

## Ru Ru Jalbidhyut Pariyojana Limited

### ICRA Nepal assigns [ICRANP] IPO Grade 4+ to the proposed IPO of Ru Ru Jalbidhyut Pariyojana Limited

Instrument/Facility	Issue Size	Grading Action (October 2018)
IPO (equity) Grading	NPR 81.5411 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 Ru Ru Jalbidhyut Pariyojana Limited (RRJPL). 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. RRJPL is proposing to come out with an IPO of 815,411 equity shares of face value NPR 100 each, at par. As a part of IPO process, 407,705 shares will be issued to project-affected locals and then the remaining 407,706 shares will be later issued to the general public and staff of RRJPL.

The grading takes into consideration the relatively low project costs (~NPR 149 million per MW) and the steadily improving operational performance of the 5-MW hydro-electric project developed by RRJPL. The project was able to supply ~74% of the contract energy in the last two years (FY2017-FY2018) as against 46% and 62% in 4M FY2015 and FY2016, respectively, aided by a reduction in outage and tripping losses. This, along with relatively high mix of dry energy<sup>1</sup>, is expected to benefit the revenue streams of RRJPL. The company has entered into a Power Purchase Agreement (PPA) with pre-determined tariff rates with the Nepal Electricity Authority (NEA), thereby mitigating off-take and tariff risks for the project. Further, despite its weak financial profile, NEA has been making timely payments to the company so far, which also remains a comfort.

Nonetheless, the grading 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 first seven years of operation. The absence of a deemed generation clause in PPA exposes the project to high hydrological risks. Additionally, the dependence of the company’s revenue streams on the hydrology of a single project remains a concern. The grading also takes into consideration the likely dilution in profitability indicators of RRJPL after the proposed IPO and also the impact of interest rate volatility on the project returns. Going forward, the project’s ability to operate at design parameters will be critical for achieving healthy project returns.

RRJPL has been operating a 5-MW run of river project (Upper Hugdi Khola Hydropower Project) in Gulmi district of West Nepal since March 2015. Initially proposed as a 2.6-MW project at a 65% exceedance flow model, the project capacity was later changed to 5 MW to be built on a 43% exceedance flow model. As per the PPA with NEA, the annual contract energy for the project is ~28 GWh, corresponding to a contract plant load factor (PLF) of ~65%. The tariff rates for contract energy as per PPA are NPR 4 and NPR 7 per unit for wet and dry seasons<sup>2</sup>, respectively, subject to annual escalation from Commercial Operation Date (COD) @ 3% on base tariff for nine years. Under the Government’s initiative of promoting private sector hydropower developers, the project has been availing promotional tariff rates of NPR 4.80 and NPR 8.40 per unit in wet and dry seasons; this shall remain effective for up to the seventh year after COD with five times annual escalation of 3% on base tariff. The electricity sales revenue would thereafter be based on the rates as per the PPA.

<sup>1</sup> ~19% of annual contract energy as per PPA with similar trend in generation so far.

<sup>2</sup> Wet season corresponds to a period of eight months from mid-April to mid-December; rest being dry season.

Despite a delay of one year, the project was commissioned at a relatively low cost of NPR 149 million per MW in March 2015. The debt-to-equity funding mix for project costs of NPR 745 million was ~63:37. The power generated by the project is being transmitted via ~15km 33 kVA transmission line to Birbas substation of NEA. Owing to weak transmission structures of NEA, the project has been facing frequent tripping and outages (mostly in wet seasons), leading to sizeable revenue loss. However, the quantum of such losses has lowered in the recent years. In the last two years, the project operated at an average annual PLF (at a net generation) of ~48% (vs. design energy PLF of ~65%) as against PLF of ~42% in FY2016.

Since the revenues are entirely linked to unit sales from a single operational project, the return potential and also the financial health of the company are entirely dependent on the hydrology of the project stream. In FY2018, RRJPL posted a net profit of NPR 34 million over gross sales of NPR 122 million and OPBDITA of NPR 99 million as against a net profit of NPR 39 million over OPBDITA of NPR 102 million in FY2017. Increase in operating and interest costs in FY2018 led to a slight decline in reported net profit. The company had ~NPR 393 million of outstanding term loan payable to the consortium banks as on mid-July 2018, corresponding to a gearing ratio of 1.09 times. The gearing would further come down after the proposed IPO proceeds is utilised to downsize project loans. RRJPL's track record of debt servicing (which began from mid-Oct 2015) remains good so far and is aided by the ballooning principal-based repayment spread over 10 years.

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

**Links to applicable criteria:**

[IPO Grading Methodology](#)

### **Company Profile**

RRJPL was incorporated on March 22, 2006, as a private limited company and was subsequently converted into a public limited company on July 23, 2015, to facilitate public participation. As on mid-July 2018, the company's paid up capital stood at NPR 326 million with major promoters being Mr. Bharat Prasad Nepal (15%), M/s Subhakarma Investment Company (12%) & M/s Samuchit Investment Company (11%), among others. The promoter: public shareholding after proposed IPO would be diluted to 80:20, assuming full subscription. The shares of the company are proposed to be listed in the stock exchange after the proposed IPO.

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*For further details please contact:*

Analyst Contacts:

**Mr. Kishor Prasad Bimali** (+977-1-4419910/20)  
[kishor@icranepal.com](mailto:kishor@icranepal.com)

**Mr. Rajib Maharjan**, (+977-1-4419910/20)  
[rajib@icranepal.com](mailto:rajib@icranepal.com)

Relationship Contacts:

**Ms. Barsha Shrestha**, (Tel. No. +977-1-4419910/20)  
[barsha@icranepal.com](mailto:barsha@icranepal.com)

### **About ICRA Nepal Limited:**

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ICRA Nepal Limited,  
Sunrise Bizz Park, 6th Floor, Dillibazar, Kathmandu-33, Nepal.  
Phone: +977 1 4419910/20  
Email: [info@icranepal.com](mailto:info@icranepal.com)  
Web: [www.icranepal.com](http://www.icranepal.com)

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