

Himalayan Power Partner Limited

ICRA Nepal downgrades the grading to the proposed initial public offering (IPO) of Himalayan Power Partner Limited from [ICRANP] IPO Grade 4+ to [ICRANP] IPO Grade 4

Instrument/Facility	Issue Size	Grading Action (May 2017)
IPO (equity) Grading	NPR 319.6251 million	[ICRANP] IPO Grade 4 (Downgraded)

ICRA Nepal has downgraded the grading to the proposed initial public offering (IPO) of Himalayan Power Partner Limited (HPPL) from “[ICRANP] IPO Grade 4+” to “[ICRANP] IPO Grade 4”. The revised grading indicates below average fundamentals. 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. HPPL is proposing to come out with an Initial Public Offer of 3,196,251 numbers of equity shares of face value NPR 100 each at par. Of the total shares, issue of 1,065,417 shares completed to the project affected population while remaining 2,130,834 shares will be issued to general public and staff.

The downgrade factors in significant risks associated with timely commissioning of 27 MW Dordi Hydroelectric project (HEP) being developed by HPPL. The project development progress remains behind the schedule due to the geological challenges encountered along the head race tunnel which increases the risk of time overrun in the project. Less than 25% of the tunnel length has been excavated till March 2017, as opposed to the original plan wherein tunnel completion was proposed by December 2016. Moreover, the progress along other fronts also remains behind schedule. This exposes the project to risk of cost overrun. Moreover, delayed project commissioning and pre-defined tenor of energy generation license (valid till May 2046) is likely to shorten the project life of Dordi HEP, which will moderate the realizable returns of the project.

The grading also factors in the risk arising out of delay in construction of proposed 220 KVA transmission line by NEA to Udipur Hub in Lamjung (connection point as per grid agreement) which can potentially delay the project’s commercial operation date (COD) despite the completion of project in time. HPPL is evaluating an alternative evacuation arrangement which entails among other options, evacuation through an existing 132 KVA single circuit transmission line used by middle Marsyangdi Hydropower Project located ~4 km downstream from HPPL powerhouse. Timely resolution of evacuation arrangement will be a key factor in determining the returns generated by the project.

Nonetheless, assigned grading factors in the financial strength of promoters of HPPL (Non-Resident Nepalese (NRN) Investment Limited and major promoters related to International Money Express (IME) group) and prior experience of board (associated company of the current chairman of HPPL has operational hydropower projects with capacity of 29 MW operating since 2014). HPPL’s under development 27 MW Dordi HEP in Lamjung district of western 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, entire equity from the promoters has been raised, and financial closure has been completed for the debt portion; minimizing the funding risk. Upfront equity injection and low prevailing interest rates should bring down IDC (Interest During Construction) component and hence the overall project cost.

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.

HPPL is developing a 27 MW Dordi run of the river hydropower project along Dordi river in Lamjung district in western Nepal at an estimated cost of NPR 4,235 million which is being funded through bank loans of NPR 3,170 million and equity of NPR 1,065 million in a debt: equity ratio of 75:25. The promoters have already injected their entire equity commitment of ~NPR 746 million into the project development while the additional NPR 320 million will be raise through the IPO. Financial strength of major promoters provides comfort against contingencies including cost overrun. HPPL 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 75m long and 9 m high un-gated weir provided with 2 under sluice bays of 5m width to be fitted with under sluice gates measuring 3m x 5m, settling basin with dimensions 71mX10.2mX5.5m (average) divided into 2 rectangular bays, steel headrace pipe ~3,250 m long with

diameter of 2.65-2.30 m, concrete lined headrace tunnel ~2,650 m long and 3.3.m in diameter, concrete vertical surge shaft, and Penstock pipe ~700 m long and 2.3 m in diameter. The electricity at the powerhouse will be generated through 3 x 9,350 KW Vertical Axis Francis turbine and three generators with rated generation voltage of 6.6 kV which will be stepped up to 132 kV for transmission over a 1.2 km transmission line from the switchyard of the project to the proposed Udipur hub substation of NEA.

The contract for hydro-mechanical, surface civil works and construction of headrace tunnel of the project has been awarded to Machhapuchchhre Metal and Machinery Work, Rasuwa Construction Company and Eco-Infra Builders Private Limited (all domestic private companies with prior hydropower experience). Contract for Electromechanical equipments construction and commissioning has been awarded to Voith Hydro Pvt Ltd, India¹. Till mid-March 2017, ~NPR 1,300 million has been incurred by the company towards the project (including advances to contractors), which is ~30% of the total budgeted cost of ~NPR 4,235 million.

Company Profile

Himalayan Power Partner Ltd. (HPPL) was incorporated in 11th June, 2004 as a private limited company and subsequently converted into public limited company on 7th July, 2013 to facilitate public participation. HPPL has 32 promoters (including 4 institutional promoters) accounting for 100% of paid up capital. Major promoters of HPPL include M/s. Non-Resident Nepalese (NRN)² Investment Limited (51% shareholding) and individuals/institutions related to IME³ group viz. M/s Worldwide Investment Pvt. Ltd (9.95%), M/s Usha Investment Pvt. Ltd (6.64%), M/s Hathway Investment Nepal Limited (3.63%), Mr. Chandra Prasad Dhakal (10.29%) and Mr. Uttam Kumar Nepal (6.12%). The promoter holding after proposed IPO is will dilute to 70% on full subscription of IPO. The IPO proceeds will form part of project equity capital. The shares of the company will be listed in the stock exchange after the proposed IPO. As a part of the IPO process, the company has issued 10% of its post IPO paid-up capital to the local inhabitants of project affected areas while remaining 20% capital will be offered to general public and staffs of HPPL.

HPPL is developing 27 MW Dordi Khola Hydropower project, located in Chiti VDC of Lamjung District in Western Nepal; which is in its initial phase of construction. The power generated by this project is to be evacuated through a 1.2 KM 132 KVA transmission line from Dordi switchyard to proposed Udipur Hub substation of NEA. The total project cost of NPR 4,235 million is to be funded in 75:25 debt-equity models. The required COD for the project is in June 2017 although HPPL is likely to apply for time extension of 1 year citing delay caused by April 2015 earthquake and customs blockade till February 2016. Based on recent developments, the project is likely to be commissioned with a delay of 18-24 months from the required COD.

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¹ rated at “[ICRA]A (Structured Obligation) (Stable)/A1(SO)” for INR 200 Crores bank lines on March 2016 by ICRA Limited, India

² Investment vehicle of NRN in Nepal. Individuals related to NRN Investment have stake in Nepalese banking (Sanima Bank rated L BBB+ by ICRA Nepal), Hydropower (Sanima Hydropower graded IPO 3 by ICRA Nepal), etc.

³ International Money Express (IME) Group is led by its Executive chairman Mr. Chandra Dhakal. Mr. Dhakal is the chairman of Global IME Bank (rated IR A- by ICRA Nepal). Promoter related to IME group have ~35% stake in HPPL.



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