

Bhairabkunda Hydropower Limited

ICRA Nepal assigns [ICRANP] IPO Grade 5 to the proposed IPO of Bhairabkunda Hydropower Limited

Instrument/Facility	Issue Size	Grading Action (October 2018)
IPO (equity) Grading	NPR 318.328 million	[ICRANP] IPO Grade 5 (Assigned)

ICRA Nepal has assigned an “[ICRANP] IPO Grade 5”, indicating poor fundamentals to the proposed Initial Public Offering (IPO) of Bhairabkunda Hydropower Limited (BKHL). ICRA Nepal assigns an 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. BKHL is proposing to come out with an IPO of 3,183,280 equity shares with a face value NPR 100 each, at par. As a part of the IPO process, 650,000 shares would first be issued to the project affected local community, before the rest is issued to the general public and staff of BKHL.

The assigned grading takes into account the poor return potential of the 3-MW Bhairabkunda Hydroelectric Project (HEP) developed by BKHL, led by weak operational performance and high project costs (~NPR 252 million per MW). The project has operated intermittently for only ~14 months in the last four years as it was impacted by a series of natural calamities, including the April 2015 earthquake and the October 2017 landslides. As the project has not been in full operation for any year yet, its generation trend remains to be established. During its intermittent operations, the project has supplied only ~66-70% of the contract energy, leading to sizeable revenue losses and inadequate cash flows, necessitating fund infusion from promoters in the form of unsecured loans. These high cost loans (interest rate of 18%)¹ have resulted in subdued profitability for the project. The assigned grading is constrained by the poor financial profile of BKHL, marked by huge accumulated losses leading to erosion of its net worth to NPR 52 per share as on mid-July-2018, as against a face value of NPR 100. Incrementally, any further loss in hydrology as well as the interest rate volatility in the market could further impact the project earnings.

Located in Sindhupalchowk district of Central Nepal, Bhairabkunda HEP was initially planned as a 1.85-MW project, which was later upgraded to a 3-MW one, to be built on a 53% exceedance flow model. The tariff rates for the initial 1.85 MW capacity as per the Power Purchase Agreement (PPA) with the Nepal Electricity Authority (NEA) were fixed at NPR 3.90 and NPR 5.52 per unit for the wet and dry seasons, respectively, with no escalations. For the balance 1.15 MW, the agreed tariff was NPR 4 and NPR 7 per unit for the wet and dry seasons², respectively, with 3% annual escalation on the base tariff for 9 times. Thereafter, the escalated rates are to continue for the life of the project. Under the Government’s initiative of promoting private sector hydropower developers, the project has been availing promotional tariff rates of NPR 4.80 and NPR 8.40 per unit in the wet and dry seasons, respectively. This is to remain effective for up to the seventh year after COD, with 5 times annual escalation of 3% on the base tariff. The electricity sales revenue will, thereafter, be based on the rates as per the PPA, and hence, the revenue stream is expected to be significantly impacted after the end of the promotional period. The power generated by the project is being evacuated via an approximately 31 km, 33 kVA transmission line to the NEA Lamosanghu sub-station.

Delayed by ~26 months over the required commercial operational date of March 27, 2012, the project began commercial operations from June 5, 2014. The run of the river project was initially commissioned at a cost of NPR 707 million, funded in a debt-to-equity mix of ~63:37. However, with incremental repair costs to damages arising out of several events, the cost has increased to NPR 755 million with a debt-to-equity mix of 67:33. The project’s operational performance remained poor so far with the plant supplying roughly ~66-70% of contract energy during its intermittent operations. The loss of revenue, repair costs and insufficient

¹ Loans availed from Shree Laligurans Multipurpose Co-operative Limited, holding ~20% stake in BKHL.

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



insurance proceeds have severely impacted the financial profile of the project. The project is currently repairing the damages arising from the recent landslide of October 2017 that damaged the headworks and obstructed the tunnel. The current expected date of project resumption is mid-October 2018, and hence the elongated repair period remains a concern (the project was earlier closed for ~20 months to repair the damages from the April 2015 earthquake).

Since the revenues are entirely linked to unit sales from a single operational project, the project returns, and the financial health of the company is entirely dependent on the hydrology of the project stream. BKHL reported a net loss of NPR 102 million during FY2018 over an operating loss² of ~NPR 1 million as against a net loss of ~NPR 76 million over an operating profit of ~NPR 2 million in FY2017. As of mid-July 2018, the company had ~NPR 420 million of outstanding term loan payable to the consortium banks and short-term promoter loan of NPR 62 million (as per provisional financials), translating into a gearing ratio of 2.89 times. BKHL's debt servicing in the past has been impacted by inadequate 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 into the project, it 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

Incorporated on December 9, 2002 as a private limited company, Bhairabkunda Hydropower Limited was converted to a public limited company on June 25, 2016 to enable public participation. Following the proposed IPO, BKHL's paid-up capital is expected to reach NPR 650 million (assuming full subscription) with ~49% public shareholding. The management plans to use the proposed IPO proceeds to downsize the project loans from banks.

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² Operating profit/loss before depreciation, interest, tax and amortization expense



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