

Ngadi Group Power Limited

ICRA Nepal assigns [ICRANP] IPO Grade 4+ to the proposed Initial Public Offerings of Ngadi Group Power Limited

Instrument/Facility	Issue Size	Grading Action (September 2015)
IPO Grading	NPR 146.0605 million	[ICRANP] IPO Grade 4+ (Assigned)

ICRA Nepal has assigned “[ICRANP] IPO Grade 4+”, indicating below average fundamentals, to the proposed initial public offering (IPO) amounting NPR 146.06 million of Ngadi Group Power Limited (NGPL). 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. Thus, the Grading of 2+, 3+ and 4+ are one notch higher than 2, 3, and 4 respectively. NGPL is proposing to come out with an Initial Public Offer of 1,460,605 numbers of equity shares of face value NPR 100/- each to be issued to general public (including project affected population) at par.

The grading assigned takes into account the weak operational performance of 4,950 KW Siuri Khola HEP (Hydro Electricity Project), which coupled with the high financial leverage, has resulted in weak financial performance. Since the revenues are entirely linked to unit sales from a single operational project, the project return and also the financial health of the company is entirely dependent on the hydrology of the project stream. As against a design PLF (Plant Load Factor) of ~74%, the project operated at an average PLF at gross generation of 59% in the last two fiscal years. The evacuation losses¹ between the project and connection point in national grid have reduced the PLF (at net energy sold) to 56%; further impacting the project return. The project is also exposed to 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. Further, NEA has been making timely payments to the company so far which is also a source of comfort.

Nonetheless, the grading positively factors in the reputation of promoter group and their prior experience in hydropower development in Nepal. Given that the per-unit revenue from electricity sales is fixed by the tariff rates in PPA (Power Purchase Agreement), the shareholder’s return going forward, will depend on the ability of the project to minimize the gap between actual generation and contractual energy thereby improving the project earnings and returns.

Siuri Khola HEP is the first hydropower project developed by NGPL; although its major promoters were actively involved in the project developed under Barun Hydropower² and were also a part of projects developed under Arun Valley Group³ in initial years. NGPL has been operating 4,950 KW Siuri Khola HEP since October-2012. The project was initially proposed as a 900 KW project to be built on 65% exceedance flow model and Power Purchase Agreement (PPA) was signed with NEA in August 2007 for contract energy of 7.36 Million Units (MU) annually. The capacity was changed to 4,950 KW after the regulatory policy change allowed the developers to build the project on 40% exceedance flow model. Accordingly, an amendment to the original PPA was signed for additional 4,050 KW capacity (corresponding to additional contract energy of 24.74 MU) on January 2009 with different tariff rates; resulting in two sets of tariff rates for power generated by Siuri Khola HEP. The tariff rates for contract energy proposed in original PPA are NPR 3.90 and NPR 5.52 for wet and dry seasons respectively. Similarly, the tariff rates for additional contract energy under new PPA are NPR 4 and NPR 7 per unit respectively. Both the sets of tariffs are

¹ Accounting for ~6% of gross generation in past 2 years

² Barun Hydropower (IPO 4 by ICRA Nepal) has an operational 4.5 MW Hewa Khola project in Eastern Nepal

³ Arun Valley Group has been operating 500 KW Rairang HEP, 3 MW Piluwa HEP, 2.4 MW Ridi HEP and 8.5 MW Naugadgad HEP in various parts of the country; under different SPVs.



subjected 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 upto 7th year⁴ after COD with 5 times annual escalation of 3% on base tariff. The electricity sales revenue shall thereafter be based on the original sets of PPA rates. The power generated by Siuri Khola HEP is evacuated via 8 km, 33KVA transmission line to switching station in Khudi VDC of Lamjung district where it is connected to the national grid, as per the connection agreement signed with NEA. The project has operated at an average annual plant load factor (PLF) of around 56% in past two years; lower than design energy PLF of 74%. The project generated an average of ~75% of annual contract energy in past 2 years resulting in sizeable revenue loss to the company, in addition to short supply penalty⁵ (albeit nominal).

The current IPO proceeds are likely to be used towards the repayment of long term bank borrowings of NGPL. The return to the shareholders of NGPL is likely to accrue only from the revenue generated by Siuri Khola HEP.

NGPL has been operating 4,950 KW Siuri Khola HEP since mid-October 2012. In FY2014-15, NGPL posted net profit of NPR 72.6 million over gross sales of NPR 179.86 million and OPBDITA of NPR 158.3 million. However, for the year 2012-13, NGPL reported a net loss of NPR 11.33 million over gross sales of NPR 106 million and OPBDITA of NPR 85.6 million. The improvement in NGPL's profit levels for FY2014-15 was on account of receipt of arrears⁶ from NEA amounting to NPR 37.70 million, towards electricity sales made in FY2012-13 and FY2013-14. NGPL had NPR 593⁷ million of outstanding term loans payable to the consortium banks, as per the audited financials for FY 2014-15; corresponding to a gearing ratio of 1.94 times. NGPL's track record of debt servicing (which began from mid-January 2013) remains good so far; 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.

Going forward, the ability of the project to achieve its design operating parameters will be the most important driver for the project returns.

Company Profile

Ngadi Group Power Limited (NGPL) was founded in February 2006 as a private limited company and subsequently converted into public limited company in June 2014 to facilitate public participation. As on July-15, NGPL has 78 individual promoters accounting for entire paid up share capital of the company. The promoter holding after proposed IPO is expected to dilute to 70%, assuming full subscription. The shares of the company are not yet listed in the stock exchange pending proposed IPO. As a part of the IPO process, the company is going to issue 10% of its post IPO paid-up⁸ capital to the local inhabitants of project affected areas following which remaining 20%⁹ shall be offered to general public and staffs of NGPL.

NGPL has one operational hydropower project- 4950 KW Siuri Khola Hydropower project, located in Bhulbhule VDC of Lamjung District in Western Nepal; which began commercial operation from mid-Oct-2012. Major promoters of NGPL include Mr. Shailendra Guaragain (23.99%), Mr. Bhogendra Guragain (16.65%), Ms.Sushila Ghimire (8.80%), Mr. Gyanendra Kumar Sharma (6.16%) and Mr. Mitralal Shrestha (5.87%). Mr. Shailendra Guragain and associates have controlling interest in NGPL at present with combined shareholding in excess of 60%. The management plans to use the proceeds from the proposed IPO to settle the project loans taken from the banks.

⁴ Till October 2019

⁵ Short supply penalty to NEA was NPR 5.19 million in FY14 and NPR 1.75 million in FY15.

⁶ towards the differential amount between promotional tariff based revenue and PPA rates based revenue

⁷ Total term loan for the project was NPR 635 million

⁸ Post IPO paid up capital of NPR 486.68 million

⁹ along with the unsubscribed portion of issue to project affected population, if any

September 2015

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