

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 (July 2016)
IPO (equity) Grading	NPR 102.5 million	[ICRANP] IPO Grade 3 (Assigned)

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, 410,000 shares will be issued to project affected population while remaining 615,000 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 companies¹ of RBCL.

The grading takes into consideration the rich experience of the promoters and management personnel of RBCL in the field of hydroelectricity projects (HEP) development and operation. RBCL has been operating 4.4 MW Radhi HEP since its commissioning in June 2014. The project was commissioned at a relatively low project cost (~NPR 139 million per MW) and has a firm Power Purchase Agreement (PPA) with Nepal Electricity Authority (NEA) eliminating offtake and tariff risk. RBCL is one of the subsidiaries of CEDB Hydro Fund (CHF) which has ~8.5 MW² operational hydropower projects 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 companies under CHF.

The grading is constrained by moderate operational performance so far of 4.4 MW Radhi Hydroelectricity project commissioned in June 2014 (net Plant Load Factor or PLF of ~57%³ in past ~2 years as opposed to PLF at contract energy of ~68%). 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, although the same is partly mitigated by the fact that NEA is fully owned by the Government and has been making payments to IPPs (Independent Power Producers) in a timely manner in the past. The grading is further constrained by the execution risks associated with the two new projects wherein RBCL is likely to invest the proceeds of proposed IPO and future rights issue planned by RBCL management. Likely dilution in the profitability indicators of RBCL arising from IPO and future rights issue and uncertainty about the revenue stream from proposed projects has been factored into the grading. 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. For both the projects, Power purchase agreement (PPA) has been concluded and Debt portions have been tied up; however, funding gap still remains for the equity portion. Going forward, ability of the company to commission the proposed project within the budgeted time and cost estimates and also availability of sufficient hydrology will be the key parameters which can impact returns of the project.

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 ~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

¹ 10.3 MW Dordi-I Hydroelectric Project by Dordi Khola Jalbidyut Company Limited and 11 MW Lower Khare Khola Small Hydropower Project by Universal Power Company Limited. Majority equity stake in both these companies are held by CEDB Hydro Fund (CHF), which is also the parent company of RBCL, albeit indirectly.

² 4.4 MW Radhi & 183 KW Syange hydropower projects are owned by subsidiaries of CHF. Also, CHF has 15% stake in the developer company of 4 MW Khudi hydropower project.

³ PLF of 53% in FY15 due to disruption of project for 1 months due to flash flood, PLF during 9MFY16 stood at ~62%.



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 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 ~57% in past two years; lower than design energy PLF of ~68% and thus generated an average of ~86% of annual contract energy in past two years 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/or 11 MW Lower Khare HEP in Dolakha district being developed by the associated companies of RBCL. In addition to the proposed IPO proceeds, RBCL is likely to make further equity investments in these projects in future. The project cost of 10.3 MW Dordi-I HEP is NPR 1,859 to be funded in a debt: equity mix of 75:25 while that of 11 MW Lower Khare is NPR 1,870 to be funded in debt equity mix of 70:30. Both the proposed projects have required commercial operation date (RCOD) of July 2019 as per PPA signed with NEA. Conclusion of PPA, financial closure tying up the debt portion and receipt of energy generation license from the authority remains a comfort. On the other hand, equity funding gap and lack of transmission line for power evacuation at present remains a challenge for the projects. As per the PPA, the tariff rates for wet season are NPR 4.80 and for dry season is NPR 8.40 with for both the projects with applicable tariff escalation. Both these projects are located in the areas where other mid to large sized hydropower projects are currently being developed by other hydropower developers and are likely to be commissioned at earlier dates. This coupled with adequate buffer of ~3 years till RCOD of the proposed projects provides comfort regarding the availability of transmission line for evacuation of power from both these projects.

Since the revenues are entirely linked to unit sales from a single operational project so far, the project returns and also the financial health of the company is entirely dependent on the hydrology of the project stream. Owing to the dip in PLF during FY15 caused by temporary project disruption, RBCL posted gross sales revenue of ~NPR 117 million in FY15. Revenue during FY 16 is likely to improve having achieved PLF of ~62% during 9MFY16 and also escalation in tariff rates. Moreover, RBCL benefits from the current regime of lower interest rates in banking sector. PAT for FY15 was NPR 22 million over OPBDITA of ~NPR 92 million on year ending July 2015, first year of full operation. During H1FY16, PAT of RBCL stood at NPR 24 million over OPBDITA of ~NPR 54 million. The company had ~NPR 422 million of outstanding term loan payable to the consortium banks as on mid-Jan 2016 audited financials corresponding to a gearing ratio of 1.31 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 in banking system and ballooning instalment method of repayment which entails small portion of principal repayment in initial years.

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, 10% of post IPO paid up capital has been allocated for project affected population and remainder for general 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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