

Dordi Khola Jalbidyut Company Limited

ICRA Nepal assigns [ICRANP] IPO Grade 4 to the proposed IPO of Dordi Khola Jalbidyut Company Limited

Instrument/Facility	Issue Size	Grading Action (May 2019)
IPO (equity) Grading	NPR 549.6696 million	[ICRANP] IPO Grade 4 (Assigned)

ICRA Nepal has assigned **[ICRANP] IPO Grade 4** to the proposed initial public offering (IPO) of Dordi Khola Jalbidyut Company Limited (DJCL), 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. DJCL has proposed to come out with an IPO of 5,496,696 equity shares with a face value NPR 100 each, at par. The proceeds from the proposed equity are proposed to be used in the development of 12 MW Dordi-1 hydroelectric project (HEP).

The grading is constrained by the early stage of development and moderate return potential of the 12-MW Dordi-1 HEP being developed by DJCL; given the relatively higher estimated capital cost (~NPR 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 the Nepal Electricity Authority’s (NEA) transmission line from Udipur to Kirtipur-besi substation is in an early stage of development and the likelihood of a delay in the same is high. Also, based on the early stage of construction progress of the 12-MW project, the developer is unlikely to meet the project’s required commercial operation date (RCOD) in December 2019, which could expose the company to a delayed commissioning penalty as per the PPA terms. Grading concerns also emanate from hydrological risks in the absence of a deemed generation clause in the power purchase agreement (PPA). The gradings are also constrained by the counterparty credit exposure to the NEA, which has a moderate financial profile; although partly mitigated by the sovereign support of the Government of Nepal (GoN) to the NEA and its 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.

Nonetheless, the grading considers an adequate past experience of the developer in hydropower project development and operation with the first project under the group in operation since the early 2000s. With a firm PPA in place, pre-determined tariff rates and a positive demand outlook owing to a supply-demand gap in the power sector, the tariff and offtake risks for the project are minimal. Going forward, DJCL’s ability to commission the project within the current cost and timeline estimates and the project’s ability to achieve its design operating parameters will be the key drivers for the project returns.

The 12-MW Dordi-1 HEP (earlier 10.3 MW) is a run-of-the-river (RoR) project located in the Lamjung district of western Nepal. The project draws its hydrology from the Dordi river, a major tributary to the Marshyangdi river. The 12-MW project has a catchment area of ~218 sq. km which, along with the snow-fed nature of the river, is expected to support the design discharge of 11.36 cumecs at 40% exceedance flow with a gross head of ~132 metres. The power generated is to be evacuated through ~3.5 kilometres, 132-kV transmission line to the proposed Kirtipur Besi substation of the NEA in the Dordi corridor. The NEA is currently developing a connecting ~10 km, 132 KV transmission line between the Udipur Hub and the Kirtipur Besi substation. The line is in the early stages of development and its timely completion will be important to the project meeting the targeted commissioning deadline. The Dordi-1 project has obtained the energy generation licence from the Ministry of Energy in January 2013, which is valid for 35 years. The project is being developed on a build-own-operate-transfer (BOOT) basis.

The PPA was signed between DJCL and the NEA in November 2014 for an original capacity of 10.3 MW, which provided for the base tariff of NPR 4.8 per kWh (wet season) and NPR 8.4 per kWh (dry season) with a 3% annual escalation on the base tariff for five times. For the additional 1.7-MW capacity, an addendum PPA was signed with the NEA in March 2019 with the same base tariff and a 3% annual escalation clause on the base tariff for eight times. The project’s RCOD under the PPA is in December



2019 for 10.3 MW capacity and July 2020 for an additional 1.7-MW capacity. Including the added capacity, the contract PLF of the project is ~62% with an annual contract energy of ~65 Gigawatt-hour (GWh).

The 12-MW project is estimated to be commissioned at a cost of NPR 2,292 million (~191 million per MW). The original debt-equity mix for the project was 71:29, which is likely to change to 48:52, assuming the utilisation of IPO proceeds towards project development/loan repayment. This will lower the debt burden and associated financial risk for the project. However, given the relatively high capital cost for the project in a fixed tariff structure, the return prospect for the equity holders of the company is likely to remain modest. The funding risk for the project remains low as the entire debt component is tied up with the consortium of banks and almost the entire promoters' equity has been raised till mid-March 2019. The equity raised till mid-March 2019 remains adequate vis-à-vis the original project equity requirement. As of mid-January 2019, the project has achieved ~25% financial progress.

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

Dordi Khola Jalbidyut Company Limited (DJCL), incorporated on February 26, 2010 as a public limited company, has been established with the objectives of production and distribution of electricity. The paid-up capital of the company as of March-end 2019 is ~NPR 759 million, which is 100% promoter held, which is expected to dilute to ~58% after the proposed IPO. The shares of the company are proposed to be listed in the stock exchange post the proposed IPO.

DJCL is a group company under CEDB Hydropower Development Company Limited. The fund along with its associated companies (Radhi Bidhyut Co. Ltd., CEDB, LEDCO) hold ~27% stake in DJCL. As on mid-Jan 2019, the major promoters include M/s Radhi Bidyut Co. Ltd. (21.67%), M/s Lamjung Energy Development Co. Ltd. (4.86%), Mr. Arun Gautam (2.06%) and Mr. Pashupati Shamsar Ja. Ba. Ra. (1.32%).

May 2019

For further details please contact:

Analyst Contacts:

Mr. Kishor Prasad Bimali, (Tel No. +977-1-4419910/20)

kishor@icranepal.com

Mr. Sailesh Subedi, (Tel No. +977-1-4419910/20)

sailesh@icranepal.com

Relationship Contacts:

Ms. Barsha Shrestha, (Tel. No. +977-1-4419910/20)

barsha@icranepal.com

About ICRA Nepal Limited:

ICRA Nepal Limited, the first credit rating agency of Nepal, is a subsidiary of ICRA Limited (ICRA) of India. It was licensed by the Securities Board of Nepal (SEBON) on October 3, 2012. ICRA Nepal is supported by ICRA Limited through a technical support services agreement, which envisages ICRA helping ICRA Nepal in areas such as the rating process and methodologies, analytical software, research, training, and technical and analytical skill augmentation.



Our parent company, ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment information and credit rating agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies. The international credit rating agency, Moody's Investors Service, is ICRA's largest shareholder.

For more information, visit www.icranepal.com

ICRA Nepal Limited,
Sunrise Bizz Park, 6th Floor, Dillibazar, Kathmandu-33, Nepal.
Phone: +977 1 4419910/20
Email: info@icranepal.com
Web: www.icranepal.com

All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA Nepal.

ICRA Nepal ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. The ICRA Nepal ratings are subject to a process of surveillance which may lead to a revision in ratings. Please visit our website (www.icranepal.com) or contact ICRA Nepal office for the latest information on ICRA Nepal ratings outstanding. All information contained herein has been obtained by ICRA Nepal from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Nepal in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion and ICRA Nepal shall not be liable for any losses incurred by users from any use of this publication or its contents.