

## Himalaya Urja Bikas Company Limited

### ICRA Nepal assigns [ICRANP] IPO Grade 4 to the proposed Initial Public Offering (IPO) of Himalaya Urja Bikas Company Limited

Instrument/Facility	Issue Size	Grading Action (June 2018)
IPO (equity) Grading	NPR 247.50 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 Himalaya Urja Bikas Company Limited (HUBCL). 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. HUBCL is proposing to come out with an IPO of 2,475,000 numbers of equity shares of face value NPR 100 each at par. Of the total shares, 990,000 shares will be firstly issued to project affected areas; the remaining 1,485,000 shares will be later issued to public and staffs of HUBCL.

The assigned grading considers the moderate return potential from the hydro-electric projects (HEPs) being developed by HUBCL mainly due to low tariff rates for the 12 MW project (out of total project capacity of 19 MW including semi-cascade project of 7 MW). The grading also remains constrained by the evacuation risk arising out of possible delay in construction of proposed 132 kV Garjyang-Khimti transmission line by NEA which can potentially delay the commercial operation date (COD) of the project. Any delays in COD could result in cost escalations through incremental IDC and hence could further impact project earnings. Absence of deemed generation clause in Power Purchase Agreement (PPA) exposes the potential earnings to hydrological risks. Grading concerns also emanate from the interest rate volatility in the market that can have a bearing over the project return indicators. The project is also exposed to counterparty credit risks arising out of exposure to loss-making Nepal Electricity Authority (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 timely payments to Independent Power Producers (IPPs) so far which provides some comfort.

Nonetheless, the grading considers relatively moderate project costs (~NPR 166 million per MW) and the construction progress achieved in the projects so far (~55-60% complete as of mid-Apr-18). The projects are being planned to be in operation from the Required Commercial Operation Date (RCOD) which however would remain contingent upon the timely completion of evacuation structure of NEA. With a firm PPA in place with pre-determined tariff rates and positive demand outlook owing to supply-demand gap in the power sector, the tariff and off-take risks are minimal. Going forward, ability of the company to commission the projects at current cost and timeline estimates and the ability to achieve its design operating parameters will be key driver for project returns.

HUBCL is developing two run of river (RoR) hydropower projects of aggregate capacity 19 MW based on Khimti River in Chuchure VDC of Ramechhap district in Central Nepal. The 12 MW Upallo Khimti HEP has catchment area of ~62 sq. km that is expected to support the design discharge of 5.16 cumecs at 43% exceedance flow with gross head of ~286 metres. Its semi-cascade<sup>1</sup> 7 MW Upper Khimti-II HEP has catchment area of ~99 sq. km for design discharge of 6.45 cumecs at 41% exceedance flow and gross head of ~135 metres. The power generated from the projects is to be evacuated through 2.5 km and 3 km long, 132 kV transmission line from their respective switchyards to proposed Garjyang Substation. This substation lies under proposed Garjyang-Khimti transmission line project (31 km, 132 kV double circuit) of NEA. Construction of the same is in initial stages so far including land acquisition, excavation, material transport stages and hence this could potentially delay the commercial operation of the projects.

The PPAs were signed with NEA on 23<sup>rd</sup> January 2011 and 22<sup>nd</sup> March 2013 respectively. As per the terms of PPA for 12 MW project, the base tariff for wet season<sup>2</sup> is NPR 4 per kWh and for dry season is NPR 7 per kWh with 3% escalation on base tariff for nine times. For the 7 MW project, tariff is slightly higher at NPR 4.8 per kWh for wet season and NPR 8.4 per kWh for dry season with 3% escalation on

<sup>1</sup> Utilizes tailrace of 12 MW project as well as discharge of incremental streams in Khimti River

<sup>2</sup> Mid-December to mid-April are dry season period; rest being wet season.

base tariff for five times. Any delays of more than 6 months beyond RCOD will result in loss of escalations in case of 7 MW project; 1 escalation will be lost for successive 12 months delay thereafter. RCOD of the projects as of now is 16<sup>th</sup> July 2018 and 15<sup>th</sup> March 2019 respectively; coordination committee formed as per PPA has agreed to recommend NEA to further extend RCOD of 12 MW project to mid-Mar-19. The contract Plant Load Factor (PLF) of the projects are ~70% and ~69% with total annual production capacity of ~116 GWh of energy. The power generation licenses were obtained from the Ministry of Energy on 18<sup>th</sup> December 2012 and 27<sup>th</sup> March 2015, valid for 35 years or 30 years from the date of COD, whichever is earlier. The project is being developed on Build Own Operate Transfer (BOOT) basis.

Budgeted at a total cost of NPR 3,146 million (~NPR 166 million/MW), the project is being funded in debt: equity of 75:25 with sanctioned loan of NPR 2,359 million; rest to be financed from equity. The promoters have already infused equity of NPR 742.50 million representing 75% of post IPO capital. Post the proposed IPO, total equity (NPR 990 million) would be in excess of project equity requirements (NPR 787 million) and hence sanctioned loan limit might not be fully utilised. Of the NPR 1,538 million cost incurred till mid-Apr-2018, NPR 819 million has been funded through external bank borrowings and balance from promoters' equity. The project is also entitled for capital subsidy of NPR 5 million per MW upon connection to national grid.

As of mid-Apr-2018, ~55-60% physical progress has been achieved in the projects commensurate to ~50% financial progress. Although management plans to commission the projects within RCOD, there could be some delays in project commissioning on account of uncertainties on completion timeline of the NEA's evacuation structures. Additionally, some of components in projects could also remain critical considering the short time frame remaining in project implementation (~9 months) and bulk of activities remaining to be completed (~40%).

### **Company Profile**

Incorporated in 1999 as a private limited company, Himalaya Urja Bikas Company Limited (HUBCL) was converted to public limited company in November 2014 to facilitate public participation. The paid-up capital of the company as of mid-April 2018 was NPR 742.5 million. Major promoters of HUBCL include Arun Valley Hydropower Development Co. Ltd (5.85%)<sup>3</sup>, Ms. Tulsa Pandey (5.40%), Mr. Shree Ram Pandey (4.16%), Mr. Hari Prasad Pandey (2.84%) and Mr. Saroj Kumar Upadhyay (1.77%), among others. The promoter holding after proposed IPO is expected to dilute to 75% assuming full subscription. The shares of the company are proposed to be listed in the stock exchange post proposed IPO.

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<sup>3</sup> ICRA Nepal has assigned IPO grading 3 to Arun Valley Hydropower on December 2013