

## Ruby Valley Hydropower Company Limited

### Rating

Facilities/Instrument	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	1,300.00	CARE-NP BB- [Double B Minus]	Assigned
<b>Total Facilities</b>	<b>1,300.00</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB-' to the long-term bank facilities of Ruby Valley Hydropower Company Limited (RVHL).

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of RVHL is primarily constrained by project implementation and stabilization risk, thereafter, associated with its under-construction hydropower project, which is in nascent stages with debt component of the funding mix yet to be tied-up. The rating also factors in power evacuation risk, hydrology risk associated with run-of-river power generation, exposure to volatile interest rate and risk of natural calamities.

The rating, however, derives strength from RVHL's experienced promoters and management team, presence of power purchase agreement (PPA) with sufficient period coverage. The rating also factors in moderate counter party risk and government support for the power sector.

*Going forward, ability of the company to successfully execute the project within the envisaged cost and time and early stabilization thereafter will be key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

##### Project implementation and stabilization risk

Ruby Valley Hydropower Company Limited (RVHL) is developing Menchet Khola RoR (Run of-river) Hydropower Project (MKHP), with a planned capacity of 8.47 MW (amended from 7 MW) at Menchet Khola, Dhading district, Nepal. The total estimated cost of project is Rs. 1,807 Mn (Rs. 213 Mn per MW) which is proposed to be financed in debt equity ratio of 75:25 (Rs. 1,355 Mn debt and Rs. 452 Mn equity). Debt is yet to be tied up.

The Required Commercial Operation (RCOD) of the project was May 25, 2025 and applied for the extension. Currently, MKHP is in the early stages of construction, which exposes RVHL to project implementation risk. Any delays in the commencement of the project beyond 6 months from the RCOD will result in restrictions on the number of tariff escalations available, consequently diminishing return indicators and adversely impacting the revenue profile of RVHL. However, the promoters' extensive experience in executing hydro power projects within budgeted cost and on time, as well as their ability to bridge funding gaps when needed, helps mitigate the associated risks to some extent.

##### Hydrology risk associated with run-of-the-river power generation

A Run-of-the-river (ROR) power project is recognized as a variable energy source of generation of power due to its reliance on natural river flow without significant water storage capacity. The dependency on river flow makes the power generation from the project highly responsive to seasonal variations. The project extracts discharge from Menchet Khola, covering a catchment area at intake of 136.7 sq. kms, characterized as a perennial river. The project harnesses flow from the Adha

<sup>1</sup>Complete definitions of the ratings assigned are available at <https://www.careratingsnepal.com/> and in other CRNL publications.

and Bhabil rivers, which merge downstream to form the Menchet Khola. RVHL tends to produce higher electricity output during the wet season, June to November, when river flows are abundant. Conversely, during the dry season, from December to May, power generation may be reduced due to lower river flows. Hence, the project's performance will be exposed to the inherent risk associated to the natural hydrological patterns, and variability in water discharge throughout the year.

### **Exposure to volatile interest rate**

RVHL's interest expenses are based on a floating interest rate regime, where a certain premium is added to the monthly base rate and interest rate is changed accordingly on monthly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system, which leads to changes in interest rates. Higher interest rates than envisaged could result in squeezed margins of the company, impacting its liquidity position although the near-term prospects remain favorable amid declining trend observed in the BFI's base rates over the last quarter or so.

### **Power Evacuation Risk**

The power generated from the project is proposed to be evacuated through a ~4.2 km long single circuit 132 KV transmission line to the Borang Substation which is under construction. The transmission line will be connected to the switchyard of Jalshakti Hydro Company Limited and then jointly connected to the Borang Substation. Timely completion of the transmission lines and substation will be crucial for the company from revenue generation perspective.

### **Risk of Natural Calamities**

In Nepal, hydropower projects are commonly situated in topographically challenging terrains, making them susceptible to the vagaries of nature. The rugged landscapes often expose these projects to the risks of floods and landslides, which can pose significant threats by damaging infrastructure and disrupting operations. RVHL's power project is inherently exposed to these natural calamities that have the potential to cause infrastructural, operational, and financial damages to the project.

### **Key Rating Strengths**

#### **Experienced directors and management team**

RVHL is managed under overall guidance of its five-member BoD, chaired by Mr. Ishwori Bahadur Adhikari. Mr. Adhikari is currently serving as a chairman of Ruby Valley Hydropower Company Limited having 7 MW Menchet Khola Hydropower Project. He has 30 years of work experiences in Governmental, INGOs and Private Companies. He is serving as the director at Spark Hydroelectric Company Limited [CARE-NP BB-] and Ganesh Himal Hydropower Company Limited. Mr. Prakash Kant Silwal served as a director at RVHL. He is currently serving as Board of Director of Spark Hydroelectric Company Limited. Similarly, Gopal Prasad Ghimire, Tej Bahadur Gurung and Aakash Shahi is also serving as director at RVHL who have experience in another sector.

#### **Low offtake risk and moderate counterparty risk**

Power Purchase Agreement (PPA) for Menchet Khola Hydropower Project (MKHP) had been signed between NEA and RVHL on January 19, 2019 for 7 MW and is in the process for capacity upgradation of the project from 7 MW to 8.47 MW. Total contracted energy is 40.062 million units (MU) annually with dry to wet energy mix of ~31:69 i.e., dry energy of 12.228 MU and wet energy of 27.834 MU. Duration of the PPA extends for 30 years from the Commercial Operation Date

(COD) or until the expiration of the generation license, whichever occurs earlier. A provision for extension of the PPA period exists, subject to mutual consensus within the final six months of its validity.

Tariff rates for RVHL, as per PPA is Rs. 4.80 per kWh for wet season which extends from June to November and Rs. 8.40 per kWh for dry season which extends from December to May. These contractual terms outline the framework governing the sale of power generated by both operational hydropower projects, delineating the revenue structure and operational parameters for RVHL within the energy market. Additionally, the counterparty payment risk associated with NEA is deemed moderate, given its full ownership by the Government of Nepal. Such arrangements are expected to provide revenue stability and sustainability to the company.

### **Favourable Government policies towards power sector**

The Government of Nepal (GoN) has featured the significance of power generation as a priority sector and encouraging private sector involvement by providing various exemptions within the power generation sector. GoN has also announced a comprehensive tax incentive package, offering full tax exemption for the initial 10 years and a 50% tax exemption for the subsequent 5 years to individuals or entities engaged in the commercial operation, transmission, and distribution of electricity until mid-April 2027. Additionally, GoN has provided full tax exemption for first 15 years and 50% tax exemption for next 6 years to reservoir and semi- reservoir projects completing financial closure within mid-April, 2029 with a capacity higher than 40 MW. This approach is aimed at promoting investment and growth in the energy sector. Furthermore, directives from the Nepal Rastra Bank (NRB) mandate financial institutions regulated by NRB to allocate a minimum share of their total advances to the energy sector. This strategic initiative is expected to contribute to the financial support and development of projects within the energy sector which argues well for the sector. The increasing trend of cross-border energy trade, coupled with the growing prospects stemming from new bilateral agreements between Nepal and India for additional power export from Nepal to India, further boosts the long-term demand outlook for the power sector in Nepal.

### **Applicable Criteria**

[Rating Methodology - Power Generation Projects](#)

### **About the Company**

Ruby Valley Hydropower (RVHL) is a Public Limited company, incorporated as Ruby Valley Hydropower Company Limited on July 26, 2016 for setting up of 8.47 MW Menchet Khola Hydropower Project (KKGHP) at Ruby Valley Rural Municipality, Dhading, Nepal. The project will be constructed under BOOT (Build, own, Operate and Transfer) mechanism.

### **Annexure 1: - Details of Facilities/Instruments rated**

<b>Nature of the Facility</b>	<b>Type of the Facility</b>	<b>Amount (Rs. Million)</b>	<b>Rating</b>
Long Term Bank Facilities (Proposed)	Long Term Loan	1,300.00	CARE-NP BB-
<b>Total</b>		<b>1,300.00</b>	

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