

Radhi Bidyut Company Limited: Rating downgraded to [ICRANP-IR]BB+

January 17, 2024

Summary of rating action

Instrument	Rated Amount	Rating Action
Issuer Rating	NA	[ICRANP-IR] BB+; downgraded from [ICRANP-IR] BBB-

Rating action

ICRA Nepal has downgraded the issuer rating of Radhi Bidyut Company Limited (RBCL/company) from [ICRANP-IR] BBB- (pronounced ICRA NP Issuer Rating Triple B minus) to [ICRANP-IR] BB+ (pronounced ICRA NP Issuer Rating Double B plus), indicating a moderate risk of default regarding timely servicing of financial obligations. The sign of + (plus) or – (minus) appended to the rating symbol indicates their relative position within the rating categories concerned. The rating is only an opinion on the general creditworthiness of the rated entity and not specific to any debt instrument.

Rationale

The rating downgrade mainly factors the prolonged downtime of RBCL's 4.4MW Radhi Small Hydropower Project, following the impact of landslide in July 2023. As the rehabilitation took an extended period, the project's loss of profit policy has expired which is likely to weaken RBCL's revenue profile for FY2024. Although adequate on-balance sheet cash with RBCL remains a cushion against the near-term default risk, the cash cushion is likely to deplete fast given RBCL's equity commitment towards its subsidiary, Kasuwa Khola Hydropower Limited (KHL; developer of 45MW Kasuwa Khola HPP)¹. Given the nascent stage of the 45MW project and presence of ~5km tunnel, the project execution risk remains high which could increase the funding commitment of RBCL towards the project and further stretch its liquidity. Besides investment in KHL, RBCL has investment in three projects² and has also guaranteed the bank lines in two of them, which could impact RBCL's financial profile should the investee companies fail to honor their debt obligations. Furthermore, natural calamities risks, the dependence on a single project and the hydrology risks arising from changing climatic conditions (including variation in monsoon precipitation) also continues to remain among the rating concerns.

Nonetheless, the rating factors in the project's good operational track record (operating since 2014, with net generation of ~87% in the last five years ending FY2022; 85% in 11mFY2023) which supports RBCL's overall financial profile. Adequate balance-sheet cash raised through rights issue and internal accruals has supported the company's debt servicing during the project downtime. Furthermore, the rating takes comfort from the company's association with CEDB Hydropower Development Company Limited (CHDC) group and the experienced operation and management team, which comforts the operation and maintenance (including rehabilitation) aspect of the project under the group. The assigned rating also takes note of the higher dry energy mix of ~21% (high tariff rates) and the low tariff and offtake risks amid the 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 under a take or pay modality.

Going forward, RBCL's ability to resume the 4.4MW project at the earliest, timely realise the insurance proceeds and maintain/achieve the designed operating parameters and interest rate volatility would determine the project's returns. Any material increases in commitment of RBCL towards investee companies or devolvement of guarantees given on behalf of the investee companies will also remain a key rating sensitivity.

¹ RBCL has a capital commitment of ~NPR 1.12 billion towards Kasuwa, which will be majorly funded through the recently concluded rights issue proceeds.

² Universal Power Company Limited, Rapti Hydro and General Construction Limited and Dordi Khola Jal Bidyut Company Limited. RBCL has guaranteed the bank loans of Rapti and Dordi.

Key rating drivers

Credit strengths

Satisfactory project performance notwithstanding the recent downtime – In operation since FY2014, RBCL's 4.4 MW project has been operating at a satisfactory level (net generation of ~87% in the last five years ending FY2022; 85% in 11mFY2023). Its ability to continue to operate at similar levels post the ongoing rehabilitation remains crucial for its operational and financial health going forward.

Good financial profile – RBCL's low capex for the 4.4 MW project and timely repayment of its project loans (70% repaid till mid-July 2023) coupled with the adequate generation performance has resulted in a good financial profile for the company (low gearing of 0.07x). Adequate on-balance sheet liquidity supported by the recent rights issue and partly by its retained earnings has helped RBCL meet its debt obligations despite project disruption. Over the long term RBCL is also expected to benefit from the cash inflows from the investee companies (through dividend), once the cashflows of the investee companies materializes /stabilizes.

Experienced promoters with long track record in the hydropower sector – The company's board and senior management have long experience and technical expertise in the hydropower/engineering sector. The company is a part of CEDB group (CEDB Hydropower Development Company Limited), which has a long experience in the hydropower sector with various operational/constructional projects. The experience of the promoters and established track record of the group remain positives.

Low tariff and offtake risk – The tariff risk for the project is low as the company has a 30-year PPA with NEA for its entire project capacity of 4.4 MW under a take or pay modality. The pre-defined tariff rates are NPR 4 per kWh for the wet season (mid-April to mid-December) and NPR 7 per kWh for the dry season, with a 3% annual escalation nine times. RBCL was eligible for promotional tariff of NPR 4.80 and NPR 8.40 for wet and dry season, respectively with five annual tariff increments of 3%, for seven years which ended in April 2021, leading to the reduction in the company's revenue from energy sales despite the improved generation. The tariff and offtake risks also remain low for all the invested projects which have similar "take or pay" modality in their respective PPAs.

Credit challenges

Rehabilitation cost to add to the project capex –The landslide of July 2023 caused major damage to the 4.4MW project's headworks and hydromechanical structures. Although the estimate of physical damage to the project remains moderate, it is nonetheless likely to add to the project capex and put pressure on RBCL's liquidity profile over the near term, unless covered by the insurance proceeds. Given the longer downtime (mainly from the difficult terrain with high head of project), its loss of profit insurance has expired which is likely to subdue RBCL's revenue profile for FY2024. Going forward, RBCL's ability to adequately insure itself against revenue and property losses will remain essential during similar downtime.

Equity commitments and guarantees given towards group companies – RBCL has invested ~NPR 451 million across four group companies including three companies with operational projects viz. - Universal Power Company Limited (11 MW Lower Khare Khola), Dordi Khola Jal Bidyut Company Limited (12 MW Dordi-1 HEP and Rapti Hydro & General Construction Limited which are still under the project stabilisation period. RBCL has also guaranteed the bank loans of Dordi Khola Jal Bidyut Company Limited and Rapti Hydro and General Construction Limited; NPR 725 million in total. Given RBCL's guarantee given towards the bank limits for the group companies, RBCL's solvency could come under pressure in case of poor financial health of the investee companies.

RBCL is also expected to hold ~51% equity stake in Kasuwa Hydropower Limited (KHL; developer of 45MW Kasuwa Khola HPP) investing the proceeds from the recently concluded rights issue of RBCL. Given the nascent stage of the 45MW project and the presence of ~5km tunnel, which are generally subjected to geological challenges, the project execution risk is high

with a possibility of cost escalation. If such a scenario arises, RBCL may need to further infuse equity, which can stretch its liquidity profile.

Hydrology and geological risk– The generation efficiencies of the projects remain dependent on project hydrology which in turn remains dependent on climactic factors (including monsoon fluctuations). Radhi small hydropower project draws its hydrology from the Radhi River, which is ungauged, rainfed river. Any variation in the precipitation received by the region could impact the generation and overall financial metrics of RBCL. Similarly given the project terrain, the risk of events like flood, landslide, etc also remain high. RBCL’s ability to secure adequate insurance coverage (including property damage and loss of profit) arising from such risks will remain critical to its long-term financial and operational profile.

Interest rate volatility risk, project concentration risk – Given the relatively fixed revenue profile and high debt funded capex, hydropower companies’ profitability remains dependent on interest rate volatility as it affects the debt burden on the company’s cashflows. Similarly, given the concentrated revenue profile and high dependence on single project, any disruption in the underlying project can have a direct impact on the company’s financial profile.

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

Link to the previous rating rationale:

[Radhi-Bidyut-Co.-Ltd. Issuer-Rating.pdf](#)

Links to applicable criteria:

[Issuer Rating Methodology](#)

About the company

Radhi Bidyut Company Limited. (RBCL), incorporated on May 19, 2005, as a public limited company, has been established with the main objectives of investing and developing hydropower projects. The paid-up capital of the company as of mid-October 2023 is ~NPR 1,676 million.

RBCL owns and operates 4.4 MW Radhi Small HPP, located in Lamjung district, Gandaki Province of Nepal. The project is a run of the river (R-o-R) type and has been developed at 40% probability of exceedance (Q_{40}). RBCL also has equity investment in multiple group companies. The 4.4 MW project under RBCL was hit by a landslide and remained non-operational since mid-July 2023.

Key Financial Indicators

Particulars (Amount in NPR million)	FY2020	FY2021	FY2022	FY2023	3MFY2024*
Operating Income (OI)	160	130	135	128	32
OPBDITA/OI (%)	78%	76%	69%	68%	69%
Total debt/Tangible net worth (TNW; times)	0.44	0.35	0.24	0.07	0.07
Total Outside Liability/TNW (times)	0.49	0.43	0.34	0.09	0.07
Total Debt/OPBDITA (times)	2.29	2.52	2.13	1.69	1.55
Interest coverage (times)	3.52	4.21	4.39	6.16	3.64
DSCR (times)	1.68	1.62	1.51	2.28	0.70
NWC/OI (%)	44%	35%	44%	64%	49%

*Audited till FY2023 and provisional for Q1FY2024

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