

## Sanima Mai Hydropower Limited

### ICRA Nepal assigns [ICRANP] IPO Grade 3 to the proposed rights issue (equity shares) of Sanima Mai Hydropower Limited

Instrument/Facility	Issue Size	Grading Action (June 2017)
Rights issue (Equity)	NPR 1,055 million	[ICRANP] IPO Grade 3 (Assigned)

ICRA Nepal has assigned “[ICRANP] IPO Grade 3”, indicating average fundamentals to the proposed rights issue (equity shares) of Sanima Mai Hydropower Limited (SHPC). ICRA Nepal assigns IPO grading<sup>1</sup> 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. SHPC has proposed 1:1 rights issue of 10,550,000 numbers of equity shares of face value NPR 100 which will be issued to the existing shareholders at par. The proceeds from proposed rights issue will be mainly used to invest in the hydroelectric projects (HEPs) being developed by associate companies of SHPC.

The assigned grading factors in good financial profile of SHPC which owns and operates 22 MW Mai HEP and 7 MW Mai cascade HEP in eastern Nepal. The projects were commissioned at a cost (~NPR 161 million per MW on an average) and have a firm Power Purchase Agreement (PPA) with Nepal Electricity Authority (NEA) eliminating offtake and tariff risk. Project operations have improved after the commissioning of 132 KV transmission line for power evacuation (in October 2015). The plant has operated with plant load factor (PLF) of ~61% during 9M FY2017, at par with the contract energy PLF (as per PPA) for the period. Healthy revenue streams from the project are likely to support the incremental returns to the shareholders, despite dilution post-rights issue. The grading also factors in the strong promoter profile of SHPC and experienced management team with prior experience in hydropower development and operation.

Nonetheless, the grading remains constrained by early stages of development of the projects wherein the proceeds from rights issue are to be invested. This is likely to result in diluted returns to SHPC shareholders over medium term. Hydro power development entails several execution challenges such as difficult terrain, adverse climatic conditions and weak geology exposing the projects to the risks of cost and time overrun. These challenges will be further enhanced due to simultaneous execution of the two projects (of combined capacity of ~82 MW) and would thus require increased project supervision and management control for commissioning of the projects within the budgeted time and cost constraints. Grading concerns also emanate from hydrological risks for the current operational as well as the upcoming projects. Interest rate volatility in the market could also impact the project earnings and returns, despite the rates remaining on lower side at present. The hydropower projects in Nepal are also exposed to counterparty credit risks arising out of exposure to loss-making NEA for the energy supplied; although the risk is partly mitigated due to sovereign support of Government of Nepal (GoN) to the NEA.

Funding gap remains a major concern for both the under-construction projects. Financial closure for debt portion is yet to be achieved for both the projects. Similarly, major portion of promoter’s equity remains to be raised. However, these risks are partly mitigated by the financial strength and profile of the promoters (related to Sanima Group). A portion of the project equity will also have to be raised from Initial Public Offering (IPO) of the developer companies in future. Nonetheless, off-take and tariff risks for the two projects are low as power purchase agreement (PPA) for entire generation capacity has been signed with NEA.

SHPC owns and operates two HEPs with combined installed capacity of 29 MW developed along Mai river in Illam District of Eastern Nepal. 22 MW Mai HEP was commissioned in February 2015 and 7 MW Mai cascade was commissioned in February 2016. The project initially lacked transmission line and evacuated limited energy by developing 33 KV transmission line before the 132 KV transmission line for the project was commissioned by NEA in October 2015. Mai river is a rain-fed river with hydrology highly dependent on the annual precipitation in the region. During FY2016, the projects operated at average net PLF of 34%, much lower than the contract energy PLF of 65% due to less than average rainfall in the region as well as

<sup>1</sup> Includes grading of IPO, rights issue and further public issue.

delayed commissioning of 132 KV transmission line. However, the generation during 9M FY2017 remains strong with net PLF of ~61%, at par with contract energy PLF.

Middle Tamor HEP of 54 MW capacity is being developed by Sanima Middle Tamor Hydropower Ltd (SMTHL) along Tamor river in Eastern Nepal. SMTHL is likely to have majority shareholding from promoters related to Sanima Group with ~21% stake of SHPC. The estimated project cost is ~NPR 9 billion and expected debt equity ratio is 75:25. The required commercial operation date for the project as per PPA is 13th September 2021. As per the grid connection agreement, the energy generated by this project will be evacuated through 12 KM 132 KV transmission line to the proposed Hangpang Substation along proposed Koshi corridor transmission line project being developed by NEA.

Lower Likhu HEP of 28.1 MW capacity is being developed by Swet Ganga Hydropower & Construction Limited (SGHCL) along Likhu river in Central Nepal. SGHCL is also likely to have majority shareholding from promoters related to Sanima Group with ~30% stake of SHPC. The estimated project cost is ~NPR 6 billion and expected debt equity ratio is 75:25. The required commercial operation date for the project as per PPA is 1<sup>st</sup> December 2021. As per the grid connection agreement, the energy generated by this project will be evacuated through 27 KM 132 KV transmission line to proposed New Khimti Substation along Khimti-Dhalkebar transmission line being developed by NEA.

Backed by healthy operational performance of both the projects during 9M FY2017, SHPC posted gross energy sales revenue of ~NPR 633 million compared to NPR 402 million<sup>2</sup> in FY2016. SHPC reported a profit after tax (PAT) of NPR 260 million during 9M FY2017 vs net loss of NPR 30 million during FY2016. Incremental earnings are likely to remain good after the commissioning of transmission line as well as the cascade project. SHPC has NPR 3,068 million of outstanding project term loans as on mid-April 2017 translating into gearing ratio of 1.91. Relatively higher gearing ratio is likely to moderate after the proposed equity injection. Healthy revenue from projects are likely to aid the debt servicing capability of the company.

### **Company Profile**

Sanima Mai Hydropower Limited (SHPC) was incorporated in 11th September 2008 as a private limited company. It was converted into a public company in 16th March 2012 to enable public participation. The company's shareholding is divided among promoter and public shareholders in the ratio of 70:30. The shares of the company are listed in Nepal Stock Exchange.

SHPC has developed and is operating 22 MW Mai Hydropower project and a 7 MW Mai cascade hydropower project along Mai river in Illam District of Eastern Nepal. The 22 MW project is in operation since February 2015 and 7 MW cascade is in operation since February 2016. As on mid-April 2017, SHPC has a total of 48 individual and institutional promoters. Major promoters of SHPC include Sanima Hydropower Limited (~9.50%), Upendra Mahato (~9.50%), Jai Ganesh Investment Company (~7%), Mayur Ganesh Investment Company (~5%), Niraj Govind Shrestha (~3%) and Fund for Hydro Investment Private Limited (~2.5%). Major portion of the proceeds from proposed rights issue will be used to meet the equity commitment of SHPC in the new hydropower projects being developed by the associate companies.

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<sup>2</sup> During FY2016, 7 MW cascade project was operational for only ~5 months. Similarly, 132 KV transmission line of NEA was commissioned in October 2015.



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