015 as against a required COD of March 28, 2014 and was developed at a total cost of NPR 745 million.

Key Financial Indicators

Amount in NPR million	Audited			Provisional
	FY2017	FY2018	FY2019	FY2020
Operating Income	121	122	124	146
OPBDIT/OI (%)	84%	81%	80%	81%
PAT/OI (%)	32%	28%	29%	41%
Gearing (times)	1.34	1.09	0.95	0.79
OPBDITA/Interest (times)	2.39	2.23	2.30	3.34
DSCR (times)	1.43	1.13	1.09	1.30
NWC/OI (%)	41%	58%	37%	46%
Total Outside Liability/TNW (times)	1.35	1.11	0.97	0.79
Total Debt/OPBDITA (times)	4.29	3.95	3.47	2.58

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