

## Ghalemdi Hydro Limited

### ICRA Nepal assigns [ICRANP] IPO Grade 5 to the proposed IPO of Ghalemdi Hydro Limited

| Instrument/Facility  | Issue Size          | Grading Action (December 2018)  |
|----------------------|---------------------|---------------------------------|
| IPO (equity) Grading | NPR 155.577 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 Ghalemdi Hydro Limited (GHL) (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. GHL is proposing to come out with an IPO of 1,555,770 equity shares with a face value NPR 100 each, at par for the general public and the staff of GHL. ICRA Nepal had earlier assigned an IPO Grade 4 to the issue size of NPR 165 million (including current proposed issue) of the company in December 2017.

The downward grading assignment in the current exercise mainly factors in the significant cost and time overrun in the project, resulting in weak project return potential, compared to an earlier grading exercise. The expected cost of the 5-MW Ghalemdi Khola hydro-electric project (HEP)<sup>1</sup> being developed by GHL has increased from NPR 940 million (when last graded) to NPR 1,100 million, with expectations of further cost escalations. The project has also faced a time overrun and is now expected to be delayed by around 17 months compared to the required commercial operation date (RCOD)<sup>2</sup>, a delay of nine months from earlier expectations. Any further delays and cost escalations could result in lower tariff escalations, significant late COD penalties, reduced project life and hence could further impact the return indicators. Evacuation risk also remains a concern as the proposed Dana substation for power evacuation is behind its commissioning schedule. Grading concerns are also related to the absence of the deemed generation clause in the power purchase agreement (PPA) and the interest rate volatility in the market. Going forward, the company’s ability to complete the project within the budgeted cost/time, achieve design operating parameters, efficacy of evacuation infrastructures and availability of sufficient hydrology will be the key parameters which can impact the project returns.

The 5-MW Ghalemdi Khola HEP is a run-of-the-river (RoR) project located on the Ghalemdi River at Myagdi district of western Nepal. The project has a catchment area of ~85 sq. km, which is expected to support the design discharge of 3.50 cumecs at 41.40% exceedance flow. As per the terms of the PPA, the tariff for the wet season<sup>3</sup> is NPR 4.8 per kWhr and that for the dry season is NPR 8.4 per kWhr, with a 3% escalation on the base tariff for five years for a capacity of 4 MW; eight escalations are applicable for the additional 1 MW capacity. The delay in project completion by more than six months compared to the RCOD would result in one lower escalation for each 12-month successive delays. The power generated from this project is to be evacuated via 3.2 km, 33 kVA transmission line to the proposed Dana substation of the Kaligandaki Corridor, which is expected to be completed by March 2019. However, the possibility of further delays in completion of the corridor cannot be negated. In the event of such a delay, the power would be evacuated to the 33-kVA Gharap substation and hence the project could face tripping problems during the wet seasons, causing significant revenue loss.

Initially budgeted at a cost of NPR 714 million for a 4-MW capacity (~NPR 179 million per MW), the cost has since escalated to NPR 1,100 million for an upgraded capacity (NPR 220 million per MW), mainly due to the delay in project construction and an increased civil cost component. An increase in the project cost and lower tariff escalations for a 4-MW capacity would result in subdued revenues and hence lower return prospects. The project is being funded in a debt-to-equity mix of 50:50 as against an earlier planned funding mix of 41:59. The increase in the debt component that currently carries a high interest rate also remains a concern. As of mid-November 2018, ~90% physical progress has been achieved while the financial outlay for the same was ~97%. Hence, the project cost could witness some escalations towards project completion, mainly in the civil component (budget of this already exceeded

<sup>1</sup> Earlier 4 MW; upgraded to 5 MW after powerhouse reallocation following the April 2015 earthquake.

<sup>2</sup> 4 MW has RCOD of November 16, 2017 and additional 1 MW has RCOD of August 19, 2020.

<sup>3</sup> Mid-April to mid-December are wet season period; rest being dry season.



by 14% i.e. NPR 74 million). Any cost overrun would result in funding gaps and the company's ability to manage the gap within time would have a key bearing over project completion.

As against the earlier targeted operations date of mid-July 2018, the project is now planned to be commissioned by mid-April 2019 (RCOD of November 16, 2017). However, any unexpected delays in critical components<sup>4</sup> could further delay the project operations and result in loss of further tariff escalations (one escalation expected to be lost for 4 MW as per current timeline estimates). Of the NPR 1,070-million cost incurred till mid-November 2018, ~NPR 394 million has been funded from equity with the balance being from external bank borrowings of NPR 640 million (including bridge gap loans of NPR 100 million) and promoter loans of NPR 37 million. The promoters have fully infused their share of equity and the incoming equity from the IPO would be utilised towards project completion. The project is also entitled to a capital subsidy of NPR 5 million per MW after connection to the national grid which can be used to cover minor contingencies. Going forward, the company's ability to commission the project at current cost/time estimates and also the ability to achieve its design operating parameters will be the key driver for the project returns.

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

**Links to applicable criteria:**

[IPO Grading Methodology](#)

**About the company**

Incorporated in January 2014 as a public limited company, Ghalemdi Hydro Limited (GHL) has a large promoter base of 1,302 promoters accounting for the entire paid up capital of the company as of mid-July 2018. Major promoters of GHL include CEMAT Power P. Ltd. (2.60%), Mr. Narayan Babu Adhikari (2.60%) and Mr. Kishor Subedi (2.40%), among others. GHL floated the first tranche of IPO to project affected locals in August 2018 which was unsubscribed by ~83%. Including these unsubscribed shares, GHL is coming up with the proposed IPO, which is likely to dilute the promoter holding to 70%, assuming full subscription. The shares of the company are proposed to be listed in the stock exchange, post the proposed IPO.

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<sup>4</sup> Electromechanical equipment installation and testing remain the major critical components.



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