

Dibyashwari Hydropower Limited

ICRA Nepal assigns [ICRANP] IPO Grade 4 to the proposed Initial Public Offering (IPO) of Dibyashwari Hydropower Limited

Instrument/Facility	Issue Size	Grading Action (April 2016)
IPO (equity) Grading	NPR 66 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 Dibyashwari Hydropower Limited (DBHL). 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. DBHL is proposing to come out with an Initial Public Offer of 660,000 numbers of equity shares of face value NPR 100 each at par. Of the total shares, 264,000 shares has been issued to project affected population while remaining 396,000 shares will be issued to general public and staff.

The assigned grading factors in the weak project profile as reflected in the high project costs (~NPR 211 million per MW of the 4 MW hydel project being developed by DBHL in addition to limited experience of promoters and management personnel in development and operation of hydro power projects. Since the tariff for hydro projects less than 25 MW are fixed (NPR 4.8/kWh for wet season i.e. from the period of Mid-April to Mid-December and NPR 8.4/kWh for dry season i.e. from the period of Mid-December to Mid-April), the returns of a project will be subdued if the cost of the project is high. There has been a substantial time overrun in the commissioning of the project (required Commercial Operation date of March 2015) as per Power Purchase Agreement (PPA) signed with Nepal Electricity Authority (NEA) which also has resulted in cost overrun in the project. Thus the project can suffer from penalties (for delayed commissioning) and lower tariff escalations in case the application to extend COD is not approved by NEA¹. Although the project is expected to be commissioned by July 2016, however early monsoon or lack of coordination among various contractors involved in construction activities could further delay the commissioning. The grading is also constrained by interest rate volatility in the market and the counterparty credit risks arising out of exposure to loss making NEA for the energy supplied, although the same is partly mitigated by the fact that NEA is fully owned by the Government and has been making payments to IPPs (Independent Power Producers) in a timely manner in the past.

The assigned grade does factor in the strengths arising out of reduced vulnerability to risks arising out of geological surprises as the project is nearing completion and bulk of the construction activities have been completed (~75% physical progress achieved and ~80% of total project cost incurred till March 2016). The grading also takes note of the availability of evacuation infrastructure (33 kV Tirtire substation), firm off-take arrangement in the form of PPA with NEA and positive demand outlook; thus the tariff and off-take risks are reduced considerably for the project. Funding risks for the project are lowered due to the fact that bankers have principally agreed to finance the escalated cost (whilst maintaining the agreed debt: equity ratio of 70:30) and promoter’s equity portion has been fully injected (remaining portion of equity to come from IPO). In addition, the project is also entitled to a capital subsidy of NPR 5 million per Mw from Government and an additional 10% of the same if it is able to connect to national grid by FY 2017/18. Going forward, ability of the company to commission within the budgeted time and cost estimates, achieve required operating parameters and efficacy of evacuation infrastructure will be the key parameters which can impact returns of the project.

DBHL is constructing a 4 MW Sabha Khola ROR² hydropower project in Sabha River in Sankhuwasabha district; in the hilly region of eastern Nepal. The electricity generated from this project shall be connected to existing NEA substation at Tirtire in Sankhuwasabha district; ~16 Km³ away from the powerhouse of the project. The project has a catchment area of ~237 sq. km that is expected to support the design

¹ Nepal Electricity Authority

² Run of the river

³ 15.8 km as per revised drawing, however as per PPA the length of transmission line was 12 km

discharge of 17 cumecs at 40% exceedance flow. The Power Generation License has been obtained from the Ministry of Energy on January 17, 2013 and Initial Environmental Examination (IEE) report has been approved by the Ministry of Energy. PPA for the revised energy (from 3.3 MW to 4 MW) was signed on December 04, 2013 with the NEA. As per the terms of the PPA, the tariff for wet season is NPR 4.8 per kWhr and for dry season is NPR 8.4 per kWhr with 3% escalation for 5 years; lower number of escalations will be available in case project is delayed by more than 6 months⁴ compared to RCOD.

The latest estimated project cost is NPR 844 million (NPR 723 million before escalations) which is being funded in a debt: equity ratio of 70:30 through bank loans of NPR 580 million (only NPR 500 million sanctioned as of now, balance sanction is pending) and equity of NPR 264 million. The promoters have put their share of equity i.e. NPR 198 million (representing 75% of post IPO capital) into the project development with remaining NPR 66 million proposed to be raised through IPO. Management plans to utilise incoming equity (assuming full subscription of proposed IPO) towards project completion. Capital subsidy to be received from Government is expected to be utilized towards covering contingencies including any further cost overrun.

The scheme of the project consists of 30 m long and 2.6 m high uncontrolled spillway type of diversion weir followed by side intake structure with three openings that leads the water from diversion weir to two settling basins divided into four chambers. The water is thereafter channelled through 507 m long headrace pipes and 651 m long open rectangular headrace canal. Steel penstock pipe, 43 m in length, conveys water from forebay to the turbines at the powerhouse generating gross head of ~35 m. The electricity at the powerhouse will be generated through three 1,410 KW Horizontal Axis Francis turbines and three generators with rated generation voltage of 6.3 kV which will be stepped up to 33 kV for transmission over a ~16 km transmission line from the switchyard of the project to the switchyard of existing Tirtire substation of NEA.

The contract for hydro-mechanical and civil works of the project has been awarded to Cream Hydel Private Limited and Ramechhap Sherpa Construction Private Limited. Contract for supply and erection/stringing of transmission line has been awarded to Jhankar Multiple Concern Private Limited and Radha Krishna Nirman Sewa respectively. Electromechanical contract has been awarded to Qiankang Allonward Hydro Equipment Co. Private Limited, China. Till March 2016, ~75% physical progress has been achieved with plans to complete construction by mid-July 2016. At the intake, diversion weir and intake was approaching completion; with gate installation, concreting and reinforcing works going on parallel. Similarly, construction of approach canal was under progress. Along the headrace alignment, laying of headrace pipe was to be started (fabrication almost complete) and a section of headrace canal was yet to be constructed; protection works to cover few sections of headrace canal was also in progress. At powerhouse, construction works along with laying the foundation for turbines has been completed. Of the NPR 644 million costs incurred till 3rd March 2016, ~NPR 446 million has been funded through external bank borrowings and balance from promoters' equity.

Company Profile

Dibyashwari Hydropower Limited (DBHL) was incorporated in February 2007 as a private limited company under Company Act of Nepal, 2063 and was subsequently converted into public limited company on October 2012 to facilitate public participation. Major promoters of the company include One O One Company Limited (~23% holding as of now) and BG Hydro Investment (~8% holding); promoter: public holding to be diluted to 75:25 post proposed IPO, assuming full subscription.

The company has one under construction hydropower project- 4 MW Sabha Khola (River) hydro-electric project, located in Dhupu VDC of Sankhuwasabha District in Eastern Nepal; which is in its final stages of construction. As per the latest management estimate, the project is likely to be commissioned by July 2016. Required COD for the project was March 2015 and the request to NEA to extend the same is pending decision from NEA. The company has got generation license for 35 years which includes the period of construction. PPA has been signed with NEA for entire generation capacity. The project is being

⁴ one less escalation for delay up to 18 months; to be successively increased in case of further delays



developed on Build Own Operate Transfer (BOOT) basis. The project cost estimated at time of financial closure was ~NPR 723 million to be funded in debt to equity ratio of 70:30; subsequently project cost has been revised to ~NPR 844 million owing to cost escalations. The electricity generated from this project shall be evacuated to the existing 33 Kva NEA substation at Tirtire, Sankhuwasabha; ~16 Km away from the project powerhouse.

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