

Barun Hydropower Company Limited

ICRA Nepal assigns [ICRANP] IPO Grade 4 to the proposed IPO Issue of Barun Hydropower Company Limited

ICRA Nepal has assigned “[ICRANP] IPO Grade 4”, indicating below average fundamentals, to the proposed initial public offering (IPO) of Barun Hydropower Company Limited (hereinafter referred to as BHCL). 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. BHCL is proposing to come out with an Initial Public Offer of 486,000 numbers of equity shares of face value NPR 100/- each share.

The grading assigned is constrained by the weak operational performance of 4,500 KW Hewa Khola HEP (Hydro Electricity Project), which coupled with the high financial leverage, has resulted in weak earnings and insufficient cash flows. 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 ~66%, the company operated at a PLF of 45% in the last two fiscal years. This has, apart from impacting project returns, also resulted in requirement of additional funds (in the form of loans from promoters) to meet funding gaps. The project is also exposed to counterparty credit risks on account of weak financial health of the off taker (Nepal Electricity Authority, NEA, however NEA has been making timely payments to the company in the past three years which is a source of comfort. 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.

Hewa Khola HEP (hydroelectricity project) is the first hydropower project developed by BHCL; although the major promoters were also a part of the projects developed under Arun Valley Group¹. BHCL has been operating 4,500 KW Hewa Khola HEP since 2011. The project was initially proposed as a 2,400 KW project to be built on 65% exceedance flow model and Power Purchase Agreement (PPA) was signed with NEA on September 2007 for contract energy of 16.70 Million Units (MU) annually. The capacity was changed to 4,500 KW after NEA allowed the project to be built on 40% exceedance flow model. Accordingly, an amendment to the original PPA was signed for additional 2,100 KW capacity (corresponding to additional contract energy of 9.34 MU) on August 2009 with different tariff rates; resulting in two sets of tariff rates for power generated by Hewa 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 without any increment clause. Similarly, the tariff rates for additional contract energy under new PPA are NPR 4 and NPR 7 per unit respectively with annual increment of 3% on base tariff rates up to 10th year of COD². The power generated by Hewa Khola HEP is evacuated via 7.25 km, 33KVA transmission line to Tirtire substation of NEA in Shankhuwasabha district, as per the connection agreement signed with NEA. The project has operated at an annual plant load factor (PLF) of around 45% in past three years as compared to contract energy which corresponds to 66% PLF. The project is generating ~80% of annual contract energy in past 3 years resulting in sizeable revenue loss to the company.

The current IPO proceeds are likely to be used towards the repayment of long term bank borrowings of BHCL. Although the company has a number of hydro power projects in pipeline, the same are in very preliminary stages, thus timely completion within the budgeted time and cost estimates is a key sensitivity

¹ Arun Valley Group is operating 500 KW Rairang HEP, 3 MW Piluwa HEP and 2.4 MW Ridi HEP.

² Commercial Operation Date



while assessing the returns generated by these projects. Typically, hydro-power projects entails significant project execution risks as they are located in difficult terrain and hence adverse climatic conditions during the construction period and also geological surprises can disrupt construction schedule of any project. Hence, over the foreseeable future, the return to the shareholders of BHCL is likely to accrue only from the revenue generated by Hewa Khola HEP.

BHCL has been operating 4,500 KW Hewa Khola HEP since August 2011. BHCL posted net profit of NPR 0.8 million over gross sales of NPR 79.49 million and OPBDITA of NPR 65.41 million for the year ending July 2014. The reported net profit for 2012-13 was NPR 5.26 million while BHCL reported net loss of NPR 27.67 million in 2011-12. BHCL had NPR 366 million of outstanding term loans payable to the consortium banks, as per the audited financials on July 2014. The company has not been able to meet its debt obligations on account of weak generation and resultant weak cash flows. The loans have been rescheduled by the banks leading to the extension of repayment tenure by ~3 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

Founded in the January 2004 as a Private Limited company, BHCL was converted into a public company in July 2009 with the objective of facilitating public participation. As of November 2014, the company has one operational hydropower project.

The company is operating 4,500 KW Hewa Khola HEP in Shankhuwasabha District of Eastern Nepal since August 2011. The major promoters of BHCL include Mr. Shailendra Guragain & Family (~30%), Mr. Deda Raj Khadka and family (~5%), Mr. Arjun Gautam and family (2%). The company has already issued shares worth NPR 24.30 million at par value to the project affected local population of Shankhuwasabha District. At present, the public shareholding in the company stands at 12.5% which is expected to reach 30% post IPO.

November 2014

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