

Shiva Shree Hydropower Limited

ICRA Nepal assigns [ICRANP] IPO Grade 4 to the proposed Initial Public Offering (IPO) of Shiva Shree Hydropower Limited

Instrument/Facility	Issue Size	Grading Action (November 2017)
IPO (equity) Grading	NPR 350 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 Shiva Shree Hydropower Limited (SSHL). 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. SSHL is proposing to come out with an Initial Public Offer of 3,500,000 numbers of equity shares of face value NPR 100 each at par. Of the total shares, 1,400,000 shares will be issued to project affected areas while remaining 2,100,000 shares will be issued to general public and staff.

The assigned grading takes into account the relatively weak return potential of the 22.2 MW Upper Chaku “A” hydro-electric project (HEP) being developed by SSHL. The project returns are expected to remain weak on account of lower tariff rates (~17% lower to current rates), significant cost escalations compared to initial estimate (~34% escalation increasing project cost to ~NPR 4 billion) and also low leverage in the funding mix (~66% debt funding). The project is also exposed to cost and time overrun risk, hydrology risk, interest rate volatility in the market and the counterparty credit risks arising out of exposure to loss-making Nepal Electricity Authority (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 timely payments to Independent Power Producers (IPPs) so far which provides some comfort.

Nonetheless, the grading takes into account the advanced construction progress in the project (~85% complete as of Oct 2017) which reduces execution risks to a large extent. The project is expected to be delayed by ~4 years compared to initial Required Commercial Operation Date (RCOD). Delays in project completion has resulted in significant cost escalations, late COD penalties and reduced project life (~29 years against 30 years as per Power Purchase Agreement or PPA); any unexpected delays and cost escalations could further impact the return indicators and project profile. However, PPA does not have clauses relating to lower tariff escalations despite the delays which remains a positive.

22.2 MW Upper Chaku “A” HEP is a run of river (RoR) project located in Chaku River at Sindhupalchowk district of Central Nepal. The project has a catchment area of ~41 sq. km that is expected to support the design discharge of 3.25 cumecs at 40% exceedance flow. As per the terms of the PPA, the tariff for wet season is NPR 4 per kWhr and for dry season¹ is NPR 7 per kWhr with 3% escalation on base tariff for 9 years. The contract Plant Load Factor (PLF) of the project is ~61% with annual production capacity of ~118GWh energy. The power generated from this project shall be evacuated via 15 km, 132 KVA transmission line to existing NEA Lamosanghu substation for the time being and later through 220kV Tamakoshi-Barhabise-Kathmandu Hub, once the same is completed.

Initially budgeted at a cost of ~NPR 3,010 million (per MW cost of ~NPR 136 million), the cost has since escalated to ~NPR 4,033 million (~NPR 182 million per MW) due to delayed project completion on account of Aug-14 Jure landslides, Apr-15 earthquake, elongated border blockades and Bhotekoshi floods impacting the project development in one way or other. Increase in project cost due to time overrun, lower tariff rates for the energy generated results in subdued revenues and hence lower return prospects. Any further delays in project commissioning would expose the project to significant late COD penalties as well as reduced project life may impact its return parameter and grading assigned also. The project is being funded in debt: equity mix of ~64:36 (against original planned funding mix of 68:32) through bank loans of NPR 2,580 million and rest through equity.

As of mid-Oct 2017, ~85% financial progress has been achieved commensurate to similar physical progress. Although, management plans to commission the project from February 2018 as against the revised RCOD of 7th May 2016, there could be some delays (~3 months) in project commissioning as

¹ Mid-December to mid-April are dry season period; rest being wet season.

some critical components² remains to be completed. Of the NPR 3,486 million cost incurred till mid-Oct 2017, ~NPR 2,295 million has been funded through external bank borrowings and balance from promoters' equity. The promoters have infused equity of ~NPR 1,002 million (to be increased to NPR 1,050 million representing 75% of post IPO capital) while remaining equity is to be raised through IPO. Management plans to utilise incoming equity (assuming full subscription) towards project completion. The project is entitled for capital subsidy of NPR 5.5 million per MW provided that it is able to connect to national grid within FY 2017/18 (NPR 5 million per MW if connected thereafter).

Going forward, the ability of the company to commission the project at current cost and time estimates and also the ability to achieve its design operating parameters will be the key driver for the project returns.

Company Profile

Incorporated in 31st March 2006 as a private limited company, Shiva Shree Hydropower Limited (SSHL) was converted into public limited company on 12th December 2016 to facilitate public participation. SSHL has a promoter base of 67 promoters (including 7 institutions). Major promoters of SSHL as of mid-Jul 2017 are M/s. Yeti Traders & Developers Pvt. Ltd. (~24%), M/s. Baidik Hydro Investment Pvt. Ltd. (~11%), M/s. Grande Holdings Pvt. Ltd. (~8%), Mr. Shyam Bahadur Shrestha (~7%), Mr. Umesh Kasaju (~6%), Mr. Bishnu Bahadur Khatri (~6%), Mr. Bachchu Poudel (~6%), among others. The promoter holding after proposed IPO is expected to dilute to 75%, assuming full subscription. The management plans to use the IPO proceeds as a part of equity towards project completion.

SSHL is developing a 22.2 MW Upper Chaku "A" Hydroelectric Project, located in Phulpingkatti and Marming VDCs of Sindhupalchowk District. The project is ~85% complete as of mid-Oct-17 and the management expects to start commercial operations from February 2018.

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² ~550 mtr of tunnel (around 20% of total tunnel length) and ~1100 mtr vertical penstock alignment pending to complete.