

Liberty Energy Company Limited

ICRA Nepal assigns [ICRANP] IPO Grade 4 to the proposed IPO of Liberty Energy Company Limited

Instrument/Facility	Issue Size	Grading Action (March 2019)
IPO (equity) Grading	NPR 375 million	[ICRANP] IPO Grade 4 (Assigned)

ICRA Nepal has assigned **[ICRANP] IPO Grade 4** to the proposed initial public offering (IPO) of Liberty Energy Company Limited (LECL), indicating below-average fundamentals. 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. LECL has proposed to come out with an IPO of 3,750,000 equity shares with a face value NPR 100 each, at par. The proceeds from the proposed equity is proposed to be used in the development of 25 MW Upper Dordi ‘A’ hydroelectric project (HEP).

The grading is constrained by the moderate return potential of the 25-MW Upper Dordi ‘A’ HEP being developed by LECL; given the relatively higher estimated capital cost (~NPR 185-190 million per MW) on a fixed tariff regime and a low contract plant load factor (PLF) of ~62%. Evacuation also remains a concern since NEA’s transmission line from Udipur to Kirtipur-besi Substation is in early stage of development and therefore the likelihood of delay in the same is high. Grading concerns also emanate from hydrological risks in absence of a deemed generation clause in the power purchase agreement (PPA), despite the historical recorded flow of Dordi river being adequate vis-à-vis design requirement. The gradings are also constrained by counterparty credit exposure to Nepal Electricity Authority (NEA) which has a moderate financial profile; although partly mitigated by the sovereign support of the Government of Nepal (GoN) to the NEA and NEA’s past track record of timely payments to independent power producers (IPPs). Given the moderate return potential of the project, volatile interest rates on bank borrowings could also have an impact on the return to the equity holders; which has been factored into the grading assigned. Cost escalations on the project has also given rise to funding gap; although partly mitigated by in-principle commitment from the lender banks for enhanced credit limit and adequate equity raising plans of LECL vis-à-vis project equity requirements. With required commercial operation date (RCOD, 31st August 2019) approaching close, any further unexpected cost overruns or timeline delays would have a major impact on the interest capitalisation and hence the overall project metrics.

Nonetheless, the grading considers the significant construction progress achieved in the project (more than 80% physical progress corresponding to ~60% financial progress till mid-January 2019), reducing execution risks to a large extent. With a firm PPA in place, pre-determined tariff rates and a positive demand outlook owing to supply-demand gap in the power sector, the tariff and offtake risks for the project are minimal. Going forward, LECL’s ability to commission the project within current cost and timeline estimates and project’s ability to achieve its design operating parameters will be the key driver for the project returns.

The 25 MW Upper Dordi ‘A’ HEP (earlier 21.6 MW) is a run-of-river (RoR) project located in the Lamjung district of western Nepal. The project draws its hydrology from Dordi river, a major tributary to the Marshyangdi river. The 25 MW project has a catchment area of ~192 sq. km which along with the snow-fed nature of the river is expected to support the design discharge of 9.30 cumecs at 40% exceedance flow with a gross head of ~325 metres. The power generated is to be evacuated through less than 500 metres, 132-kV transmission line to the proposed Kirtipur Besi substation of NEA in the Dordi corridor. NEA is currently developing a connecting ~10 km, 132 KV transmission line between Udipur Hub and Kirtipur Besi substation. The line is in early stages of development and its timely completion will be important in the project meeting the targeted commissioning deadline. The 25 MW project has obtained energy generation license from the Ministry of Energy in April 2014, valid for 35 years. The project is being developed on a build-own-operate-transfer (BOOT) basis.

The PPA was signed between LECL and NEA in September 2012 for original capacity of 22 MW, which provided for the base tariff of NPR 4.8 per kWh (wet season) and NPR 8.4 per kWh (dry season) 3% escalation on the base tariff for five times. For additional 3 MW capacity, an addendum PPA was signed



with the NEA in August 2015 with similar tariff and escalation structure. The project's RCOD under the PPA has been amended multiple times¹ with most recent RCOD in 31st August 2019. Including the added capacity, the contract PLF of the project is ~62% with an annual production capacity of ~137 GWh of energy.

Initially budgeted at a cost of NPR 3,963 million (NPR 159 million per MW) with required COD in October 2016; the cost escalated by ~16% to NPR 4,600 million² (NPR 185 million/MW) following delays in commissioning and associated increase in capex³. Given the fixed tariff structure, an increase in the project costs has resulted in lower return prospects. The project is being funded through debt financing of ~70% with NPR 2,774 million term loan sanctioned, and in-principle commitment received from bankers for the remaining portion. Timely availability of debt financing will be important for completion of the project within time and cost estimates. On equity front, ~100% of promoter's equity of NPR 1,125 million has been raised and balance portion will be raised through the proposed IPO.

As of mid-January 2019, more than 80% physical progress has been achieved, commensurate to ~60% of financial progress. Of the NPR 2,871-million costs incurred till mid-January 2019, NPR 1,969 million has been funded through external bank borrowings and the balance from equity. Proceeds from the proposed IPO is to be utilised as a part of the equity for project completion.

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

Liberty Energy Company Limited (LECL) was incorporated in December 2009 as a private limited company was converted to public limited company on March 2016 to facilitate public participation. The company is promoted by 402 promoters with ~9% holding each by Mr. Kush Kumar Joshi and Dr. Atmaram Ghimire, ~6% holding by Mr. Ram Bahadur Pandey, ~5% holding by Mr. Kumar Keshar Bista & ~3% holding by Mr. Sushil Thapa, among others. The company is developing the 25 MW Upper Dordi 'A' HEP (Required Commercial Operation Date-RCOD: 31st August 2019) in Faleni and Dhodeni VDC, Lamjung district of western Nepal. Till mid-Jan 2019, the project has achieved ~60% financial progress (based on the estimated project cost of ~NPR 4,600 million).

March 2019

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¹ Triggered by 2015 earthquake, subsequent blockade and unavailability of NEA's evacuation measures.

² Estimated cost further increased to NPR 4,760 million by bank appointed consultant in February 2019 report.

³ Caused by increase in construction material cost and imported machinery (due to strengthening of USD in the interim)



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