

Balephi Hydropower Limited

ICRA Nepal assigns [ICRANP] IPO Grade 4+ to proposed IPO of Balephi Hydropower Limited

Instrument/Facility	Issue Size	Grading Action (July 2019)
IPO (equity) Grading	NPR 365.594 Million	[ICRANP] IPO Grade 4+; assigned

ICRA Nepal has assigned a grading of **[ICRANP] IPO Grade 4+** to the proposed initial public offering (IPO) of Balephi Hydropower Limited (BHL), indicating below-average fundamentals. ICRA Nepal assigns IPO gradings on a scale of 1 to 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 symbol indicates its relatively better position within the grading category concerned. BHL is proposing to come out with an IPO of 3,655,940 equity shares with a face value of NPR 100 each, at par. The proceeds would be utilised towards the development of the 36-MW Upper Balephi "A" hydroelectric project.

The assigned grading factors in the moderate return potential of the 36-MW Upper Balephi "A" hydroelectric project being developed by BHL. The project is being developed at a relatively higher probability of exceedance (PoE) of ~42%, resulting in a better contract plant load factor (PLF) of ~67% and a relatively higher mix of dry energy (~18%). This, coupled with the relatively lower project cost (~NPR 169 million per MW), augurs well for the project's return prospects.

The grading also factors in the low funding risk for the project as the entire long-term debt component (NPR 4,250 million) has been tied up and the entire promoters' equity (~NPR 1,462 million) has already been injected. The remaining ~6% of the budgeted project cost would be funded from the proceeds of the proposed IPO issue, thus minimising the funding risk considerably. Likewise, the grading takes into consideration the low tariff risk and low offtake risk emanating from the firm power purchase agreement (PPA) with pre-determined tariff rates, and the positive demand outlook owing to the supply-demand gap in the power sector, respectively.

Nonetheless, the grading factors in the high project execution and implementation risks associated with the project with only ~60% progress having been made so far. The execution risk would escalate with any geographical surprises that may arise during further excavation of the 4.4-km long tunnel (~60% completed so far). Also, the timely completion of the project's own 21-km long 132-kV transmission line would remain critical for the timely evacuation of energy. However, the operational 132VA Lamosanghu substation of Nepal Electricity Authority (NEA) and the involvement of reputed contractors in the electrotechnical and hydromechanical works (Toshiba Plant Systems and Services Corporation - TPSC India and CBM Engineering Works, respectively) moderate the overall evacuation and execution risk to some extent.

Any unexpected delays in project execution could result in late commercial operation of the project against the required commercial operation date (RCOD¹). This would result in a tariff escalation loss and late COD penalties, thus impacting the overall project return metrics. Also, the lack of a deemed generation clause in the PPA adds to the hydrological risks under adverse scenarios of hydrology. The project is also exposed to counterparty credit risks arising out of its exposure to the NEA, which has a weak financial profile. This is partly mitigated by the fact that the NEA is fully owned by the Government and has been making timely payments to independent power producers (IPPs) so far.

Going forward, BHL's ability to commission the project at the budgeted cost of NPR 6,078 million, meet the estimated timelines as well as achieve the designed operating parameters, amid interest rate volatility in the market, would be the key driver of the project's returns.

The 36-MW Upper Balephi "A" hydroelectric project is a run-of-the-river (RoR) type, located in the Sindhupalchowk district of Province 3 of Nepal. The project draws its hydrology from a snow-fed perennial river with a catchment area of ~434 sq. km and a gross head of 208 metres. This is expected to support

¹ RCOD is January 20, 2019 as per the PPA. However, the same is proposed to be rescheduled on September 9, 2019 as per Coordination Committee meeting dated January 16, 2019



the design discharge of 20.80 m³/sec at 41.60% exceedance flow and result in sustained generation even during the dry months (dry energy mix of ~18% of the overall energy). The power generated would be evacuated through the 21-km long, 132-kV transmission line from the powerhouse to the operational Lamosanghu substation of the NEA. The generation licence for the project, which was obtained from the Ministry of Energy on July 27, 2016, is valid for 35 years from the date of issue while the PPA is valid for a period of 30 years from the COD. The project is being developed on the build-own-operate-transfer (BOOT) modality.

The PPA was signed with the NEA on December 15, 2015 for the 36-MW capacity. As per the terms of the PPA, the base tariff is NPR 4.8 per kWh for the wet season² and NPR 8.4 per kWh for the dry season with annual escalation of 3% on the base tariff for eight times. Thereafter, the escalated rates would be applicable till the life of the project. The PPA indicates a loss of one-time tariff escalation, out of eight times, for every delay of one year starting six months from the RCOD. The contract plant load factor (PLF) of the project is ~67% with an annual production capacity of ~213 GWh of energy.

The budgeted cost of the project is ~NPR 6,078 million (~NPR 169 million per MW). This is planned to be funded in a debt-to-equity mix of ~70:30. Any increase in the project cost would also lower the return prospects, given the fixed tariff structure. As of May-end 2019, approximately 60% physical progress had been achieved, commensurate with 57% financial progress. The project is also entitled to a capital subsidy of NPR 5 million per MW, upon connection to the national grid, which could be used to cover any contingencies.

Analytical approach: For arriving at the grading, ICRA Nepal has applied its grading methodology as indicated below.

Links to applicable criteria:

[IPO Grading Methodology](#)

About the company

Incorporated in February 15, 2012 as a private limited company, Balephi Hydropower Limited (BHL) was converted into a public limited company on January 6, 2017 to facilitate public participation. The paid-up capital of the company, at June-end 2019, was ~NPR 1,462 million and was fully held by the promoters. After the proposed IPO, the same would reach ~NPR 1,828 million. The major promoters include Mr. Shakti Kumar Golyan (18.25%), Mr. Shulav Agrawal (18.25%), Mr. Shushil Gupta (17.50%), Mr. Shandeep Kumar Sharda (15%), Mrs. Prabha Goyanka (Bhimshariya) (9.95%) and Mr. Umesh Kasaju (8.68%). After the proposed IPO issue, the promoter holding is expected to dilute to 80%, assuming full subscription of all the issues by the public.

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² Wet season corresponds to a period of eight months from mid-April to mid-December, the rest being dry season



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