

## Sanima Mai Hydropower Limited

### **ICRA Nepal assigns [ICRANP] IPO Grade 3 to the proposed initial public offering of Sanima Mai Hydropower Limited**

ICRA Nepal has assigned an “[ICRANP] IPO Grade 3”, indicating average fundamentals to the proposed initial public offering (IPO) of Sanima Mai Hydropower Limited (SMHL). 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. SMHL is proposing to come out with an Initial Public Offer of 2,110,000 numbers of equity shares of face value NRs 100/- each share.

The average fundamental grading factors in the rich experience of the promoters and management personnel in the field of hydropower, the parent company has developed a 2.5 MW hydropower project which has been in operation since 2005, while another group company has been involved in providing consultancy to various domestic and international hydro power projects. The project itself has achieved significant progress in terms of civil works which reduces the risks of geological surprises which are inherent in hydro power projects. 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 equity upfront, the company is expected to save on its IDC (Interest During Construction), which will also be helped by low interest rates prevailing currently. The grading also factors in the counterparty credit risks in terms of delayed payments by NEA for the energy supplied, however the same are mitigated NEA is fully owned by Government. Moreover, the grading factors in the risk arising out of delay in construction of transmission line by NEA which can potentially delay the COD of the project despite the developer constructing the project in time. Although the management is in discussion with NEA and is exploring alternate temporary evacuation arrangements, timely construction of the transmission line will be a key factor in determining the returns generated by the project.

Sanima Mai Hydropower Limited is developing 2 hydro power projects with aggregate capacity of 29 MW. Phase I of the project is of capacity 22 MW and is expected to commission in July 2014 while Phase II of the project is of capacity 7 MW and is expected to commission in July 2015. This is a run of the river project, the capacity of 7 MW in Phase II is being developed as a cascade project to the 22 MW project of Phase I. No head-works will be needed for the cascade project. As per the latest estimates, the project cost for the entire 29 MW project is NRs 4375.8 million. Facility agreement for NRs 2323.13 million debt portion of phase I (project cost NRs 3119.53 million) had been signed in November 2010, while for the agreement for phase II is to be signed shortly. The cost incurred till April 2013 is NPR 1593 million which has been funded through NRs 738.5 million infused by promoters and balance through debt.

The PPA (Power Purchase Agreement) has been signed with NEA (Nepal Electricity Authority) as per which the tariff for wet season is Rs 4 per unit and for dry season is Rs 7 per unit for 15.6 MW capacity with 3% escalation for 9 years. For balance 6.4 MW, the tariff is Rs 4.8 per unit and for dry season is Rs 8.4 per unit with 3% escalation for 5 years. Power is to be evacuated from the switchyard of Mai Hydropower project through a 12 km long, 132 kv transmission line to the Godak substation proposed by NEA. NEA has to construct 30 km long transmission line from Damak substation to Godak substation and also the substations at these locations as part of the connection agreement. The contract for civil works of the project has been awarded to Himal Hydro & General Construction Limited, Engineering Consultant is the group company Sanima Hydro & Engineering Pvt Ltd, Hydro- mechanical contract has been awarded to Structo Udeco JV, Nepal, Electro-mechanical works contract has been awarded to Asia Pacific Power –Tech Co. Ltd and transmission line contract has been awarded to Aster Tele Service Private Ltd.



The project has achieved good progress till date, excavation, portals and support for 2192 m long HRT (Head Race Tunnel), surge shaft, 235 m tail race have been completed, progress on head race culvert achieved till April 2013 is 91.7%. Work on the intake structures has also achieved significant progress. Currently work on Settling basin, invert lining of HRT, setting up of turbine casings is in progress. Penstock pipes have been fabricated and installation is in progress. Land required for transmission line till Godak has been acquired and work is expected to commence as per schedule.

Going forward, ability of the company to achieve the required COD within the budgeted time and cost estimates and also timely commissioning of transmission line by NEA will be the key parameters which will have a bearing on the returns of the project

### **Company Profile**

Sanima Mai Hydropower Ltd (SMHL) is promoted by a group of veteran Non Resident Nepalese professionals who have extensive experience in a number of industries which include banking, insurance, real estate, engineering, construction. The main promoters group own 65.36%% of the shares either through direct holding or through group companies and balance is held by other individual promoters. The company is developing 2 hydro power projects- (1) Mai Hydropower Project (MHP) which has a capacity of 22 MW and (2) Mai Cascade Hydropower Project (MCHP) which has a capacity of 7 MW). SMHL was established in 2008 as a Special Purpose Vehicle (SPV) by Sanima Hydropower Pvt Ltd (SMPL) for developing MHP as a private limited company. The company has got a generation license for 35 years which includes the period of construction. The project is being developed on Build Own Operate Transfer (BOOT) basis. The generation license was acquired on 29<sup>th</sup> August 2010. The total project cost as per latest estimates is NRs 4375.8 million. Expected COD for Phase I of the project is July 2014 while COD for the additional capacity of 7MW is in July 2015

**July 2013**

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