

Himalayan Hydropower Limited

ICRA Nepal assigns [ICRANP] IPO Grade 4 to the proposed IPO of Himalayan Hydropower Limited

Instrument/Facility	Issue Size	Grading Action (July 2019)
IPO (equity) Grading	NPR 225 Million	[ICRANP] IPO Grade 4 (Assigned)

ICRA Nepal has assigned an **[ICRANP] IPO Grade 4** to the proposed initial public offering (IPO) of Himalayan Hydropower Limited (HHL), indicating below average fundamentals. ICRA Nepal assigns IPO grading on a scale of 1 through 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. HHL is proposing to come out with an IPO of 2,250,000 equity shares with a face value of NPR 100 each, at par.

The grading is constrained by the moderate return potential of the of the 11.88 MW Namarjun Madi hydroelectric project (HEP) under the company, given the relatively higher capital cost (~NPR 191 million per MW) and low tariff structure (~17% lower compared to recent projects). The grading is further constrained by the significant delays in project execution (already delayed by ~4.5 years against the required commercial operation date (RCOD) of mid-January 2015), which exposes the company to sizeable late COD penalties. Any further unexpected delays in project execution could push forward the targeted COD of mid-January 2020. This could result in incremental interest capitalisation cost in addition to physical cost escalations and incremental late COD penalties, thus impacting the overall project return metrics. Also, the lack of a deemed generation clause in the power purchase agreement (PPA) adds up to the hydrological risks. The project is also exposed to counterparty credit risks arising out of its exposure to the Nepal Electricity Authority (NEA), which has a weak financial profile. This is partly mitigated by the fact that the NEA is fully-owned by the Government and has been making timely payments to independent power producers (IPPs) so far. The interest rate volatility in the market could also have a bearing over the project return indicators. Additionally, the limited experience of the promoters in HPP development and operation has also been factored into the grading action.

Nonetheless, the assigned grading factors in the advanced stage of project completion with ~80% physical and financial progress as of April 2019, thus minimising the execution risks. ICRA Nepal also positively notes the low tariff risks and off-take risk with the presence of a firm PPA with pre-determined tariff rates and a positive demand outlook owing to the demand-supply gap in the power sector. Similarly, evacuation risks also remain low for the project as the proposed substation for power evacuation is already operational. Going forward, HHL’s ability to commission the project at the latest timeline and cost estimates (NPR 2,273 million) as well as its ability to achieve its designed operating parameters will be the key driver for the project returns.

The 11.88-MW Namarjun Madi project is a run-of-the-river (RoR) project located in the Kaski district of Gandaki Province of Nepal. The project draws its hydrology from the Madi river, sourced from snow-fed mountains of the Annapurna Himalayan Range with a catchment area of ~365 sq. km. up to the intake of the project. The snow-fed hydrology of the river is expected to result in sustained generation even in dry months. This is expected to support the design discharge of 23.75 m³/sec at 40% exceedance flow with a gross head of ~63 metres. The power generated is to be evacuated through the 18 km long, 132-kV transmission line from the powerhouse to the operational Lekhnath Substation of NEA. The generation licence for the project was obtained from the Ministry of Energy on December 26, 2012, valid for 35 years from issue while the PPA is valid for a period of 30 years from the COD. The project is being developed on a build-own-operate-transfer (BOOT) modality.

The PPA was signed with the NEA on September 15, 2009 and the revised RCOD was scheduled for January 15, 2015. However, owing to delays emanating from the April-2015 earthquake and elongated customs blockade thereafter, the same was rescheduled to mid-January 2020. As per the terms of the PPA, the base tariff for the wet season¹ is NPR 4 per kWh and for the dry season, NPR 7 per kWh with 3%

¹ Wet season corresponds to a period of eight months from mid-April to mid-December; rest being dry season.



annual escalation on the base tariff for nine times. Thereafter, the escalated rates would be applicable till the life of the project. Despite the delays in project execution so far, the PPA does not contain clauses resulting in loss of tariff escalation, which provides some comfort. The contract plant load factor (PLF) of the project is ~64% with an annual production capacity of ~66 GWh of energy.

The latest cost estimates for the project is ~NPR 2,273 million (~NPR 191 million per MW), increasing substantially over the initial cost estimates of NPR 1,873 million. This is planned to be funded in a debt-to-equity mix of ~60:40. Though the funding tie-up is adequate at the current cost estimates, there could be some funding gaps in case of cost escalations, especially considering the possible timeline delays. The ability of the company to close the finding gaps in a timely manner in such a scenario would remain critical. Any increase in project cost would also lower the return prospects, given the fixed tariff structure. As of April 2019, approximately 80% physical progress has been achieved, commensurate to a similar financial progress. The project is also entitled for a capital subsidy of NPR 5 million per MW, upon connection to the national grid, which could be used to cover any contingencies.

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

Incorporated in December 2004 as a private limited company, Himalayan Hydropower Limited (HHL) was converted into a public limited company in May 2017 to facilitate public participation. The company's paid-up capital was ~NPR 664 million as of June 2019. The major promoters include Mr. Khom Bahadur K.C. (~20%), Mr. Min Bahadur Khadka Chhetri (~6%) and Mr. Sudhir Yadav (5%), among others. The promoter holding after the proposed IPO issue is expected to dilute to 75%, assuming full subscription. The shares of the company are proposed to be listed in the stock exchange post the proposed IPO. The proceeds from the proposed equity would be utilised towards development of the 11.88MW Namarjun Madi hydroelectric project.

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