

Arun Kabeli Power Limited

ICRA Nepal assigns [ICRANP] IPO Grade 4+ to the proposed initial public offering (IPO) of Arun Kabeli Power Company Limited

Instrument/Facility	Issue Size	Grading Action (April 2016)
IPO (equity) Grading	NPR 450 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 Arun Kabeli Power Company Limited (AKPL). 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. AKPL is proposing to come out with an Initial Public Offer of 4,500,000 numbers of equity shares of face value NPR 100 each at par. Of the total shares, 1,500,000 shares will be issued to project affected population while remaining 3,000,000 shares will be issued to general public and staff.

The assigned grading factors in rich experience of the promoters and management personnel in the field of hydroelectricity projects (HEP) development and operation; the group companies having an operational hydropower capacity of 14.4 MW¹ with the first project of the group operating since 2003. AKPL’s under development 25 MW Kabeli B1 HEP in Panchthar district of eastern Nepal is among the large private sector hydropower projects currently under development in Nepal. With a firm PPA in place, the tariff and off-take risks are reduced considerably for the project. In addition, as the promoters have infused substantial equity upfront (NPR 1,050 million as against NPR 1,200 million requirements for the project), and financial closure has been completed for the debt portion, funding risk for the project is minimized. Upfront equity injection and low prevailing interest rates should bring down IDC (Interest During Construction) component and hence the overall project cost.

These strengths are however tempered by early stage of development (~25% physical progress achieved and ~50% of total project cost incurred² till March 2016), and counterparty credit risks arising out of exposure to Nepal Electricity Authority (NEA) for the energy supplied, although the same is partly mitigated as the NEA is fully owned by the Government. The grading also factors in the risk arising out of delay in construction of proposed 132 KVA transmission line by NEA which can potentially delay the COD of the project despite the completion of project in time. Although AKPL has entered in to subcontract with Aster Tele Service (contractor of NEA for construction of 132 KVA transmission line up to Kabeli substation) to build a portion of the transmission line (40 towers, 89 towers to be developed by Aster), timely construction of the transmission line will be a key factor in determining the returns generated by the project. Grading concerns also emanate from the typical implementation risks in hydro projects such as increase in time, cost estimates on account of difficult conditions which can potentially impact the project return indicators in addition to hydrology risks. Going forward, ability of the company to commission the project within the budgeted time and cost estimates and availability of sufficient hydrology will be the key parameters which can impact returns of the project.

AKPL is constructing a 25 MW Kabeli B1 ROR³ hydropower project in Kabeli river in Panchthar district near Panchthar and Taplejung district border; in the hilly region of eastern Nepal. The electricity generated from this project shall be connected to proposed NEA substation ‘Kabeli’ at Amarpur VDC in Panchthar district; 4 Km away from the powerhouse of Kabeli B1. A Power Purchase Agreement (PPA) was signed

¹ Including 3MW Piluwa HEP since 2003, 2.4 MW Ridi HEP since 2009, 0.5 MW Rairang HEP since 2012 and 8.5 MW Naugarh HEP since 2015

² Including procurement of material and advances to electromechanical contractors

³ Run of the river



on July 13, 2012 with the Nepal Electricity Authority (NEA). The Power Generation License has been obtained from the Ministry of Energy on July 12, 2013. Initial Environmental Examination (IEE) report has been approved by the Ministry of Energy on August 27, 2012.

The project cost for the 25 MW project is NPR 4,000 million which is being funded through bank loans of NPR 2,800 million and equity of NPR 1,200 million in a debt: equity ratio of 70:30. The promoters have put in NPR 1,050 million into the project development till January 2016 with additional NPR 450 million proposed to be raised through IPO. Management plans to utilise additional equity over and above NPR 1,200 million (assuming full subscription of proposed IPO) towards covering contingencies including cost overrun if any and for other project developed by group. AKPL has completed financial closure tying up the debt portion required for the project, with the consortium of banks.

The scheme of the project consists of 36m long and 4 m high barrage type of gated weir, comprising of 4 nos. of gates on the weir having dimension 6m x 4m; and 2 nos. of under sluice of size 6m x 5m separated each by pier and divide walls. Side intake structure leads the water from diversion weir to settling basin with dimensions 140mX14mX7.18-10m divided into 2 rectangular bays. From 28.5mX15.75mX15.40m rectangular forebay at the end of the settling basin, the water enters into a 4,479 m long and 10-20 mm thick steel headrace pipe with diameter of 3.95 m. The steel conduit is provided with concrete vertical cylindrical surge tank facilities at its end. Steel penstock pipe, 14-32 mm in thickness, 286 m in length and 3.75m-2.65 m in diameter originates from the junction of headrace pipe and surge tank shaft and leads the water to the turbines at the powerhouse. The electricity at the powerhouse will be generated through 2 x 12,500 KW Vertical Axis Francis turbine and 2 generators with rated generation voltage of 6.3 kV which will be stepped up to 132 kV for transmission over a 5 km transmission line from the switchyard of the project to the switchyard of proposed Kabeli substation of NEA.

The contract for hydro-mechanical and civil works of the project has been awarded to Api Hydro-mechanical Company and Palanchowk Construction Company- (both private contractor companies affiliated to Arun Valley Group). Electromechanical contract has been awarded to Andritz Hydro Pvt Ltd, India and Neon Energy Pvt Ltd, India with the latter's work largely based on specifications provided by Andritz. Till mid-March 2016, ~25% physical progress has been achieved. At the intake, excavation has been completed; with foundation laying, concreting and reinforcing works going on parallel. Similarly, laying of reinforcement bar and concreting work is under progress at desander and forebay. Along the headrace alignment, fabrication and laying of headrace pipe is going on parallel with a total of 300 m pipe installed out of total length of ~4.5 KM. Excavation work is on progress at surge tank. At powerhouse, excavation has been completed and setting up protection wall for powerhouse and dewatering of powerhouse foundation is under progress. Till mid-March 2016, NPR 2,086 million has been incurred by the company towards the project (including NPR 1,192 million in advances to contractors), against the total budgeted cost of NPR 4,000 million.

Company Profile

Arun Kabeli Power Limited (AKPL) was incorporated on 17th January 2011 under Company Act of Nepal, 2063. The company is promoted by Arun Valley Hydropower (~35% shareholding) and Api power Limited (~5% shareholding). The company is a part of Arun Valley Hydropower Group and has been established as a SPV for the construction and operation of 25 MW Kabeli B1 HEP. Arun Valley Hydropower Group is led by Mr. Guru Prasad Neupane who is the largest shareholder in most of the projects operating under the group. Investments of Arun Valley Group spans across real estate sector, hydropower sector, banking sector etc.

25 MW Kabeli B1 HEP is being developed along Kabeli river (near the confluence with Iwa river and Kabeli river) in Panchthar district of Eastern Nepal near Panchthar-Taplejung border. The electricity generated from this project shall be connected to proposed NEA substation at Amarapur VDC in Panchthar district; 5 Km away from the powerhouse of Kabeli B1. AKPL has already received power generation license for



Kabeli B1 and Power Purchase Agreement (PPA) was signed on July 13, 2012 with the Nepal Electricity Authority (NEA) for entire generation capacity. The total project cost as per latest estimate is NPR 4,000 million to be funded in 70:30 debt equity model. As opposed to the original required COD of September 2016, the project has applied for extension of COD to NEA citing delayed progress in transmission line being constructed along the Kabeli Corridor. As per the latest estimate, the transmission line is likely to be completed by July 2017 and Kabeli B1 HEP is likely to be commissioned by July 2018.

April 2016

For further details please contact:

Analyst Contacts:

Mr. Kishor Prasad Bimali (+977-1-4419910/20)
kishor@icranepal.com

Mr. Sailesh Subedi, (+977-1-4419910/20)
sailesh@icranepal.com

Relationship Contacts:

Mr. Deepak Raj Kafle, (+977-1-4419910/20)
drkafle@icranepal.com

All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA Nepal.

ICRA Nepal ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. The ICRA Nepal ratings are subject to a process of surveillance which may lead to a revision in ratings. Please visit our website (www.icranepal.com) or contact ICRA Nepal office for the latest information on ICRA Nepal ratings outstanding. All information contained herein has been obtained by ICRA Nepal from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Nepal in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion and ICRA Nepal shall not be liable for any losses incurred by users from any use of this publication or its contents.