

Terhathum Power Company Limited

ICRA Nepal assigns [ICRANP] IPO Grade 4+ to proposed IPO of Terhathum Power Company Limited

Instrument/Facility	Issue Size	Grading Action (August 2019)
IPO (equity) Grading	NPR 120 Million	[ICRANP] IPO Grade 4+; assigned

ICRA Nepal has assigned a rating of **[ICRANP] IPO Grade 4+** to the proposed initial public offering (IPO) of Terhathum Power Company Limited (TPCL), 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. TPCL is proposing to come out with an IPO of 1,200,000 equity shares with a face value of NPR 100 each, at par. The IPO proceed has been planned to be utilised towards the development of the 7.5-MW Upper Khorunga Small Hydropower Project.

The assigned grading factors in the moderate return potential of the 7.5-MW Upper Khorunga Small Hydropower Project that arises from the relatively lower cost of development (~NPR 183 million per MW) and expected completion of the project within the budgeted cost and estimated timeline of the Required Commercial Operation Date (RCOD) of December 17, 2019. The project, already in an advanced stage of completion (~85% of physical progress), is expected to be completed within the scheduled RCOD. This would help it utilise all the tariff escalations¹ and maintain a healthy levelised tariff, which is crucial in determining the revenue profile of the company amid the fixed tariff structures.

The grading also takes into consideration the low tariff risk and low offtake risk emanating from the firm power purchase agreement (PPA) with pre-determined tariff rates at take or pay model, and the positive demand outlook for the energy sector, owing to the supply-demand gap in the power sector and the increasing energy consumption levels in the nation. Similarly, the evacuation risk remains low amid an already built and operational Jiri Khimti substation of the NEA for evacuation of power to be generated by the project. Going forward, TPCL's ability to commission the project within the budgeted cost (NPR 1,376 million), meet the estimated timeline of RCOD, collect IPO proceeds to avoid incremental interest², achieve the designed operating parameters as well as interest rate volatility in the market would be the key drivers in determining the returns for the project.

Nonetheless, the grading is constraint by the lack of a deemed generation clause in the PPA amid adverse scenarios as rain-fed perennial sources³ add up to the hydrological risks for the project. Nonetheless, the risk is mitigated to some extent, given the high rainfall intensity of the catchment basin of the project. Also, the limited experience of the Board of Directors in the operation and maintenance of the project, being the first hydropower venture, constraints the assigned grading to some extent. 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's financial profile has been improving since FY2016-17, added to which is the fact that it is fully Government-owned and has been making timely payments to the independent power producers (IPPs) so far.

The 7.5-MW Upper Khorunga Small Hydropower Project is a run-of-the-river (RoR) type, located in Terhathum district of Province 1 of Nepal. The project draws its hydrology from two rain-fed perennial rivers with a total catchment area of ~51 km² and a gross head of ~297 metres. The design discharge is 3.15 m³/sec at 40% exceedance flow. The power generated would be evacuated through the 4.7-km long, 33-kV transmission line from the powerhouse to the operational Jiri Khimti substation of the NEA. The

¹ Tariff escalations is 3% p.a. for 5 times starting from 12 months after the COD month,

² The company plans on utilizing NPR 60 million of bridge gap loan against the IPO issue to meet the funding gap till the same is collected.

³ Khorunga river (78% of the design discharge) and Iwa river (~22% of the design discharge).



generation licence, issued on September 12, 2016 by the Ministry of Energy, is valid for 35 years 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 November 14, 2016 for the entire project capacity. As per the terms of the PPA, the base tariff is NPR 4.8 per kWh for the wet season⁴ and NPR 8.4 per kWh for the dry season with an annual escalation of 3% on the base tariff for five times. Thereafter, the escalated rates would be applicable till the life of the project. The PPA indicates a loss of one-time tariff escalation for every delay of one year starting six months from the RCOD. The contract plant load factor (PLF) of the project is ~65% with an annual production capacity of ~43 GWh of energy. The dry energy mix is ~15% of the total annual production capacity.

The project has been budgeted to be developed at a cost of ~NPR 1,376 million in a debt-to-equity mix of ~73:27. The debt (NPR 1,000 million) is being funded by a consortium of three banks led by Machhapuchchhre Bank Limited. So far, of the total equity funding of ~NPR 376 million, the entire promoters' equity (NPR 280 million) has already been injected and the remaining equity (~NPR 96 million) has been planned from the proposed IPO. However, till the IPO proceeds are realised, the funding has been planned through the bridge gap loan of NPR 60 million against the proposed IPO (by the current lead bank), the contractors' retention and the rest through the promoters' loan. 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 contingency.

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 August 16, 2009 as a private limited company, Terhathum Power Company Limited (TPCL) was converted to a public limited company on June 21, 2018. The paid-up capital of the company as of mid-July 2019 was NPR 280 million, which is 100% promoter held. After the proposed IPO, the same would reach to NPR 400 million and would be held in a ratio of 70:30 by the promoters and the public. The major shareholders include Mr. Mohan Kumar Dangi (8%), Mr. Bhupati Lal Shrestha (4%), Mr. Ganesh Prasad Kattel (4%), Mr. Pramod Shrestha (3%), Mr. Bijay Sambhample (3%), Mr. Dharma Raj Khadka (3%), Mr. Lachhuman Tiwari (3%), Mr. Shiva Nath Khapung (3%), Mr. Bhawani Prasad Khapung (3%), Mr. Yadav Khapung (2%) and Mr. Mohit Dangi (2%). The rest of the ~65% shares are held by 275 individual shareholders.

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⁴ Wet season corresponds to a period of eight months from mid-April to mid-December, the rest being dry season



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