

Radhi Bidyut Company Limited

ICRA Nepal assigns [ICRANP] IPO Grade 3 to the proposed Initial Public Offering (IPO) of Radhi Bidyut Company Limited

Instrument/Facility	Issue Size	Grading Action (August 2017)
IPO (equity) Grading	NPR 102.5 million*	[ICRANP] IPO Grade 3 (Assigned)

RBCL has issued NPR 26.045 million to the project affected population and is in the process of issuing balance NPR 76.455 million to the general public.

ICRA Nepal has assigned an “[ICRANP] IPO Grade 3”, indicating average fundamentals to the proposed Initial Public Offering (IPO) of Radhi Bidyut Company Limited (RBCL). 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. RBCL is proposing to come out with an Initial Public Offer of 1,025,000 numbers of equity shares of face value NPR 100 each at par. Of the total shares, 260,450 shares have been issued to project affected population while remaining 764,550 shares will be issued to general public and staff of RBCL. The IPO proceeds are likely to be utilised towards development of new hydropower projects by associated companies of RBCL.

The assigned grading factors in healthy financial profile of RBCL which owns and operates 4.4 MW Radhi HEP since its commissioning in June 2014. Healthy financial profile of RBCL emanates from low cost of project commissioning (~NPR 139 million per MW) and steady operational performance of the project (net PLF of ~58% during past two years) which translates into adequate profitability levels. Financial position of the company is also aided by low gearing levels following regular repayment of project loans; which remains a positive especially in the regime of volatile interest rates. The grading also factors in the rich experience of the promoters and management personnel of RBCL in the field of hydroelectricity projects (HEP) development and operation. RBCL is one of the subsidiaries of CEDB Hydro Fund (CHF) which has operational hydropower projects of ~8.5 MW¹ capacity under its different subsidiaries and associated companies; with first project in operation since 2002. The proposed IPO of RBCL is a part of equity raising program aimed towards funding the development of new hydropower projects being developed by group companies² under CHF (viz. 10.3 MW Dordi-1 HEP by Dordi Khola Jal Bidyut Company Ltd and 5 MW Rukumgad HEP by Rapti Hydro and General Construction Limited).

The grading is however, constrained by the execution risks associated with the two new projects wherein RBCL is likely to invest the proceeds of proposed IPO. The assigned grading also factors in the probable dilution in profitability indicators of RBCL post IPO, given the uncertainty about the revenue stream from proposed projects. The proposed projects are in nascent stages with considerable project execution risks and typical implementation risks such as natural calamities/geological surprise along with probability of increase in time and cost estimates. The grading is also constrained by interest rate volatility in the market and the counterparty credit risks arising out of exposure to loss making NEA for the energy supplied, which is partly mitigated by sovereign support available to NEA. RBCL has been underdelivering the contract energy to NEA resulting in revenue losses, partly offsetting the benefit accruing from low cost of project development. Going forward, the ability of the company to minimize the gap between contract energy and actual generation for the operational project and commissioning of proposed projects within the budgeted time and cost estimates will have an impact on the returns of the company.

RBCL has been operating 4.4 MW Radhi HEP in Radhi River of Lamjung district in Western Nepal since June 2014. The project was commissioned at a cost of NPR 613 million funded in a debt: equity mix of

¹ 4.4 MW Radhi & 183 KW are owned by CHF. CHF has 15% stake in the 4 MW Khudi hydropower project.

² RBCL plans to hold ~12% and ~16% equity stake in the 10.3 MW and 5 MW project respectively.

~70:30. The tariff rates for contract energy as per PPA are NPR 4 and NPR 7 per unit for wet and dry seasons respectively; subject to annual escalation after Commercial Operation Date (COD) @ 3% on base tariff for 9 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; which shall remain effective for up to 7th year after COD (i.e mid- 2021) with 5 times annual escalation of 3% on base tariff. The electricity sales revenue shall thereafter be based on the rates as per original PPA. The power generated by the project is evacuated through 200 m 33 KV transmission line to Chiplabesi substation located within the powerhouse premises of Radhi HEP. The project has operated at an average annual PLF (at net generation) of ~58% in past two years; lower than design energy PLF of ~68%, resulting in sizeable revenue loss to the company. Deduction of 4.61% of gross energy generation towards transmission line loss as per the terms of PPA also contributes to revenue loss.

RBCL plans to invest the IPO proceeds in 10.3 MW Dordi-1 HEP in Lamjung district and 5 MW Rukumgad HEP in Rukum District; both run-of-river HEPs to be developed by RBCL's associate SPVs. The project cost of 10.3 MW Dordi HEP is NPR 1,859 to be funded in a debt: equity mix of 75:25 while that of 5 MW Rukumgad HEP is NPR 960 million to be funded in debt equity mix of 70:30. Required commercial operation date for 10.3 MW project is July 2019 and for 5 MW project is December 2019. For both these projects, power purchase agreement has been signed, debt component has been tied up with banks and major sources of equity has been identified. Nonetheless, equity funding gap and lack of transmission line remains a challenge for these projects. Adequate buffer of ~2 years until required COD provides cushion for the development of transmission line before the project COD. As per the PPA, the tariff rates for wet season are NPR 4.80 and for dry season is NPR 8.40 for both the projects with 5 times annual escalation at the rate of 3%.

Since the revenues are entirely linked to unit sales from a single operational project so far, the project returns and the financial health of the company is dependent on the hydrology of the project stream and the operating efficiency of the plant. RBCL posted gross sales revenue of ~NPR 133 million in FY2017 vs NPR 129 million in FY2016. Energy generation has improved in the last three years (53% in FY2015, 59% in FY2016 and 56%³ in FY2017). Profit after tax in FY2017 was ~NPR 58 million over OPBDITA of ~NPR 106 million as against profit after tax of NPR 48 million and OPBDITA of ~NPR 102 million in FY2016. The company had ~NPR 377 million of outstanding term loan payable to the consortium banks as on mid-July 2017 with gearing ratio of 0.9 times. RBCL's track record of debt servicing (which began from mid-September 2014) remains good; partly benefitted from the regime of low lending rates during FY2014-FY2016 in banking system and ballooning instalment method of repayment which entails small portion of principal repayment in initial years. Due to delayed receipt of promotional energy tariff from government authority, receivable days are increasing (174 days during FY2017) which remains a concern from the viewpoint of RBCL's liquidity position.

Company Profile

Radhi Bidyut Company Limited. (RBCL) was founded on 19th May 2005 as public limited company with a main objective of electricity production and distribution. The company has developed and is operating 4.4. MW Radhi Small Hydropower Project since June 2014. RBCL has been promoted by CEDB Hydro Fund (CHF) which directly and indirectly owns >80% stake in the paid-up capital of RBCL as on mid-April 2016. RBCL at present is 100% owned by the promoter shareholders whose stake will be diluted to 75% post IPO (assuming full subscription). Out of the proposed IPO issuance, ~6% of post IPO paid up capital has been issued and allotted to the project affected population and remaining shares are in the process of being issued to the public including staffs of RBCL. The shares of the company are proposed to be listed in the stock exchange post IPO.

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³ Lower due to the forced project downtime. Excluding the downtime, actual PLF would be ~60%.



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