

Unique Hydrel Company Limited

ICRA Nepal assigns [ICRANP] IPO Grade 5 to the proposed IPO of Unique Hydrel Company Limited

Instrument/Facility	Issue Size	Grading Action (October 2018)
IPO (equity) Grading	NPR 220 million	[ICRANP] IPO Grade 5 (Assigned)

ICRA Nepal has assigned an **[ICRANP] IPO Grade 5**, which indicates the poor fundamentals of the proposed initial public offering (IPO) of Unique Hydrel Company Limited (UHCL). ICRA Nepal assigns IPO grading on a scale of IPO Grade 1 through IPO Grade 5, wherein Grade 1 indicates strong fundamentals and Grade 5 indicates poor fundamentals. For the grading categories 2, 3 and 4, the sign of + (plus) appended to the grading symbols indicate their relatively better position within the grading categories concerned. UHCL is proposing to come out with an IPO of 2,200,000 equity shares of face value NPR 100 each, at par. Of the total shares, 550,000 shares will be issued to project-affected locals, while the remaining 1,650,000 shares will be issued to the general public and the staff of UHCL.

The assigned grading takes into account the poor return potential of the 4,158-kW Baramchi Hydroelectric Project (HEP) developed by UHCL, given its weak operational performance, high project costs (~NPR 216 million per MW) and over capitalisation (through incremental equity injection from the IPO). The project has operated intermittently for only about two of the last five years on account of a series of natural calamities, including the April 2015 earthquake and multiple landslides. Additionally, the project's energy generation trend, when in operation, has remained weak with the project supplying only ~33% of contract energy in 5M FY2018. This has led to sizeable revenue losses and inadequate cash flows, thereby necessitating fund infusion from the promoters. Low plant load factor (PLF), mainly due to insufficient hydrology and fixed tariff (lower tariff rates for the initial 980-kW capacity), has severely limited the return prospects of the project. The assigned grading is further constrained by the poor financial profile of UHCL owing to huge accumulated losses which has led to erosion of its net worth to NPR 52 per share as on mid-July 2018 against a face value of NPR 100. Any further loss in hydrology as well as the interest rate volatility in the market could further impact the project earnings.

Baramchi HEP was initially developed as a 980-kW project which was later upgraded to 4,158 kW, based on the 40% exceedance flow model. The tariff rates for the initial 980-kW capacity as per the power purchase agreement (PPA) with Nepal Electricity Authority (NEA) were fixed at NPR 3.90 and NPR 5.52 for wet and dry seasons¹, respectively. For the balance 3,178 kW, the tariffs were NPR 4 and NPR 7 per unit for wet and dry season with 3% escalation for nine years. Delayed by approximately nine months from the required commercial operational date (RCOD) of February 2, 2010, the project began commercial operation from November 14, 2010. The run of the river project in Sindhupalchowk district of Central Nepal was commissioned at a cost of NPR 898 million, funded in a debt to equity mix of ~58:42. The power generated by the project is being transmitted via an ~18 km, 33-kVA transmission line to NEA Lamosanghu sub-station.

The loss of revenues, repair costs and insufficient insurance proceeds post the earthquake and landslides have severely impacted the financial profile of the project. After repairs to damages from the recent landslide, the project has resumed operations around mid-July 2018. Difficult project terrain has led to elongated plant shutdowns even prior to the earthquake and landslides owing to various maintenance issues. Hence, the operations may be disrupted in the future as well. The project supplied only ~33% of contract energy during its five months of operations in FY2018 (~60% of this generation was in wet season). Earlier also, the project's operational performance was poor with the plant supplying roughly ~60-70% of contract energy at best, while the generation was as low as ~7% of the contract energy for some periods. The project did not operate smoothly throughout the year in any of the last seven years and hence, the full

¹ Wet season corresponds to a period of eight months from mid-April to mid-December; rest being dry season.



generation trend still remains to be established. Hence, limited comfort can be drawn from the generation of ~78% contract energy in the last two months (ending mid-September 2018), the peak monsoon period. Low generation so far has resulted in sizeable revenue losses for the company, apart from substantial short supply penalties in the past. In the absence of a deemed generation clause in the PPA and the new regulations also requiring a generation of at least 40% of contract energy for the waiver of penalties to hydropower projects up to 10 MW, the company could be subject to low generation penalties going forward as well.

Since the revenues are entirely linked to unit sales from a single operational project, the project returns, and the financial health of the company are entirely dependent on the hydrology of the project stream. UHCL reported a net loss of NPR 50 million over operating loss¹ of NPR 3 million for FY2018 as against net loss of NPR 85 million and operating loss of NPR 27 million in FY2017. As on mid-July 2018, the company had NPR 413 million of outstanding term loan payable to the consortium banks and short-term promoter loans of NPR 115 million (as per provisional financials) translating into a gearing ratio of 3.08 times. UHCL's debt servicing in the past has been impacted by the lack of operational revenues and had to be supported by insurance proceeds and loans from promoters. Given the weak hydrology, poor operational performance, and substantial funds already infused in the project, the project is not expected to generate adequate returns for the investors.

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

Links to applicable criteria:

[IPO Grading Methodology](#)

Company Profile

UHCL was incorporated in July 14, 2000 as a private limited company and was subsequently converted into a public limited company on July 17, 2014 to facilitate public participation. UHCL has seven promoters that account for the entire paid-up capital of the company as of now. The major promoters of UHCL include Baramchi Investment Pvt. Ltd. (48.48%), Modi Khola Investment Pvt. Ltd. (45%), Friends of Baramchi Investment Pvt. Ltd. (5.85%). The management plans to use the proposed IPO proceeds to downsize the project loans from banks as well as other project liabilities. The promoter holding after the proposed IPO is expected to dilute to 60%, assuming full subscription. The shares of the company are proposed to be listed in the stock exchange post the proposed IPO.

October 2018

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¹ Operating loss before depreciation, interest, tax and amortization expense



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