

Himalayan Power Partner Limited

ICRA Nepal assigns [ICRANP] IPO Grade 4+ to the proposed initial public offering (IPO) of Himalayan Power Partner Limited

Instrument/Facility	Issue Size	Grading Action (June 2016)
IPO (equity) Grading	NPR 319.6251 million	[ICRANP] IPO Grade 4+ (Assigned)

ICRA Nepal has assigned an “[ICRANP] IPO Grade 4+”, indicating below average fundamentals to the proposed initial public offering (IPO) of Himalayan Power Partner Limited (HPPL). ICRA Nepal assigns 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. HPPL is proposing to come out with an Initial Public Offer of 3,196,251 numbers of equity shares of face value NPR 100 each at par. Of the total shares, 1,065,417 shares will be issued to project affected population while remaining 2,130,834 shares will be issued to general public and staff.

The assigned grading factors in the financial strength of promoters of HPPL (NRN Investment Limited¹ and major promoters related to IME group²) and prior experience of board (associated company of the current chairman of HPPL has operational hydropower projects with capacity of 29 MW³ operating since 2014). HPPL’s under development 27 MW Dordi HEP in Lamjung district of western Nepal is among the large private sector hydropower projects currently under development in Nepal. With a firm PPA in place, the tariff and off-take risks are reduced considerably for the project. In addition, as the promoters have infused substantial equity upfront (NPR 746 million till December 2015 as against NPR 1,065 million requirements for the project), and financial closure has been completed for the debt portion, funding risk for the project is minimized. Upfront equity injection and low prevailing interest rates should bring down IDC (Interest During Construction) component and hence the overall project cost.

These strengths are however tempered by early stage of development (~25% physical progress achieved and ~20% of total project cost incurred⁴ till April 2016), and counterparty credit risks arising out of exposure to Nepal Electricity Authority (NEA) for the energy supplied, although the same is partly mitigated as the NEA is fully owned by the Government. The grading also factors in the risk arising out of delay in construction of proposed 220 KVA transmission line by NEA to Udipur Hub in Lamjung (connection point as per grid agreement) which can potentially delay the COD of the project despite the completion of project in time. Although HPPL has been working towards finding alternative evacuation arrangement including connection to an existing 132 KVA single circuit transmission line⁵, timely resolution of evacuation arrangement will be a key factor in determining the returns generated by the project. The grading also factors the possibility of time and cost overruns on account of April 2015 earthquake and import disruption from Indo-Nepal customs blockade until first week of February 2016. Going forward, ability of the company to commission the project within the budgeted time and cost estimates and availability of sufficient hydrology will be the key parameters which can impact returns of the project.

¹ Special purpose vehicle set up by Non-resident Nepalese (NRN) group for investing in infrastructure sectors in Nepal. Current and former chairman of Non-resident Nepalese association are both in the board of NRIL at present. Individuals from NRN groups have previously invested in Nepalese ventures like Banking (Sanima Bank rated BBB+ by ICRA Nepal for debt instrument), Sanima Hydropower Company (graded IPO 3 by ICRA Nepal), etc.

² Promoters related to IME group have ~35% stake in HPPL, including 10% direct holding by Mr. Chandra Prasad Dhakal, Executive chairman of the IME group, chairman of Global IME Bank (rated A-for issuer rating by ICRA Nepal). IME group led by Mr. Dhakal has stake in banking, general insurance, hospitality, remittance industry in Nepal.

³ 22 MW Sanima Mai & 7 MW Sanima Mai Cascade is operational under Sanima Mai Hydropower Company (SHPC). The chairman of HPPL Mr. Jibanath Lamichhane is also the board member in SHPC

⁴ Including procurement of material and advances to electromechanical contractors

⁵ Currently being used by 70 MW operational Middle Marsyangdi Hydropower Project, located ~4 KM downstream from the proposed power house location of Dordi HEP. This 132 KVA line is currently being upgraded to double circuit line by stringing second set of conductor on the existing poles. 60% of stringing work was completed till July 2015 and the upgradation is estimated to be complete by July 2017.

HPPL is developing a 27 MW Dordi ROR⁶ hydropower project along Dordi river in Lamjung district; in the hilly region of western Nepal. The electricity generated from this project shall be connected to proposed Udipur Hub substation in Lamjung district; ~1.2 Km away from the powerhouse of Dordi; with alternative evacuation model being sought factoring in the possible delay in construction of transmission line by NEA. A Power Purchase Agreement (PPA) was signed on June 15, 2012 with the Nepal Electricity Authority (NEA). The Power Generation License has been obtained from the Ministry of Energy on July 7, 2011. Initial Environmental Examination (IEE) report has been approved by the Ministry of Energy on October 4, 2010.

The project cost for the 27 MW project is NPR 4,235 million which is being funded through bank loans of NPR 3,170 million and equity of NPR 1,065 million in a debt: equity ratio of 75:25. The promoters have put in ~NPR 746 million into the project development till December 2015 with additional NPR 320 million proposed to be raised through IPO. Financial strength of major promoters⁷ provides comfort against contingencies including cost overrun. HPPL has completed financial closure tying up the debt portion required for the project, with the consortium of banks.

The scheme of the project consists of 75m long and 9 m high un-gated weir provided with 2 under sluice bays of 5m width to be fitted with under sluice gates measuring 3m x 5m, settling basin with dimensions 71mX10.2mX5.5m (average) divided into 2 rectangular bays, steel headrace pipe ~3,250 m long with diameter of 2.65-2.30 m, concrete lined headrace tunnel ~2,650 m long and 3.3m in diameter, concrete vertical surge shaft, and Penstock pipe ~700 m long and 2.3 m in diameter. The electricity at the powerhouse will be generated through 3 x 9,350 KW Vertical Axis Francis turbine and three generators with rated generation voltage of 6.6 kV which will be stepped up to 132 kV for transmission over a 1.2 km transmission line from the switchyard of the project to the proposed Udipur hub substation of NEA.

The contract for hydro-mechanical, surface civil works and construction of headrace tunnel of the project has been awarded to Machhapuchchhre Metal and Machinery Work, Rasuwa Construction Company and Eco-Infra Builders Private Limited (all domestic private companies with prior hydropower experience). Contract for Electromechanical equipments construction and commissioning has been awarded to Voith Hydro Pvt Ltd, India⁸. Till April 2016, ~25% physical progress has been achieved. Till April 2016, NPR 835 million has been incurred by the company towards the project (including advances to contractors), against the total budgeted cost of ~NPR 4,235 million.

Company Profile

Himalayan Power Partner Ltd. (HPPL) was incorporated in 11th June, 2004 as a private limited company and subsequently converted into public limited company on 7th July, 2013 to facilitate public participation. As on July-15, HPPL has 32 promoters (including 4 institutional promoters) accounting for 100% of paid up capital. Major promoters of HPPL include M/s. NRN Investment Limited (51% shareholding) and individuals/institutions related to IME group like M/s Worldwide Investment Pvt. Ltd (9.95%), M/s Usha Investment Pvt. Ltd (6.64%), M/s Hathway Investment Nepal Limited (3.63%), Mr. Chandra Prasad Dhakal (10.29%) and Mr. Uttam Kumar Nepal (6.12%). The promoter holding after proposed IPO is will dilute to 70% on full subscription of IPO. The IPO proceeds will form part of project equity capital. The shares of the company will be listed in the stock exchange after the proposed IPO. As a part of the IPO process, the company will issue 10% of its post IPO paid-up capital to the local inhabitants of project affected areas while remaining 20% capital will be offered to general public and staffs of HPPL.

⁶ Run of the river

⁷ NRN Investment Limited (51% stake in HPPL) has cash reserve of NPR 270 million (84% of proposed IPO proceeds) as per the audited financials of FY15. This amount was initially proposed to be utilised in the project without going for an IPO.

⁸ rated at "[ICRA]A (Structured Obligation) (Stable)/A1(SO)" for INR 200 Crores bank lines on March 2016 by ICRA Limited, India



HPPL is developing 27 MW Dordi Khola Hydropower project, located in Chiti VDC of Lamjung District in Western Nepal; which is in its initial phase of construction. The power generated by this project is to be evacuated through a 1.2 KM 132 KVA transmission line from Dordi switchyard to proposed Udipur Hub substation of NEA. However, HPPL is likely to seek alternative evacuation measures due to delay in construction of the transmission line by NEA⁹ upto Udipur Hub. The total project cost of NPR 4,235 million is to be funded in 75:25 debt-equity models. The required COD for the project is in June 2017 although HPPL is likely to apply for time extension of 1 year citing delay caused by April 2015 earthquake and customs blockade till February 2016. The project is likely to be commissioned with a delay of 6-12 months from the required COD.

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⁹ Udipur hub to be constructed by NEA is a part of NEA's Marsyangdi corridor transmission line project with latest estimated commissioning date of July 2019. However, the project is still in nascent phase with land acquisition still to be completed for the right of way.